



Backgrounder

Executive Summary

No. 1426

April 6, 2001

SMART GROWTH, HOUSING COSTS, AND HOMEOWNERSHIP

WENDELL COX AND RONALD D. UTT, PH.D.

America's commitment to providing every citizen with homeownership opportunities is facing a serious challenge as more and more entry-level homebuyers are priced out of the market by poorly conceived "smart growth" initiatives. These initiatives, which attempt to limit a community's growth and development through such regulations as growth boundaries, lower population densities, "downzoning," impact fees, construction prohibitions, and land set-asides, have the effect of raising home prices and discouraging homeownership. As a result, one of America's greatest public policy successes—its historically high homeownership rate—is at risk.

Until World War II, less than half of Americans owned their own homes. But postwar prosperity pushed homeownership to a record 55 percent in 1950, and above 60 percent by 1960. Since then, it has inched its way up to a record 68 percent in late 2000. Among its many benefits, homeownership offers families the opportunity to accumulate wealth over the years. As monthly mortgage payments reduce the debt on the home and as its value rises, homeowners generally experience an increase in equity—the difference between what their house is worth and what they owe on it. Counting both the house and all other assets, the median net worth of the American homeowner in

1998 was an impressive \$132,100, compared with only \$4,200 for renters.

Net worth attributable to home equity is particularly important for modest- and middle-income homeowners. For homeowners with incomes between \$20,000 and \$49,000, home equity accounts for 40 percent to 45 percent of their wealth, and as much as 65 percent for those with incomes below \$20,000.

Such prospects for prosperity face regulatory obstacles from the "smart growth" movement. Although smart growth strategies vary significantly across the country and among their advocates, at their core is the goal of preventing or slowing suburbanization by limiting the amount of land available for new construction.

Recognizing that a growing population needs a steady flow of new housing units each year, some smart growth advocates seek to reduce land use by

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directing needed new construction into higher density developments, such as high-rise apartments or townhouses. Other, more extreme growth control advocates simply want to discourage all growth, regardless of density, in order to preserve their neighborhoods exactly as they are. They support policies that discourage or severely limit any new construction.

Policies typically adopted by those wanting to guide growth into more compact forms usually involve a growth boundary and/or more rigid zoning requirements that define where growth can occur and where it cannot, and often mandate smaller lot sizes. By restricting the amount of land available for development, growth-guiding policies *indirectly* raise the price of homes by rationing the supply of land. At the other extreme, policies designed to reduce or discourage growth generally involve techniques that *directly* raise home prices, such as requiring large lots, high impact fees, or costly amenities.

By raising home prices, such policies force households of modest means into smaller units or out of the community altogether. In either case, the burden is borne largely by entry-level homebuyers and other households with low to moderate incomes. To the extent that such policies become more commonplace in American communities, the rate of homeownership will fall as more and more moderate-income households are forced into the rental market.

The Portland, Oregon, region provides an appropriate illustration of the effect of harsh growth control policies. In 1979, it imposed a rigid growth boundary around Portland's metropolitan area. When it was drawn, the boundary included substantial areas of undeveloped land; but by the early 1990s, much of this land had been built upon, and the boundary imposed a significant constraint on land available for new construction. As a consequence, land costs soared and Portland's home prices raced ahead of the national average, beginning in the mid-1990s. In turn, homeownership rates in Portland bucked national trends and actually declined over a period of time

that saw the national homeownership rate rising to record levels.

Home price surveys conducted since 1991 reveal that while Portland was one of the most affordable communities for housing at the beginning of the decade, by late 2000 it had become one of the least affordable; its affordability index had plunged by 60 percent. Indeed, over a period in which affordability nationwide increased, Portland's fell faster and farther than that of any other large metropolitan area in the United States.

Those who are harmed by escalating prices are those who are not yet owners, and this group consists largely of those with household incomes below the median, especially racial minorities. As of mid-2000, 81.7 percent of households with incomes at or above the median income were homeowners, compared with only 52.2 percent of those with incomes below the median. Because most smart growth strategies achieve their intended result by raising home prices, those with household incomes below the median—who are already underrepresented as homeowners—must bear the brunt, and racial minorities represent a disproportionate share of this at-risk group.

There are solutions to the problems associated with sprawl that can achieve the goals of quality communities and still preserve individual choice, property rights, and reliance on market-based solutions. Governments can play a role in fostering such solutions, both by resisting demands to impose coercive policies and by clearing away the aging regulatory impedimenta that often direct development into unattractive patterns and directions. Other potential solutions include the use of public funds to purchase parks, woodland, and farms to provide more green space, and transportation improvements to facilitate mobility.

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SMART GROWTH, HOUSING COSTS, AND HOMEOWNERSHIP

WENDELL COX AND RONALD D. UTT, PH.D.¹

The nation's long-standing commitment to expanding homeownership opportunities for all Americans is facing its most serious challenge—a series of smart growth initiatives that are effectively pricing most new homes beyond the reach of entry-level buyers. These initiatives, which attempt to limit a community's growth and development through such regulations as growth boundaries, lower population densities, "down-zoning," impact fees, construction prohibitions, and land set-asides, all have the effect of raising home prices in ways that have a disproportionately negative effect on lower-income buyers. The result will be the reversal of one of America's greatest public policy successes—a historically high rate of homeownership.²

Throughout U.S. history, most Americans have lived as tenants, renting a room, apartment, shack, farm, or house from a landlord. Up until the eve of

World War II, America's homeownership rate never exceeded 50 percent. And as a result of a decade-long economic depression during the 1930s, the homeownership rate in 1940 stood at 43.6 percent, several percentage points lower than it had been in 1890.³ (See Chart 1.)

The federal government made its first formal commitment to the goal of encouraging homeownership in 1934, when Congress enacted the National Housing Act

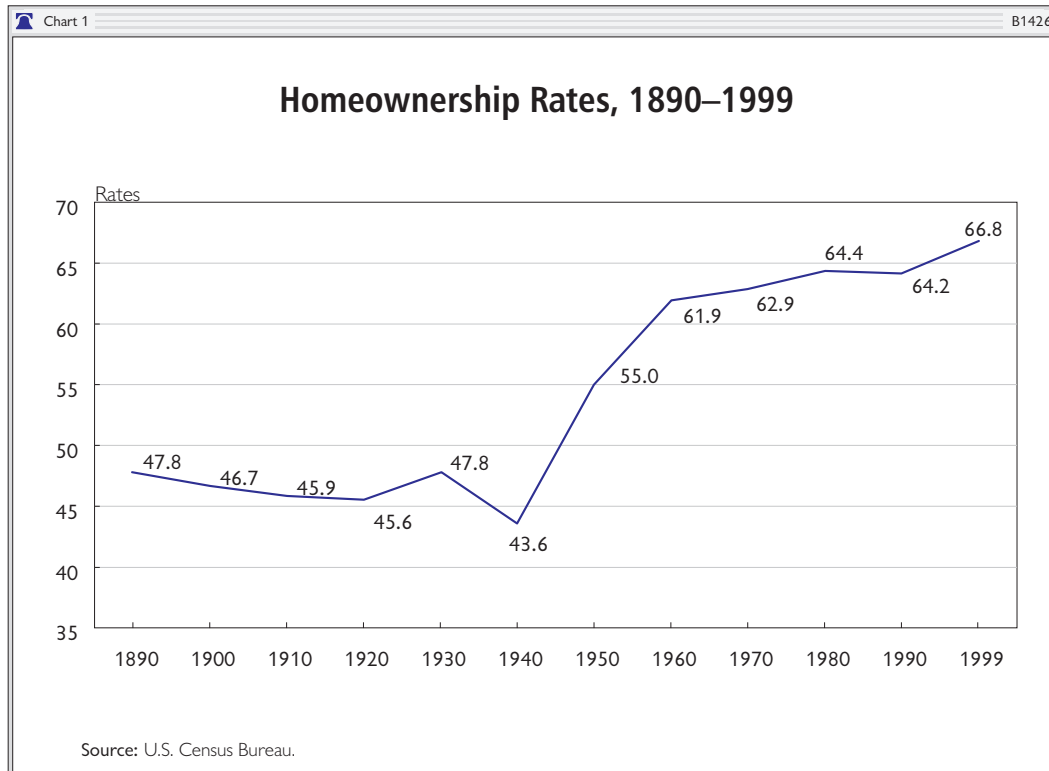
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1. The authors wish to thank Kirk Johnson and David Muhlhausen of the Center for Data Analysis and Christopher Summers of the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation for their valuable assistance in preparing this paper.
2. America's homeownership rate is not as high as that recorded in a number of other countries. The United Kingdom's Department of the Environment, Transport and the Regions reports that the 1998–1999 homeownership rate in England was 69 percent, about 2 percentage points higher than the U.S. rate during the same period. See <http://www.housing.detr.gov.uk/research/hss/006/index.htm>. A United Nations report cites higher homeownership rates in Norway, Ecuador, Chile, Israel, and Australia. See *The Housing Indicators Program, Volume II: Indicator Tables, A Joint Program of the United Nations Centre for Human Settlements and The World Bank*, Revised October 1993, Table 4.



establishing the Federal Housing Administration (FHA), which in turn created FHA-insured mortgages. The purpose of the act was to aid in the recovery of the private housing industry by reducing the financial risk of investing in mortgages and by encouraging the adoption of a new type of mortgage instrument—the fixed rate, long-term, level-payment, and fully amortized mortgage.

Although the FHA was unable to revive the Depression-ravaged homebuilding industry during the 1930s, its innovative mortgage instrument became popular among those few who were buying homes during the Great Depression and the war. Between 1936 and 1940, the FHA's share of new housing starts was 31 percent, which rose to

43 percent during World War II.⁴ After the war, innovations pioneered by FHA were adopted by most mortgage lenders, and in 1944 these changes were incorporated into the newly authorized Veterans Administration (VA) guaranteed mortgages that were offered to veterans under the Servicemen's Readjustment Act of 1944 (P.L. 78–346).

