regional brief

Planning Penalties in North Carolina

Why Other N.C. Cities Shouldn't Follow Asheville and Wilmington

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Executive Summary

Since the late 1980s, housing prices in North Carolina have increased rapidly in some cities while in others prices have grown more slowly. Asheville and Wilmington for example, are known for large increases in their housing prices over the last 15 years, while in Fayetteville and Hickory housing prices have grown much more slowly. Why is this?

A new study by economist Randal O'Toole published by the American Dream Coalition demonstrates that the key difference is restrictive land use policies imposed by local governments. Cities that have established aggressive growth management plans or so-called smart growth plans, not just in North Carolina but around the country, have artificially created housing shortages which in turn drive up prices. O'Toole's research shows this for cities nationally and in North Carolina. This report highlights O'Toole's research and explains why housing prices in North Carolina have increased in some areas and not in others. It also explains what North Carolina cities must do to keep housing prices affordable for North Carolina's moderate and low income citizens.

Nationwide, cities with established, aggressive "smart growth" plans have artificially created housing shortages which in turn drive up prices.

Introduction

The nationwide study written by Randal O'Toole and recently released by the American Dream Coalition estimates the extra costs or "penalties" added to the prices of homes due to local government smart growth planning or growth management planning. The study shows that the main effect of smart growth planning is "to create an artificial housing shortage and make housing unaffordable to many families."[1]

So called smart growth planning is a deceptive way to impose restrictive lifestyles on people who are not allowed to make lifestyle decisions for themselves, giving them fewer choices, not more. The hallmark of smart growth planning is to use governmental restrictions to force more and more families into high density housing, drastically reducing the availability of single family homes.

There are multiple ways to implement such planning, but the most widely used are urban-growth boundaries, requiring greenbelts and minimum open space requirements, building design codes, historic preservation, limiting building permits, lengthy permitting processes, impact fees and inclusionary zoning. These planning policies reduce the supply of housing because builders are given less land to build on and have to go through a lengthier and costlier process to obtain permits. The demand for housing is still there, though, and with less housing available, housing prices are driven up artificially.

