

Smart Growth and Housing Affordability: Evidence from Statewide Planning

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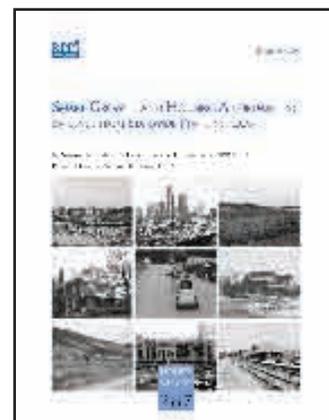
State legislatures across the nation are considering statewide planning reforms to grapple with population and urban growth on the metropolitan fringe. Many of these efforts are driven by theoretical concepts of urban planning and practice, and lack a rigorous assessment of their possible impacts and unintended consequences. Nevertheless, the impacts on the quality of life for households and families can be significant and sometimes, they can have unintended, negative side effects. This is probably most evident in the case of housing and housing affordability.

Most “Smart Growth” planning reforms adopt as a core principle the goal of increasing housing affordability and diversity. This goal, in fact, is one of the leading justifications for limiting so-called “urban sprawl.” Low-density residential and commercial development, the argument goes, reduces the overall quality of urban life by increasing congestion, promoting social isolation and segregation, and inefficiently

using land. More compact higher density land-use patterns, sprawl opponents continue, would improve the quality of life for most people and produce a richer range of housing choices at affordable prices. Centralized land-use planning at the state, regional, and local levels, tied to statewide planning goals, is often promoted as the solution. More than a dozen states have adopted statewide growth-management legislation using this general framework, including states as diverse as Florida, Oregon, Washington, Maine, and Tennessee.

Yet, surprisingly little analysis has examined the real-world impacts of these programs based on their performance despite the potential for significant, negative side effects. Decades of scholarly research has shown growth controls can reduce housing affordability if they increase costs and limit the supply of new units. Yet, with the exception of a few case studies of individual cities and regions, almost no attention has been paid to the practical

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effects of implementing this new wave of statewide planning reforms; virtually all the attention has centered on designing and passing Smart Growth legislation and implementing the plans. *Smart Growth and Housing Affordability: Evidence from Statewide Planning* begins to fill this void by assessing the effects of statewide planning on the price and affordability of housing in three key states: Florida, Oregon, and Washington.

Planning in Florida, Oregon, and Washington

Florida, Oregon, and Washington are recognized as leaders in the Smart Growth movement—all have given housing goals important prominence in their regional and urban planning. Florida, for example, explicitly requires its cities to plan for a diverse range of housing needs and types. The “housing element” in Florida’s local plans must include an analysis of current population and income trends, housing-unit costs, vacancy rates, and housing demand. Moreover, planning must accommodate a variety of densities and housing types.

In Florida, the Growth Management Act (GMA)’s architects anticipated that the law might have negative impacts on housing affordability. So, they required local plans to address housing affordability as a specific, defined housing issue in their plans. In 1988, the legislature even adopted a housing goal that Florida will “ensure that decent and affordable housing is available for all its residents” by 2010. Florida planners took their role as enforcers of the state GMA’s principles seriously: more than half of the comprehensive plans for Florida’s cities, and two-thirds of the plans for its counties, were rejected by the Florida Department of Community Affairs because they failed to comply with an element of the state’s growth-management law. Similarly,

Washington State’s GMA requires cities to plan for a variety of housing types and densities for all income levels. In fact, Washington State’s GMA goes so far as to bestow a legal duty on cities and counties to accommodate the growth projected by the state government. Like Florida and Oregon, the primary implementation mechanism is the comprehensive plan.

Establishing housing affordability goals are one thing; achieving them is another. Several features of each state’s GMA can potentially, although unintentionally, increase housing prices and, by extension, reduce housing affordability. Urban-growth boundaries (mandated in Washington and Oregon and highly encouraged in Florida), for example, constrain a key component of housing—land. Thus, in an effort to reduce urban sprawl, growth boundaries can constrain supply and put upward pressure on housing prices. If housing quality falls, or if incomes fail to keep pace with housing prices, housing affordability will deteriorate. Forward, end-state planning that serves as the basis for regulating land use and urban design may also create substantial regulatory burdens for local governments and the private sector, particularly when they lack key information. Poor forecasting could also lead to the underprovision of land at the appropriate densities, creating supply shortages in important parts of the housing market. Whether housing affordability increases or decreases under statewide growth management is primarily an empirical question.

