

Growth-Management Laws Harm Affordability

By Randal O'Toole

Growth-management advocates say that their policies protect farms and open space, save energy and reduce air pollution, and reduce urban service costs. However, farms and open space hardly need saving, as the nation has an abundance of both. There are much better ways of saving energy and reducing pollution that cost less and don't make housing unaffordable. Finally, the costs of growth management are far greater than the costs of letting people live in densities that they prefer.

As compared to the trivial or nonexistent benefits of growth management, the costs are huge. Median home prices in growth-managed regions are typically two to four times more than those in unmanaged areas. Growth restrictions also dramatically increase home price volatility, making home ownership a riskier investment.

Growth management slows regional growth, exacerbates income inequality, and particularly harms low-income families, especially minorities such as African Americans and Latinos.

The key to keeping housing affordable is exactly the opposite of what growth management prescribes: minimizing the regu-

lation of vacant lands outside of incorporated cities.

Allowing developers to build on those lands in response to market demand will also discourage cities from overregulation lest they unnecessarily push development outside the city.

Why CALIFORNIA is so EXPENSIVE

In 1963, the California legislature passed AB 1662, sometimes called the Knox-Nesbit Act, to regulate city annexations and the formation of new cities and service districts. The cities soon realized that they could force most new development (and associated tax revenues) to stay within their borders by denying applications for new cities and service districts.

The barriers to growth created by this law were compounded by the 1970 passage of the California Environmental Quality Act, which required a detailed analysis prior to any public actions. State courts held that expanding an urban-growth boundary required such an analysis, the cost of which became so prohibitive that boundaries are almost never expanded.

For example, only 34 percent of the five counties in which the San Francisco–Oakland urban area is located have been urbanized. About 20 percent is public land, leaving 45 percent available for urbaniza-

tion. But this land, although it is private, cannot be developed because of growth boundaries and other government restrictions. Similarly, two-thirds of the three-county Los Angeles area (Los Angeles, Orange, and Ventura counties) and more than 80 percent of San Diego County are undeveloped rural land.

The States

Between 1970 and 2000, 11 more states passed statewide planning laws, most of which ended up requiring urban-growth boundaries around most or all cities in those states: Vermont (1970), Oregon (1973), Connecticut (1974), Florida (1985), New Hampshire (1985), New Jersey (1986), Maine (1988), Rhode Island (1988), Washington (1990), Maryland (1992), and Delaware (1995). Georgia passed a state planning law in 1989 but never implemented growth boundaries. Tennessee passed a 1998 planning law that requires urban-growth boundaries, but those boundaries are solely used to determine where cities may annex land, not to manage growth. Florida partially repealed its law in 2011.

Loudoun County

Loudoun County, in northern Virginia, uses large-lot zoning to discourage new development, while Montgomery County, Maryland, has placed most of the undeveloped land in the county in either an agricultural reserve or in easements. Together, these limit the growth of the Washington, D.C. urban area.

Zoning

Most other cities in America have zoning, but zoning is not growth management. In most cases, zoning exists to protect existing

neighborhoods from unwanted intrusions, and many cities and counties readily change zoning at the request of landowners when the changes will not significantly affect neighbors.

Adjacent Markets

Growth management also affects housing markets in cities adjacent to those states. Since Connecticut and New Jersey both have growth management, New York City is affected. Since Maryland and northern Virginia counties both have growth management, Washington, D.C. is affected. In total, around 40 percent of all American housing is made artificially expensive by growth management.

Saving Farms, Forests, and Open Spaces

The supposed need to protect farms, forests, and open space from urban sprawl is probably the most cited reason for growth management. Yet America is a big country and urbanization is no threat to the nation's abundance of green spaces. Creating artificial shortages of housing and other urban land uses in order to protect lands that are abundant is poor policy.

The U.S. Department of Agriculture says that, as of 2012, the 48 contiguous states have more than 900 million acres of agricultural land, of which only about 362 million acres (40 percent) is used for growing crops. Moreover, the number of acres needed for growing crops has shrunk from 421 million acres in 1982 because per-acre yields of most major crops have grown faster than our population.¹⁶ As a result, says the department, urbanization "is not

considered a threat to the Nation's food production.”

