

# Response to “The Effects of Land Use Regulation on the Price of Housing: What Do We Know? What Can We Learn?” by John M. Quigley and Larry A. Rosenthal

---

William H. Kreager  
Principal, Mithun

Now is a great time to be involved with land planning and housing design. Innovation and new ideas are constantly required. Our challenge is creating acceptable homes for today’s lifestyles, but on less land and for higher cost than previously dreamed of by the home-buying public in its worst nightmares.

The subject article by Quigley and Rosenthal is a thoughtful review of modeling “hedonic” variables and methodology. I now understand that Euclid, Ohio, is responsible for validating zoning ordinances aimed at legally separating various land uses in a town plan. Euclid now joins President Eisenhower and his Federal Highway Act and 50 years of a growing American economy as perpetrators of suburban sprawl in the United States.

I agree with the first five conclusions presented in the article, but respectfully disagree with number six. I will comment on number six at the conclusion of my observations.

My overall conclusion is that the authors were far more interested in discussing modeling methodology and hedonic variables than drawing conclusions about the effects of land use regulations from the research. This article did not reveal much more than we already know. The article also is scattered in its approach and weakly organized, so gleaning the conclusions and recommendations was difficult. As best as I can tell, the authors reached the following conclusions:

1. Growth controls cannot stem growth.  
Regulations are local, growth is regional.  
Regulation cannot compete with exogenous population pressures.  
Growth bleeds across jurisdictional boundaries.
2. Exclusionary zoning or “snob” zoning used to keep out lower income people increases sprawl by dispersing population throughout a region in search of affordable housing.
3. Zoning is used by “monopoly” jurisdictions (those that have complete control over zoning and land use process) as a discretionary selection process for determining who can enter the community and best be able to pay for the new services provided.

4. Newcomers must pay the artificially inflated price of property and homes, which is a dereliction of community responsibility. Although homebuilders may be negatively affected by restrictive zoning policies by limiting the amount of homes that could be built, many also benefit from these same measures because they artificially increase the price of housing, thus allowing homebuilders to sell homes at a much higher price. Often, this inflation is achieved in connection with local officials who also seek personal gain indirectly by inflating the cost of property and housing artificially through zoning and land use regulations. Of course, those that gain (builders and elected officials) are those already established in the community.
5. Quigley and Rosenthal conclude that zoning and land use regulation cause “social mischief” and surmise that segregation of uses (the entire underpinning of zoning law) really has no basis because research done by Kenyon (1991) indicates that “unwanted land uses, such as power plants and pollution sources. . . . rarely depressed property values as much as feared and economic effects dissipate quickly as a function of distance” (Quigley and Rosenthal, 2005: 80).

The authors conclude with a recommendation for further research:

Perhaps the most important reason why empirical research is not definitive is because of measuring the regulatory environment facing households and builders in a satisfactory manner (Quigley and Rosenthal, 2005: 102).

Accordingly, they think “the most promising strategy for improving our understanding of the economic effects of zoning and land use restrictions would be to devote resources to measuring regulatory conditions systematically in a large cross-section of cities and metropolitan areas” (Quigley and Rosenthal, 2005: 102).

The authors of this article believe that a systematic update and extension of this work would have a high social and scientific payoff. In their view,

a useful survey of local land use regulation would have four components. First, the survey would be national . . . . Second, it would sample metropolitan areas . . . . permit analysis of the interplay among political jurisdictions . . . . Third, such a survey would measure the outcomes of regulatory processes . . . . Fourth, it would sample builders, developers, and government officials to establish, as far as possible, the linkage between regulation on the one hand and the supply and price of housing on the other (Quigley and Rosenthal, 2005: 103).

I would now like to make my observations from the builder’s and developer’s perspectives, based on 30 years in the trenches, concerning the practical impacts of land use regulation on housing affordability. Land use regulation impacts housing costs in the following areas:

1. The limitation of available land raises cost.
2. The cost of regulation in fees, permits, and required concurrency of infrastructure raises cost.
3. The historic gradual transfer of the responsibility for funding growth from the broad community to the individual homebuyer raises costs.

First, we must understand the cost impact of regulation:

- Historically, the ratio of land cost of the finished lot to the sale price of the finished home has been 1:5, or 20 percent.
- Currently, national statistics from the National Association of Home Builders (NAHB) quote that figure at 23.6 percent, so the ratio is now approaching 1:4, or 25 percent.

