

**SUMMARY OF RESEARCH
COMPACT CITY URBAN PLANNING AND HOUSING AFFORDABILITY**

There is general agreement top world economists that strong land use planning (compact city policies, smart growth or urban consolidation) is associated with severe housing cost escalation. Liberal (leftist) economist Paul Krugman¹ of *The New York Times* and conservative (rightist) economist Thomas Sowell² of the Hoover Institution attribute prices in the higher cost markets to more restrictive land use regulation. Recent research by Theo Eicher at the University of Washington attributed much of the inflation adjusted increase in housing prices from 1989 to 2006 in US cities to land use regulation.³ Moreover, the causal relationship between smart growth policies and excessive house price escalation has been cited by some of the world's top economists.

- A United Kingdom government report by Kate Barker, a member of the Monetary Policy Committee of the Bank of England, blamed that nation's loss of housing affordability on its prescriptive land use policies under the Town and Country Planning Act of 1947.⁴
- A New Zealand government report by Arthur Grimes, Chairman of the Board of the Reserve Bank of New Zealand blamed the loss of housing affordability in the nation's largest urban area, Auckland, on prescriptive land use policies.⁵
- Reserve Bank of Australia Governor Glenn Stevens told a parliamentary committee that "An increase in state government zoning regulations is a significant factor driving up the cost of housing." He also noted the increase in local and state government levies on new developments as a driver of higher housing prices.⁶
- Former Reserve Bank of New Zealand Governor Donald Brash wrote that *the affordability of housing is overwhelmingly a function of just one thing, the extent to which governments place artificial restrictions on the supply of residential land.*⁷
- An Organization for Economic Cooperation and Development (OECD) report noted an association between strongly regulated land markets and higher housing prices.⁸
- Research by Harvard University's Edward Glaeser the University of Pennsylvania Wharton School's Joseph Gyourko others shows a strong relationship between prescriptive land use policies and higher housing prices.⁹
- Glaeser et al further show that Boston's house prices had been inflated 60 percent by scarcity created by prescriptive planning that relies heavily on large lot zoning (rural zoning).¹⁰

- Anthony Richards, head of the Economic Analysis Department of the Reserve Bank of Australia recently said that: *...supply-side factors should have a much greater influence on prices towards the fringes of cities, where land is less scarce and accounts for a smaller proportion of the total dwelling price. In principle, the price of housing there should be close to its marginal cost, determined as the sum of the cost of new housing construction, land development costs, and the cost of raw land.*¹¹ In fact, in prescriptive markets this is no longer the case.
- Planning Professor Shlomo Angel of New York University, a co-author of the United Nations and World Bank housing indicators program, wrote of the dynamics that could destroy housing affordability in many markets in the developing world: *Enabling mortgage finance and subsidy policies, for example, can increase the demand for housing, while heavy-handed regulations and infrastructure shortages can constrain supply. The overall result can be a shortage of housing, accompanied by high prices and low affordability for all.*¹²
- A United States Federal Reserve Board study by Raven Saks concluded, “metropolitan areas with stringent development regulations generate less employment growth than expected given their industrial bases”¹³
- The 2007 United Nations Population Report recognizes this difficulty and notes that: *There is no lack of land. The problem is dysfunctional land markets, misguided regulations and a lack of proactive management policies.* The report goes on to point out that *Lack of good regulation actually increases poverty.* The United Nations characterizes the situation facing developing world urban areas as follows: *An alleged shortage of land has been a main obstacle to more effective housing policies for the poor. The need to safeguard environmental and agricultural land from chaotic urban expansion is a genuine concern. However, most cities still have buildable land in good locations, but it is owned or controlled by private interests or by state agencies with no interest in socially directed uses of the land. The real shortage is thus not of land, but of serviced land at affordable prices.*¹⁴

END NOTES

¹ <http://www.nytimes.com/2005/08/08/opinion/08krugman.html>.

² <http://article.nationalreview.com/print/?q=YjgwYzI4Njg3OWMxOGUzYmY0ZDMwYzYwNzkzYjc1NDI>

³ http://depts.washington.edu/teclass/landuse/housing_020408.pdf,

⁴ Kate Barker (2004 and 2006). *Review of Housing Supply: Delivering Stability: Securing Our Future Housing Needs: Final Report—Recommendations*. Norwich, England: Her Majesty's Stationery Office. www.hmtreasury.gov.uk/consultations_and_legislation/barker/consult_barker_index.cfm, and *Barker Review of Land Use Planning*, http://www.hm-treasury.gov.uk/media/4EB/AF/barker_finalreport051206.pdf.

⁵ Arthur C. Grimes, *Housing Supply in the Auckland Region*, Center for Housing Research Oater New Zealand (2007). <http://www.hnzc.co.nz/chr/pdfs/housing-supply-in-the-auckland-region-2000-2005.pdf>.

⁶ "RBA says land shortage driving house prices," *Adelaide Now*, 17 August 2007, <http://www.news.com.au/adelaidenow/story/0,22606,22260763-5005962,00.html>.

⁷ Donald Brash, Introduction to the *4th Annual Demographia International Housing Affordability Survey*, <http://www.demographia.com/dhi.pdf>.

⁸ "Recent House Price Developments: The Role of Fundamentals," *OECD Economic Outlook #78* (2005), <http://www.oecd.org/dataoecd/41/56/35756053.pdf>.

⁹ Edward L. Glaeser and Joseph Gyourko, *The Impact of Zoning on Housing Affordability*, (Cambridge, MA: Harvard Institute of Economic Research, 2002).

¹⁰ Edward L. Glaeser, Jenny Schuetz, and Bryce Ward, *Regulation and the Rise of Housing Prices in Greater Boston*, Pioneer Institute for Public Policy Research and Rappaport Institute for Greater Boston, Kennedy School of Government, Harvard University (2005). http://www.ksg.harvard.edu/rappaport/downloads/housing_regulations/regulation_housingprices.pdf.

¹¹ http://www.rba.gov.au/Speeches/2008/sp_so_270308.html.

¹² Angel, Schlomo (2000), *Housing Policy Matters: A Global Analysis*, Oxford University Press.

¹³ Raven E. Saks, *Job Creation and Housing Construction: Constraints on Metropolitan Area Employment Growth*, <http://www.federalreserve.gov/pubs/feds/2005/200549/200549pap.pdf>.

¹⁴ United Nations Population Fund (2007), *State of the World Population 2007: Unleashing the Potential of Urban Growth* (http://www.unfpa.org/swp/2007/presskit/pdf/sowp2007_eng.pdf).