Build up or build out?
How to make housing more affordable

By Randal O’Toole
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Executive Summary

Hawaii has the least affordable housing of any state in the nation, followed closely by California and more distantly by Oregon and Washington.

Proposals to restore housing affordability fall into two main strategies, which urban planners characterize as “build up” and “build out.”

The build-up strategy calls for increasing urban densities, mainly by building mid-rise (four-to five-story) and high-rise (six stories and up) multifamily housing inside of the current urban footprint.

The build-out strategy calls for increasing the area of urbanized land and building marketable densities outside of the existing urban footprint, which usually means low-rise and mostly single-family housing.

The data suggest that this housing can be made affordable only through the build-out strategy. That’s because the build-up strategy fails to address the root cause of housing-affordability problems, which is land-use restrictions outside of urban areas.

In addition, high-density housing (“build up”) costs more to build than low-density housing (“build out”), and the land costs in areas that have restricted rural development will be higher per unit of housing — even for high-density housing — than in unrestricted areas.

Increasing home affordability is desirable because unaffordable housing slows economic growth, exacerbates problems with homelessness and reduces the quality of life for many, and eventually most, people in a region. It also promotes wealth inequality, transferring wealth from the poor to the rich, the young to the old, and from newcomers to existing homeowners. Other effects include high costs of retail, commercial and other kinds of developments.

Housing affordability is not a national problem. Out of more than 400 urban areas of more than 50,000 people in the United States, only about 50 — depending on where you draw the line — have serious affordability problems, and another 50 are marginally unaffordable. Those 50 to 100 urban areas are almost all in states or regions, including Hawaii, that have attempted to curb urban sprawl by restricting rural land development.

This is not about a physical shortage of land. Nowhere in the United States, not even Hawaii, is there a physical shortage of land. But there are shortages of land for housing due to government regulation or ownership of lands that could potentially be used for housing, causing the undesirable affordability issues. The solution is to build out, not up.
Introduction

This paper will explore the causes of and proposed solutions to housing affordability problems in Hawaii.

In making this examination, it is important to distinguish between “affordable housing” and “housing affordability,” as the two are quite different.

Affordable housing is a type of housing that is subsidized, usually by government but sometimes by nonprofit organizations, to provide shelter for people whose incomes are too low to afford some standard of decent housing. Housing affordability is a measure of the affordability of housing for everyone in a market, not just low-income people.

A standard way of measuring housing affordability is to compare median home values with median family incomes, known as the value-to-income ratio. Current mortgage rules allow people to dedicate about 28 percent of their incomes to a mortgage, which makes it easy for families to afford buying a home that costs less than three times their incomes, but not one that costs more than five times their incomes.

With a 5 percent down payment and 4.5 percent interest rate, someone can pay off a mortgage on a home that costs three times their income in less than 15 years. Housing is marginally unaffordable when home values are three to somewhat more than four times incomes, at which ratios people can pay off a mortgage in around 15 to 30 years.

If it would take 30 years to pay off a mortgage on a home that is 4.85 times income, this would make housing unaffordable in areas with higher value-to-income ratios.

Of course, a higher down payment or lower interest rates would help, but generally any home that is more than five times income is unaffordable.

In Hawaii, median home prices are nearly seven times median family incomes. They are more than seven times incomes on Maui and Oahu, more than six times on Kauai, and nearly five times on Hawaii Island. Only a few markets are less affordable than Maui or Oahu, all of them in California and mostly in the San Francisco Bay Area and Los Angeles.

By definition, half the homes in any housing market cost less than the median price and half cost more, while half the families earn less than the median income and half earn more. If the value-to-income ratio is 3-to-1 or less, then the range of home prices, including rentals, is probably going to roughly match the range of incomes, so everyone can afford housing. Where the value-to-income ratios are above 5, most people who don’t already own homes will be unable to find a home that matches their expectations.

This paper will examine various proposed solutions to the housing affordability problems that afflict Hawaii and urban areas in a few other states. However, before comparing solutions, it is important to understand what caused the problem.
‘Growth management’ and housing affordability

“The affordable-housing crunch is a nationwide problem,” a recent article in The New York Times incorrectly reported.¹ In fact, only a small number of states and urban areas are unaffordable, and most of them are in coastal states.

According to the U.S. Census Bureau’s “2016 American Community Survey,” which estimated median incomes and home prices in 2015, just 33 out of 437 urban areas had value-to-income ratios above 5-to-1; 42 were between 4-to-1 and 5-to-1, 75 were between 3- and 4-to-1, and 287 were less than 3-to-1.²

According to Zillow’s data for the first quarter of 2018, 44 of 356 metropolitan areas had value-to-income ratios greater than 5-to-1, 38 were between 4- and 5-to-1, 102 were between 3- and 4-to-1, and 172 were less than 3-to-1.³ In short, just 7 to 13 percent were unaffordable with ratios greater than 5-to-1, while half to two-thirds were very affordable with ratios below 3-to-1.

Out of 727 housing markets tracked by Zillow in June, 2018, median costs per square foot of $500 or more were found in just five, including Maui and Oahu; seven, including Kauai, cost $400 to $500 per square foot; 10 were between $300 and $400; 41 were between $200 and $300, including Hawaii at $275; 277 were between $100 and $200; and 379 were less than $100 per square foot.⁴

This means less than 10 percent of housing markets cost more than $200 per square foot, while more than half cost less than $100. While some of the areas that cost less than $100 per square foot are economically depressed, the median prices in many of the nation’s fastest growing housing markets are between $100 to $130 a square foot. Indianapolis, the fastest-growing urban area in the Midwest, for example, is $94 per square foot; Houston, the fastest-growth urban area in the country, $101; Atlanta, $106; Charlotte, $114; Dallas-Fort Worth, $121; and Raleigh, $130.

Affordability problems are largely confined to certain coastal states. On a statewide basis, only California and Hawaii have average value-to-income ratios above 5. Marginally unaffordable states, with ratios between 4 and 5, include Washington, Oregon, Maryland, New Jersey, and New England states, as well as the New York and Washington urban areas. Only a few inland areas, most notably Denver and Boulder, have affordability issues.

What unaffordable states and regions all have in common is that they have attempted to minimize the spread of urban areas using tools that are collectively known as “growth management.” These tools include:

• Urban-growth boundaries, outside of which new development is heavily restricted.
• Urban-service boundaries, outside of which new development is nominally allowed but to which no urban services will be provided.
• Purchases of land or conservation easements to form greenbelts around urban areas.
• Adequate public facilities or concurrency ordinances that don’t allow new development until all infrastructure needed to support that development is fully financed.⁵

The most popular form of growth management today is sometimes called “smart growth” and focuses on increasing urban densities as an alternative to growing at the urban fringe — in other words, building up, not out. About a dozen state legislatures have passed laws requiring cities and counties to implement one or more of these policies.⁶ In addition, a few urban areas, notably Denver (through the Denver Regional Council of Governments) and Boulder (through the city and county
of Boulder) have passed growth-management plans without a state mandate to do so.

