

POLICY FOCUS

How Urban Planning Drives Up Home Prices

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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WHAT YOU NEED TO KNOW

Why are housing costs so high, particularly in some urban areas? A big part of the problem stems from state and local urban planning and resulting regulations. These policies include everything from traditional zoning laws and so-called “smart growth” regulations to excessive taxes and development fees. Some of these programs bar new home construction, while others inhibit needed housing investment by making rentals and construction less profitable. Unfortunately, urban planning policies tend to benefit politically organized and powerful groups, particularly the relatively affluent, existing property owners, at the expense of lower-income families and individuals.

Urban planners also push “affordable housing” policies that ironically contribute to high housing costs. For example, rent control and regulations requiring builders to set aside housing for low-income tenants discourages investment in new housing, raising prices for everyone but the lucky few who benefit from these programs.

Data show that prices are highest in cities where such government regulations artificially limit supply. To make housing more affordable, policymakers should roll back these counterproductive regulations, by eliminating urban growth boundaries, excessive taxes and “fees” on development, height restrictions and minimum parking requirements, and by reversing zoning limitations that prevent builders, homeowners, and developers from meeting market demand for housing. A freer, more competitive housing market would lead to greater supply and diversity, giving people affordable options.

WHY YOU SHOULD CARE

- **The American Dream Is Becoming Less Attainable:** A host of government land use regulations, from traditional zoning laws to “smart growth” policies, are creating artificial housing shortages in many markets. Resulting price surges make homes unaffordable to anyone but the very wealthy in many U.S. cities.
- **Excessive Urban Planning Undermines Consumer Choice:** Government planners are increasingly limiting consumer options by limiting the types, sizes, and locations of housing available to potential home buyers. As a result, consumers either pay excessively high prices or relocate to other towns or cities.
- **The Poor Are Hurt Most:** Many regulations, purposefully or not, end up segregating classes of individuals based on race, income, and occupation. Those with lower-incomes are also the least able to pay unnecessarily high housing costs.
- **Property Rights Are Being Destroyed:** Property rights help generate wealth and allow us to control our destiny. Busybody regulators deprive private Americans—builders and homeowners—of their right to use their property as they see fit with unnecessary zoning laws and other restrictions.

Better housing policies can create more affordable, diverse and livable American cities.

MORE INFORMATION

Zoning: From Traditional to Not-So-Smart.

Urban planning has origins in both public and private land use regulations that emerged with the growth of cities. Cato Institute scholar Randall O’Toole explains in his book *American Nightmare* that starting back in the 1800s, developers of new home communities used deed restrictions to regulate land use. In those cases, purchasers agreed to the regulations enumerated in the property deed, which passed from one owner to the next.

Deeds could bar future owners from replacing their homes with industrial or farm operations. When applied to all homes in a given community, all homeowners gained predictability about the character of the community, which helped secure property values. Deed restrictions are not without some serious problems, but they are at least limited in scope and can be designed to require periodic renewal, allow amendments, or expire.

Similarly, local governments have used zoning to control land use, but unlike deed restrictions, zoning laws are not entered into voluntarily; they are mandated for entire cities or counties. Originally, zoning focused on separating industrial and residential areas, which was made possible with the development of transportation technology.

In his essay “**An Economic History of Zoning**,” Dartmouth economics professor William

A. Fischel details how transportation made it possible to live more than walking distance from work. Workers found homes along rail lines, but eventually cars liberated people, allowing the development of suburbs. Zoning expanded to regulate many other things such as lot sizes, building heights, architectural styles, historic preservation, housing density, and more.

Both zoning and deed restrictions have been used for the insidious purpose of segregating populations based upon race. Racial zoning was eventually ruled unconstitutional in *Buchanan v. Warley* (1917), but racial deed restrictions continued and were only deemed unenforceable by the Supreme Court in 1948 in *Shelley v. Kraemer*. The Federal Civil Rights Act of 1968 (also referred to as the Federal Fair Housing Act) eventually barred all housing discrimination based on race, color, religion, or national origin.

Zoning eventually became a tool of the Not-In-My-Back-Yard (NIMBY) suburban homeowners' movement that seeks to keep working-class families in the city rather than allow them to follow middle class families into the suburbs. Mandating relatively large lots per house, prohibiting multifamily housing, and other restrictions ensured that housing in the suburbs would simply be too expensive for many lower-income families. Some zoning codes even bar certain home-based businesses that would make housing more affordable. For example, the Institute for Justice's Garrett Atherton details cases where governments have shut down home-based businesses involved in hair cutting, manicures, and small-scale daycare.

Since 1968, federal and state fair housing laws have increasingly made such "exclusionary zoning" more difficult. But Fischel maintains that the NIMBY crowd eventually found a new approach: "The environmental movement of the early 1970s provided a seemingly new and compelling ideology to justify a more general exclusion of development," he **explains**.

Indeed, many cities, counties, and regional entities have implemented comprehensive "smart growth" plans that greatly intensify housing shortages. Smart growth policies also have an ideological component that promotes the planner's idealized version of how people should live, advocating mostly a city-centric lifestyle. In addition to regulating such things as the types of transportation, architecture, and other aesthetic amenities, this ideology includes protection of "green fields"—limiting construction to increase or preserve open space.

According to the nonprofit **Smart Growth America**: "Smart growth means building urban, suburban and rural communities with housing and transportation choices near jobs, shops and schools." In other words, suburbs and **cars** are out, and urban planners now design cities to promote walking, biking and taking public transportation to work—irrespective of consumer demand. These policies reduce consumer choice, promote **misguided transportation investments**, and create severe housing shortages.