The consequence of these innovations, combined with rising postwar prosperity,

was to push America's homeownership rate to a record 55 percent in 1950. Chart 1 shows that the rate went above 60 percent in 1960 and since then has been inching its way higher to new records, reaching 67.7 percent in the third quarter of 2000. Regionally, homeownership exceeds 70 percent in the Midwest and is almost that high in the South.⁵

This great success, however, is now at risk because of poorly conceived "smart growth" strategies that raise housing costs and diminish homeownership opportunities among modest-income households.

- U.S. Bureau of the Census, *Homeownership Rates for the United States, Housing Vacancy Survey: Third Quarter 2000*, Table 5, at <http://www.census.gov/hhes/www/housing/hvs/q300tab5.html>. Rates prior to 1965 are available from unpublished U.S. Census Bureau data series.
- Sylvia C. Martinez, "The 1949 Housing Act: Its Place in the Realization of the American Dream of Homeownership," in *Legacy of the 1949 Housing Act: Past Present and Future of Federal Housing Policy*, Fannie Mae Foundation, September 30, 1999, p. 4.
- U.S. Bureau of the Census, "Census Bureau Reports on Residential Vacancies and Homeownership, Third Quarter, 2000," Press release, October 26, 2000, CB00–174, Table 5, "Homeownership Rates for the United States and Regions: 1995 to 2000," at <http://www.census.gov/hhes/www/housing/hvs/q300prss.html> (January 19, 2001).

THE BENEFITS OF HOMEOWNERSHIP

Quality and Quantity of Housing. America's commitment to homeownership and to the competitive markets in property, land development, construction, finance, and insurance has allowed its citizens to become the best housed people on earth. (See Appendix A.) According to data compiled by the United Nations and the U.S. Department of Energy, the typical American occupies a housing unit with an average of 718 square feet per person nationwide, and as much as 738 square feet in a prosperous metropolitan area like Washington, D.C. These estimates compare with almost 544 square feet in Australia (Melbourne), the runner-up in the U.N. survey. Norway (Oslo) is next with 452 square feet, just ahead of Canada (Toronto) with 442 square feet. To put these international differences in perspective, America's poor families occupy housing units providing 440 square feet per person (320 square feet in apartments), while the average household in Great Britain (London) gets by with just 343 square feet, the typical Dutch household (Amsterdam) has 256 square feet per unit, and the Japanese (Tokyo) make do with just 170 square feet.

Wealth Creation. Homeownership offers families the opportunity to accumulate substantial wealth over their lifetimes. As monthly mortgage payments reduce the debt on the home and as its value rises over time, homeowners generally experience an increase in the value of their equity—the difference between what their house would sell for and the amount of debt they still owe on the mortgage. Counting both value of the home and all other assets, including financial assets, the median net worth of the American homeowner in 1998 was \$132,100, compared with only \$4,200 for renters, who make up about one-third of households.⁶ Although differences in age and income explain some of the differences in wealth between renters and owners, much of the wealth held by homeowners, particularly those who have

Housing Status	Net Worth
Owner	\$132,100
Renter	4,200

Source: U.S. Federal Reserve Board, *Federal Reserve Bulletin*, January 2000.

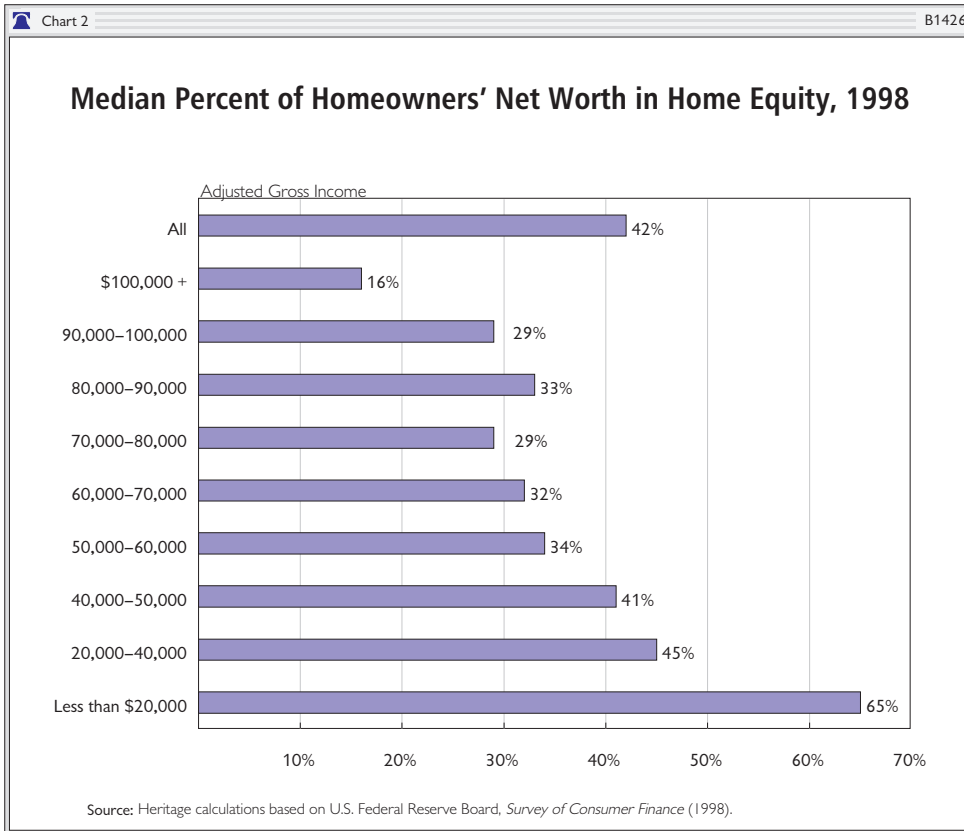
annual household incomes below \$50,000, is in the form of home equity.

For homeowners with incomes between \$20,000 and \$49,000, home equity accounts for 40 percent to 45 percent or more of their net worth; and for households with incomes below \$20,000, it accounts for as much as 65 percent of net worth.⁷ (See Chart 2.) For households with incomes in excess of \$100,000, home equity makes up 16 percent of net wealth holdings. Significantly, this concentration among households below \$50,000 prevails in an investment environment in which more and more choices are available and in which record numbers of Americans are participating in financial markets, either directly or through employer-provided 401(k) plans.

Social Stability and Civil Society. Advocates of greater homeownership have long argued that high rates of homeownership contribute to political and social stability and civic responsibility. Because they own property, homeowners are a more locationally permanent group than are renters, and this greater sense of permanence induces them to focus more on the longer-term implications of their actions as well as those of their neighbors and political leaders. Robert C. Weaver, the first Secretary of the U.S. Department

6. Arthur B. Kennickell, Martha Starr-McClure, and Brian J. Surette, "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances," *Federal Reserve Bulletin*, January 2000, p. 7.

7. Heritage Foundation Center for Data Analysis calculations from U.S. Federal Reserve Board, *Survey of Consumer Finance*, 1998.



Similarly, homeowners have a powerful interest in how their surroundings affect their property and quality of life. In turn, this interest in the external environment contributes to a sense of community and civic spirit that is considerably greater than critics of the owner-occupied suburbs are willing to admit. President Lyndon Johnson spoke of these linkages in submitting housing legislation to Congress in 1968:

Owning a home can increase responsibility and stake out a man's place in his community. The

man who owns a home has something to be proud of and good reason to protect and preserve it.⁹

of Housing and Urban Development (HUD), best summarized this view when he noted that “To own one’s home is to have a sense of place and purpose. Homeownership creates a pride of possession, engenders responsibility and stability.”⁸ In addition, a number of academic studies in the field of criminology report a measurable linkage between the absence of a relatively permanent place of residence and a propensity toward criminal behavior. (See text box, p. 5.)

Ownership of such valuable property encourages households to take care of their homes, invest in them, and ensure their safety because the house embodies a significant portion of their personal wealth and savings. Any personal neglect or social instability that would diminish the value of the property infringes directly on the household's financial well-being.

HOMEOWNERSHIP AT RISK

Historically, the greatest threat to homeownership and the stability of the residential construction industry have been the occasional recessions and periods of financial market instability that often cause more harm to the housing market than to most other sectors of the economy. Chart 1 and Table 2, for example, show that the Great Depression led to the lowest homeownership rate (43.3 percent) since the U.S. Census Bureau began measuring that rate in 1890. The rate reached about 62 percent in the late 1960s, after which frequent bouts of high inflation, financial instability, and economic recessions kept it from rising much higher until 1995. From then on, stable

8. Michael S. Carliner, “Development of Federal Homeownership ‘Policy,’” *Housing Policy Debate*, Vol. 9, No. 2 (1998), p. 312.

9. *Ibid.*

Influence of Residence Stability on Criminality

David Muhlhausen

Criminology studies have tested measures of “residence stability” on criminal behavior. Several studies have found that unstable living arrangements contribute to criminality, although that factor is not one of the strongest predictors compared with other factors.