Housing Affordability in Florida, Oregon, and Washington

An initial examination of trends in Florida, Oregon, and Washington revealed that housing prices in metropolitan areas increased faster than personal income and economic growth during the 1990s. Metropolitan home prices increased 44 percent faster than median income in Washington, more than twice as fast as income in Oregon, and at about the same rate as income in Florida. These price increases appear, at first glance, to translate directly into reductions in housing affordability. Further analysis found that metropolitan housing affordability:

- Fell by more than 50 percent in Oregon from its peak in 1993;
- Eroded by 7.4 percent in Washington State since 1991;
- Eroded by 8.9 percent in Florida since its peak in 1993 and
- Eroded in these three states after 1993; while afford-



were unavailable, an analysis of housing-price growth in 20 metropolitan areas revealed a similar relationship.

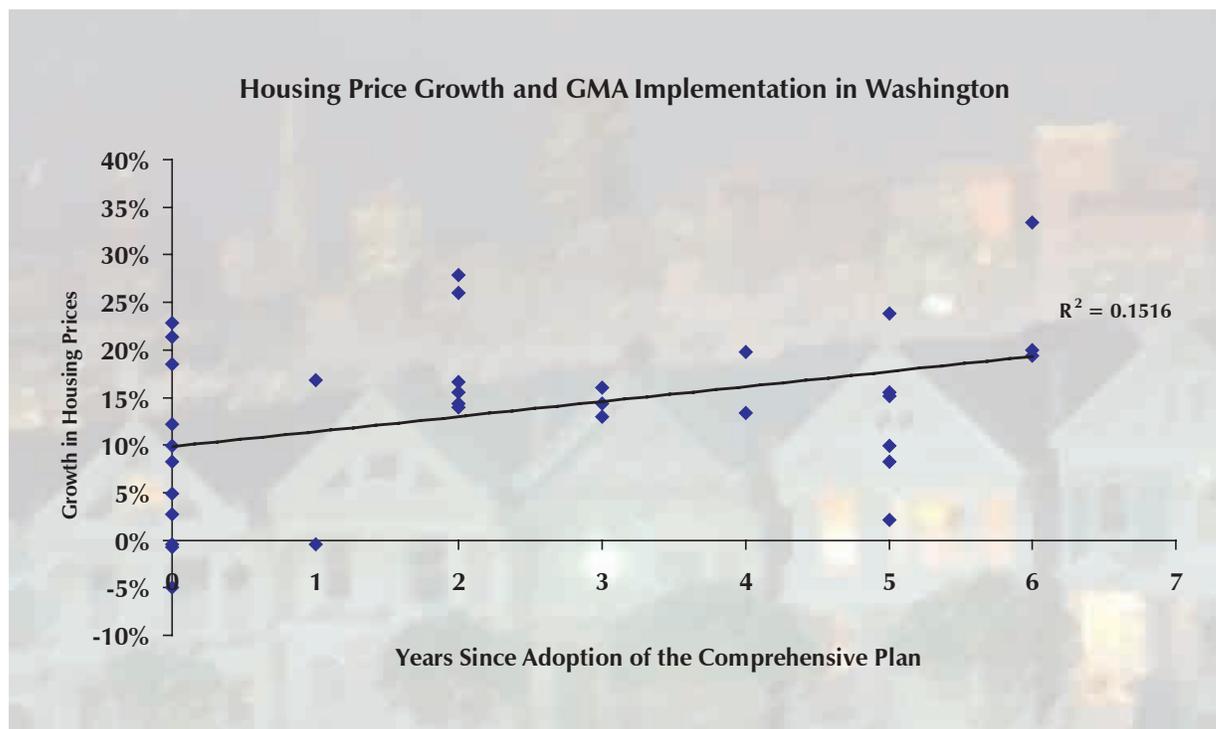
GMA Impact on Housing Prices and Affordability in Washington

Since other factors may also influence housing-price growth (e.g., rising incomes, rising demand, smaller households, quality, etc.), regression analysis was used to develop a more complete understanding of the GMA's role in housing-price increases in Washington and Florida and their implications for housing affordability. In Washington, after controlling for changes in income, population, density, household size, and geographic proximity to the state's largest metropolitan area (Seattle-Tacoma), the regression results suggested:

