



**BRIEFLY**

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# Impact of Government Regulations and Fees on Housing Costs

Governments impose regulations on development for reasons they consider sound, but such regulations result in higher prices for homebuyers – often times significantly higher.

The National Association of Home Builders measured the increases to housing prices caused by regulations in a 1998 survey. The association asked builders in 42 markets across the country to break down the cost of building a house. They responded that government regulations, delays and fees added an average of 10 percent to the total building cost, accounting for upwards of 20 percent of the sales price in some markets. <sup>1</sup>

This is consistent with the experience in Washington State, according to the Building Industry Association of Washington (BIAW).

Urban growth boundaries, impact fees, sensitive area and wetland ordinances, and complicated, prolonged permitting processes are not only contributing to the costs of developing new housing, but inflating the prices of existing housing throughout Washington and the country.

The Portland region, for example, has been praised as a model for containing sprawl with its urban growth boundary, which was drawn in 1979. Substantially unchallenged by strong growth pressures until the 1990’s, however, the boundary’s effects on land and housing supply and price have only become apparent in recent years.

In 1999, a consortium of 17 organizations, including real estate and environmental interests, produced the “Oregon Housing Cost Study.” The study noted that Oregon produced proportionately fewer homes than the rest of the country. By 1997, Portland’s median house sale price of \$155,000 surpassed the national median price of \$127,000, and during the first quarter of 1998, only 35 percent of the houses sold in Portland were affordable for families earning the city’s median income. <sup>2</sup>

A February 2000 report by the Cascade Policy Institute, in Portland, says that “after a decade of rapid price growth, the Portland housing market is now becoming a challenge even for families with copious amounts of education and multiple incomes.” <sup>3</sup>



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## Effects of growth boundaries

Government-imposed urban growth boundaries have effectively created land shortages. According to the report, *Squeezed out: No swingset, no sandbox, no space left for the American Dream*, “If a developer has to start with land that is



700 percent higher in price than would be the case without restrictive zoning, the only way to moderate the effect of that cost on the finished product is to build more homes on the same amount of land.”<sup>4</sup>

In the early 1990s, when the Growth Management Act was still being debated, University of Washington Professor Emeritus of Geography, Richard Morrill said “...[an urban zone] ignores environmental realities and land economics.” Unbuildable land and the zeal of most urban planners, he said in a 1991 report,<sup>5</sup> conspire with growth pressures to result in urban growth boundaries too tightly drawn. These, in turn, bestow “an unfair and unearned excess value on owners who happen to be within the boundary,” displace lower-income households, and contribute directly to increased homelessness.

Experience in the Puget Sound area is proving him correct. Despite a decisive (75 percent) rejection of I-547 by voters statewide, growth management was passed by the legislature in 1990. Urban boundaries were drawn around Seattle and other Puget Sound cities. And, even though planners dutifully measured the vacant or underutilized land available and compared it with the amount of land they expected would be needed to accommodate 20 years of population growth, they are coming up short today.

Morrill predicted the problem: The amount of land seemingly available included unbuildable wetlands and other sensitive areas, steep slopes, brownfields (sites so polluted with toxic industrial wastes and steeped in government-created liability issues that no one is willing to touch them), and privately owned properties with owners not wanting to sell or develop. The necessary result, say Morrill and others around the country, is to build more apartment houses and other multi-family structures. According to a Chicago Sun Times article from December 2000, single-family home starts fell by 0.4 percent, while apartments, condos and other multifamily projects jumped by 12.9 percent.<sup>6</sup>

Tightly drawn urban growth boundaries that restrict the supply of land and inhibit new additions to urban housing stocks have contributed to housing price inflation in the Puget Sound area over the last several years. According to the Freddie Mac Housing Price Index, which matches sales or appraisals of the same house over time, Seattle urban area housing prices in the 4<sup>th</sup> quarter of 2000 were up nearly 45 percent over the 4<sup>th</sup> quarter of 1995. This compares with housing price growth nationally of about 38 percent. In the most recent release of this index the Seattle-Bellevue-Everett metropolitan area ranked 24<sup>th</sup> of 163 metropolitan areas throughout the country in housing price growth.<sup>7</sup>

In addition, urban growth boundaries are given at least partial blame for several other effects:

- ❑ **Home ownership has dropped in the Puget Sound area.** As land and home prices inflate within the urban area due to constrained availability, infill development increasingly occurs in the form of apartment houses in order to accommodate more people on less land. According to the Census Bureau, the Seattle-Bellevue-Everett metropolitan area fell from its rank of 22<sup>nd</sup> of the top 75 metro areas in home ownership in 1990 to 47<sup>th</sup> in 2000.<sup>8</sup>
- ❑ **More housing is unaffordable to the average family.** According to Bill Kreager of Mithun Partners (a prominent Northwest architectural firm)



in a speech to the Economic Forecast Conference 2001 of the Economic Development Council of Seattle and King County, housing prices are so high that 70 percent of today's homes are not affordable by those households who make at or less than the median income. He says that many prospective residents (often highly recruited employees our businesses are trying to attract to fill job openings) turn down a move to the Seattle area because of the high costs.<sup>9</sup>

