



Policy Brief

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Smart Growth Makes Housing Unaffordable

North Carolina housing prices are increasing, and the state is moving towards a dangerous precipice. If it continues on its present course, it will suffer such high housing costs that only the very rich will be able to enjoy the American dream of homeownership. Only if it quickly changes course will it remain a state whose housing is affordable for people of all income levels.

North Carolina has had very affordable housing for many years, which has helped make it one of the fastest-growing states in the nation. But prices in some North Carolina cities have started to become unaffordable. In most North Carolina cities, home prices have increased by only 6 to 10 percent over the past six years. But in Asheville prices increased by 30 percent, in Wilmington by 26 percent, and Jacksonville by 20 percent.

As a result, these cities are becoming unaffordable. In 1999, a median-income family in any North Carolina city could spend a quarter of its income on housing and pay for a median-priced home in 9 to 14 years. By 2005 this had increased to 18 years in Wilmington and 17 in Asheville.

Why are prices increasing so much faster in some places than in others? This paper shows that such rapid increases in home prices almost invariably follow the imposition of smart-growth and other growth-management plans. Asheville, for example, has been writing increasingly restrictive planning rules for nearly a decade.

If this problem is not corrected, or worse, if it is allowed to expand to the rest of the state, the impacts of such high prices will reverberate throughout North Carolina.

- Economic growth is likely to slow as employers look elsewhere to locate their offices and factories;
- Homeowners who think they benefit from higher home values will be shocked to find that prices are also more volatile, falling 20 to 25 percent or more during recessions;
- Low-income workers will end up commuting long

distances to find housing they can afford.

While homeowners might cheer the high home prices that result from planning-induced housing shortages, the losers far outnumber the winners. For every homeowner who sells at a profit and trades down, there are homebuyers who must pay outrageous prices for homes; homeowners who would like to trade up but cannot afford to do so; and rural landowners whose properties have been devalued by zoning restrictions.

In 2005, Asheville homebuyers paid a penalty of at least \$14,000 per median-value home due to growth-management planning. By comparison, the most reputable report on the costs of sprawl indicates that low-density housing imposes only \$11,000 more per home in urban-service costs than higher-density housing. Why should every homebuyer pay more than this just to save this cost for new homes alone?

North Carolina can look north, south, and west to see the negative effects of high-cost housing.

- Thanks to Florida's 1985 growth-management planning law, housing prices in many cities in that once-affordable state has doubled in the last six years;
- Maryland's smart-growth programs impose huge penalties on homebuyers in Baltimore and the suburbs of Washington, DC;
- Western states such as Oregon and California have driven housing prices to grotesquely unaffordable levels.

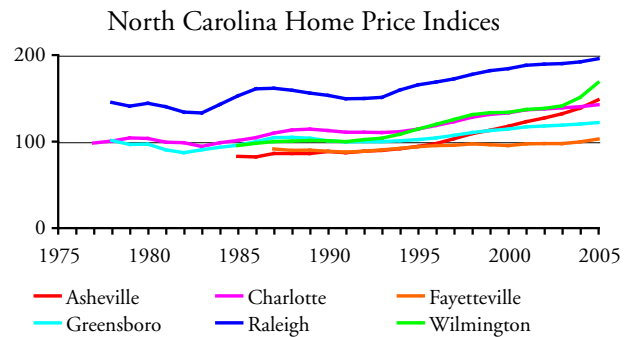
For example, Coldwell Banker says that a house that would cost \$200,000 in still-affordable Charlotte would cost \$400,000 in Ft. Lauderdale, \$500,000 in Baltimore, \$800,000 in Bethesda, and more than \$1 million in many California cities. Can it be fair to impose huge costs on low-income families and first-time homebuyers in order to provide windfall profits for a few wealthy homeowners?

Before North Carolina prices reach these levels, state legislators and local officials should stop and carefully review their laws, regulations, and plans and remove any barriers that prevent homebuilders from meeting the demand for housing.

Key Findings and Recommendations

Findings

- Housing shortages caused by restrictive land-use planning and regulation imposed penalties on U.S. homebuyers totaling \$275 billion in 2005. *That is more than four times the total cost of urban congestion as calculated by the Texas Transportation Insittute's latest annual urban mobility report.*
- More than 90 percent of this cost was in just twelve states whose cities have especially strict smart-growth plans or other land-use controls such as growth boundaries, greenbelts, growth caps, or concurrency rules. *Leading states include California, Colorado, Florida, Massachusetts, Oregon, and Washington.*
- Homebuyers in Asheville paid penalties of \$14,000 per median-value home in 2005, while Wilmington homebuyers paid penalties of \$22,000 per home. *These penalties are conservatively calculated and the real numbers probably average 25 percent more.*
- These penalties are greater than the so-called costs of sprawl. According to *The Costs of Sprawl 2000*, low-density housing adds just \$11,000 per home in urban-service costs compared with more compact development. *Why should everyone in a metropolitan area pay \$14,000 to \$22,000 more just so cities can save \$11,000 on a few new homes?*
- Nor are such rules needed to protect open space as 95 percent of the United States, and nearly 90 percent of North Carolina, remains as rural open space. *When housing is scarce and open space abundant, government efforts to protect open space at the expense of higher housing costs is a tragic misplacement of priorities.*
- Although some homeowners benefit from high housing prices, losers outnumber winners and planning-induced housing shortages impose the greatest burdens on low-income families while relatively wealthy homeowners earn windfall profits.



Recent price rises in Asheville, Wilmington, and Jacksonville (not shown) send a warning signal that planning restrictions are limiting the ability of homebuilders to meet the demand for new homes. The chart shows median-home values in thousands of inflation-adjusted dollars.

Recommendations

- North Carolina's legislature and its cities and counties should carefully review their planning laws and ordinances and eliminate those that create barriers preventing homebuilders from meeting the demand for new homes.
- City and county officials in Asheville, Jacksonville, and Wilmington should make a special review of their rules, as prices in those cities have been rising at particularly fast rates.
- Government should leave open space protection to land trusts and other private entities.
- Cities should deal with the "costs of sprawl" by setting fair taxes and user fees that allow people to choose where they want to live but make sure they pay the full cost of their choices.

For Further Information

This policy brief summarizes a 48-page report titled *The Planning Penalty: How Smart Growth Makes Housing Unaffordable*, which was published in March, 2006 by the American Dream Coalition, a national coalition of people who support free enterprise and free-market solutions to urban problems. The full report along with numerous data files and other background information can be downloaded from americandreamcoalition.org.