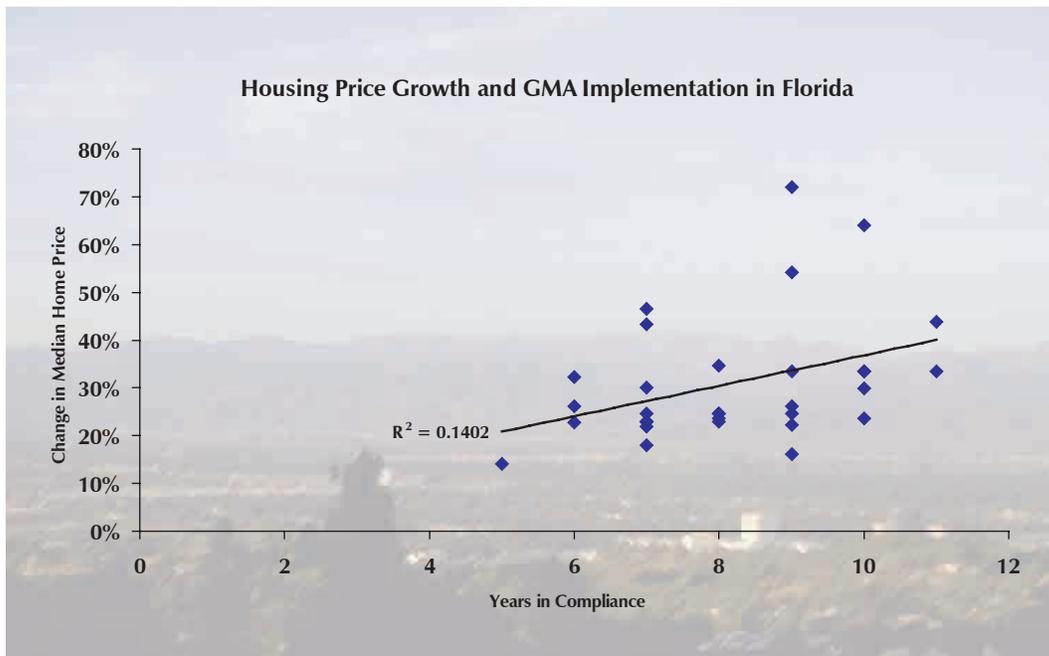
ability improved for the nation throughout the 1990s.

The study extended the analysis to examine housing price trends and planning under each state's GMA at the county level for Washington State and Florida. Unfortunately, detailed county-level data for Oregon were not available, preventing a similar analysis of housing-price trends in that state. In Washington State, housing prices increased the longer a county planned under the GMA when housing price changes between 1995 and 2000 were analyzed. A simple correlation between the two variables suggested 15.1 percent of the growth in housing prices could be attributed to planning through the GMA, although these results did not control for other factors. While detailed data for rural counties in Florida

- Higher density counties tended to experience faster housing-price appreciation;
- Counties where income grew faster tended to experience higher home-price escalation;
- Counties in the Seattle-Tacoma metropolitan area experienced faster housing price growth than other counties (metropolitan and rural) in Washington State; and
- The longer a county planned under Washington State's GMA, the faster housing prices increased, accounting for 26 percent of the estimated growth in housing prices during this period.



From 1990 to 1995, housing prices increased by 16.9 percent, or 3.4 percent per year. Washington State's GMA may have added about 0.7 percentage points to the housing inflation rate for each year the county had a comprehensive plan in place. Thus, based on the estimates from the statistical analysis, housing prices would have increased 2.7 per-



and metropolitan areas requires interpreting the results of the analysis carefully, the results can be placed into the larger and more policy relevant context of housing affordability. The statistical results suggests that Florida's GMA may have contributed to a 15.0 percent decline in affordability between 1994 and 2000. Without Florida's growth-management laws, the rate of decline in housing affordability would have slowed by one-third. On a statewide basis, the GMA's effect could have reversed trends toward less affordable housing.

The results of the statistical analysis confirm conclusions

cent per year without the effects of the GMA. In comparison, income per household increased by 3.8 percent per year during this period. In short, Washington could have made significant gains in affordability, all other factors held constant, in the absence of its growth-management law.

reached by University of Iowa planning professor Jerry Anthony. Anthony conducted one of the most detailed analyses of the impacts of Florida's statewide growth-management regulations on housing to date. Focusing on the period in which the growth-management laws were first implemented, between 1980 and 1995, Anthony found Florida's GMA increased housing prices and lowered housing affordability although, unfortunately, he did not calculate magnitudes from his results. The enduring relationship between GMA planning and housing prices in the later half of the 1990s suggests that Anthony's results are still valid even though his analysis stopped in 1995.

GMA Impacts on Housing Prices and Affordability in Florida

A similar analysis of housing-price changes in Florida's urban counties between 1994 and 2000 controlled for density, household size, and proximity to the Orlando metropolitan area. Household income data were unavailable, yet the results suggested:

- Density was not an important factor in explaining rising home prices in Florida, but the size of the household was;
- Urban counties in the Orlando metropolitan area had significantly lower rates of housing-price increases;
- The number of years a county has been planning in compliance with the Florida GMA significantly increased housing prices, explaining about 20 percent of the growth between 1994 and 2000; and
- Counties bringing their plans into compliance with Florida's growth-management law faster had higher housing-price growth between 1994 and 2000 compared to those that delayed compliance.