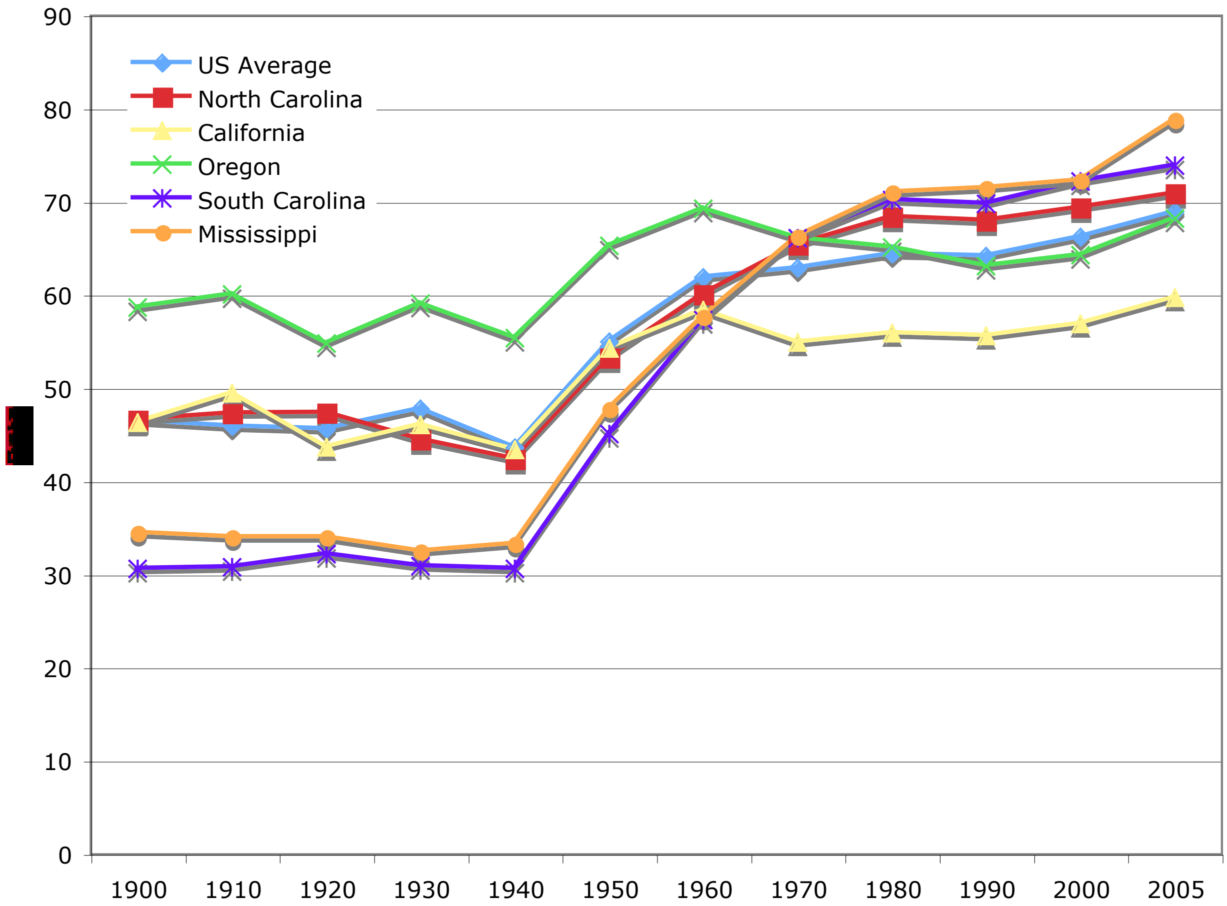
The Importance of Homeownership

What are the consequences of higher housing prices? More and more middle and low-income citizens cannot afford housing, and that in turn decreases the homeownership rate.

Homeownership rates in United States grew dramatically in the post World War II era. Unfortunately, that growth stagnated, and from the 1960s to the present homeownership has grown more slowly, staying in the 60 percent range, well behind many European countries. Eleven European countries have homeownership rates above 70 percent, with Hungary achieving 94 percent homeownership.[2]

Homeownership is an important part of the nation's economic, social and political well-being. First, the equity acquired in

Figure 1: Homeownership Rates, 1900-2005



Source: U.S. Census Bureau

a home boosts the economy and gives the owners a chance to do such things as start a small business. Second, there is a strong correlation between homeownership and family stability, as homeowners tend to stay in an area longer than renters. Studies have shown that homeownership also increases civic participation as 69 percent of homeowners vote compared with 44 percent of renters.[3] Finally, there is also a strong correlation between the growth and education of children and homeownership, as children of homeowners are less likely to drop out of school and are more likely to live in a home that is well taken care of.[4]

As **Figure 1** indicates, homeownership rates in the states have changed dramatically in the last 100 years. Mississippi and South Carolina made rapid gains, having started well below the national average early in the century and now moved to positions exceeding the national average. On the other hand, California and Oregon, two leaders in the smart growth movement, have not fared as well. For the first sixty years of the last century, California was near the national average in homeownership. California started its experiments with growth restrictions in the late 1960s, and homeownership began to dip below the national average to a current position nearly 10 percentage points below the national average. Home prices have soared to some of the highest in the nation, and low- and middle-income people find it nearly impossible to buy a house. In 1900, Oregon was almost 10 percent above the national average in homeownership. Once again, smart-growth policies have influenced housing prices in Oregon so that homeownership has fallen relative to the national average.

Overpricing and the Planning Penalty

O'Toole uses a variety of methods to determine how growth management and smart growth planning increases the price of housing. His primary tool is the home value to family income ratio used as a determinant of affordability.[5] The ratio is found by dividing the median home value by the median-family income in a specific metropolitan area. For example, if the median-home value is $100,000 and the median-family income is $50,000, then by dividing the home value to family income ratio is 2.0.

Before smart growth restrictions, many metropolitan areas experienced home value to family income ratios slightly above 2.0. If builders are allowed to build housing to meet the demand for housing, the price of housing will increase as a function of family income. That is, if family income in an area increases 10 percent, the price of housing will rise approximately 10 percent, all other factors being equal. When this happens, the home value–to–family income ratio will remain the same. It is only when housing prices rise much faster than family income, largely due to housing shortages, that the ratio increases. In some cities in California the ratio is 11, which means that median housing prices are 11 times greater than the median family income.

Using this and other measures, O'Toole calculates the planning penalty for cities across the country. While smart growth planning is not the only reason for price increases, he estimates that overpricing more than 20 percent is due to planning. From this he calculates the planning penalty. For example, Santa Rosa, California, has a home value to family income ratio of 7.95, which means that Santa Rosa's median housing prices are nearly 8 times greater than its median family income. Housing is overpriced by 72 percent, and the planning penalty is $391,939. In other words, if there were no growth management controls, a typical 4-bedroom, 2.5-bath home in Santa Rosa would sell for nearly $392,000 less than the current price.

