American Dream Coalition

“Smart Growth” Makes Housing Unaffordable

High housing prices in Seattle and other western Washington cities are reaching crisis proportions. Consider the following:

- Coldwell Banker says that a four-bedroom, 2,200-square-foot home suitable for a “corporate middle manager” would cost nearly $400,000 in Seattle, $550,000 in Bellevue, and $310,000 in Tacoma. That same home would cost only $150,000 in Houston and under $240,000 in Spokane.
- Forty years ago, a median-income family could dedicate a quarter of its income to pay off a mortgage on a median-priced Seattle home in less than 10 years. Today it would take more than 50.
- Despite having housing that was already unaffordable in 2000, western Washington home prices have risen by 5 to 6 percent per year since then, far faster than incomes. Eastern Washington prices have grown by only 1 to 3 percent per year.

Why is Seattle so much more expensive than Houston? Why is eastern Washington so much more affordable than western Washington? The simple answer is *growth-management planning*, sometimes called smart growth. The planning rules and land-use restrictions imposed by Washington’s 1991 growth-management act have created barriers that limit the ability of homebuilders to meet the demand for new homes. The act’s requirements are much stricter in western Washington than east of the Cascades, which is why housing is more affordable in Spokane, Yakima, and the tri cities. In contrast, Houston has almost no planning, which makes it the most affordable major metropolitan area in America.

Planning-induced housing shortages cost Washington homebuyers some $6 billion in 2005. These high housing prices outweigh any of the possible benefits of smart-growth planning. According to the most widely quoted report on the costs of sprawl, for example, urban-service costs to low-density homes are just $11,000 more per home than to higher-density homes. Why should every homebuyer pay several times this amount so that cities can save a little money on new homes alone?

High housing costs send shock waves reverberating through a region’s economy. Economic growth slows as employers look elsewhere to locate their offices and factories. Low-income workers commute 50 to 100 miles or more to find affordable housing. Inner-city school districts collapse as middle-class families flee remote areas where they can afford a yard for their children.

Ironically, the cities with the strictest land-use rules, such as Seattle and Bellingham, consider themselves most progressive, yet the effects of these rules are entirely regressive. They place the greatest burdens on low-income families while providing windfall profits to relatively wealthy homeowners.

Homeownership is a key to America’s economic mobility. Homeowners can use the equity in their homes to start small businesses. Children in low-income families who own their homes do better in school than children in families who rent. Washington’s planning restrictions deny these benefits to the state’s low-income families. It is worth noting that two out of three white families in the Seattle area own their own homes, but more than 60 percent of black and Hispanic families must rent.

But don’t we need smart growth to protect farms and open space? Not really. The 2000 census found that 82 percent of Washingtonians live on just 3.2 percent of the state, while more than 95 percent of Washington is rural open space. Government efforts to preserve open space at the expense of high housing costs is a tragic misplacement of priorities.

The most common planning solution to high housing costs, inclusionary zoning, only makes the problem worse. Such zoning requires homebuilders to sell a share of the houses they build to low-income families at below-market prices. Homebuilders pass their costs to other new homebuyers. When sellers of existing homes see that new home prices have risen, they raise their prices too. The result is that a few families get affordable housing, but affordability declines for everyone else.

Washington should repeal its growth-management act and cities and counties should stop hindering homebuilders from providing affordable housing for every familiy in the state.

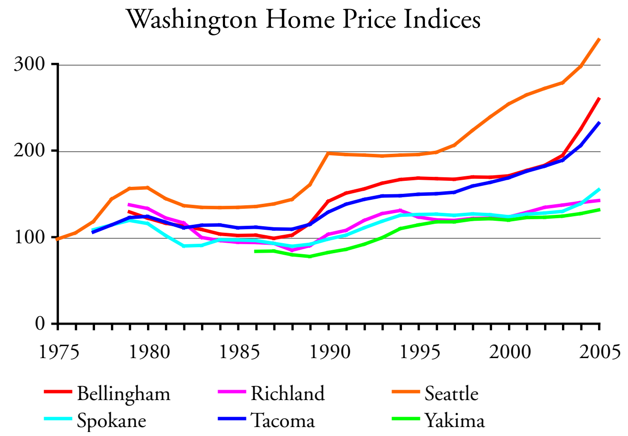
Key Findings and Recommendations

Findings

- Housing shortages caused by restrictive land-use planning and regulation imposed penalties on homebuyers totaling $275 billion nationally and $6 billion in Washington in 2005.
  The national figure is four times the cost of urban congestion as calculated by the Texas Transportation Insittute'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.
- Seattle homebuyers paid penalties of $133,000 per median-value home in 2005, while homebuyers in other Western Washington metro areas paid penalties of $35,000 to $100,000.
  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*, 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 95 percent of Washington, 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 Washington cities, yet have maintained affordable housing.

Recommendations

- Washington 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 Washington legislature should repeal the 1991 growth-managment act and resist efforts by planning advocates to strengthen planning requirements for cities and counties.
- 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.



Home prices in western Washington have risen rapidly since cities have written growth-management plans under the 1991 growth-management act. Slower-rising prices in eastern Washington reflect the act's less stringent requirements for cities in that part of the state. The numbers in the chart are roughly the cost of a median-value home in thousands of dollars adjusted for inflation to 2005 dollars.

For Further Infomation

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