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HOW SMART IS SMART GROWTH?
Not So Much, According to NCPA Research

DALLAS (June 2, 2011)—Restrictive land use regulations played a primary role in the 2008 housing bubble burst and continue to contribute to sinking housing values, according to a new report released today by the National Center for Policy Analysis (NCPA).

"The majority of losses in the housing crash were overwhelmingly concentrated in metropolitan areas with restrictive land development regulations," said NCPA Adjunct Scholar Wendell Cox, author of the report. "Land price premiums that ballooned during the bubble would have been less likely to develop if those metropolitan areas had been able to better respond to market pressures."

Restrictive land use policies prevented the ability to respond to increased demand for home ownership caused by the greater availability of mortgage credit, according to Cox.

Therefore, prices inevitably increased, encouraging speculation which spiked housing prices even higher, especially among the national 50 largest metropolitan areas:

- In the 10 markets with the greatest rise in prices compared to income, the cost of a house rose by an average of $275,000 relative to incomes.
- Among the second 10 markets, prices rose by $135,000.
- By contrast, in major markets with the least rise in prices, housing prices rose by only $5,000.

"In fact, the more heavily regulated markets accounted for 94 percent of the losses during the housing crash," Cox said. "That's an average of $97,000 per house."

The NCPA study shows if those major metropolitan markets had been able to replicate the performance of more responsive markets, losses might have been as little as one-fourth of the actual $2.4 trillion, and the average loss per house would have been $17,000, not $67,000.

"The more modest losses might not have set off a financial crisis," Cox added. "Or at least if might have been less severe."

The Housing Crash and Smart Growth: http://www.ncpa.org/pdfs/st335.pdf

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