By limiting the amount of land available for new development, growth management greatly increases the price of land inside of a growing urban area. This, in turn, makes housing and other developments more expensive. This can be seen by comparing median home values with median family incomes; this value-to-income ratio is a standard measure of housing affordability.

In 1969, when Hawaii was the only state practicing growth management, value-to-income ratios were well below 3.0 in almost every part of the country except Hawaii. In San Francisco-Oakland, for example, they were 2.3, while in San Jose, they were 2.2.

Most Bay Area counties imposed growth boundaries in the 1970s, and by 1979 value-to-income ratios in both San Francisco-Oakland and San Jose had grown to 4.0. Median home values peaked in 2006 at more than 8.0 times median family incomes. Though prices fell after that, they recovered after 2010 and by 2018 San Francisco-Oakland’s value-to-income ratio was 9.1 and San Jose’s was 10.6.

Land availability isn’t the only factor affecting housing affordability. Others include the cost and time required to get building permits, the imposition of impact or development fees, and labor costs. But all of these are influenced by land-use restrictions. If cities know that developers have the option of building in rural areas outside the city limits, they will keep permit costs and impact fees low. In addition, the main factor influencing labor costs is housing costs.
A 2002 study compared the cost of a new, 2,200-square-foot home in San Jose with one in Dallas. A 2,400-square-foot lot in San Jose cost $232,000 versus $29,000 for a 7,000-square-foot lot in Dallas. Permit costs in San Jose were 10 times greater than in Dallas: $100,000 versus $10,000. Impact fees in San Jose were nearly six times greater: $29,000 versus $5,000. Labor costs were 43 percent greater: $143,000 versus $100,000. Ultimately, all of these costs are traceable to San Jose’s urban-growth boundary.

‘The quiet revolution’

British Parliament passed the first modern growth-management law, the Town & Country Planning Act, in 1947. Prior to 1947, British land-use regulation was like conventional zoning — limiting heights, setbacks and other design considerations. The 1947 Act deregulated that kind of zoning within cities but put most of the country off limits to development.

As Matthew Ridley observes, Britain went from “telling people what they could build” to “whether they could build.” The result, Ridley goes on to say, “brought great uncertainty to the system, because planning permission now depended on the whims of planners, the actions of rivals and the representations of objectors.”

About 6 percent of the country has been urbanized at densities roughly three times greater than the average American urban density, with the remaining 94 percent of the country off limits to urban development. Because of this, Britain today has some of the least affordable housing in the world. London’s value-to-income ratio is 8.5; the average for the nation as a whole is 4.5; 28 of the nation’s leading 33 largest urban areas have ratios more than 4.0; and none have ratios less than 3.0.

In 1961, Hawaii emulated Britain’s Town & Country Planning Act, initiating what has been called the “quiet revolution in land-use control” in the United States. While most states would later use counties to zone rural land, the Hawaii law bypassed the counties and gave the state the authority to zone all land as either urban or rural and to severely restrict any development in rural areas.

This was a revolution because, for the first time, a state asserted power over what rural landowners could do with their land. Prior to this law, most states did not even allow counties to zone land in rural areas. Hawaii’s “downzoning” took away property rights and often economically harmed the landowners. By 1969, Honolulu was one of only two urban areas in the country whose value-to-income ratio was more than 3.0; it was 3.2; only Stamford, Conn., came close.

There is a double irony in Hawaii’s 1961 land-use law. First, Democrats got elected to Hawaii’s first state legislatures by promising land reform to make housing more affordable. Instead, they passed laws that made housing dramatically less affordable. Second, they justified those laws based on the supposed need to protect Hawaii’s agricultural industry from the depredations of urban sprawl. Instead, by making housing unaffordable for farm workers, they contributed to Hawaii farming becoming uncompetitive, and the number of acres used for growing crops declined by 70 percent between 1982 and 2012. Effectively, growth management helped destroy the state’s agricultural industry in order to save it.
California stumbles into smart growth

California’s use of growth management was more accidental than intended. In 1963, controversies over which cities would get to annex nearby unincorporated land led the California State Legislature to direct each county to create a “local agency formation commission” (LAFCO). The commissions consisted of representatives of each city in the counties and could approve or deny all annexations, incorporations of new cities and the creation of sewer, water or other utility districts.

The cities that ran the LAFCOs had no interest in approving new cities or utility districts outside of their own boundaries because such cities and districts would compete with existing cities for new tax-paying developments. By the mid-1970s, many California cities and counties had drawn urban-growth boundaries outside of which they refused to approve new developments. Moreover, courts ruled that, under the 1970 California Environmental Quality Act, the urban-growth boundaries could not be moved without spending millions of dollars on environmental studies. Since few developers can afford to do such studies and cities were and are not interested in doing so, the boundaries have become a permanent if invisible fixture on the California landscape.

As a result, almost all new growth in California since the mid-1970s has been in increasingly crowded urban areas. Between 1970 and 2010, while the population densities of most urban areas outside of California declined, the density of the Los Angeles-Anaheim urban area grew by 25 percent, Sacramento by 45 percent, San Francisco-Oakland by 21 percent and San Jose by 57 percent.

Thanks to growth boundaries, as of the 2010 census, 95 percent of Californians lived in less than 5.5 percent of the state’s land area. No other state has concentrated such a large share of its people in such a small portion of its area, though Hawaii, with 92 percent of its population concentrated on 6 percent of its land, is a close second. California urban areas were the densest in the country in 2010, having an average of 4,300 people per square mile, which was nearly twice the 2,180-per-square-mile average of urban areas in the rest of the country.

Irvine, California, was incorporated in 1971 as a new master-planned city on 66 square miles of former ranch land. Today the city hosts more than a quarter of a million people, several university campuses and the headquarters of dozens of companies or the North American divisions of those companies. Thanks to California laws, however, it is no longer possible to create such new cities in the state.

Despite the increases in density, the growth-management plans adopted by California cities and counties had an immediate effect on housing prices. In 1969, California’s least affordable urban area was Salinas, whose value-to-income ratio was a very affordable 2.35. By 1979, it had grown to 4.30, while Santa Barbara’s had grown from 2.25 to 4.79, San Francisco-Oakland’s from 2.28 to 4.02, and Los Angeles’ from 2.21 to 4.14. Today, these all range from 8 to 10.
In 1969, Ramapo, New York, joined the quiet revolution by pioneering the use of an “adequate public facilities” ordinance, also known as “concurrency.” Under this rule, developers would not be allowed to build new housing until all of the infrastructure needed to support such housing — including sewer, water, roads and schools — was fully financed. This rule, soon imitated in other states, was based on the unverified fear that existing residents were somehow having to subsidize new growth.

While concurrency seems sensible at first glance, it has allowed regions to effectively halt new suburban growth by simply not finding ways to finance the infrastructure. For example, when San Jose adopted its urban-growth boundary in 1974, it identified land outside the boundary as an “urban reserve” that it would add to the boundary when infrastructure financing became available. After more than 40 years of growth, San Jose has become one of the wealthiest cities and least-affordable housing markets in the world, yet the city has never found the financing to bring this reserve into the urban-growth boundary.