Juvenile Delinquency. A 1995 study of Seattle youth found that the number of residence changes in the prior year for 16-year-olds predicted violent behavior (self-reported) by age 18.¹ In fact, residential instability more than doubled the risk of violence by age 18 for youths in the study.² This finding suggests that residential instability can disrupt the bonds that youth form with their schools and neighborhoods.³

Recidivism. Edward Zamble and Vernon L. Quinsey, professors of psychology and psychiatry at Queen’s University in Kingston, Ontario, studied the rate of recidivism of Canadian offenders. They found significantly different lengths of time living in the same place between recidivists and non-recidivists.⁴ The longest mean time lived in the same place for recidivists was 27.2 months, compared with 62.6 months for non-recidivists.⁵ Moreover, 25.8 percent of recidivists lived in the same place for less than six months, compared with 8.6 percent of non-recidivists.⁶

Pretrial Release. According to criminologists, one of the factors that bail bondsmen use to determine whether a person is a flight risk is stability of residence in the community.⁷ Social maturation, considered one of the best predictors of court appearance,⁸ includes being married, living with a spouse, age, owning one’s home, and having utilities in one’s own name. Homeownership and having utilities in one’s name, however, were weaker predictors than being married, living with a spouse, and age.⁹

Sentencing Guidelines. Joan Petersilia, professor of criminology at the University of California at Irvine, and Susan Turner, Director of the Sentencing and Corrections Center at the RAND Corporation, have found that an offender’s number of address changes in the past year is frequently a factor used in determining sentence length under the sentencing guidelines used by state judges.¹⁰

1. J. David Hawkins, Todd Herrenkohl, David P. Farrington, Devon Brewer, Richard F. Catalano, and Tracy W. Harachi, “A Review of Predictors of Youth Violence,” p. 137, in Rolf Loeber and David P. Farrington, eds., *Serious and Violent Juvenile Offenders: Risk Factors and Successful Interventions* (London: Sage Publications, 1998). Hawkins *et al.* cite E. Maguin, J. D. Hawkins, R. F. Catalano, R. F. K. Hill, R. Abott, and T. Herrenkohl, *Risk Factors Measured at Three Ages for Violence at Age 17–18*, paper presented at the American Society of Criminology, Boston.
2. Hawkins *et al.*, “A Review of Predictors of Youth Violence,” pp. 143–144.
3. *Ibid.*, p. 137.
4. Edward Zamble and Vernon L. Quinsey, *The Criminal Recidivism Process* (Cambridge: Cambridge University Press, 1997), p. 71.
5. *Ibid.*
6. *Ibid.*
7. Daniel Glaser, “Classification for Risk,” in Don M. Gottrefson and Michael Tonry, eds., *Prediction and Classification: Criminal Justice Decision Making* (Chicago: University of Chicago Press, 1988), pp. 269–270.
8. *Ibid.*, p. 270. Glaser cites Marq R. Ozanne, Robert A. Wilson, and Dewaine L. Gedney, Jr., “Towards a Theory of Bail Risk,” *Criminology*, Vol. 18 (1980), pp. 147–161.
9. Glaser, “Classification for Risk,” p. 270.

Table 2 B1426

Homeownership Rate, 1890–1999

Year	Rate	Year	Rate
1890	47.8%	1950	55.0%
1900	46.7	1960	61.9
1910	45.9	1970	62.9
1920	45.6	1980	64.4
1930	47.8	1990	64.2
1940	43.6	1999	66.8

Source: U.S. Census Bureau.

and promote strategies that discourage or limit new construction.

Policies typically adopted by those wanting to guide growth into more compact forms usually involve a growth boundary and/or zoning requirements that rigidly define where growth may and may not occur, and often mandate smaller lot sizes. By restricting the amount of land available for development, growth-guiding policies *indirectly* raise the price of homes by rationing the supply of raw land. Policies designed to reduce or discourage growth, by comparison, generally involve techniques and approaches that *directly* raise the price of new housing through a variety of mechanisms, such as minimum lot sizes, impact fees, or mandated amenities.

financial markets, low inflation, and one of the strongest economic expansions in U.S. history pushed the rate above 65 percent for the first time, and ultimately to nearly 67 percent in 1999 and over 67 percent through mid-2000.

Although federal policymakers during the 1990s have had considerable success dampening the cycles of economic instability that often deterred homeownership in the past, this success story is threatened by the smart growth initiative that is taking hold in several states and many communities. Though smart growth strategies vary significantly across the country and among their advocates, at their core is the goal of preventing or slowing suburban sprawl by limiting the amount of raw land—usually found on the ex-urban fringe of most metropolitan areas—that is available for new construction.

By raising home prices, such policies force families of modest means into smaller units, as is the case with growth policies that emphasize guidance, or out of a community altogether, as is the case with policies designed to slow or stop growth. In either case, the burden is borne largely by entry-level homebuyers and other families with low to moderate incomes who are priced out of the homeownership market. To the extent that such growth control policies become more commonplace across America, the rate of homeownership will fall from its current levels as more and more moderate-income households are forced into the rental market.¹⁰

Recognizing that a growing population will need a steady flow of new housing units each year, some smart growth advocates seek to direct new construction into higher density developments using a fraction of the land area typically used by current housing patterns, which are characterized by single-family detached houses on lots of one-eighth to one-quarter of an acre or more. Other, more extreme growth control advocates want to discourage any growth at all, regardless of density,

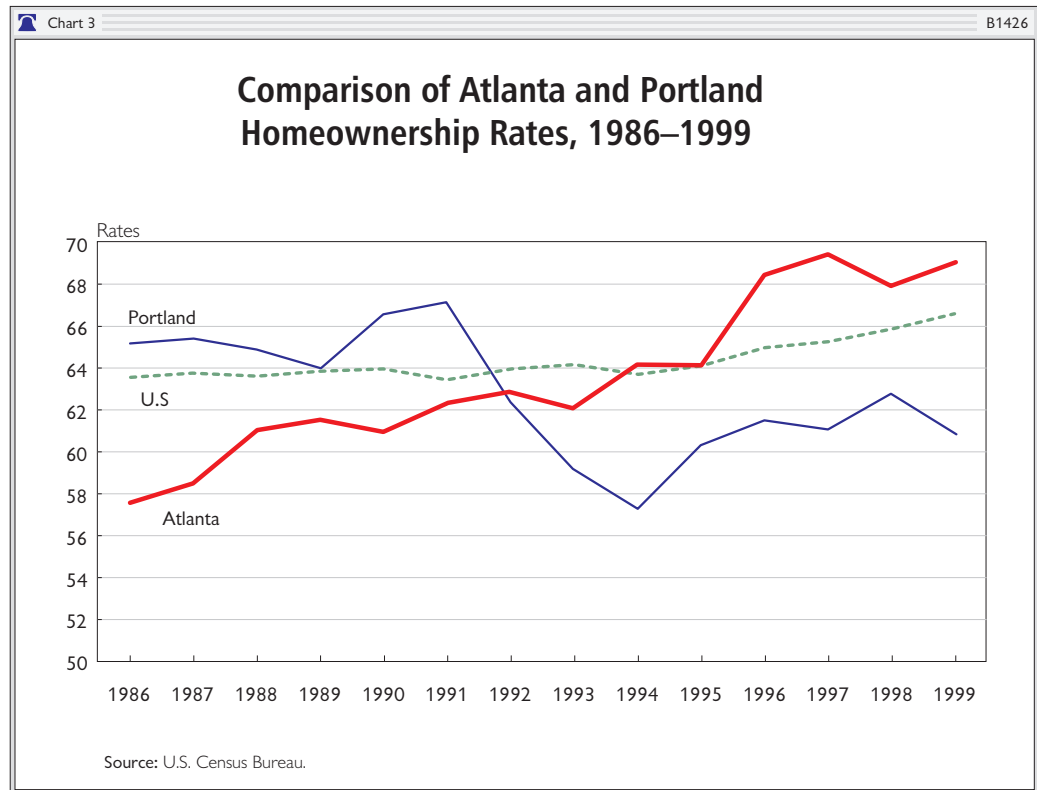
GROWTH BOUNDARIES IN PORTLAND, OREGON: A CASE STUDY

Portland, Oregon, offers an excellent case study of how a well-meaning but poorly conceived growth control policy can diminish housing affordability. A 1974 state law mandated that all Oregon communities above a certain size establish growth boundaries to guide future real estate development. In its simplest form, a growth boundary is a line drawn around a metropolitan

10. One of the earlier formal expressions of concern about the adverse impact that growth controls would have on homeownership appeared in the 1991 report of then-President George Bush's Advisory Commission on Regulatory Barriers to Affordable Housing. See "Not in My Backyard": *Removing Barriers to Affordable Housing, Report to President Bush and Secretary Kemp by the Advisory Commission on Regulatory Barriers to Affordable Housing*, Washington, D.C., 1991, Chapter 2.

area at some distance from the edge of the developed fringe, incorporating much of the existing development as well as contiguous undeveloped land. The boundary delineates where new construction may occur (generally within the boundary) and may not occur (generally outside the boundary line). The purposes of such boundaries are to confine new development to land that is close to existing development and public infrastructure, to increase the average density of the developed portion of the region, and to preserve undeveloped land—including farmland—outside the boundary.

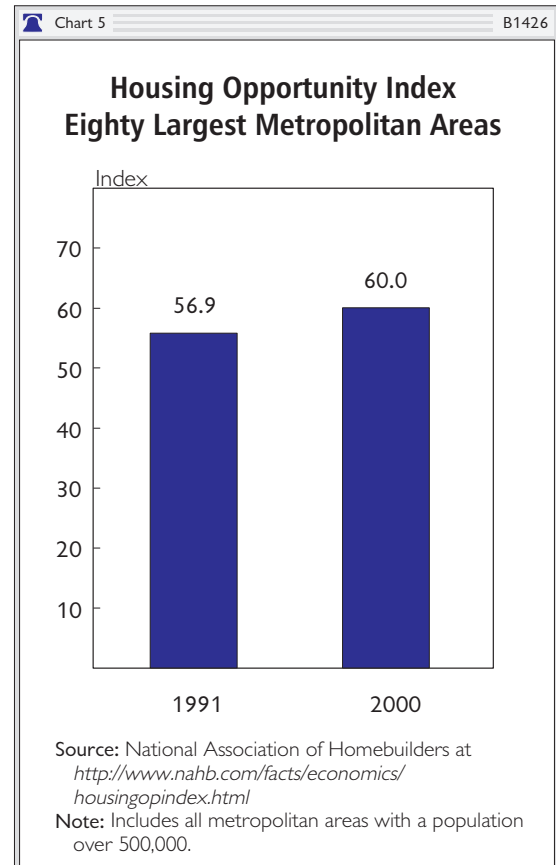
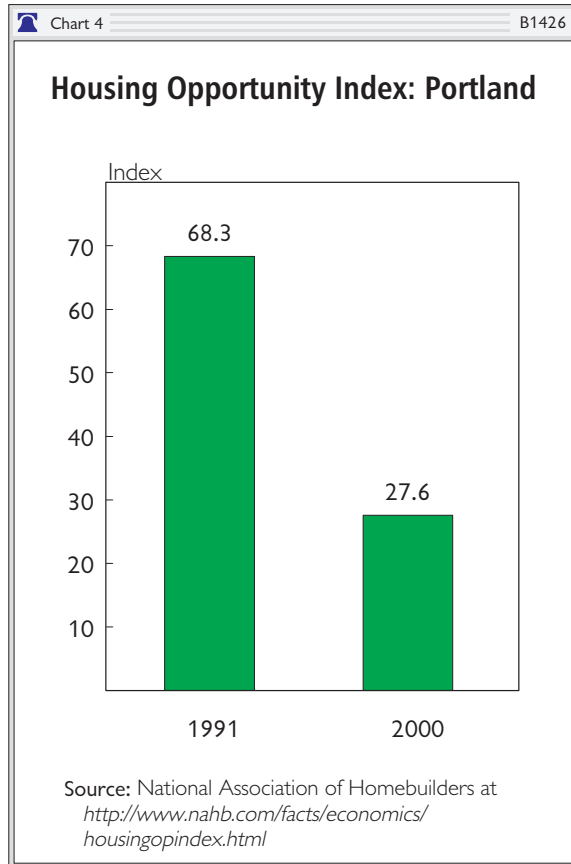
In 1979, in response to this mandate, Portland and all of Oregon's other incorporated cities imposed rigid growth boundaries around their communities or metropolitan areas. When drawn decades ago, these boundaries included substantial areas of undeveloped land; but by the early 1990s, much of this land had been built upon, and the boundaries began to impose a significant constraint on the amount of land available for new construction. As a consequence, land prices soared, and developers and builders attempted to maintain affordability by offering new homes on smaller lots. Their efforts to hold the line on price were only partially successful, however. Portland's home prices raced ahead of the national average during the mid- to late-1990s. Not surprisingly, over the same period, homeownership rates in Portland bucked national trends by actually declining, compared with the rise to record levels that had occurred nationwide. (See Chart 3.)