- ❑ **There are more childless families in the city.** According to an analysis of the 2000 Census by the Seattle Times, Seattle has the smallest percentage of children of any big city in the country except for San Francisco. "The exodus of children from Seattle has its roots in "white flight" to avoid school busing in the 1970s, but today the trend may have more to do with Seattle housing prices and the kinds of people who are able to pay \$350,000 for a bungalow," says the Seattle Times, adding that "Some observers think...the city looks more and more like a theme park for adults."<sup>10</sup> Research conducted for the Washington Association of Realtors® finds substantial differences in the housing preferences of people, generally relating directly to their age and lifestyles. For example, single people, working couples without children, "empty-nesters," and single parent families needing access to public services tend to choose to live in cities, often in or near downtown areas. On the other hand, the majority of families with children continue to prefer larger homes with yards, the kind of housing more commonly associated with suburban living or the more expensive city neighborhoods.
- ❑ **Traffic is more congested as families move further out to find affordable housing.** "American urban areas now spread for miles and miles, and trip origins and destinations are dispersed so widely that public transit is incapable of serving all but a small percentage of trips, and travel distances are simply too long for bicycling and walking," says Wendell Cox.<sup>11</sup>
- ❑ **The shrinking pool of workers willing or able to afford to make the congested commute will jeopardize economic vitality.** "Potentially worse yet, our housing crisis may undermine our economic growth and stability. Employers may turn away from King County when the labor shortage is exacerbated by employees unable to live anywhere near where they work, or when businesses are forced to pay exorbitantly high wages to compensate for high housing prices to attract and retain workers," say Cynthia Sullivan and Dwight Pelz of the King County Council.<sup>12</sup>

## Project Requirements, Restrictions and Delays

In addition to restrictive urban growth boundaries, government agencies at all levels continue to add time-consuming requirements and tighten restrictions on building. Significantly, nearly 73 percent of the builders who were surveyed as part of a 1998 National Association of Home Builders study said that the lengths of time they were experiencing to obtain routine single-family project approvals (zoning and subdivision) increased over the decade between 1987 and 1997. None of the builders surveyed reported that project approval waits were shorter.<sup>13</sup>



While different jurisdictions have different requirements and processes (a separate problem for builders), most housing developments take upwards of 13 months or more from application to building permit approval.<sup>14</sup> In the worst cases according to BIAW, King County permits can take more than three years, especially if infrastructure (sewer, primarily) is not present.

An abbreviated list of costly development requirements includes:

- ❑ **Impact Fees** – Often-controversial, these charges are assessed on new development, as a condition of approval, to pay for public facilities needed to serve new growth. Only local governments that plan under the Growth Management Act may use impact fees. For a complete discussion of impact fees see *Rethinking School Impact Fees* by the Washington Research Council<sup>15</sup> and *Paying for Growth's Impacts* by the Washington State Department of Community Development.<sup>16</sup>
- ❑ **Green Belt, Park, or Recreational Set Asides** – Cities are stating in their growth development plans the objective of maintaining a current standard of baseline services for park and recreation facilities for a designated population. In Washington State, an impact fee calculation specifies the number of acres of parkland the community wishes to maintain per person and the estimated cost per acre of land acquisition and improvement.<sup>17</sup>
- ❑ **Open Space Lands and Critical Areas** – These are government-designated areas considered to be unsuitable for urban development. One of the first steps in growth management planning emphasizes the importance of critical area protection by requiring them to be identified and protected. For instance, according to Washington State's growth management program, wetlands store storm water and release it slowly into the groundwater, reducing downstream flooding and filtering out pollutants before they reach the aquifer for community drinking water.<sup>18</sup> Building permit conditions often require buffers around wetlands or applicants may be required to create or enhance resources elsewhere to compensate for those affected by the project.<sup>19</sup>
- ❑ **Federal Regulatory Requirements** – Projects must also meet the requirements of federal laws like the Clean Air and Clean Water Acts. If a project requires a federal permit, the permitting agency is responsible for determining if an endangered species is harmed. If it is, a formal Endangered Species Act Section 7 analysis is triggered, requiring a biological assessment of the project's effects on endangered species and their habitat. Even if a preliminary evaluation finds no significant harm is likely, a citizen lawsuit may be brought against the permitting agency charging non-compliance with Section 7 requirements, slowing down or halting the project.<sup>20</sup>
- ❑ **Local Permitting Processes** – In most jurisdictions, local zoning codes do not yet permit "compact" development. Compact development includes clustered single-family homes in the suburbs, higher density projects around transit stops in the inner suburbs, or traditional neighborhoods with mixed uses.<sup>21</sup> Even when land is zoned to allow compact developments, citizen opposition can prolong the permit



approval process, running up development costs with legal fees, even defeating some projects.<sup>22</sup>