**Oregon’s land-use planning law**

The first state to intentionally join the quiet revolution after Hawaii was Oregon which in 1969 became the first state to require that counties zone all rural land in the state.

In 1973, the Oregon Legislative Assembly created a seven-member Land Conservation and Development Commission, with its members to be appointed by the governor, and gave it the authority to write rules that all cities and counties must follow in their zoning ordinances. One of the rules required all cities in the state to have urban-growth boundaries. When drawn, these boundaries encompassed less than 1.25 percent of the state’s land. Since 1980, when the growth boundaries were put into place, the state’s urban population has grown by 74 percent while the land within urban-growth boundaries has grown by less than 10 percent.

The commission initially required that counties zone most land outside of the growth boundaries for 40-acre minimum lot sizes. This rule was successively tightened until, today, rural landowners cannot build a single house on their own land unless they own 80 acres and earn, depending on soil productivity, $40,000 to $80,000 a year from farming it.

In 1999, Metro — the regional planning agency in charge of Portland’s urban-growth boundary — set a goal of expanding Portland’s boundary by just 6 percent in the next 50 years, during which time the population was expected to increase by 70 percent.

To minimize the need to expand the boundary, Metro gave the 24 cities and three counties in the Portland area population targets that they had to meet by upzoning the densities of existing...
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Metro also ordered cities and counties to deny all building permit applications that failed to build at least 80 percent of the maximum density of the zone. Such minimum-density zoning makes it impossible, for example, for someone to build a single home on a quarter-acre that now is zoned for 50 feet x 100 feet (roughly one-eighth-of-an-acre) lots; they would be required to build two homes or they couldn’t get a permit to build at all. In addition, if a house in a rezoned neighborhood were to burn down, the owners might not be allowed to rebuild it unless they are willing to build a multiplex.

In short, Oregon’s system not only dictates where people live, but how they live. Whereas 65 percent of Portland-area households lived in single-family homes in 1990, Metro planners seek to reduce this to 41 percent by 2040, by requiring that most new construction be multifamily housing. The result is that a large portion of the population may never achieve their dream of living in a single-family home, and those who do will pay a much larger-than-necessary share of their incomes to do so.

Value-to-income ratios in Oregon housing markets such as Portland, Eugene and Salem were well under 2 in 1969, but by 1979 they had risen to nearly 3 and in some cases more than 3. The 1980 recession hit Oregon harder than most states, and housing markets did not recover until the late 1990s. But today the value-to-income ratios in Portland and other Oregon urban areas range between 4 and 6.

Boulder’s greenbelt

Boulder, Colorado, was the first city in an inland state to join the quiet revolution. The city has no shortage of open space, as it is bordered on its west side by the 814,000-acre Roosevelt National Forest, 138,000 acres of which are in Boulder County. But that wasn’t enough for the city, which in the mid-1970s adopted a policy of buying a greenbelt around the city and issuing only enough building permits to allow the city to grow by 1 percent per year.

Today, the city and county of Boulder own or have conservation easements on nearly 150,000 acres to the north, east and south of the city, an area that is nearly 10 times the 15,600 acres that make up the city itself. This greenbelt effectively acts as an urban-growth boundary. Boulder’s plan also limited increased densities, so represented a form of growth management but not smart growth. Housing prices in Boulder were quite affordable when these policies were adopted; by 1999 they were more than 3.2 times median family incomes, and today they are more than 5.6 times greater.

East Coast growth-management laws of the 1980s

In the 1980s, Florida, New Jersey and several New England states passed growth-management laws. New Jersey’s was like Oregon’s in that it delegated rural zoning to the counties but required that the zoning plans followed state rules. Many New England states had given up on the county form of government, so the states themselves did the rural zoning. Florida’s was based more on adequate public facilities rules than growth boundaries.
Metropolitan areas in these states all tended to be affordable in 1979, with value-to-income ratios under 3.0, but their ratios soon increased to above 3.0. Boston’s value-to-income ratio in 1979 was 2.4, rising to 3.8 by 1989 and above 5.0 today. New York’s value-to-income ratio was 2.9 in 1979, but being hemmed in by Connecticut and New Jersey, it rose above 4.0 by 1986, above 5.0 by 2002, and stands today at 5.7.

**Growth-management laws in the 1990s**

Value-to-income ratios in Seattle, Washington, remained below 3.0 through the end of the 1970s. But in 1984 King County drew an urban-growth boundary that excluded from development most land in the eastern part of the county. By 1989, Seattle’s value-to-income ratio had risen above 3.0, while other urban areas in the state remained affordable.

In 1990, the Washington State Legislature passed a growth-management law requiring all counties in the western part of the state, as well as some in the eastern part, to follow King County’s example. By 1999, Bellingham value-to-income ratios were above 3.0. Today the ratios are above 5.6 for Seattle, above 4.0 for Bellingham and Olympia, and nearly 4.0 for Spokane and Yakima in the eastern part of the state where the rules aren’t quite as strict.

Maryland passed a growth-management law in 1996 that focused on preserving rural land and concentrating development in already developed areas. Though not as strong as in some other states, the law effectively gives the counties all of the authority over where and whether growth takes place.28 Montgomery County, which borders Washington, District of Columbia, is highly restrictive, as is Loudoun County, Virginia. Together, these and nearby counties have pushed the Washington metro area’s value-to-income ratios above 4.0.

In 1997, the Minnesota Legislature passed a law authorizing, but not requiring, counties and regions to use “urban service” boundaries. The Twin Cities Metropolitan Council adopted a boundary outside of which, it says, no services will be extended until at least 2040.29 To date, this has had a minimal impact on housing prices because — unlike Hawaii’s and Oregon’s statewide laws — developers can evade the restriction by going to counties outside of the Metropolitan Council’s jurisdiction.

Also in 1997, the Denver Council Region of Governments adopted an urban-growth boundary government where growth may take place in the nine-county Denver region (including Boulder County).30 This has had a bigger impact on housing affordability than the Twin Cities plan, as value-to-income ratios in the Denver-Aurora urbanized area are 5.2.

No other states have passed growth-management mandates, though in addition to Boulder and Denver, a few other urban areas, including Flagstaff, Arizona, and a few cities in Montana, have written growth-management plans without state mandates.
‘A strong negative correlation’

There is a strong negative correlation between growth-management planning and housing affordability. In 2018, 18 of the 20 least-affordable urbanized areas out of 437 nationwide, with value-to-income ratios above 5.8, were in California, Hawaii and Oregon. The other two were Boulder, Colorado, and Flagstaff, Arizona. It’s fair to say that virtually all of the 45 urban areas with value-to-income ratios above 5.0 practice some form of growth-management.

Affordability is unrelated to the size of urban areas. Very large, fast-growing urban areas such as Dallas-Ft. Worth and Houston remain affordable, while small urban areas such as Bend, Oregon; Boulder, Colorado; Kahului, Hawaii; and Watsonville, California are unaffordable.