The costliness of a community's housing prices compared to regional incomes can be captured in the Housing Opportunity Index, a measure of regional affordability calculated by the National Association of Homebuilders from U.S. government and private survey data.¹¹ The index for the nation and for any community is derived by calculating the percentage of homes sold in a community that the median-income household in that community would find affordable. An opportunity index of 50, for example, means that 50 percent of the houses recently sold in a community could have been purchased by that community's median-income household. In contrast, an index of 30 implies that only 30 percent of homes sold were affordable to the median-income household, meaning that 70 percent were beyond that household's purchasing power. The higher the index, the greater the affordability or homebuying opportunity for the typical household in that region or community. (See Appendix B.¹²)

In 1991, Portland was one of the most affordable communities, with a housing opportunity

11. For details on the Housing Opportunity Index, see <http://www.nahb.com/facts/economics/housingopindex.html>.



index of 68.3; but by late 2000, it had become one of the least affordable: Its opportunity index had plunged to 27.6. (See Chart 4.) Indeed, over a period in which affordability nationwide was rising, Portland's fell faster and farther than that of the other 79 large metropolitan areas. By comparison, the average housing opportunity index for the top 80 metropolitan areas nationwide was 60.0 in 2000, more than twice as favorable as Portland's measure that year. (See Chart 5.)

Between 1991 and 2000, Portland's opportunity index declined by 59.6 percent, compared with an *increase* in homeownership opportunity of 5.4 percent in all major metropolitan areas over the same period. By 2000, only four other large metropolitan areas were less affordable relative to community income levels: San Diego, San Francisco, Oakland, and San Jose—all in California

and all with housing markets encumbered by a variety of government-imposed "smart" growth control measures going back to the mid-1970s on a county-by-county basis.¹³

Confronted with evidence of escalating home prices, many defenders of the Portland growth control measures argue that the area's rising home costs are caused by a booming economy and an influx of residents attracted to the unique quality of life that the growth boundary creates. But other cities experiencing the same or stronger population growth trends, such as Atlanta and Seattle, were able to accommodate these successes while also experiencing a rise in their affordability index. (See text box, p. 9.)

Not surprisingly, diminishing measures of housing affordability have led to declining rates of homeownership in the Portland area, from 67.1

12. Appendix B provides summary details on the change in the Housing Opportunity Index during the 1990s for the 80 metropolitan areas with populations exceeding 500,000.

13. See Bernard J. Frieden, *The Environmental Protection Hustle* (Cambridge: MIT Press, 1979).

Are Other Factors Influencing Portland Home Prices?¹

Defenders of Portland's growth boundary acknowledge its escalating home prices over the 1990s, but they argue that they stem from faster income growth, population increases, a West Coast location, and the willingness of residents to pay more for the higher quality of life that the growth-limiting policies allegedly provide. Some claim the higher prices stem from Portland's relatively greater prosperity and rising household incomes, but this is a tough case to make. Portland's increase in median household income is below the average for 80 metropolitan areas with populations exceeding 500,000. Among those 13 metropolitan areas that experienced rates of increase in household incomes similar to Portland's during the 1990s, housing affordability increased by 14.5 percent, while Portland's declined by 59.6 percent.

An equally tough case to make is that Portland's escalating home prices are due to faster population growth, which in fact was higher than the average for the 80 cities surveyed. Compared with trends in other fast-growing cities, however, population growth does not appear to have had a discernible impact on prices in any of the other fast-growing metro areas. Portland's annual average population growth of 2.31 percent during the 1990s was less than the average of 3.33 percent for seven metropolitan areas that had a faster population growth. Yet, despite the higher rate of growth in these seven areas, their housing became *more* affordable on average, not less. In contrast to Portland's nearly 60 percent decline in affordability, homeownership affordability *increased* an average of 15.6 percent in the faster growing metropolitan areas, reflecting an increase in affordability in four of the seven.

In Las Vegas, with an average annual rate of population growth of 5.63 percent, affordability increased 34.5 percent, while Phoenix's population growth of 3.43 percent per annum coincided with a 4 percent increase in affordability. Among the seven fastest growing urban areas, only Austin, Orlando, and Raleigh–Durham experienced a decline in affordability, and Austin's decline was less than half as great as Portland's, while Raleigh–Durham's fell by only one-half of 1 percent and therefore is probably not statistically significant.

Another factor often raised to explain Portland's high housing costs is a historic propensity for high home prices on the West Coast, particularly in California, where home prices in major metropolitan areas frequently lead the nation. However, as can be derived from Appendix B, western urban areas excluding Portland averaged an increase in affordability of 9.4 percent during the 1990s, compared with Portland's fall of 59.6 percent.

Adding to the evidence that Portland's growth boundary has contributed to its rising home prices is the experience of Oregon's other major cities. All incorporated cities, regardless of size, were required by the state to impose growth boundaries. In cities where data are available, housing affordability plummeted during the 1990s—by 65.2 percent in Eugene (worse than Portland) and 49.4 percent in Salem.

Typical of efforts to exonerate Portland's growth boundary is a recent report by Arthur C. Nelson, a professor of planning at Georgia Tech.² Nelson argues that Portland's land rationing policies have not led to reduced housing affordability. He compares smart growth Portland with more *laissez faire* Atlanta and finds, as do virtually all other researchers, that from the middle 1980s to the middle 1990s, average house prices increased at a substantially greater rate in Portland. But he also contends that the percentage of income spent by the average homeowner in both areas remained constant, suggesting that housing is equally affordable when adjusted for income differences as the housing opportunity index also attempts to do.

There are two problems with Nelson's approach to relating income to home prices. The first is that the period studied by Nelson does not conform to the period during which Portland's urban growth boundary began seriously to impede the supply of developable land and limit competition among builders. It was during the middle 1990s that Metro (Portland's land use agency) adopted policies virtually stopping expansion within the urban growth boundary and beginning a more restrictive period of land rationing. Had his analysis been confined to a more meaningful period of time when land became scarce, Nelson's findings might have been very different. Second, Nelson's analysis compares all homeowners, including those who purchased their houses many years before when Portland home prices were very affordable. (See Chart 4 and Appendix B.) As a result, Nelson's analysis, in contrast to the Housing Opportunity Index data used in this report, tells more about the Portland of the past than the Portland of today.

1. For a more comprehensive review of these factors, see Wendell Cox, "Amendment 24: Pulling Up the Home Affordability Ladder & Risking Higher Taxes," Independence Institute *Issue Paper* No. 9—2000, October 26, 2000.

2. See <http://www.edd-apa.org/archives/1099A1.htm>.

percent in 1991 to 60.9 percent in 1999, making Portland one of just seven (out of 61) metropolitan areas for which such data are available to run against the national tide by experiencing a statistically significant decline in homeownership.¹⁴ Chart 3 compares Portland's homeownership rate with national trends and also with Atlanta, a metropolitan area that has experienced even faster rates of economic and population growth than Portland¹⁵ but with rising measures of housing affordability (Atlanta's housing opportunity index improved from 66.7 to 68.7 between 1991 and 2000, in contrast to Portland's reduced opportunity).

As a result of favorable cost and income trends, Atlanta's homeownership rate soared from below the national average to above it within a decade and a half, making it one of the nation's most accommodative markets for homeownership. However, Atlanta may soon see diminished opportunities as a result of misplaced efforts by the U.S. Environmental Protection Agency (EPA) to force communities in the Atlanta metropolitan area to adopt stringent restrictions on land use and development to meet mandated federal air quality standards.¹⁶ If the EPA prevails, homeownership rates in Atlanta will likely decline, and families with modest incomes will suffer first.

With the exception of Portland and a few counties in California, growth boundaries have rarely been imposed on American communities. In general, notwithstanding the considerable discussion such boundaries have generated in the media and in public policy circles, efforts to impose them have met with considerable citizen resistance. During the November 2000 election, referenda proposing to impose growth boundaries

in Colorado and Arizona went down to defeat by margins of more than two to one, thereby offering a powerful deterrent to further attempts to implement such boundaries elsewhere.

Although the use of Portland-style growth boundaries elsewhere is likely to be severely limited by citizen opposition, other types of strict growth control limits—such as impact fees and “downzoning”—have received broader public support. Scores of communities across the country are implementing them.