- **Multi-Jurisdictional Authorities and Conflicts** – Building permits are subject to a multitude of local, state, and federal laws, including the Growth Management Act, the State Environmental Policy Act, the Shoreline Management Act, as well as the Endangered Species Act, the Clean Water Act, and others at the federal level. Because each has a different focus, process, and timeline, coordinating large projects is normally a challenge.<sup>23</sup> San Diego builder Ferrest Brehm summed up the problem, “The bottom line is that there are too many approvals and reviews for land development, and many are repetitive or overlapping.”<sup>24</sup>

In a recent paper presented to the Seattle Economist Club, Dr. Morrill summed up growth management saying it “preserves the quality of life of the elite at the expense of the less affluent majority.” “Both within and without the [urban growth boundary],” he continues, “the adverse social effect is to reduce housing quality and home ownership... And, always, higher density increases congestion.”

## Endnotes

- <sup>1</sup> *Annual Builder Practices Survey*, National Association of Home Builders, 1998. [Responses are for constructing a 2,150-square-foot house with three or four bedrooms on a lot between 7,500 and 10,000 square feet.]
- <sup>2</sup> Oregon Housing Cost Study, Committee to Study Housing Affordability, Bay Area Economics (BAE), 1999. <http://www.bayareaeconomics.com/Jobs/378.htm>
- <sup>3</sup> *Squeezed out: No Swingset, No Sandbox, No Space Left for the American Dream*, Cascade Policy Institute, 2000.
- <sup>4</sup> Ibid.
- <sup>5</sup> Myths and Facts about Growth Management, Richard Morrill, Ph.D. and David C. Hodge, Ph.D., Dept. of Geography, University of Washington, January 1991.
- <sup>6</sup> *Housing construction rises 2.2%*, Chicago Sun Times, Jeannine Aversa, December 21, 2000.
- <sup>7</sup> *Freddie Mac Conventional Mortgage Home Price Index Continues to Reflect Strong Housing Values*, Freddie Mac, March 27, 2001. <http://www.freddiemac.com/news/archives2001/4q00hpi.htm>.
- <sup>8</sup> *Housing Vacancies and Homeownership Annual Statistics: 2000*, U.S. Census Bureau, <http://www.census.gov/hhes/www/housing/hvs/annual00/ann00t14.html>.
- <sup>9</sup> *MBA Members Address Jobs/Housing Balance*, Master Builders Association, [http://www.mba-ks.com/public/tmg\\_t1.cfm?StoryID=192](http://www.mba-ks.com/public/tmg_t1.cfm?StoryID=192).
- <sup>10</sup> *Seattle Leads the way with fewer children*, Seattle Times, Mike Lindblom, April 8, 2001.
- <sup>11</sup> *How “Smart Growth” Intensifies Traffic Congestion and Air Pollution*. By Wendell Cox, Senior Fellow in Urban Policy, The Independence Institute, Sept. 25, 2000. <http://i2i.org/SuptDocs/Enviro/AirPollutionSmartGrowth.htm>.

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- <sup>12</sup> *Housing Crisis In King County Is Real*, Cynthia Sullivan and Dwight Pelz, King County Council, in a Special to The Times, Seattle Times, July 24, 1998.
- <sup>13</sup> *Regulatory Burden on New Home Buyers Averages 10 percent*, Builder, Urban Land Institute, January 1999.
- <sup>14</sup> Ibid.
- <sup>15</sup> *Rethinking School Impact Fees*, Washington Research Council, February 1995. <http://www.researchcouncil.org/Reports/1995/SchoolImpactFees/SIF%20MainFrame.htm>
- <sup>16</sup> *Paying for Growth's Impacts – A Guide to Impact Fees*, Washington State Growth Management Program, Washington State Department of Community Development, January 1992.
- <sup>17</sup> Ibid.
- <sup>18</sup> *Defining Rural Character and Planing for Rural Lands, A Rural Element Guide*, Washington State Growth Management Program, Washington State Department of Community, Trade and Economic Development, March 1994.
- <sup>19</sup> *Growing Too Smart Too Far-Taking Implications of Smart Growth Policies*, Duane J Desiderio, Land Development, Winter 1999.
- <sup>20</sup> Telephone conversation with Lloyd Moody, Washington State Department of Ecology, May 2001.
- <sup>21</sup> Smart Growth: Building Better Places to Live, Work and Play, National Association of Home Builders, 2000.
- <sup>22</sup> Ibid.
- <sup>23</sup> *Solving the permit controversy*, Hope, Shane, AICP, About Growth, Washington State Office of Community Development, Winter 2000-2001.
- <sup>24</sup> *Regulatory Burden on New Home Buyers Averages 10 percent*, Builder, Urban Land Institute, January 1999.