The 18 most-affordable states, all of which have value-to-income ratios of below 2.5, have never passed any growth-management laws, and few, if any, of their urban areas have written growth-management plans. On the other hand, 11 of the 18 least-affordable states, all of which have value-to-income ratios above 3.0, have passed strong growth-management laws, and major urban areas in the others have written growth management plans.

Evidence weighs against ‘smart growth’

Many planners blithely insist that growth management does not increase housing prices, and it is only a coincidence that states and regions with strong growth-management laws and plans are unaffordable. Yet, numerous economists have concluded just the opposite. In 2002, Oregon economist Randall Pozdena compared housing in states and regions that used smart growth with ones that did not. He found that “home price inflation is greater than expected in most of the states that have embraced smart growth policies at a state level.” For the years he was examining — 1990 to 2000 — these states included Oregon, Washington and Colorado, but not California and Hawaii. However, after 2000, home prices rose far more rapidly in these two states than elsewhere.

Economist Samuel Staley and planner Leonard Gilroy looked at housing prices in Florida, Oregon and Washington between 1990 and 2000. During this time period, housing affordability nationwide improved — that is, incomes grew faster than housing costs — but in these three smart-growth states, affordability declined. Staley and Gilroy concluded that smart growth was the cause of the decline.

After comparing land-use regulations with housing prices in thousands of municipalities, University of Washington economist Theo Eichler found that high housing prices are “associated with cost-increasing land-use regulations (approval delays) and statewide growth management.” Similarly, after comparing “the dynamics of real housing price appreciation in 130 metropolitan areas,” economists Donald Jud and Daniel Winkler concluded that price increases “are positively correlated with restrictive growth management policies and limitations on land availability.”
Some urban planners agree that growth management is responsible for unaffordable housing. University of Iowa planner Jerry Anthony looked at Florida and found “a statistically significant increase in the price of single-family houses attributable to statewide growth management.” Even University of Utah planner and growth-management advocate Arthur Nelson agrees that “growth management policies can have the effect of raising housing costs,” noting that in a similar time period, prices in growth-managed Portland doubled while in relatively unregulated Atlanta they only increased by 25 percent. Nelson argues that, “when implemented with full attention to housing affordability issues,” growth management does “not necessarily preclude affordable housing,” but he doesn’t cite any examples of regions that have kept housing affordable by growing denser rather than growing out.

**Growth management and homeownership rates**

In addition to making housing more expensive, the supply restrictions created by growth management have severely depressed homeownership rates in many states. As of the third quarter of 2017, homeownership varied by state from lows of 52.4 percent in Hawaii and 53.5 percent in California to highs of 75.6 percent in West Virginia and 73.4 percent in Delaware.

These differences were not due to any inherent reason West Virginia and Delaware residents prefer homeownership more than California and Hawaii residents. Instead, low homeownership rates are generally due to growth-management policies and the resulting housing affordability problems. Without growth management, nationwide homeownership rates would probably be greater than 70 percent, instead of less than 64 percent as they are today.

**Growth management and price volatility**

Growth management-induced supply restrictions not only makes housing more expensive, it makes housing prices more volatile, which was a major factor in the 2008 financial crash. Economists Haifang Huang and Yao Tang looked at data for 300 cities in the United States and found “that more restrictive residential land use regulations and geographic land constraints are linked to larger booms and busts in housing prices.”

Growth management has the effect of steepening the supply curve for new housing, so a small increase in demand can lead to a large increase in price, while a small decrease in demand can lead to a large decrease in price. The resulting housing booms and busts were rare to non-existent before growth-management planning, but now are common in growth-managed states.

Such volatility can make it risky to buy a home because homeowners have little control over when they might need to sell it. One result is higher unemployment because people find it less expensive to remain unemployed than to sell their home at a loss to move to a region where they might be more likely to find a job.

Most of the problems growth management creates for housing also apply to retail, commercial, and industrial developers. Though the data for housing are better than for other forms of development, growth management makes other kinds of development just as expensive and just as volatile as housing, which in turn further increases the cost of living in growth-managed regions.
Some urban areas, such as Detroit and Pittsburgh, are affordable because they aren’t growing very fast. But rapid growth does not necessarily make housing more expensive, and some of the nation’s fastest-growing urban areas remain very affordable.

Numerically, Houston, Dallas-Ft. Worth and Atlanta are the nation’s fastest-growing urban areas, expanding by 165,000 to 188,000 people per year since 2010. Raleigh, Charlotte and Austin are among the fastest-growing urban areas on a percentage basis, each growing by 6 to 8 percent per year. All of these areas remain affordable, with value-to-income ratios between 2 and 3, because they don’t get in the way of developers who want to build homes outside of existing cities, and they provide those developers with the tools they need to build with minimal overhead.

Minimizing regulation, Texas does not allow counties to zone or regulate any development except in riparian areas, and even there regulation is flexible. Several other states, including Indiana, Missouri and Nevada, allow counties to zone but do not mandate it, and many counties elect not to zone. For example, Pahrump is a fast-growing, unincorporated city in Nye County, Nevada, near Las Vegas, that has no zoning and does not even require building permits. Median home values are about 2.3 times median family incomes. In areas where counties do zone, the zoning is highly flexible, so agricultural zoning, for example, could be quickly changed to accommodate a developer who wanted to subdivide for single-family homes. Such rezoning would either be impossible or take many years in Hawaii, Oregon and other states with state land-use laws.

To help developers finance new infrastructure, many states allow developers to create utility districts. Texas calls these “municipal utility districts”; Arizona calls them “community facilities districts.” Whatever their name, such districts sell municipal bonds and install roads, streets, sewer, water and other facilities. People who buy lots or other properties in the districts are assessed an annual charge, typically for 30 years, to help pay off the bonds. Although the districts are units of government, no state, county or city is liable to repay the bonds.
From the viewpoint of affordable housing, this is a much better system of financing infrastructure than the impact fees or system-development charges that many cities impose on new housing. In some cases, these fees can be $50,000 or more per home, thus driving up the cost of new housing by that much. Since sellers of existing homes base their asking prices partly on the cost of comparable new housing in a neighborhood, fees that increase the price of new homes also increase the price of all existing homes. While buyers in a utility district must pay an annual charge, this is really no different from — and no greater than — the property taxes that other homeowners are assessed to pay for their streets, water and other facilities.

Developers in affordable states typically design “master-planned communities” that include single-family housing, multi-family housing, retail areas, parks, schools and other land uses needed by the residents. These communities may cover 1,000 to 10,000 acres, contain lots for thousands of homes, and use protective covenants or deed restrictions to protect neighborhoods from unwanted intrusions. They also include self-governance systems of homeowner associations that are allowed to change the land-use restrictions by a vote of a supermajority of the homeowners.

About half of the residential areas in Houston, and virtually all of them in its suburbs, have such covenants. Anyone in Houston who lives in a neighborhood without such covenants is allowed to petition their neighbors, and if 75 percent of them agree, they can create a homeowner association and write such covenants. Effectively, they zone at the neighborhood level.