IMPACT FEES

California imposed impact fees as a mechanism to limit growth on a large scale in the late 1970s as a way to get builders and/or new residents to help fund basic public services that are thought to be burdened by an increase in population. The approval of Proposition 13, which limited local property taxes, in 1978 further encouraged the use of impact fees as an alternative revenue source.

To justify impact fees, proponents argue that growth does not “pay for itself” and that new residents should be required to make an up-front contribution to the additional public infrastructure—such as schools, wastewater treatment, and roads—that they use. Although these new residents will be taxed by the community at the same level as existing residents, the critics of growth contend that the additional tax revenues generated by these new households would fall short of the net public cost that they impose on the community and therefore would require an extra up-front fee to compensate the community for the additional burden.¹⁷

14. The U.S. Census Bureau provides a table of standard errors to accompany metropolitan area homeownership rates. These standard errors can be used to calculate confidence intervals and measures of statistical significance. See Table B-4, “Standard Errors for Vacancy Rates and Homeownership Rates by Metropolitan Area: 1999,” in *Housing Vacancies and Homeownership Annual Statistics: 1999*, at <http://www.census.gov/hhes/housing/hvs/annual99/ann99tb4.html>.

15. Atlanta's population rose by 30.3 percent between 1990 and 1999, while Portland's increased by 21.6 percent.

16. See Angela M. Antonelli, “Lessons from the Atlanta Experiment,” in Jane S. Shaw and Ronald D. Utt, eds., *A Guide to Smart Growth: Shattering Myths, Providing Solutions* (Washington, D.C.: The Heritage Foundation, 2000), pp. 135–154.

17. For a more detailed analysis of impact fees, see Brett M. Baden, Don L. Coursey, and Jeannine M. Kannegiesser, “Effects of Impact Fees on the Suburban Chicago Housing Market,” Heartland Institute *Policy Study* No. 93, November 19, 1999.

The widespread perception that such burdens exist receives slim support from public finance literature or from the few independent academic studies of the subject that have been conducted.¹⁸ If sprawling low-density development is more costly to government services than the higher densities typically associated with older urban areas, one would expect that sprawling suburban communities would have high tax burdens while older communities with higher densities would have low tax burdens. Significantly, however, in practice the opposite generally holds. Sprawling suburbs have lower per capita tax burdens than older closer-in suburbs, and both of these types of suburbs generally have lower tax burdens than the dense central core of the metropolitan area, where the basic public infrastructure has long since been paid for and where the population is often declining.

Nonetheless, and despite the availability of any compelling evidence to support the contention that low-density growth and development is more costly than higher-density growth and development, many communities have imposed impact fees on new homes to recoup some of the alleged extra costs. Where imposed, such fees currently run from a few thousand dollars to levies in excess of \$20,000 per new house in some fast-growing communities.

As an attempt to recoup whatever growth-related costs may exist, impact fees are remarkably inefficient and inequitable. For buyers of new homes, they amount to double taxation because payment of the fee does not exempt the new homeowner from his or her share of property,

income, and/or sales taxes that communities levy to fund basic public services, including their share of the community's past, present, and future infrastructure investment.

In addition to being an inequitable form of double taxation, impact fees represent a highly regressive tax that imposes a disproportionate burden on homeowners who buy newly constructed homes, with the greatest burden falling on those who have the lowest qualifying incomes. In contrast to the regressive nature of most impact fees, the existing system of funding local public infrastructure—through a property tax based on the assessed value of a house—is more equitable because a property's value and its owner's income tend to vary roughly in direct proportion to one another. Thus, the current system better ensures that the burden of funding community expenses is more equitably distributed in accord with the ability to pay.

Raising the price of new homes by the amount of the impact fee or some fraction thereof will cause the homeownership income hurdle to be raised accordingly, and some families that would otherwise qualify for the least expensive home will be excluded from the market altogether. Table 3 and Table 4 illustrate the effects of impact fees of \$10,000 and \$20,000 on prospective buyers across a range of incomes and home prices that might typically be found in most major metropolitan areas. The relationships in the tables assume a 20 percent downpayment, a 7.5 percent interest rate, a fixed rate/level payment mortgage, and an income requirement that limits the monthly payment of interest, principle, taxes, and insurance to

18. Many of the studies purporting to show such burdens have been conducted by organizations such as environmental groups and local governing bodies that advocate slow growth strategies and are therefore subject to potential bias and lack of independence. Typical of such studies are those summarized in Joel S. Hirschorn, "Growing Pains: Quality of Life in the New Economy," National Governors' Association, 2000, pp. 20–22, several of which appear without any supporting reference. In contrast to the abundance of anecdotal reports on costs, there are very few comprehensive studies on the subject that have been conducted in accordance with strict academic standards. For a critique of the NGA report, see Steven Hayward, "'Growing Pains': The NGA's Flawed Report on Sprawl," Heritage Foundation *Backgrounder* No. 1393, September 13, 2000. An exception to the anecdotal studies is Helen Ladd, "Population Growth, Density and the Costs of Providing Public Services," *Urban Studies*, Vol. 29, No. 2 (1992), pp. 273–295. Using data from 247 large counties, Ladd found, among other relationships, that current public spending was more closely and directly related to population density than to population growth *per se*. Assuming that Ladd's conclusions are an accurate description of the population–public cost relationship in communities, the implication is that the smart growth remedy of forcing residents into denser living arrangements would raise costs, not lower them as many advocates contend.

Table 3 B1426

Analysis of \$10,000 Impact Fee

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Home Price	Mortgage (80%)	Mortgage with \$10,000 Impact Fee	P & I	P & I with Impact Fee	Taxes	Insurance
\$100,000.00	\$80,000.00	\$88,000.00	\$559.21	\$615.13	\$125.00	\$20.83
150,000.00	120,000.00	128,000.00	838.81	894.73	187.50	31.25
200,000.00	160,000.00	168,000.00	1,118.41	1,174.33	250.00	41.67
250,000.00	200,000.00	208,000.00	1,398.01	1,453.94	312.50	52.08
300,000.00	240,000.00	248,000.00	1,677.62	1,733.54	375.00	62.50
400,000.00	320,000.00	328,000.00	2,236.82	2,292.74	500.00	83.33
500,000.00	400,000.00	408,000.00	2,796.03	2,851.95	625.00	104.17

(8)	(9)	(10)	(11)	(12)	(13)	
Home Price	PITI	PITI with Impact Fee	Qualifying Income	Qualifying Income with Impact Fee	Impact Fee as a % of Income	% Increase in Monthly Payment
\$100,000.00	\$705.04	\$760.96	\$30,215.97	\$32,612.57	33.10%	7.93%
150,000.00	1,057.56	1,113.48	45,323.95	47,720.55	22.06	5.29
200,000.00	1,410.08	1,466.00	60,431.94	62,828.53	16.55	3.97
250,000.00	1,762.60	1,818.52	75,539.92	77,936.52	13.24	3.17
300,000.00	2,115.12	2,171.04	90,647.90	93,044.50	11.03	2.64
400,000.00	2,820.16	2,876.08	120,863.87	123,260.47	8.27	1.98
500,000.00	3,525.20	3,581.12	151,079.84	153,476.44	6.62	1.59

out of the market for this entry-level house.¹⁹

Table 3 and Table 4 also reveal that the regressive nature of impact fees leads them to impose a disproportionately modest diminution on housing affordability for higher-income households. For the richest income group in Table 3 and Table 4, the monthly payment rises by only 1.6 percent, or 3.2 percent for the higher fee. Consequently, moderate-income households largely bear the burden of any growth control scheme that relies on a substantial impact fee or any similar mechanism that raises new home prices.

In addition to their regressivity and tendency toward double taxation, the inci-

no more than 28 percent of gross monthly income if the buyer has no other debt obligations. The analysis also assumes that the household is buying as much house as it can afford.

As the tables reveal, households with incomes that just qualify them for the least expensive new home confront the equivalent of a one-time tax equal to 33.1 percent of their income when the impact fee is \$10,000 but 66.2 percent of their income if the fee is as high as \$20,000. Of course, households at this income level will never get to pay that tax because the impact fee prices the low-end buyer out of the new house market altogether. By raising the price of the home, the impact fee raises the monthly mortgage payment at the entry level by almost 8 percent if a \$10,000 fee is charged or 16 percent if a \$20,000 fee is assessed. As a result of the increase in the monthly mortgage payment, the income needed to buy the entry-level new house rises from \$30,215 to \$32,612, or to \$35,009 if the fee is \$20,000. Nationwide, a \$20,000 fee would price 5.84 million households

dence of impact fees is highly random and thus inequitable for reasons other than regressivity. Although applicable only to new homes under the presumption that this is the best way to tax new entrants to a community, in practice it does no such thing. New entrants to a community who purchase an existing home or rent an existing apartment or house would not be charged the fee, even though they would be using the community's infrastructure and public services to the same extent as a new homebuyer. On average, one-third of households are renters, and five of every six home sales involve an existing house; therefore, an impact fee added to the price of a new home will capture only a small fraction of new entrants, and most will escape it altogether.

One particularly bizarre effect of such fees is the burden they impose on new homebuyers who are also long-standing taxpaying residents of the community. For them, an impact fee amounts to triple taxation because they are being charged to use

19. Heritage Foundation calculations from March 2000 Current Population Survey.

infrastructure that their past tax payments helped finance.

For these reasons, including their profoundly regressive nature, impact fees levied on new homes in an effort to fund whatever additional costs new entrants are believed to impose on a community have a variety of defects. These types of fees are erratically targeted, randomly burdensome even to existing residents, and applicable to a fraction of the new residents who may or may not impose financial burdens on a community beyond what they would normally pay in existing local, state, and federal taxes.

Despite these manifest deficiencies, impact fees are becoming increasingly popular as a growth control mechanism, largely because these inequities discourage some potential homebuyers from moving into a community. By discouraging new homebuyers, particularly those with modest incomes (who outnumber those with high incomes), communities can limit their population growth through explicit impact fees that act as implicit admission fees.