Forests are also abundant. The Forest Service says that the United States had 766 million acres of forests in 2012, up from 721 million acres in 1920.¹⁸ The increase is mostly due to the automobile and other motor-powered vehicles that replaced horses and other animal power and allowed farmers to convert tens of millions of acres of pasture land to croplands and forests. Timber inventories have grown from 616 million cubic feet of wood in 1953 to 972 million cubic feet in 2012 because forests have been growing and continue to grow considerably faster than they have been cut.

The Census Bureau says that, as of 2010, only 107 million acres of land have been urbanized in the contiguous 48 states, or just 3.6 percent of nearly 3 billion acres. The most heavily developed state, New Jersey, is still 60 percent rural open space.²⁰

Saving Energy and Reducing Pollution

The claim that denser development will save energy by reducing the distances people need to drive was made in a 1973 book, *Compact City*, and has been an article of faith among urban planners ever since. In fact, as explained in detail in a previous Cato policy analysis, *The Myth of the Compact City*, the data fail to support this idea.

As noted in that paper, the Transportation Research Board asked David Brownstone, an economist with the University of California–Irvine, to study this issue....Brownstone concluded that the link between density and driving was “too small to be useful” in saving energy or reducing pollution or greenhouse gas emissions.²⁵

Minimizing Infrastructure and Urban Service Costs

The third major justification for growth management is that it reduces the costs of infrastructure and urban services. A city that is twice as dense as another doesn't need as many miles of streets, water and sewer pipes, and other infrastructure lines. This seems so obvious that urban planners rarely bother to test it.

However, at higher densities [higher than rural], urban service costs increased with increasing densities, meaning that any urban density growth management could actually lead to higher urban service costs.

THE COSTS OF GROWTH MANAGEMENT

Compared with the small and sometimes imaginary costs of sprawl, the costs of growth management are huge and reverberate throughout the entire economy.

Housing and Real Estate Prices

The most visible effect of growth management is a dramatic increase in housing prices and concurrent decline in housing affordability.

Home Price Volatility

Another predictable result of limiting the supply of land for housing is increased volatility. “Restricting housing supply leads to greater volatility in housing prices,” warns Glaeser.

Regional Growth

High housing and real estate prices depress growth rates for two reasons. First, residents and investors are forced to put a higher share of their incomes into real

estate, leaving less money to save or invest in more productive assets. Second, businesses are likely to move their operations to places with more affordable real estate.

Income Inequality

According to Thomas Piketty in his book, *Capital in the Twenty-First Century*, income inequality is growing because returns on capital are greater than the rate of economic growth. But a refinement of Piketty's work by MIT researcher Matthew Rognlie reveals that housing is the main source of growing inequality.

Effect on Low-Income Groups

Low-income families are the hardest hit by growth management. Some urban areas have seen an outward migration of low- and, in a few cases, middle-income families because of high housing prices. As Glaeser writes, high housing prices will make a city "less diverse and instead evolve into a boutique city catering only to a small, highly educated elite."

Rebuilding existing neighborhoods to higher densities will fail to make housing more affordable

First, construction of multifamily housing costs more per square foot than single-family housing. A study in Portland found that a multifamily dwelling typically costs 23 percent more per square foot than a single-

family one. The study also found that high-rise housing costs per square foot were more than double the cost of two-story single-family construction.

Second, land costs in areas designated for high-density housing are often very high. While an acre of land suitable for single-family homes at the urban fringe might cost around \$20,000, or \$2,500 to \$5,000 per developable lot, an acre of urban land designated for redevelopment to higher densities may cost hundreds of thousands or millions of dollars. Even if 50 units of housing are built on a single acre, the land cost per housing unit can be much more than for low-density greenfield developments.

Third, the cost of installing infrastructure in areas of existing development to support higher-density development is likely to be much higher than the cost of infrastructure in greenfield development.

For all these reasons, high-density housing ends up being more affordable than low-density housing only if residents are willing to accept much smaller quarters in the high-density housing.

Read the entire report with extensive references:

<https://object.cato.org/sites/cato.org/files/pubs/pdf/pa802.pdf>

This Explains the downside of New Urbanism/Smart Growth:

<https://www.cato.org/publications/policy-analysis/myth-compact-city-why-compact-development-is-not-way-reduce-carbon-dioxide-emissions>