

“Smart Growth” Makes Housing Unaffordable

The dirty secret behind Oregon’s land-use planning system is that it has made homeownership unaffordable for low-income families and many other would-be homebuyers. Planning imposes penalties on homebuyers ranging from at least \$23,000 per median-value home in Salem to \$50,000 to \$60,000 in Portland and Eugene to more than \$120,000 in the Medford-Ashland area. It is likely that the actual penalties are at least 25 percent greater than these estimates.

Urban-growth boundaries, a planning system that allows “not-in-my-backyarders” to challenge any new housing project, and a myriad of other planning rules pose formidable barriers before homebuilders trying to meet the demand for new homes. Indeed, established Oregon homebuilders say that one of the benefits of planning for them is that it imposes so much red tape that outside construction companies or other newcomers cannot enter the market. Such stifling of competition further increases the cost of housing.

States and regions that have adopted Oregon-style planning almost invariably see rapid increases in housing prices soon after the plans are put into effect. In 1969, housing was affordable in almost every U.S. metropolitan area. But by 1979, planning-induced housing shortages made housing increasingly unaffordable in Oregon, California, New York, and Colorado. As other states adopted similar plans in the 1980s and 1990s, their housing markets also became unaffordable.

The impacts of high housing prices reverberate throughout Oregon’s economy.

- Economic growth is slowed as employers look elsewhere to locate offices and factories;
- Prices for food and other consumer goods are increased as retailers must pay \$1 million per acre or more for store locations;
- Far from reducing driving as planners desire, high prices force many commuters to find affordable homes in communities far from where they work;
- Portland is closing several schools a year as families with children flee to Vancouver, Washington or other suburbs where they can afford a house with a yard.

Planning advocates claim Oregon planning protects livability, preserves open space, and reduces the costs of sprawl. But planning also forced Oregon homebuyers to pay nearly \$2.6 billion in penalties in 2005. This huge cost dwarfs the so-called costs of sprawl. The best estimate for such costs indicate that urban services to

low-density housing cost some \$11,000 more per home than to higher density homes. This is less than half of Salem’s planning penalty and less than 10 percent of the penalty for buying a home in Jackson County.

All of the land in all of Oregon’s urban-growth boundaries adds up to merely 1.25 percent of the state. Fully 98 percent of Oregon is rural open space. It makes no sense to force homebuyers to pay penalties of tens of thousands of dollars in order to protect one of the most abundant resources in the state.

Nor is it at all obvious that the land-use restrictions that have driven up home prices have increased livability in some other way. Plans that cram more people into heavily subsidized high-density developments merely add to the urban congestion and the region’s tax burden. Homeownership, of course, is itself an important component of livability, but the cost of planning caused Oregon homeownership rates to decline from 69 percent in 1960 to only 64 percent in 2000.

It is particularly sad and ironic that the Oregon cities that consider themselves most progressive provide the strongest support for rules that are, in fact, highly regressive. The penalties fall heaviest on low-income families and first-time homebuyers, while they provide windfall profits for relatively wealthy homeowners and certain landowners. The 2000 census found that two out of three white families in Portland own their own homes, but less than one out of three Hispanic families and less than 40 percent of black families do. It is no wonder that Portland economist Randall Pozdena calls Oregon land-use planning “the new segregation.”

Moreover, this report shows that the losers vastly outnumber the winners. Homeowners only win if they are willing to sell their homes and trade down to a smaller home or move to a community that has less-restrictive land-use rules. Homeowners who want to trade up or move to a more restrictive region face penalties that are nearly as formidable as those confronting first-time homebuyers. Meanwhile, losers include most homebuyers as well as rural landowners whose property is downzoned by the plans.

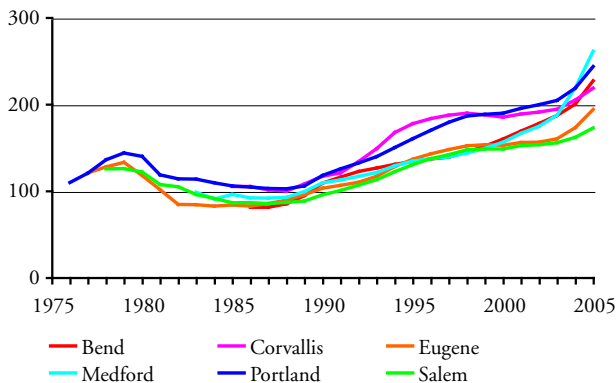
While measure 37 is a step in the right direction, it will offer minimal relief to homebuyers simply because so few people have owned land since before urban-growth boundaries were drawn in the late 1970s. Oregon must dismantle those aspects of its planning system that create barriers to homeownership and do more harm than good for the region and its economy.

Key Findings and Recommendations

Findings

- Housing shortages caused by restrictive land-use planning and regulation imposed penalties on homebuyers totaling more than \$275 billion nationally and \$2.6 billion in Oregon in 2005. *The national figure is four times the cost of urban congestion as calculated by the Texas Transportation Institute's latest urban mobility report.*
- More than 90 percent of this cost was in just twelve states whose cities have especially strict land-use controls such as growth boundaries, greenbelts, growth caps, or concurrency rules. *The worst states include Arizona, California, Colorado, Florida, Massachusetts, Oregon, and Washington.*
- Eugene and Portland homebuyers paid penalties of \$48,000 to \$60,000 per median-value home in 2005, while homebuyers in Jackson County paid penalties of \$120,000. *These penalties are conservatively calculated and the real numbers probably average 25 percent more.*

Oregon Home Price Indices



During the 1990s, housing affordability declined more in Oregon than in any other state as prices rose far faster than incomes. The numbers in the chart are roughly the cost of a median-value home in thousands of dollars adjusted for inflation to 2005 dollars.

- These penalties dwarf the so-called costs of sprawl. According to *The Costs of Sprawl 2000*, providing urban services to low-density housing costs just \$11,000 more per home than to compact development. *Why should every homebuyer in a metropolitan area pay \$50,000 to \$120,000 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 98 percent of Oregon, remains as rural open space. *Government efforts to protect open space at the expense of higher housing costs is a tragic misplacement of priorities.*
- The problem is supply, not demand: Cities like Austin, Atlanta, and Raleigh are growing faster than Oregon cities, yet have maintained affordable housing.

Recommendations

- The “big look” at Oregon’s land-use planning system should closely scrutinize the effects of planning on housing affordability.
- Oregon cities and counties should review their plans and zoning ordinances and remove any requirements that could limit the ability of homebuilders to meet demand for new homes.
- The Oregon legislature should insist that cities expand urban-growth boundaries to keep up with the demand for housing. Better yet, the legislature should thoroughly revise if not repeal Oregon’s planning laws.
- Cities should deal with the “costs of sprawl” by using 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.
- Government should leave the protection of open space to land trusts and other private groups.
- Cities and counties should avoid inclusionary zoning ordinances, which provide affordable housing for only a few people but can increase housing costs for everyone else.

For Further Information

This briefing paper summarizes *The Planning Penalty: How Smart Growth Makes Housing Unaffordable*. This report was published by the American Dream Coalition, a national coalition of people who support free enterprise and free-market solutions to urban problems. Go to americandreamcoalition.org to download the complete report as well as numerous data files and other background information.