Such efforts at exclusion by income are becoming increasingly creative, and some communities are supplementing their impact fees (or mandatory proffers) with other costly mechanisms. For example, some communities have even begun to require specific high-priced amenities on new homes to discourage growth even further. Stafford County, Virginia, an exurb of Washington, D.C., whose

Table 4 B1426

Analysis of \$20,000 Impact Fee

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Home Price	Mortgage (80%)	Mortgage with \$20,000 Impact Fee	P & I	P & I with Impact Fee	Taxes	Insurance
\$100,000.00	\$80,000.00	\$96,000.00	\$559.21	\$671.05	\$125.00	\$20.83
150,000.00	120,000.00	136,000.00	838.81	950.65	187.50	31.25
200,000.00	160,000.00	176,000.00	1,118.41	1,230.25	250.00	41.67
250,000.00	200,000.00	216,000.00	1,398.01	1,509.86	312.50	52.08
300,000.00	240,000.00	256,000.00	1,677.62	1,789.46	375.00	62.50
400,000.00	320,000.00	336,000.00	2,236.82	2,348.66	500.00	83.33
500,000.00	400,000.00	416,000.00	2,796.03	2,907.87	625.00	104.17
(8)	(9)	(10)	(11)	(12)	(13)	
Home Price	PITI	PITI with Impact Fee	Qualifying Income	Qualifying Income with Impact Fee	Impact Fee as a % of Income	% Increase in Monthly Payment
\$100,000.00	\$705.04	\$816.88	\$30,215.97	\$35,009.16	66.19%	15.86%
150,000.00	1,057.56	1,169.40	45,323.95	50,117.15	44.13	10.58
200,000.00	1,410.08	1,521.92	60,431.94	65,225.13	33.10	7.93
250,000.00	1,762.60	1,874.44	75,539.92	80,333.11	26.48	6.35
300,000.00	2,115.12	2,226.96	90,647.90	95,441.10	22.06	5.29
400,000.00	2,820.16	2,932.00	120,863.87	125,657.07	16.55	3.97
500,000.00	3,525.20	3,637.04	151,079.84	155,873.04	13.24	3.17

population grew by 50 percent during the 1990s, has added to its \$20,000 fee per detached new house the requirements that all lawns be sodded rather than seeded and that all new subdivisions have sidewalks. Local builders estimate that these requirements will add another \$6,000 to \$7,000 to the price of a new detached home over and above the \$20,000 impact fee already levied.²⁰

DOWNZONING

With the courts disinclined to interfere with most government decisions regarding restrictions on land use, more and more communities are choosing to use existing statutory powers to rezone land in order to implement restrictions on the growth of residential housing. One form of rezoning that has become a popular way to deter growth is called “downzoning” and is either used

20. Kelby Hartson, “Stafford OKs Proffers,” *The Free Lance Star* (Fredericksburg, Virginia), May 17, 2000, p. A1, and Kelby Hartson Carr, “Stafford’s Tiny Steps Adding Up,” *The Free Lance Star*, November 28, 2000, p. A1.

in lieu of impact fees or combined with them. Typically, downzoning involves reducing the maximum density—usually expressed as housing units per acre—on a parcel of undeveloped land.

For example, a parcel of land that may have been zoned to allow for the construction of up to four houses per acre (or one house per quarter-acre lot, the minimum lot size permitted) might be rezoned to permit only one house per acre or one house per five acres. Parts of Prince William County, Virginia, now have maximum densities of one house per 10 acres, while the rural parts of Loudon County, Virginia, are limited to one house per 25 acres. Both counties are on the fast-growing exurban fringe of the Washington metropolitan area, and both have implemented a variety of regulatory impediments to slow population growth.

Limiting new construction to lots that are much larger than previously required means that new homes in the community will cost more; all prospective homebuyers will be required to purchase larger lots than they might otherwise have wanted, and this will raise home prices by the cost of the additional land. If, for example, an acre of undeveloped land in a community sells for \$100,000, the land cost associated with homes built on quarter-acre lots would be only \$25,000; and if a four-bedroom home costs \$100,000 to construct, the price of the home and land would be \$125,000 plus the builder's mark-up and other non-building expenses. But if the minimum lot size is increased to one acre, the cost of that four-bedroom house and lot will now be \$200,000, or 60 percent higher. Using the income-to-home-price rules of Table 3 and Table 4, the minimum income required to buy that four-bedroom house (at cost) rises from \$37,750 on a quarter-acre lot to \$60,400 when a full-acre lot is required. Under this example, an estimated 22.2 million American households would be priced out of the new homebuying market.²¹

In practice, however, an acre of land downzoned from four houses per acre to only one is likely to fall in value as a result of the more limited

market for larger lots. Fewer prospective buyers can afford that much land, and many who can might not be interested in owning that much land because of the higher maintenance costs and tax assessment. As a result of diminished marketability, land that might sell for \$100,000 per acre if zoned four houses per acre will likely sell for less if its use is limited to a smaller fraction of the homebuying market. In the event that its value falls to, say, \$60,000, the owner of the land has suffered a financial loss—\$40,000 per acre in this example—as a consequence of the downzoning.

Some legal experts consider such downzonings a “taking,” a legal term that describes government confiscation of property or the value thereof as a result of some regulatory or other action, such as invoking the powers of eminent domain. In the event of a taking, the government is generally required to compensate property owners for the loss of value caused by the government's action against their property. The “Takings Clause” of the Fifth Amendment to the U.S. Constitution states that “nor shall private property be taken for public use without just compensation.” It is interpreted by property rights advocates as a broad constitutional protection for private property. Despite the view held by many that the Constitution requires compensation when loss of value stems from regulatory change or other legal mechanisms, the courts have been reluctant to rule in favor of property owners, except when the government's actions have been sufficiently extreme as to reduce the value of the affected property to zero or close to it.

Typical of the courts' reaction to a drastic downzoning is a decision recently handed down by a Prince William County, Virginia, Circuit Court judge. The judge upheld a 1998 decision by the Board of County Supervisors to reduce significantly the number of houses that could be built on a 500-acre parcel owned by the same individuals for more than 40 years. The board's action was one of many recently taken to limit growth in the county through application of a new comprehensive plan that, among other changes, eliminates thousands of potential homes from county plan-

21. Heritage Foundation calculations from March 2000 Current Population Survey.

ning maps and rezones nearly 100,000 undeveloped acres in another part of the county to no more than one house per 10 acres.

The parcel subject to court challenge originally was zoned (in 1958 and again in 1991) for four homes per acre, but in 1998 the county downzoned it to one house per acre, reducing by 75 percent the number of houses that could be built on the parcel. The owners sued, and after a three-day trial, the judge ruled that although he considered the county's action unfair, it was not unlawful.²²

Such actions are by no means uncommon, and more and more communities are altering their zoning rules to reduce the number of houses that once would have been permitted; but while courts have been reluctant to intervene on the side of the property owners, the voters in some states are taking action on their own to protect property rights. In Oregon, on November 7, 2000, voters approved a referendum requiring the state to compensate property owners for any loss of value due to a downzoning in allowable land uses.²³ Although a state appeals court judge issued a temporary injunction barring the initiative's implementation, its endorsement by the voters of a state that has some of the nation's most coercive growth controls suggests that there are limits to the public's forbearance and that a backlash may be brewing.

CLOSING OFF HOMEOWNERSHIP OPPORTUNITY

Although the emphasis in this analysis has been on the general loss of opportunity for entry-level

homebuyers, the specificity of the data available from the U.S. Bureau of the Census can help to identify which segments of the U.S. population are most likely to be affected by growth control measures that impair homeownership affordability. Obviously, the nearly 68 percent of American households who already own their own homes are least likely to be affected; and to the extent that such growth controls raise home prices, existing homeowners will benefit from the boost such price escalation will provide to the value of their home's equity.²⁴

Those harmed, however, will be the prospective owners, and this group is comprised disproportionately of racial minorities and those with household incomes below the median. As of the third quarter of 2000, 81.7 percent of households with incomes at or above the median income were homeowners, whereas only 52.2 percent of those with incomes below the median owned their own homes.²⁵ Households with incomes below the median—who are already underrepresented as homeowners—will bear the brunt of any smart growth strategy that relies on higher home prices to curb growth.

Racial minorities have quite a bit of ground to cover before they even come close to achieving homeownership parity with white Americans. Although the overall homeownership rate reached a record 67.8 percent last year, this rate reflects an ownership rate of 74.3 percent among non-Hispanic whites but only 46.8 percent for black Americans and 46.7 percent among Hispanics.²⁶

Although the rate for black households is much lower than that for whites, the rate of improvement in the black homeownership rate since 1975

22. Lisa Rein, "Judge Upholds Board Limitation on Development," *The Washington Post*, November 1, 2000, p. A1.

23. "Measure 7—Requires Compensation When Regulators Take Property," *Looking Forward, On the Ballot*, September/October 2000, p. 3. On December 6, 2000, an Oregon judge blocked the implementation of the measure by issuing a temporary injunction on the grounds that the language of the referendum violated Oregon's single-issue rule. A trial was scheduled to be held in February 2001 to determine whether a permanent injunction should be issued.

24. See Cox, "Amendment 24," for estimates of the amount by which existing Portland homeowners have seen their equity in their homes rise as a consequence of the growth boundary.

25. U.S. Bureau of the Census, *Housing Vacancies and Homeownership: Third Quarter 2000*, Table 8, "Homeownership Rates by Family Income: 1995–2000," at <http://www.census.gov/hhes/www/hvs/q300prss.html>.

26. *Ibid.*, Table 7, "Homeownership Rates by Race and Ethnicity of Householder: 1995–2000."

has been slightly greater than it has for whites. Much of that improvement took place over the last several years, when the U.S. economy and housing affordability trends became so favorable. Whereas the white homeownership rate improved by 7.3 percent since 1975, the black rate improved by 8.9 percent.²⁷ Hispanics, in contrast, saw an improvement of only 3.6 percent—less than half the rate of the other groups. Significantly, both groups saw their homeownership rates plunge sharply during the recession of the early 1990s, compared with no decline in the white rate over the same period. Nonetheless, for both blacks and Hispanics, the homeownership rate is still below 50 percent and is likely to stay there if housing affordability is impaired by smart growth policies that rely on boundaries, impact fees, and downzoning, which have a disproportionately negative effect on households with modest incomes.