Consider Oregon, which in 1973 passed a state-wide law demanding that all cities in the state impose "urban growth boundaries." As of 1979, each city had to designate boundaries

around the city outside of which development was forbidden. Cities review these boundaries periodically and can expand the area of allowed development. Since its inception, Portland has expanded its boundaries several times, but not enough to address government-generated housing shortages. Randall O’Toole explains in a recent [Cato Institute commentary](#):

“Since 1980, the population within Portland’s urban-growth boundary has grown by 70 percent, yet the boundary has been expanded by less than 15 percent. Land prices have grown by hundreds of percent and, despite the urban planners’ mantra, growing up instead of out does not make housing affordable.”

In addition to growth boundaries, other smart growth policies around the nation wreak havoc on home prices. These include excessively high taxes on new developments called “impact fees,” red tape associated with building permits, expensive design codes for aesthetic purposes and much more.

Researchers have empirically documented that housing prices have increased in tandem with land use regulations. According to the 2015 [Demographia International Housing Affordability Survey](#), in every one of the policy group’s 11 annual surveys, all cities categorized as possessing “severely unaffordable” housing markets also had highly restrictive land use regulations, particularly urban containment policies. The group’s 2010 [report estimated](#)

that such regulations have increased the costs of new homes by as much as \$30,000 in Minneapolis St. Paul and \$220,000 in San Diego. In contrast, cities without urban containment regulations have never appeared on the list of the “severely unaffordable.”

“Affordability” Policies That Make Housing More Expensive

Ironically, a number of policies designed to make housing more affordable have the opposite effect. Consider “rent control” or “rent stabilization” policies that regulate the amount that landlords may charge to renters. The [National Multifamily Housing Council \(NMHC\)](#) details how, by making rentals unprofitable, rent control policies actually reduce available rental housing supply, contribute to urban decay, and provide much more of the benefits to relatively affluent renters than to truly needy families. After several decades of rent regulation in U.S. cities, NMHC points out, 93 percent of economists responding to an American Economic Association poll (*American Economic Review*, May 1992) agreed that rent control “reduces the quality and quantity of housing available.”

Similarly, “inclusionary zoning” policies were designed to address affordability issues, but they benefit a select few and raise prices for everyone else. For example, [Washington, D.C.](#), requires developers of certain new and rehabbed housing to sell at least 8 percent of them at rates well below market prices. Few benefit as these homes are allocated via a lottery, and beneficiaries

may include students, recent college graduates, and others who have relatively temporary “low incomes.” Many truly needy people don’t qualify. Meanwhile, developers offset such costs by charging more for other units.

Researchers Benjamin Powell and Edward Stringham detail in a [Reason Foundation paper](#) how such affordable housing programs do more harm than good by driving up housing costs. They estimate that these policies increase home prices by \$22,000 to \$44,000 in median-priced cities, and up to \$100,000 per home in high-priced markets. In addition, their data show that “inclusionary policies” reduce housing supply as developers choose to build elsewhere, and the cities that impose these policies lose economic growth and related tax revenue.

A Better Housing Policy

Housing prices will continue to rise in areas that advance excessive land use regulation and particularly “smart growth” policies. If they care about advancing affordable housing, policymakers need to change the regulatory tide to allow developers and other providers to meet market demands for housing.

Ideal policies would eliminate urban growth boundaries, reduce or eliminate excessive taxes and “fees” on development, eliminate height restrictions, do away with minimum parking requirements, and reverse zoning limitations that prevents builders, homeowners, and developers from meeting market demand for housing. And cities should begin to phase out counter-

productive affordable housing programs, such as rent control/stabilization and inclusionary zoning programs, to allow a truly competitive housing market to meet demand.

THE PLANNERS’ WAR AGAINST PROPERTY RIGHTS

A primary purpose of government is to defend the rights of individuals to own property. Unfortunately, today, government zoning laws undermine property rights by limiting how land can be used.

The Supreme Court ruled in *Euclid v. Ambler Realty* (1926) that local governments can zone private property under their police power authorities. Our public laws have long recognized that there are limited occasions when governments need to establish rights of way across private property, or to even take property for public purposes such as the building of highways and utility infrastructure. In those cases, government must provide just compensation to property owners.

But modern application has extended governmental power to allow taking of private property for the purpose of transferring it to private developers. In *Kelo v. City of New London* (2005), the Supreme Court ruled such takings as valid because it advanced an urban development plan designed to serve the community. This case shows that zealous “urban planning” programs not only price many people out of the home-buying market, but they can also even be used as an excuse to force existing homeowners out of the very homes they cherish.

WHAT YOU CAN DO

You can learn more about how “smart growth” and other excessive urban planning programs undermine affordable housing, home ownership, and consumer choice.

- **Get Informed:** Learn more about food and nutrition issues. Visit:
 - [Independent Women’s Forum](#)
 - [Theroux Institute](#)
 - [Demographia.com](#)
- **Talk to Your Friends:** Don’t let your friends and family be duped by claims that “smart growth” and exclusionary zoning plans are designed to help consumers. Share this paper and what you have learned so they too can better understand it is these policies that increasingly play a major role

in making the American dream unattainable for middle and lower-income Americans. Encourage them to spread the word, and get them involved.

- **Become a Leader in the Community:** Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.
- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your local, state and federal representatives know your opinions. After all, they are supposed to work for you.

ABOUT THE INDEPENDENT WOMEN’S FORUM

The Independent Women’s Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website www.iwf.org to get more information and consider making a donation to IWF.

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