Policy Brief
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Smart Growth Makes Housing Unaffordable

Between 1999 and 2005, housing prices in the once-affordable Charleston metro area grew by 44 percent, far more than any other South Carolina metropolitan area. Data from other states reveals that such rapid increases in housing prices almost always follow the imposition of a "smart-growth" or other growth-management plan. It is no coincidence that Charleston's sudden increase in prices coincided almost exactly with the approval of Charleston's comprehensive plan that restricted development outside the urban area.

Planning advocates say such restrictions are needed to protect livability and preserve open space. But homeownership is an important component of livability. Studies show, for example, that children in low-income families that own their own homes do better in school than those who live in rental housing. Homeowners can also use the equity in their homes to start small businesses or put their children through college.

Urrban-growth boundaries and other restrictions on development at the urban fringe can greatly increase the cost of housing while providing almost no compensating benefits. While the people who support such restrictions often describe themselves as "progressive," the restrictions are in fact highly regressive. The burdens are heaviest on low-income families and other first-time homebuyers while the planning rules provide windfall profits for relatively wealthy homeowners and certain landowners.

Moreover, 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 city that has less-restrictive land-use rules. Homeowners who want to trade up or move to a more restrictive community 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.

Nor is open space a justification for such rules. The 2000 census found that all of South Carolina's cities and towns and other clusters of 2,500 people or more occupy just 6 percent of the state. The U.S. Department of Agriculture says that nearly 90 percent of the state is rural open space. It makes no sense to artificially create housing shortages to protect one of the most abundant resources we have.

To date, South Carolina's nascent smart-growth plans have only created affordability problems in Charleston. But this may be just the harbinger of things to come. This paper shows that housing prices in regions with growth-management planning continue to grow faster than incomes, making housing more and more unaffordable.

We can see the near future of South Carolina by looking at Florida, whose legislature required all cities to write growth plans by the early 1990s. Housing in most Florida cities was very affordable in 1989 and even 1999. But between 1999 and 2005 prices increased by 50 to 100 percent, creating a housing crisis where none existed before.

Today, a house that costs $190,000 in Columbia and $300,000 in Charleston would cost $320,000 in Tampa, $400,000 in Ft. Lauderdale, and $430,000 in West Palm Beach. If South Carolina cities and counties continue to pass growth-management plans, their housing will soon be as expensive as Florida's.

High prices create serioes economic problems. Growth slows as employers look elsewhere to locate offices and factories. Many commuters cannot afford housing nearer than 50 to 100 miles away from their jobs. Grocery and other prices are higher because retailers must spend $1 million or more per acre for the land on which they build their stores.

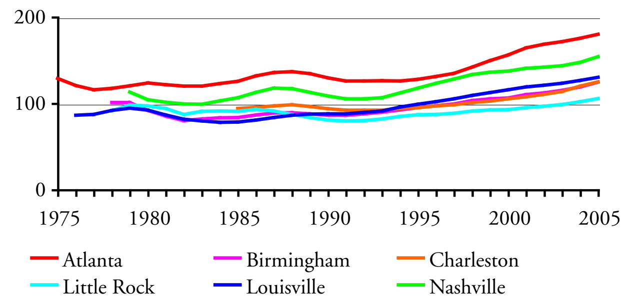
Florida's runaway housing prices are creating serious economic problems for the state. Except for Charleston, South Carolina does not yet face these problems and should act now to insure that it does not find itself in the same position as Florida. South Carolina officials should insure that state and local laws, ordinances, and plans do not prevent homebuilders from meeting the demand for new 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 annual urban mobility reports.
- 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 more than fifty metropolitan areas paid penalties of $100,000 to $850,000 per median-value home in 2005. Homebuyers in another fifty metropolitan areas paid penalties of $25,000 to $100,000 per home.
  These penalties are conservatively calculated and the real numbers probably average 25 percent more.
- These penalties dwarf 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 every homebuyer in a metropolitan area pay $25,000 to $850,000 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 South 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 familes while relatively wealthy homeowners earn windfall profits.

Southeastern Home Price Indices



Outside of Florida, housing remains affordable throughout the most of the South. But rising prices in Charleston signal that planning restrictions have limited the ability of homebuilders to meet the demand for new homes. The chart shows median-home values in thousands of inflation-adjusted dollars.

Recommendations

- South 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.
- 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 Infomation

This policy brief summarizes a report titled *The Planning Penalty: How Smart Growth Makes Housing Unaffordable*, which was published in March, 2006, by the South Carolina Landowners Association, an independent research and education organization, in cooperation with the American Dream Coalition, a national coalition of people who support free enterprise and free-market solutions to urban problems.

Go to saveourlandrights.com to download the complete report. Numerous data files and other background information can be downloaded from americandreamcoalition.org.