BUILDING QUALITY COMMUNITIES WITH HOUSING OPPORTUNITY

Today's efforts to limit, reshape, or redirect the growth of residential and commercial areas in communities throughout the country often reflect both a legitimate dissatisfaction with the way some American communities have evolved over time and a desire to make them better. Loss of open space, crowded schools, congested highways, and unattractive commercial districts have led many to question the desirability of growth and to seek alternatives to current patterns of development. But in an increasing number of communities, alternatives have been adopted that rely on coercive limits on freedom of choice, or the imposition of a *de facto* admission fee that excludes all but the well-to-do.

There are, however, solutions to the problems associated with sprawl that can achieve the same

goals of quality communities and still preserve individual choice, property rights, and reliance on market-based solutions. Moreover, governments can play a role in fostering such solutions, both by resisting demands to impose coercive policies and by clearing away the aging regulatory impedimenta that now often direct a community's development into unattractive patterns and directions.

Reform Federal Programs

A good starting point for reform is federal programs—many of which were implemented during the Clinton Administration—that promote coercive smart growth strategies for reluctant communities. Both Congress and the Bush Administration should review the activities of executive branch departments and eliminate programs that undermine property rights and market-based solutions. Agencies recently exhibiting coercive anti-growth strategies include the EPA, the Small Business Administration (SBA), and the Department of Justice.

The EPA has been the worst offender. It has used its enforcement powers under the Clean Air Act to force some communities to limit road-building and to channel future growth into high-density forms of residential housing even though all evidence indicates that dense development yields dirtier air.²⁸ Atlanta's failure to meet the EPA's air quality goals led the agency in 1998 to threaten to withhold all federal funds from communities in the Atlanta metropolitan area until a density-promoting smart growth plan was implemented.²⁹ The EPA also contributes funds to many anti-growth activist groups that work directly to undermine property rights. For example, the EPA provided grants to groups in Oregon that actively fought a referendum that would have required the state to compensate property owners for any loss in value as a result of a downzoning.³⁰

27. U.S. Bureau of the Census, "Homeownership Rates by Race and Ethnicity: 1975 to Present," Table 6, unpublished tables provided to author by Housing and Household Economic Statistics Division.

28. Wendell Cox, "Coping With Traffic Congestion," in Utt, *Guide to Smart Growth*, p. 45.

29. Antonelli, "Lessons from the Atlanta Experiment," pp. 135–152.

30. See Peter Samuel and Randal O'Toole, "Smart Growth and the Federal Trough: EPA's Financing of the Anti-Sprawl Movement," *Cato Institute Cato Policy Analysis* No. 361, November 24, 1999.

The SBA, whose mission is to encourage small business formation and entrepreneurs, was recently sued by environmental groups that accuse it of helping to finance suburban businesses that contribute to sprawl by dispersing business from central cities to emerging suburbs. Although initially inclined to fight the suit, the SBA is now negotiating with the plaintiff in an effort to find a compromise that could lead the agency to consider formally the impact on suburbanization when it decides whether to grant a loan or loan guarantee to a small business.

The Department of Justice in the past has aided anti-growth groups by joining lawsuits they filed to discourage growth and limit property rights. In 1994, for example, it joined with city and state attorneys general in Oregon and several anti-property rights groups to oppose the Dolan family's effort to be compensated for property they were required to give up for a bicycle path in Tigard. The case reached the U.S. Supreme Court, where Justice filed an amicus brief and the U.S. Solicitor General participated in the oral arguments against the family. The Supreme Court decided in favor of the Dolans.³¹

These are just a few of the instances in which agencies of the federal government have worked to undermine property rights and individual choice and have contributed to land use restrictions that may have diminished homeownership opportunities. Similar activities by these and other agencies should be reviewed, and Congress and the President should:

- **Insist that all agencies consider the impact that their actions may have on property rights and related activities**, such as homeownership and business creation. It makes little sense for the President to propose a new homeownership initiative operated by HUD and focused on entry-level buyers if counterproductive anti-growth actions by other agencies will negate the effort, either in whole or in part.

Promote Creative State and Local Solutions

State and local governments should refrain from implementing coercive and costly growth control mechanisms that limit freedom of choice and raise house prices beyond the affordable range of the entry-level buyer. Mechanisms such as growth boundaries, impact fees, downzoning, and regulatory mandates on size, design, and amenities for new homes effectively slow growth by limiting the number of people who can afford to live in a community. These actions also discriminate against the less well-to-do by pricing them out of the homeownership market. Rather than merely continuing to perpetuate such counterproductive policies, state and local governments should:

- **Encourage flexibility in design.** Instead of the coercive mechanisms that many state and local governments have adopted, communities should consider reforms and remedies that encourage flexible and creative alternatives to traditional development patterns, harness the power of the competitive market, and respect property rights and individual choice.

A good starting point for any community looking to improve future growth patterns is its existing zoning code and land use plan. Notwithstanding the popular perception that much past housing and commercial development was unplanned and subject to the whimsical preferences of rapacious developers, virtually all postwar real estate development in America took place according to professionally prepared land use plans that were adopted by each community. Such plans were usually the product of formally trained and certified land use professionals acting in accord with the best practices of the day, working in close consultation with elected officials, and with members of the public at large who often participated in the process.³²

These traditional land use plans were also very rigid and allowed for little variation or creativ-

31. As provided by William Moshofsky, President, Oregonians in Action: Legal Center, in correspondence to the author dated March 1, 2001.

32. See Samuel Staley, "Reforming the Zoning Laws," in Shaw and Utt, *A Guide to Smart Growth*, pp. 61–76.

ity, or for changing tastes and preferences that would occur over time. Ironically, one of the main casualties of these inflexible plans are the innovative, smart growth communities that many builders are offering in response to public dissatisfaction with the status quo. Sometimes called “new urbanist” and/or “enviro” communities, such designs use road grids, minimal setbacks, lot sizes, and high densities, which existing land use plans often forbid.³³

- **Focus on better road designs that reduce congestion and improve mobility.** Such new urbanist designs also incorporate a mixture of commercial and residential units, or at least place them close to each other to allow for more convenient shopping and less use of automobiles. Traditional American land use planning, in contrast, requires rigid separation of retail–commercial and residential zones, thereby encouraging, if not requiring, strip shopping centers and other such retail concentrations that necessitate the use of automobiles and travel for even the most basic shopping needs.

While flexibility in planning and zoning would have some effect in reducing auto use, the impact would be modest, and the automobile would remain the preferred and predominant mode of transportation for American families. Therefore, the limited public resources available for community transportation needs should not be wasted on costly transit schemes that few will use. Instead, the state, local, and federal governments should be prepared to accommodate America’s preference for the automobile with more thoughtful road design, expansion, and construction that help reduce congestion and facilitate mobility. Money wasted on expensive light rail initiatives will encourage few motorists to give up their cars and lead to underinvestment in roads, more congestion, and worse pollution.

- **Find innovative ways to preserve open space.** One of the chief reasons many people choose to live and work in more distant suburbs is the access that such neighborhoods provide to a more natural setting with greater privacy and open spaces. But as populations increase, new developments frequently encroach on the farmland, woods, and meadows that are (or were) a community’s chief attraction. In response, many existing residents seek to preserve the rustic and rural nature of their communities by rezoning land to extremely low densities (for example, one house per every 25 or more acres) or by forbidding any growth, as is the case with some growth boundaries. Such mechanisms infringe on property rights and raise land (and therefore housing) costs.

A less coercive alternative being implemented in many communities is to create a land trust or some other public entity to acquire, own, and manage strategically located undeveloped land at market prices and to hold the land in perpetuity as a natural preserve, park, or greenbelt-type buffer against future development. Under such programs, communities agree to devote some portion of the public budget (taxpayers’ money) to land purchases and the creation of more parks and preserves. A less expensive alternative adopted in many communities is the purchase of development rights to strategically located land, but not the land itself. This type of exchange is used most often with farmland lying in the path of encroaching residential development.

Recognizing that farmers on the fringe of a metropolitan area often receive lucrative offers for their land from developers, this approach allows farmers to sell their development rights to the community and continue farming. Once the development right is sold, the land can be used only for farming unless the community is willing to sell the development right back to the landowner. By selling development rights, the farmer is able to benefit financially from

33. See Donald Leal, “The Market Responds to Smart Growth,” in *ibid.*, pp. 107–118.

the enhanced value of his property but does not have to give up farming to achieve it. The community, in turn, benefits from the preservation of open space, diminished congestion, and lower population densities.

CONCLUSION

These innovative proposals are but a few of the policies that communities are adopting to maintain a high quality of life in the face of accelerating development pressures. Such strategies are proving more effective than the poorly conceived smart growth policies that lead to escalating housing prices and harm the people who need homeownership opportunities the most—those with below-median household incomes and racial minorities.

Governments can foster effective solutions to sprawl-created problems by resisting demands to impose coercive growth control policies and by clearing away the aging regulatory impedimenta that often direct development into unattractive patterns and directions. Potential solutions include purchasing more park, woodland, and farmland to provide more greenspace and improving transportation to facilitate mobility. Such strategies would preserve freedom of choice, demonstrate government's respect for property rights, and foster homeownership opportunities for all.

