

The Impact of Growth Management Regulations on Housing Prices

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Local, regional, and state governments for almost four decades have imposed various types of regulations that seek to limit urban growth. These regulations have been inspired by a variety of goals, among them are preservation of environmentally sensitive lands, conservation of agricultural lands, and to enhance urban environments by limiting sprawl.

Florida's Growth Management Act (GMA) in 1985 was intended to guide development within the state in order to discourage urban sprawl, encourage efficient utilization of existing infrastructure and high density urban development, and impose a "concurrency" requirement that was designed to assure that infrastructure was adequate to serve new developments. Because of the comprehensive plans required of every community, Florida's GMA is one of the most comprehensive and most restrictive of state mandated growth management programs.

Implementation of growth management policies can have unintended consequences that are often not adequately considered in policy discussions. One allegation is that growth management regulations increase housing prices and reduce the availability of affordable housing in jurisdictions where they are implemented. The State tried to deal with this issue by requiring an affordable housing component in all local comprehensive plans. The 1985 State Comprehensive Plan stated that "the public and private sectors shall increase the affordability and availability of housing for low-and moderate income persons." In 1997 the Department of Community Affairs issued its Florida Fair Housing Summary Report which claimed that growth management practices have an "adverse affects on housing affordability." This Policy Brief reports the results of a detailed study of the impact of Florida's state-wide growth management regulations on the prices and affordability for single family homes within the state.

Background

Reviewing studies of the impacts of growth management on housing prices and housing affordability reveals that there has been almost no research on the impact of statewide growth management programs. A considerable amount of research has been conducted on local growth management regulations, however. Most of this work is about growth regulation experiments in California where cities and counties have been adopting growth control regulations since the early 1960s. While growth control regulations have much in common with growth management, they significantly differ in that growth control policies impose specific caps on building permits and other limitations of growth. Most studies show that growth controls increase the price of housing,

but a few significant studies have found that these policies have no impact on house prices. Previous studies of Florida's growth management regulations show that this policy significantly reduces the number of single-family residential permits issued, implying that the GMA has reduced housing supply and increased housing prices.

The Method of Analysis

The study examines housing prices and housing affordability in the 67 counties of the state over a 16 year time period, from 1980 to 1995. Since the Florida GMA was passed by the state legislature in 1985 and almost all local governments adopted development plans with growth management regulations between 1986 and 1991, this time period provides for an examination how the adoption of local regulations affected the trends in housing costs and housing affordability. Two question are examined here:

- Have statewide growth management regulations in Florida had a significant impact on housing prices?
- Do growth management regulations reduce housing affordability?

Offsetting the benefits of growth management policies is that they also raise housing prices, make housing less affordable for low and moderate income families, and may reduce income as well.

The method of analysis is a time-series cross section multiple regression that considers the affect on housing prices of various housing and demographic factors as well as other policies that could affect housing markets, most notably the Tax Reform Act of 1986 and the Financial Institutions Reform and Regulation Act of 1989.

Do Growth Management Regulations Raise Housing Prices?

Yes. After controlling for population in each county, the changing incomes of the population, changes in the quality of single-family homes, and for federal policies that could affect housing prices, adoption of growth management regulations significantly raised home prices. This finding is consistent with many other studies that analyzed growth controls, so these results suggest that growth management regulations have an impact on housing prices that is similar to out and out growth controls. Adopting growth management plans in

Florida raises the price of the average single-family home by about 3.5 percent.

Has Growth Management Reduced Housing Affordability?

Housing affordability is generally measured by a formula that takes into account two factors: income and prices of single-family homes. A commonly used housing affordability index is the one developed by the National Association of Realtors (NAR). The NAR index measures the ability of a median income household in an area (the median income is in the middle of the income distribution, i.e., one half the households have higher income and one half have lower incomes) to afford a median priced house. This index does not take into account factors such as mortgage interest rates that obviously affect the amount that households can spend on housing. An alternative index, developed by the Shimberg Center for Affordable Housing Studies at the University of Florida, incorporates mortgage rates and the amount a family can comfortably spend on housing and is based on the income required to qualify for the median-priced home. It is the ratio of median family income divided by the income required to qualify for a loan to buy the median priced house in an area.

Using either measure of housing affordability, the statistical tests reveal that growth management reduces housing affordability for middle class households. This is expected since growth management increases housing prices. After all, since we do not expect growth management policies to increase household income, any increase in house prices caused by growth management regulations should reduce housing affordability.

Policy Implications

This study has shown that the Growth Management Act has had an adverse impact of housing

prices and housing affordability within the state. The rules for implementing GMA are contained in Section 9J-5 of the Florida Administrative Code. One section specifies the requirements for housing goals and states that the housing element must contain specific objectives that provide for "adequate sites for housing low and moderate income families." The research reported here shows a fundamental contradiction in the state goals of growth management: growth management regulations have a discriminatory impact on renters and low-income families in the state for whom owning a home or moving into a larger home is more difficult because of these rules.

The study summarized in this Policy Brief focused on the impact of growth management policies on housing prices, but it is also possible that these policies could reduce economic growth in the state as well. Some scholars contend that growth control regulations do dampen economic growth. One study investigating the impact of growth controls in Pasadena, California over a 10-year period found that 60 percent of the jobs lost because of growth controls were low-income jobs. This study suggests that growth controls can cause many low-income families to have less income for their housing, thus increasing their housing cost burdens even if the growth management policies did not increase housing prices. Other studies suggest Florida's growth management policies may also have lowered economic growth but do not investigate what segments of the population are most likely affected by this slower growth.

The combination of higher house prices and the potential loss of income among low income persons that are caused by growth management regulations indicate that these policies have had the unintended consequence of making housing less affordable among the low and moderate income citizens.

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