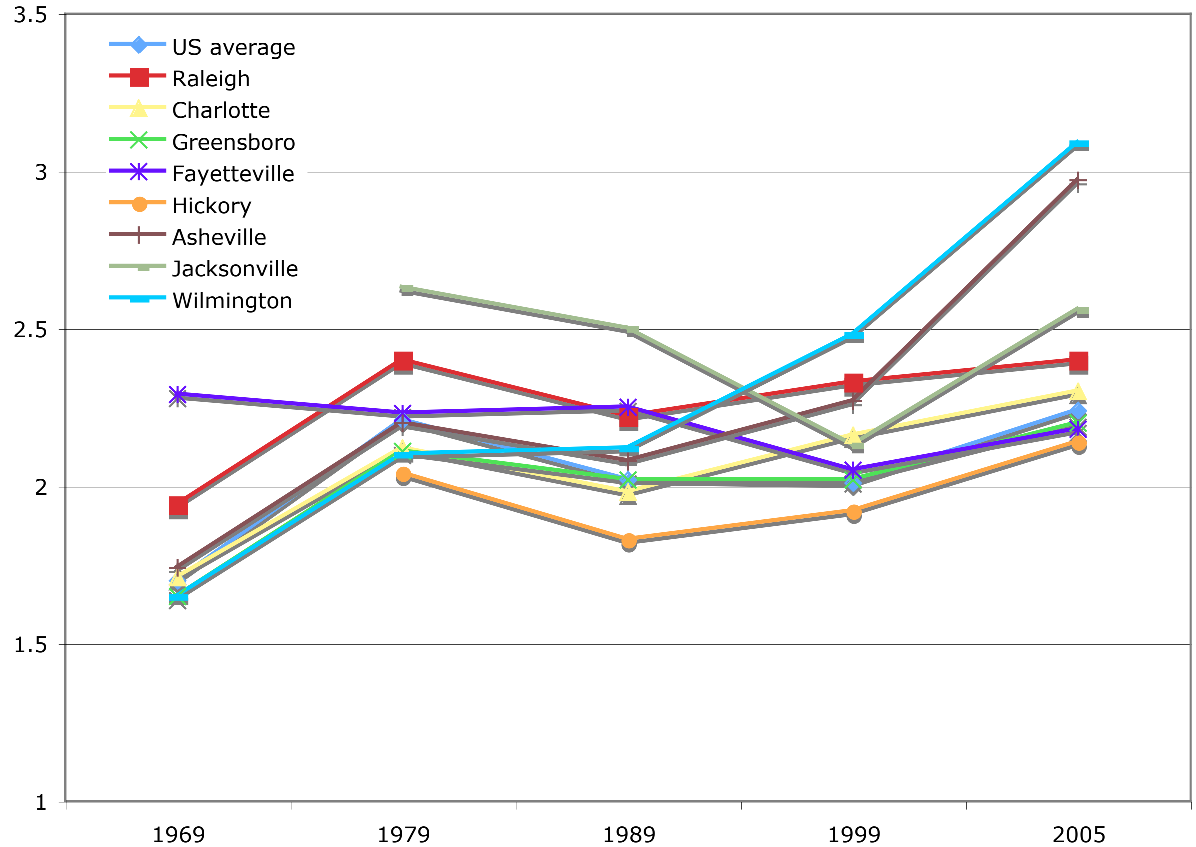
O'Toole calculates these planning penalties for the nation as a whole and concludes that in 2005, "planning-induced housing shortages added at least 275 billion to the cost of owner occupied homes" purchased that year.[6] It is estimated that low density housing and "sprawl" add only $11,000 to the cost of housing, which is minor when compared to the tens of thousands to hundreds of thousands of dollars that smart growth planning has added to the cost of housing.[7] For example, a typical 4-bedroom, 2.5-bath home that sold for $152,000 in Houston, a city with very little smart-growth planning, would sell for $1.27 million in San Jose, California, a city that has used strict smart growth planning since 1974.[8]

North Carolina's Planning Penalties

North Carolina's housing price increases have not been that dramatic primarily because North Carolina's cities have imposed fewer smart growth policies. Asheville and Wilmington have begun to implement such policies, however, and are beginning to experience the consequences. In Asheville, homes are overpriced by 25 percent, and homebuyers pay a planning penalty of $13,901. In Wilmington, homes are overpriced by 27 percent, and homebuyers pay a planning penalty of $21,675.

Figure 2 illustrates the differences between the North Carolina cities that have imposed smart growth planning and those that have not. Wilmington and Asheville have home value to family income ratios at about 3, considerably higher than the U.S. average of 2.24. Many other North Carolina cities are near or below the national average. This result does not appear to be due to Asheville and Wilmington having a high

Figure 2: Home Value–to–Family Income Ratios



Source: *The Planning Penalty*, Randal O'Toole, Appendix, p. 39.

proportion of retired people with a high level of wealth and low level of income. O'Toole documents lower home value to family income ratios in similar cities such as Myrtle Beach, South Carolina (2.62) and Savannah, Georgia (2.55).

To simplify this graph, **Figure 3** averages Asheville and Wilmington to create a new line, NC Average 1, and averages the remainder of North Carolina cities (Raleigh, Charlotte, Greensboro, Fayetteville, Hickory, and Jacksonville) for the new line, NC Average 2.[9]