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Country, City	Floor Area per Person (ft ²)	Persons per Room	Rooms per Person	Permanent Structures (%)	Water Connection (%)
U.S. Total*	718.00	0.46	2.17	na	na
U.S. Poor*	440.00	0.54	1.85	na	na
U.S. Poor Apartment Dwellers**	320.00	na	na	na	na
U.S.A. (Washington, D.C.)	738.95	0.39	2.56	100	100
Australia (Melbourne)	545.73	0.69	1.45	100	100
Norway (Oslo)	452.09	0.50	2.00	100	100
Canada (Toronto)	442.40	0.50	2.00	100	100
Sweden (Stockholm)	430.56	0.56	1.79	100	100
Germany (Munich)	376.74	0.56	1.79	100	99
France (Paris)	348.75	0.80	1.25	100	97
United Kingdom (London)	343.69	0.75	1.33	100	100
Austria (Vienna)	333.68	0.90	1.11	100	95
Finland (Helsinki)	327.23	0.67	1.49	100	99
Israel (Tel Aviv)	266.95	1.00	1.00	100	100
Greece (Athens)	263.72	0.82	1.22	100	100
Spain (Madrid)	262.64	0.63	1.59	100	98
The Netherlands (Amsterdam)	256.18	0.63	1.59	100	100
Hungary (Budapest)	252.95	1.33	0.75	98	99
Slovak Republic (Bratislava)	249.72	1.06	0.94	100	99
Singapore (Singapore)	215.28	1.40	0.71	99	100
Brazil (Rio de Janeiro)	208.28	1.00	1.00	99	97
Republic of Korea (Seoul)	202.36	1.48	0.68	97	100
Malaysia (Kuala Lumpur)	200.00	1.67	0.60	86	94
Poland (Warsaw)	187.29	0.94	1.06	100	98
Turkey (Istanbul)	182.99	2.00	0.50	95	94
Thailand (Bangkok)	177.39	2.01	0.50	97	76
Venezuela (Caracas)	172.22	2.00	0.50	90	70
Chile (Santiago)	171.04	1.18	0.85	85	99
Japan (Tokyo)	169.96	0.77	1.30	100	100
Jamaica (Kingston)	164.69	1.50	0.67	80	87
Egypt (Cairo)	129.17	1.50	0.67	94	71
The Philippines (Manila)	129.17	3.00	0.33	80	66
South Africa (Johannesburg)	119.48	na	na	66	95
Ghana (Accra)	111.95	3.20	0.31	100	49
Indonesia (Jakarta)	109.47	1.28	0.78	67	66
Jordan (Amman)	107.64	3.30	0.30	97	97
China (Beijing)	100.54	1.48	0.68	94	86
Nigeria (Ibadan)	96.88	2.00	0.50	100	63
Colombia (Bogota)	94.72	1.70	0.59	97	99
Mexico (Monterey)	92.79	1.15	0.87	93	91
Ecuador (Quito)	92.68	1.75	0.57	70	76
India (New Delhi)	92.57	2.47	0.40	86	38
Algeria (Algiers)	91.92	2.62	0.38	97	95
Senegal (Dakar)	87.19	2.30	0.43	84	49
Cote d'Ivoire (Abidjan)	85.04	2.22	0.45	88	33
Pakistan (Karachi)	76.42	3.00	0.33	97	66
Hong Kong (Hong Kong)	76.42	na	na	90	95
Zimbabwe (Harare)	75.35	2.28	0.44	83	97
Malawi (Lilongwe)	71.47	1.80	0.56	67	31
Tunisia (Tunis)	69.64	1.87	0.53	96	86
Morocco (Rabat)	64.58	2.27	0.44	94	86
Kenya (Nairobi)	54.57	3.70	0.27	67	40
Madagascar (Antananarivo)	54.47	5.53	0.18	43	36
Tanzania (Dar es Salaam)	53.82	2.20	0.45	76	52
Bangladesh (Dhaka)	40.04	3.50	0.29	55	60

Note: *Data from U.S. Department of Energy's Energy Information Administration.
 ** Data depict average heated square feet per multi-family housing unit.

Source: United Nations Centre for Human Settlements and the World Bank, *The Housing Indicators Program, Volume II: Indicator Tables*, Table 5; U.S. Department of Energy, Energy Information Administration, *Housing Characteristics 1993*, Table 3.4.

Appendix B

B1426

Major Metropolitan Areas Ranked by Percentage Change in Housing Opportunity Index: 1991–2000

Rank	Metropolitan Area (Consolidated Area)	Housing Opportunity Index: 1991: Quarter 1	Housing Opportunity Index: 2000: Quarter 3	Housing Opportunity Index: 2000: Percentage Change	Housing Opportunity Index: Point Change
1	Los Angeles	13.6	34.8	155.9%	21.2
2	Ventura (Los Angeles)	14.9	34.6	132.2%	19.7
3	Riverside-San Bernardino (Los Angeles)	25.7	50.8	97.7%	25.1
4	Nassau-Suffolk (New York)	36.2	71.2	96.7%	35.0
5	Hartford	37.1	70.0	88.7%	32.9
6	Sacramento	25.4	46.7	83.9%	21.3
7	New Haven (New York)	39.2	70.3	79.3%	31.1
8	Jersey City (New York)	22.7	39.8	75.3%	17.1
9	Springfield, MA	43.7	69.0	57.9%	25.3
10	Newark (New York)	30.7	47.1	53.4%	16.4
11	Wilmington (Philadelphia)	57.9	85.0	46.8%	27.1
12	Allentown-Bethlehem	46.3	67.1	44.9%	20.8
13	Stockton	21.2	30.2	42.5%	9.0
14	Bergen-Passaic (New York)	29.6	41.1	38.9%	11.5
15	Baltimore	52.0	71.6	37.7%	19.6
16	Philadelphia	45.7	62.1	35.9%	16.4
17	Las Vegas	48.1	64.7	34.5%	16.6
18	Middlesex-Somerset-Hunterdon (New York)	45.9	59.0	28.5%	13.1
19	San Diego	19.3	24.6	27.5%	5.3
20	Worcester (Boston)	46.1	58.1	26.0%	12.0
21	Albany (as of 2000: I)	56.9	71.6	25.8%	14.7
22	Washington (Washington-Baltimore)	57.5	72.1	25.4%	14.6
23	Boston	38.4	45.0	17.2%	6.6
24	El Paso	56.2	65.8	17.1%	9.6
25	Indianapolis	57.9	67.7	16.9%	9.8
26	New York	25.4	29.3	15.4%	3.9
27	Knoxville	67.5	77.7	15.1%	10.2
28	Seattle	38.8	44.5	14.7%	5.7
29	Birmingham	59.4	67.6	13.8%	8.2
30	Memphis	60.2	68.3	13.5%	8.1
31	Buffalo	64.4	72.6	12.7%	8.2
32	Oakland (San Francisco)	21.2	23.5	10.8%	2.3
33	Greenville	67.6	73.2	8.3%	5.6
34	Fresno	48.0	51.7	7.7%	3.7
35	West Palm Beach	64.2	68.4	6.5%	4.2
36	Cincinnati	68.8	73.3	6.5%	4.5
37	Richmond	68.5	72.9	6.4%	4.4
38	St. Louis	64.7	68.5	5.9%	3.8
39	Tampa-St. Petersburg	68.8	72.2	4.9%	3.4
40	Dayton	78.7	82.4	4.7%	3.7
41	Phoenix	62.3	64.8	4.0%	2.5
42	Syracuse	72.3	75.0	3.7%	2.7
43	Greensboro-Winston Salem	66.3	68.4	3.2%	2.1
44	Atlanta	66.7	68.7	3.0%	2.0
45	Harrisburg	71.2	73.3	2.9%	2.1

Source: National Association of Homebuilders.

Appendix B (continued)

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Major Metropolitan Areas Ranked by Percentage Change in Housing Opportunity Index: 1991–2000

Rank	Metropolitan Area (Consolidated Area)	Housing Opportunity Index: 1991: Quarter 1	Housing Opportunity Index: 2000: Quarter 3	Housing Opportunity Index: 2000: Percentage Change	Housing Opportunity Index: Point Change
46	Fort Worth (Dallas-Fort Worth)	70.5	71.7	1.7%	1.2
47	Jacksonville	71.2	72.2	1.4%	1.0
48	Tucson	60.6	60.9	0.5%	0.3
49	Youngstown	78.4	78.0	-0.5%	-0.4
50	Raleigh-Durham	60.9	60.5	-0.7%	-0.4
51	Rochester	74.1	73.6	-0.7%	-0.5
52	Cleveland	70.9	69.7	-1.7%	-1.2
53	Columbus	69.9	68.7	-1.7%	-1.2
54	Nashville	73.3	72.0	-1.8%	-1.3
55	Fort Lauderdale (Miami)	70.6	68.3	-3.3%	-2.3
56	Orlando	73.1	69.6	-4.8%	-3.5
57	Houston	65.3	62.1	-4.9%	-3.2
58	Chicago	58.3	55.4	-5.0%	-2.9
59	Toledo	80.5	75.3	-6.5%	-5.2
60	Norfolk-Virginia Beach	69.9	65.0	-7.0%	-4.9
61	Pittsburg	64.7	60.1	-7.1%	-4.6
62	Dallas (Dallas-Fort Worth)	66.0	60.5	-8.3%	-5.5
63	Ann Arbor (Detroit)	55.1	49.2	-10.7%	-5.9
64	Oklahoma City	83.6	74.1	-11.4%	-9.5
65	San Antonio	68.2	60.0	-12.0%	-8.2
66	Grand Rapids	83.2	73.0	-12.3%	-10.2
67	Akron (Cleveland)	76.7	66.4	-13.4%	-10.3
68	Tulsa	81.8	70.2	-14.2%	-11.6
69	Milwaukee	83.5	69.0	-17.4%	-14.5
70	Miami (as of 2000: 1)	65.1	53.4	-18.0%	-11.7
71	New Orleans	76.5	60.7	-20.7%	-15.8
72	Tacoma (Seattle)	55.4	43.1	-22.2%	-12.3
73	Salt Lake City	72.9	56.7	-22.2%	-16.2
74	Austin	68.2	50.8	-25.5%	-17.4
75	Detroit	80.3	58.9	-26.7%	-21.4
76	Minneapolis-St. Paul	79.4	57.2	-28.0%	-22.2
77	Denver	72.4	50.0	-30.9%	-22.4
78	San Jose (San Francisco)	21.5	13.0	-39.5%	-8.5
79	San Francisco	11.3	5.7	-49.6%	-5.6
80	Portland	68.3	27.6	-59.6%	-40.7
	Average	56.9	60.0	5.4%	3.1
	Average without Portland	56.8	60.5	6.5%	3.7

Source: National Association of Homebuilders.