"Smart Growth" Makes Housing Unaffordable

Despite low interest rates, housing is rapidly becoming unaffordable in several Wisconsin cities, most notably Madison, Milwaukee, and Kenosha. This trend is disturbing because housing has historically been affordable throughout Wisconsin.

As late as 1999, a median-income family anywhere in Wisconsin could spend 25 percent of its income on a mortgage could pay for a median-value home in just 9 to 13 years. By 2005, however, that increased to close to 20 years in Madison, Milwaukee, and Kenosha. During that time period, incomes grew by 2 to 3 percent, but home prices in those metropolitan areas increased by 30 to 48 percent. Homebuyers in other Wisconsin metro areas did not fare much better, as home prices grew by 15 to 25 percent.

Such dramatic declines in housing affordability almost invariably follow the imposition of smart-growth plans or similar land-use restrictions. In the name of improving "livability" and preserving open space, these plans create barriers that prevent homebuilders from meeting the demand for new homes. The rapid increase in the cost of housing that follows is the result of planning-induced housing shortages, not some frantic demand to live in these supposedly livable communities.

In Wisconsin's case, declines in affordability can probably be attributed to land-use plans written under the 1999 Smart-Growth Initiative passed by the state legislature. This law encouraged, but did not require, Wisconsin cities to write plans aimed at managing the growth of those cities and protecting farms and open space. Madison, Milwaukee, and Kenosha have historically been more enthusiastic about such planning than many other Wisconsin cities.

Homebuyers in Madison, Milwaukee, and Kenosha must pay an average penalty of at least $20,000 per median-value home for the privilege of living in cities that have written such plans. Considering that these cities were much more affordable in 1999, the actual penalty is probably at least 25 percent greater. As a result of these penalties, homebuyers in these cities paid some $740 million more for homes in 2005 than they would have paid if the plans had not been written.

Worse, these penalties can be expected steadily climb—that is, home prices rise much faster than incomes—as long as the rules are in effect. In the San Francisco Bay Area, which has had such rules for more than thirty years, homebuyers must pay penalties of $500,000 to $850,000 per median-value home.

It is both sad and ironic that cities that regard themselves as heirs to Wisconsin's historic progressive legacy would so enthusiastically support 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 61 percent of white families in Madison own their own homes, but only a quarter of Hispanic families and less than 20 percent of black families do. The disparities are almost as great in Milwaukee and Kenosha. No wonder Oregon economist Randall Pozdena calls smart growth "the new segregation."

The planners' solution to the housing affordability problems that they themselves created often make the problems worse. One planning solution is subsidies to affordable housing, but this only benefits a few people and imposes higher taxes or lower government services on everyone else.

Inclusionary zoning—rules requiring homebuilders to set aside a percentage of their homes for low-income families—is the other common planning solution, but it worse than no solution at all. Not only does it help only a few people, it drives up housing prices for almost everyone else.

Homebuilders add the cost of the homes they must sell below market to other homes they sell. When existing homeowners see that new home prices have increased, they will increase the price of their homes when they sell. On average, inclusionary zoning makes affordability worse, not better.

But don't we need to control sprawl to protect farms and open spaces? Not really. The US Department of Agriculture says 93 percent of Wisconsin remains in farms and rural open space, adding that urbanization is "not considered a threat to the nation's food production." If every single family in Wisconsin moved to Dane County and built a home on a quarter-acre lot, more than half the county would still be available for farming.

Will Wisconsin be an egalitarian state, with homes affordable to almost any family that wants to live there? Or will it protect a few acres of open space, which would be abundant in any case, at the expense of becoming an elitist city where only the very rich can afford to own homes? The choice Wisconsin makes will reveal its true ideals as a progressive state or one that takes from the poor to give to the rich.
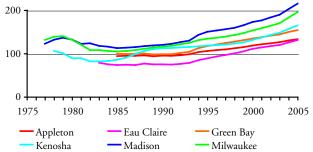
Key Findings and Recommendations

Findings

- Housing shortages caused by restrictive land-use planning and regulation imposed penalties on homebuyers totaling $275 billion nationally and nearly $600 million in Wisconsin 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.

- Kenosha, Madison, and Milwaukee homebuyers paid penalties of about $20,000 per median-value home in 2005.
  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 everyone in a metropolitan area pay $20,000 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 93 percent of Wisconsin, 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 much faster than Wisconsin cities, yet have maintained affordable housing.

Recommendations

- Wisconsin 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 Wisconsin legislature should repeal the

Wisconsin Home Price Indices

In the last decade, housing prices in Kenosha, Madison, and Milwaukee have risen far faster than incomes, resulting in a decline in affordability. The chart shows the value of a median home in thousands of inflation-adjusted dollars.

state's smart-growth planning law and resist efforts by planning advocates to impose more planning requirements on 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.

For Further Infomation

This briefing paper summarizes *The Planning Penalty: How Smart Growth Makes Housing Unaffordable*. This March 2006 report was published by Stop "Smart Growth," a Wisconsin organization, and the American Dream Coalition, a national coalition of people who support free enterprise and free-market solutions to urban problems. Go to stopsmartgrowth.org for a copy of the full report and to americandreamcoalition.org for numerous data files and other background information.

Stop "Smart Growth"

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★ **American** ★
★ **Dream** ★
★ **Coalition** ★
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