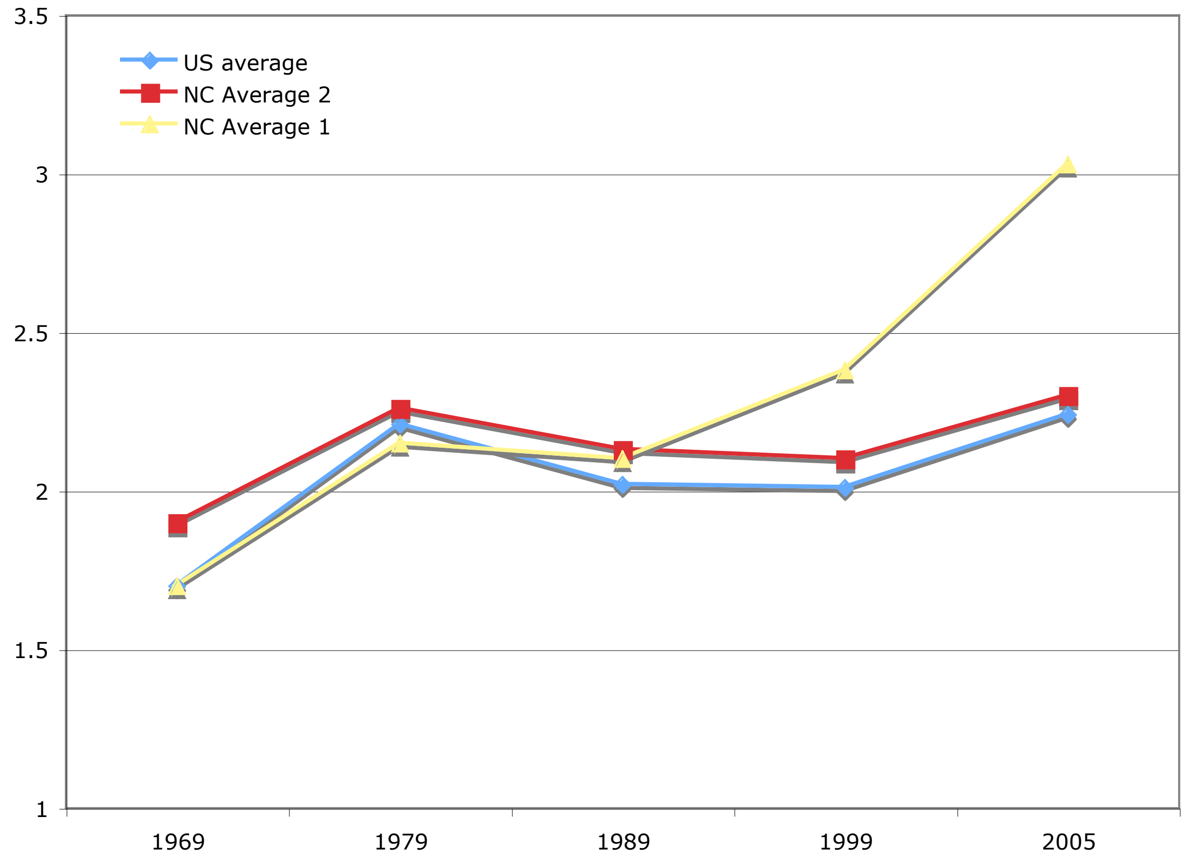
Figure 3 clearly shows that most North Carolina cities (NC Avg. 2), which have few planning controls, are only slightly above the national average. But starting in the late 1980s, Asheville and Wilmington (NC Avg. 1), two cities with the most ingrained smart-growth policies, grew well above the U.S. average.

If other North Carolina cities follow Asheville and Wilmington, they should expect the same result, rapidly increasing housing prices that quickly outstrip family income. This result hurts low and middle income families the most.

Figure 4 compares North Carolina to cities in California. The majority of California cities have enacted smart growth policies. The planning penalties for them include the following: Los Angeles, $316,489; Salinas, $494,198; San Diego, $350,858; and San Jose, $513,002. Again, the N.C. cities (NC Avg. 2) with minimal growth planning are well below these California cities. But if Wilmington and Asheville continue down the same path, their home value–to–family income ratios may soon coincide with those of California.

Figure 5 shows that the penalty for planning holds for the Northwest region.

Figure 3: Home Value–to–Family Income Ratios — U.S. and N.C. Averages



Source: *The Planning Penalty*, Randal O'Toole, Appendix, p. 39.

Their planning penalties are as follows: Medford, Oregon, $120,869 overpriced; Portland, Oregon, $60,460; Seattle, Washington, $132,965; and Bellingham, Washington, $103,090.

Figure 6 demonstrates that the Mountain West, which has fewer smart-growth policies, has lower home value–to–family income ratios than California, but they are higher than those of the cities in North Carolina without smart growth policies and in the range of Asheville and Wilmington's. An example of the West's planning penalties are as follows: Boulder, Colorado, $117,440 overpriced; Sante Fe, New Mexico, $94,225; Provo, Utah, $29,455; and Salt Lake City, Utah, $17,607.

Figure 7 shows the home value to family income ratios for selected East Coast cities. Examples of the East Coast planning penalties are: Washington, DC, $135,056 overpriced; Baltimore, Maryland, $59,091; Boston, Massachusetts, $225,143; and Jersey City, New Jersey, $178,789.

Figure 8 reflects O'Toole's findings. The South has implemented far less smart growth planning, resulting in much more reasonable home value to family income ratios. For example, the four cities in Figure 8 have no planning penalty whatsoever.