Buckeye, Arizona, is the largest city in America most people have never heard of. Located about 35 miles west of Phoenix, it covered less than 19 square miles in 1990, but annexed more than 125 square miles by 2000 and nearly 150 more by 2010. Its current area of 393 square miles is more than all but 14 other cities in America, and most of those are city-county consolidations. Only Los Angeles, Houston, San Antonio, Oklahoma City and Phoenix itself occupy more land.

Buckeye’s massive annexations were designed to encourage master-planned communities, of which there are at least 30 to date served by at least 11 community services districts. Developers of these communities sell lots with infrastructure to homebuilders for as little as $24,000 a lot, and the homebuilders in turn build homes that cost as little as $82 per square foot. By comparison, Zillow estimates the current price per square foot for homes in Honolulu is $544.

‘Affordable housing’ wrong tool for the job

Despite the difference between housing affordability and affordable housing, many cities have attempted to address housing affordability issues with affordable-housing tools. For example, in 2016 the city of Portland, Oregon, persuaded voters to approve the sale of a $258 million affordable-housing bond, which the city promised would support the construction of 1,300 units of affordable housing. This bond is being repaid out of property taxes, effectively increasing the cost of all other housing in the city.

One problem with this approach is that government cannot build enough new subsidized homes to significantly influence overall housing prices. Instead, the subsidized homes benefit a few at everyone else’s expense, often including low-income taxpayers who are supposedly the target for those homes. U.S. Secretary of Housing and Urban Development Ben Carson recognized this fact in a recent interview in which he argued that cities should move “away from the concept that only the government can solve [the housing affordability] problem by throwing more money at it.”
Portland Mayor Ted Wheeler responded to Carson saying, “If you don’t think government can provide solutions, then you should step aside and allow someone up to the task to lead.” Portland, he bragged, is “stepping up,” adding, “Just today we authorized a new project with 13 floors of affordable housing. That’s 203 multi-family units.”45 But the Portland area has more than 818,000 homes, so adding 203 units, or even 1,300 units, is not going to do anything to make housing more affordable for those not lucky enough to get one of those apartments.46

To make matters worse, the cost of constructing homes built with the city’s affordable housing bond has predictably risen by 40 percent from the original projections.47 This means the 1,300 units the city planned to build with the bond will probably end up being fewer than 1,000.

In 2016, “affordable” multifamily housing projects built by the city of Portland cost as much as $514 a square foot.48 In 2018, the city approved funding for a project expected to cost $651 per square foot. Housing units in such apartments are considered “affordable” only because they are no larger than 660 square feet.49 By comparison, the median price of housing in Portland is $229 per square foot, and new single-family home construction averages around $250 per square foot.50

The total value of all homes in the Portland housing market is more than $175 billion.51 To significantly affect the price of existing homes, the city and region would need to spend tens of billions of dollars subsidizing new homes — and then it would make housing more affordable only if it could find a source of funds that didn’t increase the cost of other housing.

Yet some affordable-housing policies actually increase the cost of other housing. One such policy is “inclusionary zoning,” which has been imposed by communities throughout the San Francisco Bay Area. Such ordinances, sometimes called affordable-housing mandates, require homebuilders to sell or rent a share of the new homes, usually around 15 to 20 percent, to low-income families at below-market prices. While a few lucky families benefit from such ordinances, homebuilders respond by reducing the number of homes they build and increasing the price of the market-based homes they rent or sell, to make up for losses on the below-market homes.52 Since owners of existing homes
base their selling prices, in part, on the price of new homes, inclusionary zoning ordinances end up making housing more expensive for all new homebuyers and renters other than those few who get the few below-market homes.

The relationship between housing affordability and affordable housing is that policies that make housing less affordable increase the need for affordable housing because higher housing costs leave more people unable to obtain housing without subsidies.

Of course, just because affordable-housing programs exist doesn’t mean they work even for those who are truly poor. In practice, many of the people who get government-sponsored affordable housing can more accurately be described as “upwardly mobile.” Recent college graduates, for example, have a history of low incomes (because they’ve been in school) yet can expect high lifetime incomes. They are also smart enough to take advantage of government affordable-housing programs.

It is questionable whether government-supported and -mandated affordable-housing programs really help truly poor people. But there is no question that such programs do not help make housing more affordable for everyone else; too often, they actually make housing less affordable. They are simply the wrong tool for the job.

Planners scapegoat single-family zoning

Urban planners have offered an alternative explanation to housing-affordability problems. They claim that housing prices have been pushed up by single-family neighborhood zoning. Eliminating such zoning, they say, would allow developers to build more mid-rise and high-rise housing, thus increasing the supply of housing.

“We are in a new century where we need to rethink single-family zoning,” says Robert Liberty, who was director of the 1000 Friends of Oregon when that group first proposed that Portland should build up, not out. But if Portland didn’t have an urban-growth boundary, which 1000 Friends assured at every turn would be as small as possible, then housing in the region would be much less expensive.

In January 2018, California state Sen. Scott Wiener, who represents San Francisco, introduced a bill, S.B. 827, that would have effectively voided all local zoning rules in “transit-rich” areas, meaning areas within a half-mile of a rail station or a quarter-mile of a stop on a frequent bus route. Wiener’s goal was to allow the construction of high-density housing in those transit-rich areas, thus simultaneously providing more affordable housing and encouraging more people to ride transit. Maps reveal that the bill’s definition of transit-rich areas includes nearly all of the land in San Francisco, Oakland, Berkeley and other Bay Area cities, and probably also includes much of Los Angeles and San Diego. While S.B. 827 failed, another bill that passed allowed the Bay Area Rapid Transit Authority to build high-density housing on its land regardless of local zoning restrictions.
There are two problems with this explanation of high-priced housing. First, of the 437 urban areas of more than 50,000 people identified by the U.S. Census Bureau, the central cities and suburbs of 436 of them all use zoning, including single-family zoning, with Houston being the only exception. Yet, as previously noted, only about 50 to 100 have serious affordability issues.

Second, mid-rise and high-rise housing is considerably more expensive to build than low-rise housing for two reasons. Land prices in dense areas are so high that the land cost per housing unit will be as great or greater than the land cost in low-density areas. For example, building lots ready for single-family homes in suburban Phoenix sell for as little as $25,000. A similar lot in Portland might cost 40 times that much, and in San Francisco it would cost more than a hundred times as much, so the lots would have to have that many units per acre for the land cost per unit to be the same as in Phoenix.59

Further, construction costs for mid-rise (four- to five-story) and high-rise (six stories and up) housing are greater than for low-rise housing. A Portland affordable-housing study found costs per square foot of mid-rise housing were 53 percent more and high-rise housing 68 percent more than two-story housing.60 Another study found that mid-rise housing can cost three times as much per square foot, and high-rise housing can cost more than seven times as much as detached single-family homes.61 This means that even if per-unit land costs were the same, residents of dense areas would still have to accept much smaller housing units for them to be considered affordable.

A tale of two urbanized areas

In the spectrum of zoning, maximum-density zoning is considered the more traditional form; typically it says you can’t build more than X homes per acre. Minimum-density zoning is the opposite; it says you can’t build fewer than X homes per acre. High-density using is usually minimum-density zoning with a floor such as 20 or more homes per acre.

