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Commentary

The Hidden Cost of "Planning"

By Randal O'Toole

Planners rarely say, even among themselves, that one goal of growth-management planning is to drive up housing prices in order to discourage people from living on large lots. One rare exception recently took place in Portland, Oregon, when real estate professionals noted that suburban land values had reached a "tipping point" where it was now worthwhile for developers to buy suburban single-family homes and replace them with high-density housing.

The 1997 regional plan for Portland had directed that two dozen cities and three counties in the region rezone some neighborhoods to higher densities in anticipation of this point being reached. Yet nothing in the plan itself, or any of the supporters of the plan, ever mentioned that a goal of the plan was to increase land values.

One way that planners confuse the issue is by using the term affordable housing instead of housing affordability. Housing affordability refers to the general price level of housing in a community relative to family or household incomes. Affordable housing refers to a few housing units priced below market value, usually through government mandates or subsidies.

While everyone in a region benefits from housing affordability, government-subsidized or mandated affordable housing benefits only a few, and costs everyone else in the form of taxes or higher housing prices so that builders can fulfill their mandates.

In discussing affordable housing, planners will often say something like, "High-density, mixed-use developments provide affordable housing." Naturally, smaller dwelling units with shared walls will tend to be less expensive than larger and more private single-family homes. But that does not mean that the affordability of housing in a region is improved by the construction of such dense housing, especially if the construction is partly inspired by land-use regulations that drive up other housing costs.

When planning-induced housing shortages make homeownership unaffordable, planners typically propose the entirely wrong solutions to the problem. Instead of recognizing that their own rules are driving up housing costs, they in effect, and sometimes in fact, blame the developers and homebuilders who are trying to meet the demand for housing.

One planning solution to high-priced housing is inclusionary zoning, which requires that developers who build more than so many homes at one time dedicate a certain percentage of those homes to “affordable housing.”

The first problem with inclusionary zoning is that it makes housing affordable for only a tiny percentage of people, while growth-management planning makes housing unaffordable for everyone. Homebuilders increase the nation’s housing supply by less than 2 percent per year; only some of the homes built are in developments large enough to meet the threshold for affordable housing; and generally less than 20 percent of the homes in such developments are dedicated to affordable housing.

The second problem with inclusionary zoning is that it has the perverse effect of driving up housing prices for everyone who is not lucky enough, or well-connected enough, to get one of the below-market homes. To cover their losses from below-market homes, homebuilders must increase the price of the remaining homes in their developments. When owners of existing homes see new home prices rise, they naturally ask more for their homes. This means that the amounts saved by a few are more than offset by the extra amounts paid by everyone else.

Another solution is to provide subsidies to low-income housing. This has the same problems as inclusionary zoning: Subsidies help very few people and they sometimes add to everyone else’s housing costs. San Diego, for example, finances subsidized housing with a “housing impact fee” charged to developers – who, of course, pass the cost onto homebuyers. A city of 470,000 homes, San Diego has used this fee to subsidize only 6,700 homes since 1990.

Subsidies can also be inequitable: San Jose uses federal funds to subsidize housing for “below median income families.” But San Jose’s median-family income is $105,000 per year, while the national median income is only $58,000. This means taxes paid by U.S. families earning $50,000 or $60,000 per year are used to subsidize San Jose families who earn $100,000 a year.

Inclusionary zoning and housing subsidies are really nothing more than ways for planning advocates to relieve consciences guilty about driving up housing costs. These policies do more harm than good to the housing markets that use them.

“If policy advocates are interested in reducing housing costs,” economists Edward Glaeser and Joseph Gyourko observe, “they would do well to start with zoning reform,” not affordable housing mandates or subsidies.

This commentary is excerpted from economist Randal O’Toole’s report, “The Planning Penalty: How Smart Growth Makes Housing Unaffordable,” which was released in Georgia by the Georgia Public Policy Foundation and is available in full on the Foundation’s Web site, www.gppf.org. The Foundation is an independent think tank that proposes practical, market-oriented approaches to public policy to improve the lives of Georgians. Nothing written here is to be construed as necessarily reflecting the views of the Georgia Public Policy Foundation or as an attempt to aid or hinder the passage of any bill before the U.S. Congress or the Georgia Legislature.