N.C.'s Future with Planning Penalties

North Carolina is slowly headed in the direction of California, the Northwest, and the East Coast, instead of holding the line with the rest of the South. In 2000 Governor Easley appointed a Smart Growth Commission, put in charge of finding ways for North Carolina to curb "sprawl" and conserve "open space." It released its pre

Figure 4: Home Value-to-Family Income Ratios — California

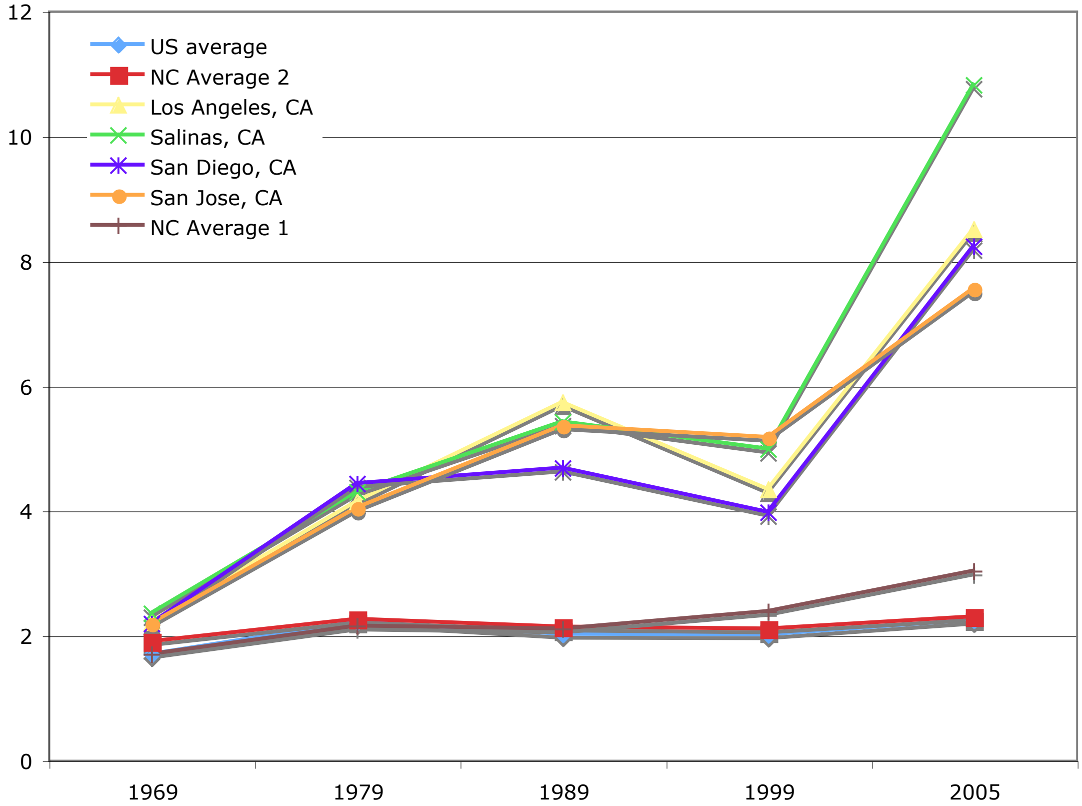
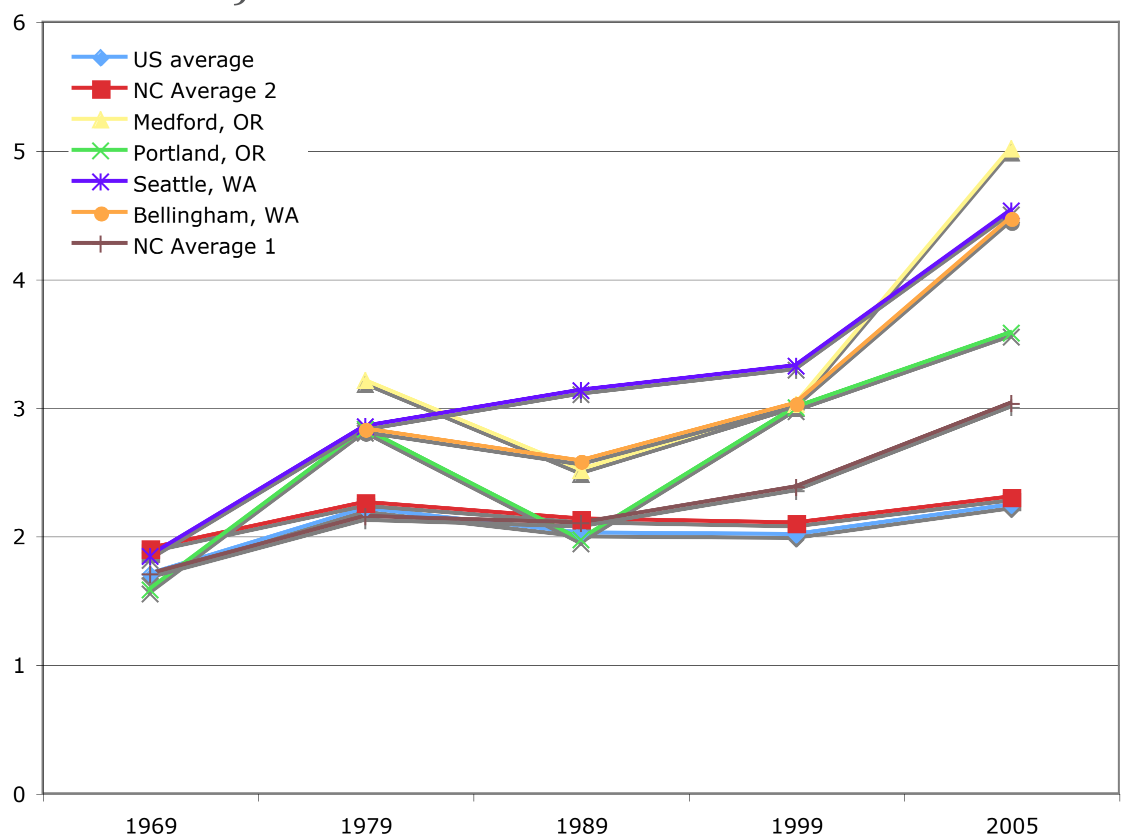
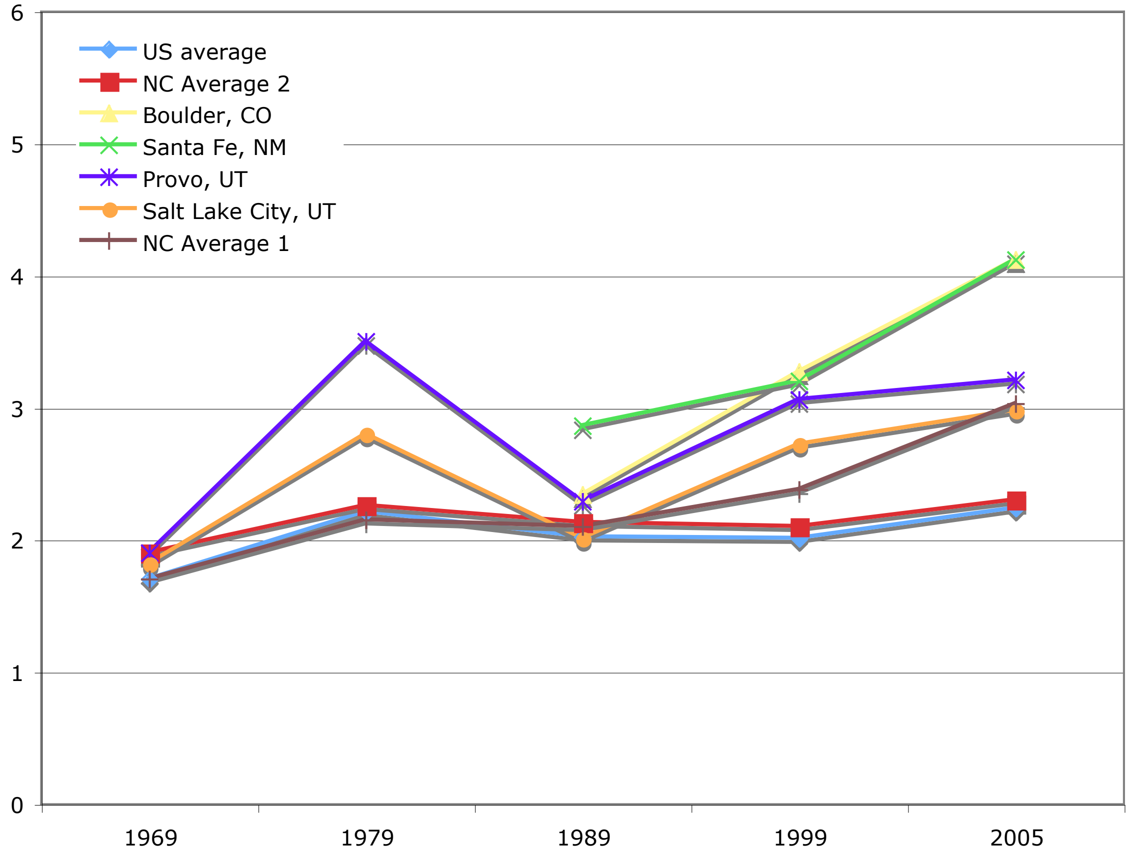