Comparing the Houston and Dallas-Ft. Worth urbanized areas provides a good test of the effect of maximum-density zoning on housing prices.

Both Houston and Dallas-Ft. Worth have about 5.6 million people and experienced similar growth rates since 1950.62 Houston is the one major city in America that doesn’t use zoning; neither Houston nor its largest suburb, Pasadena, use maximum-density zoning, while the Dallas-Ft. Worth metroplex and all of its incorporated suburbs do use maximum-density zoning. Unincorporated areas around these cities are non-zoned, as Texas does not allow counties to zone.

In 2016, the median price of a home in the city of Houston was $163,700, slightly higher than Dallas’ median home price of $157,100.63 According to Coldwell Banker, the average price of a four-bedroom, two-bath home in Houston was also higher than in Dallas: $274,061 versus $240,689.64 For the urban areas as a whole, Houston’s median home price of $178,900 was slightly
lower than Dallas-Ft. Worth’s median price of $181,400, but both had the same value-to-income ratios of 2.5. Thus, it appears that Dallas-Ft. Worth’s maximum-density zoning codes have had no measurable effect on housing prices relative to Houston.

**Density does not increase affordability**

Building high-density projects should theoretically increase the supply of housing, making it more affordable. But it wouldn’t make housing much more affordable if the cost of those projects was considerably more than the cost of existing housing. To make housing more affordable, it makes more sense to build more low-cost, low-density housing at the urban fringe.

Instead, densities of many growth-managed regions have increased dramatically, even as housing has become catastrophically unaffordable in those regions (Table 1). San Jose housing, for example, was very affordable when it adopted its first growth-management plan in 1974. Since then, the region’s value-to-income ratios have tripled, despite (or because of) the density of the San Jose urban area increasing by 57 percent since 1970.

**Table 1: Density and affordability, 1970-2010**

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<td>1.6</td>
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<tr>
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<td>6,266</td>
<td>2.3</td>
<td>7.4</td>
</tr>
<tr>
<td>San Jose</td>
<td>3,699</td>
<td>5,820</td>
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Vancouver, in British Columbia, Canada, has undergone a similar experience. In 1961, average home prices in both the city of Vancouver and the Vancouver metropolitan area were 2.5 times median family incomes. In the early 1960s, the city adopted a growth-management plan that has become increasingly restrictive. This has tripled the population density of the region and nearly doubled the density of the city of Vancouver. Today, twice as many dwellings in the city are in high rises as in single-family detached homes and 82 percent of the city’s homes and 60 percent of the region’s homes are in multifamily dwellings. Yet this densification has failed to prevent Vancouver from becoming one of the least affordable housing markets in the world. With median home values more than 12 times median family incomes, it is less affordable than any housing market in the United States.

Density advocates might argue that the densities of these urban areas haven’t increased enough. But how dense does a city have to be to be affordable? With a density of 12,800 people per square mile, Boston isn’t affordable: its median home values in 2015 were 7.0 times median family incomes.
Should it become as dense as East Los Angeles, with 17,000 people per square mile and a value-to-income ratio of 8.0? Should East Los Angeles become as dense as San Francisco, which has 17,200 people per square mile and a value-to-income ratio of 8.3? Should San Francisco become as dense as the Bronx, which has 35,000 people per square mile and a value-to-income ratio of 8.9? Should the Bronx become as dense as Manhattan, which has 69,500 people per square mile and a value-to-income ratio of 10.1?69

These are not isolated examples. As shown in Figure 1, urban area densities are strongly and negatively correlated with housing affordability nationwide. Based on 2010 data, a 1,000-person-per-square-mile increase in density is associated with a 0.64 increase in value-to-income ratios. No urban area with a density greater than 5,000 people per square mile has a value-to-income ratio of less than 4.0.70

In March, 2018, The Wall Street Journal reported that, thanks to construction of abundant multifamily housing, New York City was becoming more affordable.71 In fact, census data show that New York City housing continues to get more expensive, but is more affordable because incomes are growing faster than housing costs — and that’s happening because the cost of housing has pushed low-income people out of the city. That’s hardly an endorsement for the density strategy.

Urban area densities are strongly and negatively correlated with housing affordability nationwide.
Density advocates blame high housing prices in Los Angeles, San Francisco-Oakland and Seattle on land shortages, noting that these urban areas are all bordered by water on the west and have no room to grow. In fact, all three have plenty of room to grow to the north, south, and east. No urban area in America suffers from a physical shortage of land; what shortages exist are due to government regulation.

Seattle, for example, is located in King County and its urbanized area includes parts of Snohomish and Pierce counties. According to the U.S. Census Bureau, in 2010 King County was 75 percent rural; Pierce, 79 percent; and Snohomish, 88 percent. Although part of that land is federal, more than 600,000 acres of private land in King County alone are undeveloped.

No urban area in America suffers from a physical shortage of land; what shortages exist are due to government regulation.

A 2002 study by the California Department of Housing and Community Development found more than a million developable acres in the counties immediately surrounding San Francisco and San Jose — Alameda, Contra Costa, Marin, San Mateo, and Santa Clara — compared with only 561,000 urbanized acres. In addition to excluding all public lands from being developable, this study conservatively counted lands steeper than 15 percent as undevelopable, even though considerable portions of San Francisco have been developed on hills with grades of more than 25 percent, and even some that are more than 40 percent. Since none of these counties have expanded their urban-growth boundaries since 2002, virtually all of those acres are still potentially developable.

Similarly, the study found more than a million developable acres in Ventura and Orange counties, the counties immediately north and south of Los Angeles. The study found an additional 376,000 developable acres in Los Angeles County itself, 166,000 of which were within a mile of existing urbanization. Virtually all of these acres are off-limits to development due to county land-use restrictions.

California is the nation’s third-largest state by land area and is not likely to run out of land. In contrast, Hawaii’s land base would seem to be much more limited. Yet only 6 percent of the state has been urbanized, even though 92 percent of the state’s population lives in urban areas. More than two-thirds of the state’s population lives on Oahu, only the third largest of the Hawaiian islands, yet nearly 64 percent of Oahu is still considered rural.

Fundamentally, the price of a home is equal to the cost of land, the materials used to build the home, the labor required to build it, and the costs of any regulatory hurdles required to get it built. Removing the land-use restrictions that have taken property rights from rural landowners would immediately allow construction of lower-cost housing. The price of land for new housing and other development would fall to roughly the national average.

Low transportation costs allow the shipment of building materials to anywhere in the 48 contiguous states for about the same price. Seaborne shipping costs to Alaska and Hawaii should actually be lower than shipping costs in the 48 states, but are higher mainly because of the federal Jones Act.
Take a hint from Florida

Florida has proven that relaxing rural land-use restrictions can make housing more affordable. The state passed a growth-management act in 1985 focused on concurrency or adequate public facilities. Since most Florida communities in 1985 had enough public facilities to support years of growth, Florida’s urban areas remained affordable for nearly two decades. However, after failing to finance new facilities, Florida communities began slowing new housing developments by around 2000, so value-to-income ratios in all Florida urban areas rose above 4.0 by 2005. Many reached well above 5.0, with Miami’s reaching 6.8 and Naples exceeding 7.9.

