

Center for the
American Dream
of mobility and home ownership

Issue Backgrounder
2006-C

“Smart Growth” Makes Housing Unaffordable

Smart-growth planning and other land-use restrictions create artificial housing shortages that dramatically reduce housing affordability. Penalties from planning cost Colorado homebuyers \$4 billion in 2005, which is far more than any possible benefits from such planning. Local officials should remove barriers to housing construction and find better ways to attain the benefits smart growth is supposed to produce.

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Coldwell Banker says a house that would sell for \$150,000 in Houston and \$200,000 in Austin would cost \$335,000 in Denver and \$545,000 in Boulder. Why are Boulder and Denver so much more expensive?

These differences in housing prices are due to housing shortages caused by restrictive land-use planning. Planning-induced housing shortages have created barriers for low-income families and other first-time homebuyers. Subsidies and mandates for affordable housing do not solve this problem as they help only a tiny number of people and can actually make housing less affordable for everyone else.

Historical data shows that Boulder was affordable in 1969. But the city's decision to limit the number of building permits it issued and to prevent expansion by buying open spaces made it increasingly unaffordable after the mid-1970s. Today, homebuyers pay a penalty of well over \$100,000 per median-value home for the privilege of living in Boulder. In total, Boulder homebuyers spent \$500 million more for homes last year than they would have paid without the planning restrictions.

Is this cost worthwhile? The University of Colorado gives Boulder its distinctive youth culture with a high degree of pedestrianism and one of the few successful pedestrian malls in the country. Those would exist even without greenbelts or limits on building permits. It is not likely that the limit on building permits has really increased the quality of life by more than \$100,000 per family.

Boulder considers itself a progressive city, but the effects of planning on home prices are entirely regressive. Planning-induced housing shortages place enormous burdens on low-income families but create windfall profits for wealthy homeowners. Does this steal-from-the-poor, give-to-the-rich policy really reflect Boulder's true attitudes?

Homeownership is more than just a dream, it is a vital part of America's economic mobility. Most small businesses get their original financing from a loan secured by the business owner's home. Children in low-income families who own their own homes do better on educational tests than those who live in rental housing. Barriers to homeownership reduce this mobility and help keep low-income people poor.

Denver and Ft. Collins face similar questions. Both had affordable housing as late as 1989. But urban-growth boundaries created an artificial land shortage that drove up housing prices. By 1999, Denver and Ft. Collins housing was rapidly becoming unaffordable and today homebuyers pay penalties of more than \$50,000 per median-value home.

Colorado planning advocates say we need to protect farms and open space. But cities and towns occupy less than 2 percent of the land area of Colorado. The U.S. Department of Agriculture says that urbanization is “not considered a threat to the nation's food production.” When housing is scarce, government open-space programs are a tragic misplacement of priorities.

Inclusionary zoning ordinances that require developers to sell a percentage of their homes to low-income families at below market value actually make affordability problems worse. The homebuilders naturally make up their losses by raising the price of the rest of their homes, which then leads sellers of existing homes to raise their prices as well.

Boulder, Denver, and other Colorado cities should immediately review their planning rules and repeal those rules that prevent homebuilders from meeting the demand for housing. Open space protection should be left to private land trusts and the fiscal issues involved in urban growth should be addressed through user fees that allow people to choose how and where they live but insure they pay the cost of their choices.

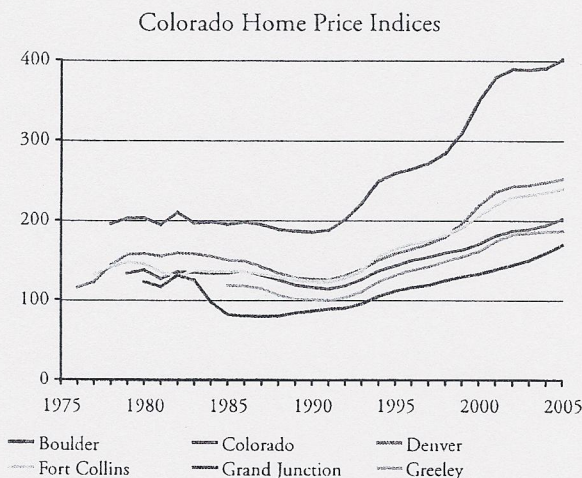
Key Findings and Recommendations

Findings

- Housing shortages caused by restrictive land-use planning and regulation imposed penalties on homebuyers totaling \$350 billion nationally and \$4 billion in Colorado in 2005.

That is four to five times the cost of urban congestion as calculated by the Texas Transportation Institute's latest urban mobility report.

- 95 percent of this cost was in just twelve states whose cities have especially strict "smart-growth" plans or other land-use controls such as greenbelts, growth caps, or concurrency rules. *Leading states include California, Colorado, Florida, Massachusetts, Oregon, and Washington.*
- Boulder homebuyers paid penalties of nearly \$120,000 per median-value home in 2005, while homebuyers in Denver and Ft. Collins paid penalties of \$50,000 to \$60,000 per home. *These penalties are conservatively calculated and the real numbers probably average 25 percent more.*



Urban-growth boundaries, greenbelts, and other land-use restrictions have caused inflation-adjusted housing prices to grow much faster than incomes, making housing unaffordable for many low-income families and first-time homebuyers. The chart shows median-home values in thousands of dollars.

- 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 \$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 97 percent of Colorado, 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 Boulder or Denver yet have maintained affordable housing.

Recommendations

- Colorado 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 Colorado legislature should resist efforts by planning advocates to impose stronger planning requirements on cities and counties.
- The "costs of sprawl" should be handled with fair property 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 assist only a few people but can increase housing costs for everyone else.

For Further Information

This issue backgrounder summarizes *The Planning Penalty: How Smart Growth Makes Housing Unaffordable*. This report was published by the Independence Institute's Center for the American Dream, 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 i2i.org to download the complete report. Numerous data files and other background information are available at americandreamcoalition.org.