Figure 5: Home Value-to-Family Income Ratios — Northwest



Source: *The Planning Penalty*, Randal O'Toole, Appendix, p. 39.

Figure 6: Home Value-to-Family Income Ratios — Mountain West



Source: *The Planning Penalty*, Randal O'Toole, Appendix, p. 39.

liminary recommendations in 2001, such as requiring all communities to establish a minimum level of planning, creating fiscal incentives to enact smart growth plan ning, and establishing "Research North Carolina," a network of state researchers and organizations to research growth and development patterns.[10]

Davidson, Charlotte, and even the Raleigh suburb of Knightdale have begun enacting smart growth policies, wanting to follow in the footsteps of Wilmington and Asheville. Davidson was the first to begin implementing the Commission's recom mendations in June 2001, beginning with an anti sprawl ordinance. It forces developers to put high density housing on one half of the land and leave the other half as open space. It also prohibits "franchise archi tecture" and drive-thru windows, forcing independent companies to conform to a certain look.[11]

Charlotte has approved a $427 million light rail plan that will force high density housing development near the 15 light rail stations.[12] City officials believe that will help with traffic congestion, but when fully implemented, the light-rail system would serve only one percent of the commuting population.[13]

Knightdale recently adopted stricter building and architectural standards. Town leaders have put an emphasis on pedestri an friendly neighborhoods and compatible building architecture, and they have pro hibited metal and mobile structures. Last year the town council passed a resolution saying "new single family homes should have a minimum value of 85 percent of the average sale price reported by Wake County for the previous year. That turned out to be $185,000 for 2004, well above Knightdale's

Figure 7: Home Value–to–Family Income Ratios — East Coast

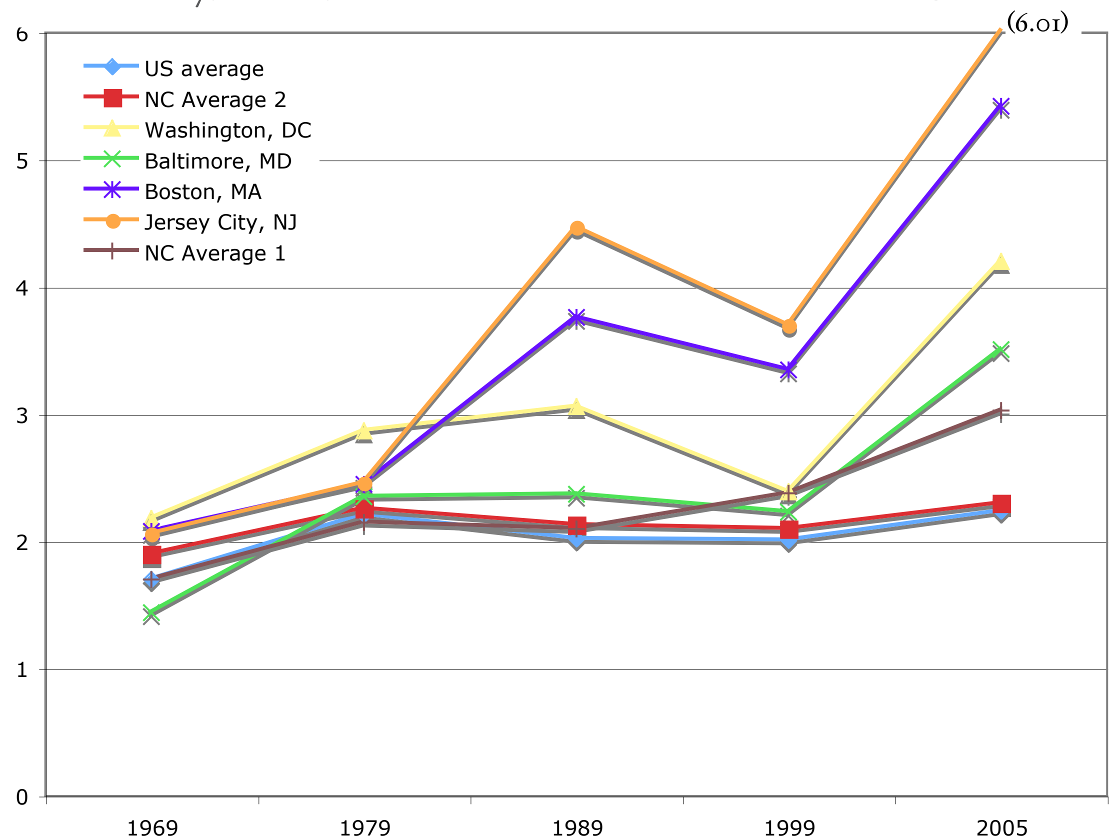
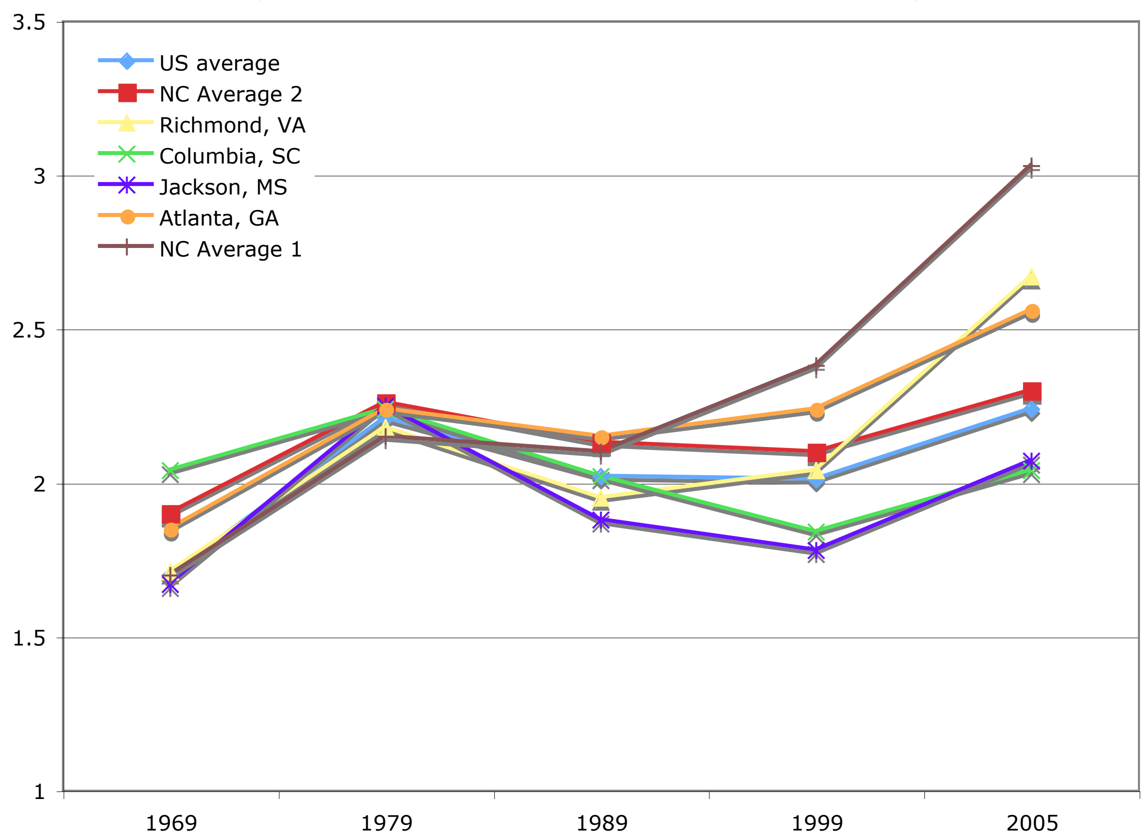