In 2011, the Florida Legislature repealed the growth-management mandate, though it allowed some counties to practice it without the mandate. Miami’s and Naples’ value-to-income ratios remain above 5.0, but other areas have encouraged new development, including Tampa, Jacksonville and Tallahassee, making housing far more affordable. Value-to-income ratios in Tampa, for example, reached 5.1 in 2006, but now are less than 3.8, while Gainesville dropped from 5.2 to 3.7.

In short, eliminating rural land-use restrictions would make housing throughout urban areas more affordable even if maximum-density zoning in the cities is unchanged. Eventually, value-to-income ratios would return to where they were in 1969 — less than 3 — and about the same as almost all urban areas nationwide.

Urban planners go their own way

When the urban planning profession was founded some 120 years ago, its goal was to help city dwellers realize their dreams as efficiently as possible. For most people, those dreams included owning a single-family home. But after World War II, planners’ goals diverged from the dreams of the American public.

In 1991, Urban Land Institute researcher Douglas Porter noted that there is a “gap between the daily mode of living desired by most Americans and the mode that most city planners … believe is most appropriate.” While most Americans “want a house on a large lot and three cars in every garage,” planners believe this leads to an urban development pattern “that is expensive in terms of public and private infrastructure costs, quality of life, and environmental damage.”

Planners were frankly wrong in their assessment, but in attempting to impose their views of what was right on others, they have made housing unaffordable and reduced the quality of life for many urban residents.
Recently, planners have attempted to justify their actions by claiming that changing tastes are leading Americans — and “millennials” in particular (people reaching young adulthood in the early 21st century) — to turn away from single-family homes. In 2006, a University of Utah planning professor Arthur Nelson wrote a paper concluding that only 25 percent of Americans wanted to live in a single-family home on a large lot, and that by 2025 the country would have 22 million “surplus” homes on such large lots. Based on this conclusion, Nelson urged urban planners to take the “leadership” in their cities by planning and zoning for higher-density housing.\textsuperscript{83} Citing Nelson, Time magazine claimed that the suburbs were “dying,” while The Atlantic magazine warned that the suburbs would become “the next slums.”\textsuperscript{84}

The reality was that Nelson had almost no data to back up his claims, and appeared not to even understand basic concepts of supply and demand. He expressed demand as a point, saying, for example, “39.6 percent of demand for homes will be for homes on large lots.”\textsuperscript{85} Economists know demand is really a line tracking different prices and quantities, and no single quantity represents demand unless that quantity is associated with a price. Since Nelson didn’t associate a price with the quantities he cited, his numbers were meaningless.

A critique of Nelson’s conclusions published in the same journal as Nelson’s paper pointed out that the surveys Nelson interpreted were “not terribly reliable” because they weren’t random, the answers could easily be influenced by the way the questions were asked, and people often behave very differently from how they answer survey questions.\textsuperscript{86}

Some of the surveys Nelson used asked questions like, “Would you rather live in a home that is within walking distance of work, shopping and parks or one where you have to drive everywhere you go?” All else being equal, most people would choose the pedestrian life. In reality, however, all else isn’t equal.

A more legitimate question would be: “Would you rather pay $500,000 for an 1,100-square-foot condominium that is within walking distance of work, shopping and parks or pay $250,000 for a 2,200-square-foot single-family home on a large lot where you have to drive to work and shops?” In this case, most people would make the latter choice. We know this is true without doing a survey because most Americans have, in fact, made that choice.

**Most Americans like suburban living**

Despite claims that millennials in particular prefer dense urban housing over low-density suburban housing, both surveys of millennials and their actual behavior say different. A 2015 survey conducted by the National Association of Home Builders, which is keenly interested in consumer preferences, found that 66 percent of millennials want to live in suburbs, not cities.\textsuperscript{87} A 2016 survey conducted by the National Association of Realtors found that only 11 percent of millennials want to live in big cities, while 72 percent wanted to live in suburbs, small towns or rural areas, with 17 percent expressing no preference. The survey did find that the number of millennials who preferred multifamily housing over single-family housing was a little higher than for previous generations: 25 percent versus 16 percent.\textsuperscript{88} But that’s not enough to justify wholesale reconstruction of cities to higher densities.

Regardless of what they say their preferences are, census data reveal that the vast majority of millennials are settling in the suburbs. In the last decade, about 90 percent of the nation’s population...
growth has been in the suburbs, with big-city downtowns accounting for less than 1 percent and central cities only about 10 percent. Moreover, census data show that millennials are far more likely to move from cities to suburbs than the other way around.

For those people who prefer dense or multifamily housing, there is plenty available. Surveys repeatedly show that more than 70 percent of Americans aspire or prefer to live in single-family homes. Yet in 2016, only 63 percent of occupied homes were single-family, while more than a third were multifamily, indicating that, if anything, there is a surplus of multifamily housing.

In the late 19th century, developers learned that not only do most Americans prefer single-family homes, they will pay a premium to live in a neighborhood in which all homes are single-family. In other words, they will willingly give up their right to build higher-density housing on their property and pay extra to give up that right, provided their neighbors give up the same right. Initially, developers used protective covenants and deed restrictions to boost the value of the lots and homes they sold. Later, urban planners developed the concept of zoning to provide the same value-boosting protections for neighborhoods that were already built.

**Zoning abets discrimination**

Early zoning was certainly used as a way to keep immigrants, racial minorities and working-class families out of middle-class neighborhoods. But by the 1950s, working-class incomes were nearly as high as middle-class incomes, and working-class families eagerly bought homes in neighborhoods zoned for single-family use. Between 1940 and 1960, American homeownership rates grew from 44 to 62 percent, thanks to the surge in working-class homeownership.

No one complained about urban sprawl when upper-class families moved to the suburbs in the 19th century. Nor did anyone complain when middle-class families moved to the suburbs in the early
20th century. But when working-class families moved to the suburbs in the second half of the 20th century, suddenly urban sprawl became a serious issue.

**Changing rationales for ‘growth management’**

Urban planners have come up with many reasons why fewer Americans should live in single-family homes. At first, they based their growth-management policies on the need to protect farms, forests and open spaces. But the United States is 97 percent rural open space, and even the most heavily urbanized state — New Jersey — is nearly two-thirds rural open space.94

The United States has 1.1 billion acres of land considered suitable for agriculture, but grows crops on only about 362 million acres.95 Moreover, the number of acres needed for crop production is shrinking because per-acre yields of most major crops are growing faster than the nation’s population.96

“Loss of farmland to urban uses poses no threat to U.S. food and fiber production,” concluded a 2014 study published by the U.S. Department of Agriculture.97

Another argument of planners was that the cost of providing urban services to single-family neighborhoods is greater than denser neighborhoods, with one study concluding — based partly on hypothetical data — that urban services to new low-density homes built on greenfields cost $11,000 more per home — total, not annual — than services to high-density homes built on greenfields.98

In fact, when comparing actual urban service costs in high-density versus low-density cities, researchers have found costs in high-density cities are greater, per capita, than in low-density areas.99 Even if it were true that urban services to low-density areas cost $11,000 more per dwelling unit than those to high-density areas, that $11,000 is far less than the hundreds of thousands of dollars added to the price of homes by growth-management policies.