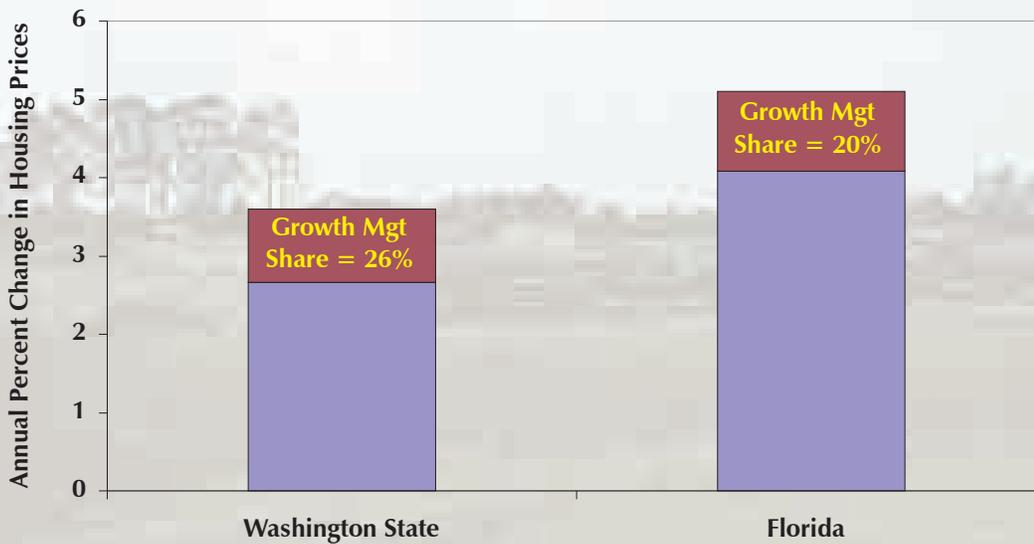
While the lack of data and limited number of counties

Policy Implications

In sum, this study found a disconnection between the goals of statewide growth-management laws that seek to ensure affordable housing for their residents and the effects of these growth-management policies when implemented. GMA compliance has resulted in higher housing prices and decreased housing affordability in both Washington and Florida, thus making the goal of home ownership less attainable for renters and lower-income households. In Washington, the GMA may contribute to more than one-quarter of the increase in housing prices.

The results also strongly suggest that some of the goals of Smart Growth advocates may be inconsistent with the realities of housing development. To the extent that more compact, higher density urban development is encouraged

Estimated Impact of Statewide Growth Management on Annual Housing Prices



affordability is an important goal of statewide planning reform, GMAs have the real potential of increasing housing costs and reducing affordability by imposing an onerous development review process on land development, thereby increasing costs and prices. Thus, the effects of implementing statewide growth management laws may run counter to explicit goals to promote housing affordability included in the principles, goals, and objectives of growth-

through growth-management laws designed in ways similar to Florida’s and Washington’s, and by extension Oregon’s, higher housing prices could result. First, higher density urban areas are associated with higher housing prices as more people compete for a more scarce resource: land. Second, by forcing development into existing urban areas, housing development will take place in fast-growing areas, allowing consumers to bid up the price of land. These were important findings from the Washington analysis.

The results also suggest that policymakers should be skeptical of efforts to achieve affordable housing goals without a full appreciation for their impact on real-estate markets. The American housing market is dynamic, and current comprehensive planning tools may not be able to capture this dynamism or the nuances required to meet evolving housing and neighborhood preferences. This is particularly true with a legal system that continues to protect property rights and respects the importance of meeting consumer demands for most goods and services, including housing. Strong growth-management laws that tie local planning to statewide goals run the risk of further politicizing the development process, increasing transaction costs, and creating an imbalance between housing supply and demand. This disequilibrium may exist in the aggregate as well as for specific types of housing, putting upward pressure on housing prices and, ultimately, reducing housing affordability.

The study concludes by noting that although housing

management legislation on the state level. ■

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Other Related RPPI Studies

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Preparing for the Storm: Preserving Water Resources with Stormwater Utilities. By Barrett P. Walker. Policy Study No. 275. January 2001, www.rppi.org/ps275.html.

The Vanishing Farmland Myth and the Smart-growth Agenda. Policy Brief No. 12. By Samuel R. Staley, January 2000, www.rppi.org/pb12.pdf.

A Line in the Land: Urban-growth Boundaries, Smart Growth, and Housing Affordability. Policy Study No. 263. By Samuel R. Staley, November 1999, www.rppi.org/ps263.html.

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Staley, October 1999, www.rppi.org/pb11.html.

The Sprawling of America: In Defense of the Dynamic City. Policy Study No. 251. By Samuel R. Staley, February 1999, www.rppi.org/ps251.html.

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