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Phoenix Land Market Analysis: Growth Management Retards Housing Affordability

The Phoenix metropolitan area is sometimes erroneously characterized as having a responsive (traditional or liberal) land use market. In fact, the Phoenix market is highly prescriptive, as a result of the combination of strong land use regulations ("growth management") and the large share of developable fringe land by the state of Arizona, which has been restricting sales to maximize revenues.

The state of Arizona owns a large share of the developable urban fringe land in the Phoenix urban area. The state has been auctioning land at a rate well below what the market could accommodate. This is illustrated by the large increase in prices per acre and in a comparison with agricultural land values.

> In 2002, the average auction price of urban land was $32.600. By 2006, which was the peak of the Phoenix housing bubble, urban land sales reached an average auction price of $190,800.[1] Rising land prices are the principal element of house price escalation in the Phoenix area over the period. As median house prices have declined in Phoenix (median house prices declined 39 percent in the year ended November 2008),[2] average auction prices fell back to $68,600 in 2008.
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> Agricultural land in Maricopa County (the core county of the Phoenix metropolitan area) had a value per acre of approximately $8,500 according to the 2007 United States Census of Agriculture. Further, there was plenty of agricultural land, an amount in Maricopa County alone nearly equal to the entire urbanized land area of Phoenix in 2000. At the 2006 peak state auction prices, "raw"[3] land was being sold at more than 20 times the value of agricultural land per acre. Moreover, the land ownership was highly decentralized, with nearly 1,800 farms. ***If "raw" agricultural land had been freely available for development, purchasers would not have paid such high prices for the land sold by the state.***

Brookings Institution Land Use Planning Rating: In addition, the Phoenix metropolitan area is rated as "growth management"[4] by the Brookings Institution in *From Traditional to Reformed: A Review of the Land Use Regulations in the Nation's 50 largest Metropolitan Areas*.[5] This is

[1] Calculated from annual report data at http://www.land.state.az.us/
[2] http://www.dqnews.com/News/Phoenix/RRMAAZ090106.aspx,
[3] "Raw" land has not yet been connected to street, sewer and other utility systems.
[4] The same rating as Los Angeles, San Diego and Miami.
[5] http://www.brookings.edu/reports/2006/08metropolitanpolicy_pendall.aspx

further indication that the metropolitan area has converted from responsive (traditional or liberal) land use regulation to prescriptive land use regulation.

Prescriptive Land Use Regulation and Price Volatility: Not only does prescriptive land use regulation artificially increase house prices, but it also makes prices more volatile. Prescriptive land use regulation brings more chaotic "boom and bust" cycles to housing markets. They convert what would have otherwise been modest price bubbles into extreme price bubbles. This is noted by Glaeser and Gyourko, who summarize the findings of a number of studies:

> *Recent research also indicates that house prices are more volatile, not just higher, in tightly regulated markets.*
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> *…price bubbles are more likely to form in tightly regulated places, because the inelastic supply conditions that are created in part from strict local land-use regulation are an important factor in supporting ever larger price increases whenever demand is increasing.*[6]

The mortgage meltdown has hit the Phoenix area about as hard as any in the country. Prices have reached approximately $163,000, down approximately 40 percent from the peak of $268,000.[7] But, given the insufficient land sales rate and the excessive exurban land preservation provisions, it is likely that house prices in the Phoenix metropolitan area will again escalate once the economy recovers.

Phoenix provides an example of how land rationing, from both growth management policies and insufficient government land sales can lead to far higher house prices and reduced housing affordability.

Since the peak of the bubble, Phoenix house prices have fallen substantially.

http://www.demographia.com.db-phxland.pdf

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[6] Edward L. Glaeser and Joseph Gyourko, *Rethinking Federal Housing Policy: How to Make Housing Plentiful and Affordable* (American Enterprise Institute, 2008), p.78.

[7] November 2008 price per http://www.dqnews.com/News/Phoenix/RRMAAZ090106.aspx.