- These figures apply to all housing nationally, ranging from jurisdictions with no particular regulations to jurisdictions with severe land use regulation.

Portland, Oregon, is the pioneer of mandated growth controls, instituted more than 20 years ago. Portland was once one of the nation's most affordable housing markets based on a ratio of housing price to average income. During the early years of mandated growth control, little evidence existed of cost increases generated by Portland's growth management legislation as homebuilders developed within a generous growth management boundary. But as the available land within the boundary was developed and became scarce, prices soared. Before 1995, an unimproved, developable acre inside the line could be bought for \$40,000. Today, that unimproved acre can be had for around \$300,000, if you can find it. Portland today has the highest land costs for a city with a population of more than 1 million outside California—a great example of land cost impact under land use restriction.<sup>1</sup>

My second point concerns impact costs, permit costs, and other fees related to environmental, recreational, school, and utility infrastructure. In a study released by the Master Builders Association of King and Snohomish Counties (Seattle) on April 18, 2004, fees and permits have risen to 5 percent of the house price for single-family homes and 3.2 percent of the cost of a multifamily dwelling. The permit fee is the cost for a piece of paper giving a builder permission to build the home and does not include any of the costs of the required concurrencies. Seattle and Washington State as a whole have been under state-mandated growth controls for 15 years.

Regulations affecting homebuilding include 22 federal laws and 45 state and local regulations and fee types. Further, the Quigley and Rosenthal (2005) article lists 47 land use regulatory categories. How can all these regulatory controls not impact the cost of building a house?

What is the premium for housing in a strictly regulated environment? An NAHB survey found that about 10 percent of the cost of building a new home can be attributed to excessive regulatory standards, needless red tape, and regulatory delays.

If the national average new home price could be lowered by 10 percent from today's \$226,680 to \$204,120, an additional 4.8 million households would be eligible to buy a home. Practically speaking, of that total, 190,000 to 240,000 households would actually purchase a home. Almost a quarter of a million households, then, would be empowered with the stability and pride of home ownership.

Third, although the article views land cost impacts anecdotally project by project, we must actually view the impacts across the board on all housing types.

For example, the statement is made that when land is restricted to low density, its price goes down. True. But what of the need for higher density land for more affordable housing? If land availability is reduced by the down zone, the remaining available land goes up in cost, thus raising the cost of the erstwhile affordable housing.

The article also addresses mobile home zoning, concluding that if mobile home zoning is restricted, adjacent single-family land goes up in value (Quigley and Rosenthal, 2005). This regulation does raise single-family land cost, but look at the other side as well. Mobile homes and manufactured housing accounted for more than 40 percent of the home starts in the United States last year. Why? Because these types of housing are affordable. Restricting zoning for mobile homes raises that respective land cost and lessens the affordability for this lowest cost, entry-level housing ownership alternative.

Finally, let's not go to "private bargaining" between landowners as an alternative to "exogenous government regulation." Adjacent landowners can be quite reasonable in details such as buffering, scale, and screening, but given the opportunity to stop a land use change, they can be vicious! "It ought to be a park!" they cry. Or, "the city should buy it, but don't raise our taxes!"

The homebuilding industry would much prefer zoning and land use regulations that are reasonable and predictable. Give us fair rules, and we will give you fair housing.

### *Author*

*William H. Kreager, FAIA, MIRM, has created new homes and communities all over the United States and in Japan. His projects have achieved national awards and recognition for environmentally sensitive master site planning and innovative architectural design. His market-oriented work includes projects from small infill communities to new towns of 6,000 acres. Urban infill, mixed-use development, and environmental sustainability are his key interests. He was the 2000 Chair of the National American Institute of Architects Housing Professional Interest Area and is in the leadership of National Association of Home Builders committees and boards.*

### *Note*

1. Statistics from the Portland, Oregon, Building Industry Association. Interview with executive director.

### *References*

Kenyon, Daphne A. 1991. *The Economics of NIMBYs*. Working Paper Series. Cambridge, MA: Lincoln Institute of Land Policy.

Portland, Oregon, Building Industry Association. Interview with executive director.

Quigley, John M., and Larry A. Rosenthal. 2005. "The Effects of Land Use Regulation on the Price of Housing: What Do We Know? What Can We Learn?" *Cityscape* (8) 1: 69–138.