Figure 8: Home Value–to–Family Income Ratios — South



Source: *The Planning Penalty*, Randal O'Toole, Appendix, p. 39.

average housing price of $161,000."[14] This requirement is a blatant move to drive up housing prices to keep out low- and middle-income families, many of which are minority families seeking their first home.

Conclusion

If North Carolina continues to follow the current path of smart growth planning, then it must be prepared to bear the consequences. Families will be faced with higher housing prices, which in turn will price low and middle income buyers out of the market. Our homeownership rates will decrease and make the American Dream a thing of the past.

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Notes

1. O'Toole, Randal. "The Penalty of Planning." American Dream Coalition, March 2006, p. 2.

2. Census Bureau, "Homeownership Rates for the U.S. and Regions: 1965 to Present," Table 14, http://www.census.gov/hhes/www/housing/hvs/historic/histt14.html; O'Toole, p. 6.

3. Habitat for Humanity New York City, "Benefits of Homeownership," http://www.habitatnyc.org/pdf/Toolkit/homewonership.pdf.

4. O'Toole, p. 5.

5. O'Toole also looked at mortgage rates and compared housing trends. By calculating the number of years it would take for a family to repay 90 percent of a mortgage on a median valued home, he defined the words "affordable" and "unaffordable." If it would take longer than 30 years to repay the mortgage, with 30 years being the typical length of a mortgage), then he considered market unaffordable. By comparing U.S. housing trends, he found that since 1998 prices in "regions with growth-management planning [...] grew by 4 to 15 percent each year while regions without growth management planning saw prices grow only about 1 to 3 percent per year."

6. O'Toole, p. 5.

7. *Ibid.*, p. 5.

8. *Ibid.*, p. 15-16.

9. This report does not include three N.C. cities (Goldsboro, Greenville, and Rocky Mount) that O'Toole includes in his report. Those cities are not included here because O'Toole has data only for 1999 and 2005, and their inclusion here would not make a significant difference because all three are underpriced and do not have planning penalties.

10. "North Carolina Smart Growth Recommendations: Overarching Goals and Strategies," Commission to Address Smart Growth, Growth Management and Development Issues, January 19, 2001, http://www.asu.edu/caed/proceedings01/TALLM/goals.htm.

11. "Davidson Vows to Grow but Keep Small-Town Feel Amid Opposition, Leaders OK Development Rules," *Charlotte Observer*, June 13, 2001, p. 1A Main.

12. "Charlotte Light Rail Transit Project: Key Facts," Light Rail Now, *http://www.lightrailnow.org/facts/fa_cha-lrt-proj-data-01.htm*.

13. Chad Adams, "Municipal Leaders Should Abandon Light Rail," *Carolina Beat*, February 17, 2004, http://www.carolinajournal.com/opinions/display_story.html?id=1379.

14. David Bracken, "Knightdale plans deluxe development," *The News & Observer* (Raleigh, N.C.), January 13, 2006, pp. 1A and 14A.