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# Did Smart Growth Fuel the Property-Price Boom?

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A new paper says smart growth thwarted efforts to meet housing demand during the boom.

Bankers, politicians, policy makers and even home buyers are usually painted as the culprits of the housing bust, but land-use planners don't generally make that list. In a recent paper, though, Wendell Cox, an Illinois-based consultant and an adjunct scholar with the conservative National Center for Policy Analysis, argues land-use restrictions and planning policies like smart growth fueled property prices and became the engine of the housing boom and bust.

In other words, Portland, take a seat. Indianapolis, you're free to go.

Mr. Cox writes: "Gross national house value increases and losses were overwhelmingly concentrated in metropolitan areas with more restrictive land-use regulations—known by a variety of names, such as compact city policy, growth management or smart growth. Many metropolitan areas with these land-use restrictions were not able to respond to the increased demand for home ownership caused by the greater availability of mortgage credit. The inevitable result was higher prices, which encouraged speculation and increased house prices even more," Mr. Cox writes in "The Housing Crash and Smart Growth."

Smart growth is generally defined as land-use policies that encourage mixed-use development that reins in suburban sprawl and long commutes by car. The aim is to preserve open space and farmland by pushing development toward public transportation and more walkable communities. (Mr. Cox has criticized smart growth before, and Thomas Sowell made a similar point in his book, "The Housing Boom and Bust.")

Mr. Cox argues that the housing bust was concentrated in "prescriptively regulated" areas, or those with extensive barriers to development. These differ from "responsively regulated" metro areas, which allow development to meet demand. San Diego is prescriptive; Dallas is not. Portland is prescriptive; Houston is not. "If the prescriptively regulated metropolitan areas had instead had responsive land-use regulations, prices likely would have escalated at a much lower rate during the housing bubble," Mr. Cox writes. More modest losses, he adds, "might not have set off the financial crisis, or it might have been less severe."

From the peak of the bubble in 2006 to the Lehman Brothers' collapse in September 2008, Mr. Cox writes, 11 heavily regulated metropolitan markets accounted for 73% of aggregate home-value losses, with an average loss of $175,000 per house. Homes in less regulated markets lost an average of $12,000 per house in value.

Not so fast, say defenders of smart growth.

Patrick Phillips, chief executive of the pro-smart-growth Urban Land Institute said it's specious to pin the housing bubble on smart growth. "I think he's teased out sort of one aspect and conflated that to represent the primary driver, and the primary driver of the housing bubble was the excess capital chasing real estate." In fact, the housing bubble was fueled, Mr. Phillips said, by an unfounded faith that real estate prices would never fall.

Besides, places hardly known as hotbeds of land-use regulation, like Phoenix and Central Florida, have suffered during the housing bust, Mr. Phillips said. And Washington, D.C., a difficult place to build, is a rare market now seeing housing price appreciation. It's also a mistake to treat individual markets as either highly regulated or not, since it might be easy to build in one neighborhood but difficult in another because of land-use regulations.

Furthermore, smart-growth supporters say that prices on the "suburban fringe" took a bigger hit, and have taken longer to recover, than denser "inner suburbs" or walkable city neighborhoods.

The price decline on the "drivable fringe" was generally twice as bad during the crash, said Christopher Leinberger, a developer of "walkable urban projects" and a visiting fellow at the Brookings Institution. "And it was that part of the market that is the least regulated," he said. Smart-growth areas or walkable neighborhoods within metro markets had price drops but they ultimately "held their value, thank you very much." The problem, Mr. Leinberger added, was that "we built too much of the wrong stuff in the wrong location."

Smart growth can be abused by people looking to use it as a cover for no-growth, which then drives up prices, but that's not its design, say defenders.

Mr. Cox, for his part, said in an interview that smart growth is "the only thing that explains the radical price difference between the markets." Ultimately, by driving up the cost of housing, Mr. Cox said "the problem with smart growth is that it is virtually destroying the American dream of home ownership."

So, readers, what role did smart growth play in the creating the housing bubble?