Planners also argued that multifamily housing was supposed to be more energy-efficient. In fact, single-family homes use less energy per square foot than multifamily.100

It was also claimed that residents of multifamily homes would contribute less to traffic congestion and pollution by driving less. In fact, says University of California-Irvine economist David Brownstone, “Very few studies provide enough detail to judge whether this link is large enough to make manipulating the built environment a feasible tool for controlling VMT (vehicle miles traveled), but those that do suggest that the size of this link is too small to be useful” in saving energy or reducing air pollution or greenhouse gas emissions.101
Densification NIMBYs have good reason

Having lost the argument on all of these other issues, now urban planners say that density is necessary to make housing more affordable. Not coincidentally, most of the single-family neighborhoods targeted for redevelopment at higher densities are working-class neighborhoods. Although homeowners who protest are derisively termed “NIMBYs,” there is no evidence that building higher densities will make urban areas more affordable, and plenty of evidence that it won’t.

Yet single-family homeowners have good reasons to oppose densification of their neighborhoods. For one thing, multifamily housing is more likely to attract crime. As architect Oscar Newman learned on comparing crime rates with neighborhood design on thousands of city blocks, private yards and limited access were important barriers to crime while common areas and multiple access points were invitations to crime.102

Second, higher-density housing inevitably increases traffic, making streets far less safe. In addition, sewer, water and other infrastructure tends to be built for the densities it serves, and increasing urban densities requires disrupting streets to install new infrastructure, which is much more expensive than installing infrastructure for greenfield developments.

The option of covenants

If zoning is an imposition on people’s property rights, wouldn’t it make sense to both abolish growth boundaries and other restrictions on rural development and eliminate single-family zoning of existing urban neighborhoods? The difference is that most residents of single-family neighborhoods want to keep their neighborhoods single-family, while most owners of rural land want the flexibility to develop their land for other purposes, depending on what they might consider the highest and best uses of the land. Thus, single-family zoning is neither the cause of high housing prices nor necessarily an intrusion on property rights.

If zoning hadn’t been created, most single-family neighborhoods built in the last century would have been protected by covenants and deed restrictions. Those who think zoning violates property rights should at least allow that any legislation proposing to abolish zoning include a Houston-like provision allowing people in zoned neighborhoods to petition their neighbors and, if 75 percent agree, place covenants and deed restrictions on the neighborhood, giving the homeowner association the option to change them on approval of a similar supermajority. This effectively would “privatize” zoning and allow neighborhoods to change when (as sometimes happens in Houston) developers can persuade a supermajority of homeowners to accept the change.

In any case, allowing more greenfield development outside of the urban fringe at densities people want, whether single-family or multifamily, is both necessary and sufficient to make housing more affordable, including housing in the central cities. Such deregulation is also desired by most rural landowners.

Since it is neither necessary nor sufficient to rezone single-family neighborhoods, nor is such zoning desired by the residents of those neighborhoods, those who care about making housing affordable again should focus on removing the restrictions on rural development around urban areas.
Conclusion

There are three approaches to improving housing affordability: Increase the maximum allowable densities of already developed areas; allow development in undeveloped areas; or both.

Many urban planners want cities to take the first approach, while this paper has focused on the second approach.

This paper has shown that increasing the density of already-developed areas is neither necessary nor sufficient to make housing more affordable. High-density housing is more expensive than low-density housing, so increasing densities would not make housing more affordable, and could even make it less affordable.

This paper also has shown that eliminating restrictions on development of undeveloped lands on the urban fringe is both necessary and sufficient to make housing more affordable. Even in high-cost regions such as the San Francisco Bay Area, Los Angeles, Seattle and Portland, new housing in such areas should cost about the same as new housing in Houston or Oklahoma City. This would bring down the cost of housing in the cities as well.

While it is possible to reduce restrictions in both developed and undeveloped areas, this paper has shown that many people living in developed areas have a preference for the densities in which they live. In the absence of zoning, most of them would be living in neighborhoods with protective covenants that zoning was designed to imitate.103

Arbitrarily removing zoning or, worse, imposing high-density minimum zoning, would be a betrayal of the interests of the property owners in those areas. City zoning could be relaxed or eliminated, if a process were simultaneously created to allow people to form property-owner associations and write their own protective covenants to be approved by a supermajority of property owners in the neighborhood.

Housing affordability is a major problem in states and regions that have used growth management. By focusing on “building up,” city officials are using the wrong tool to solve that problem. The right tool is to remove restrictions on rural development, allowing developers to “build out,” and restoring to rural landowners property rights that should never have been taken from them in the first place.
Build up or build out? How to make housing more affordable


2 “2016 American Community Survey,” U.S. Census Bureau, Washington, D.C., 2017, tables B19113 (median family income) and B25077 (median home value) for urbanized areas.

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Conservation Service, U.S. Department of Agriculture, and Center for Survey Statistics and Methodology, Iowa State University, Ames, Iowa, 2015, Table 2.


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Ibid, Table B25077, generated Nov. 12, 2018, https://tinyurl.com/y88x8qkl.


All cited value-to-income ratios based on the “2016 American Community Survey,” U.S. Census Bureau.

Densities calculated using geographic identifiers from the “2010 Census Summary File 1,” U.S. Census Bureau, Washington, D.C.; value-to-income ratios are from “2010 American Community Survey,” U.S. Census Bureau, tables B25077 (median home values) and B19113 (median family incomes).


“Land Areas of the National Forest System,” Table 6.


“Raising the Roof,” Exhibit 13.

Calculated from “Percent of Urban and Rural in 2010 by State and County.”


92 “2016 American Community Survey,” U.S. Census Bureau, Table B25024, “units in structure,” for urbanized areas.


94 Calculated from “Percent of Urban and Rural in 2010 by State and County.”

95 “2012 National Resources Inventory Summary Report,” Table 2.


About the author

Randal O’Toole

Randal O’Toole is a Grassroot Scholar who writes about housing, public land and transportation. His research articles and commentaries have appeared in national journals, magazines and newspapers.


An Oregon native, O’Toole was educated in forestry at Oregon State University and economics at the University of Oregon. He also was a McCluskey Visiting Fellow for Conservation at Yale University in 1998, and has served as a visiting scholar at Utah State University and the University of California, Berkeley.
The Grassroot Institute of Hawaii is a nonprofit, public policy think tank that seeks to educate people about the values of individual liberty, economic freedom and accountable government.

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While the Grassroot Institute of Hawaii functions as a thought leader, it is just as committed to promoting action through practical change. In the spirit of “E Hana Kakou / Let’s work together!” it strives to bring Hawaii’s people together to work for a better economy, better government and better society.

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