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Government Policies Increase Housing Prices

By Michael W. Thompson

11/9/2010 – A new economic analysis shows that government imposed land use regulations have added significantly to the home prices in some metropolitan areas. Of eleven major metropolitan areas reviewed, the Washington DC area – including Northern Virginia – has added the second highest cost to homes through government actions.

Traditionally, recessions can be mapped by home ownership rates. As recessions take hold home sales slip. And the economy tends to improve as home ownership increases. So the price of homes decrease during recessions and increase in stronger economic times.

Home sales, which mean increased home ownership, impact the economy more than merely the sale of the house. When an owner prepares to sell, new paint and wallpaper tend to improve the looks of the house. Yards are replanted and at times even new kitchens, floors and carpets are installed. And then, the owners of a new home – in most cases moving into a larger house – buy new furniture, paint rooms the colors they want, buy new bed spreads, shades and draperies.

But what this new study by Demographia (http://demographia.com/dri-full.pdf.), an international public policy consulting firm, indicates is that the Washington DC area – the strongest economic region in Virginia – has added $75,000 to the price of a new entry level home thanks to government imposed land use regulations. These regulations include such things as urban growth boundaries, limits on the number of houses that can be built, large lot zoning and excessive development impact fees. All increase the cost of land for building houses. And on top of these land use regulatory costs, the EPA is now pushing new regulations for stream bed improvements that could cost Fairfax County close to $200 million for improving only one of the thirteen streams in that county.

In a normal market, single unit tract house construction costs at the edge of urban areas have averaged 80% or more of the advertised price of a home. The other 20% has been the price of land and regulation costs. This is what the study refers to as the "land and regulation cost ratio." So the 80/20 ratio is the basis for this study's analysis of the eleven metropolitan areas it reviewed.

Those metro areas where this ratio remains constant (at a 1.0 basis) are: Atlanta, Dallas-Ft. Worth, Houston, Indianapolis, Raleigh-Durham and St. Louis. Those metro areas where the ratio has shown a greater cost percentage for land use regulation are Minneapolis-St. Paul, Seattle, Portland, Washington-Baltimore, and San Diego.

And the Washington-Baltimore housing market, that includes Northern Virginia, has the second highest "additional cost" for land use regulation of the eleven areas studied. Added to the normal price of what a house should cost if land use regulation were held at 20% of the total price, the cost of a detached single family home in this critical area of the state is fully $75,000 more than had land use regulation been kept in check. And the cost of townhouses and condominiums are higher by about $60,000 more. According to this study, home prices in the Northern Virginia/Washington Metro area are overly inflated not because of raw land values or construction costs, but because of government action.

Is it any wonder that traffic congestion is growing south on I-95 and west on I-66 as families move further away from the employment centers so that home prices can meet family budgets. They are willing to spend many more hours a year to-and-from work in order to afford a home for their kids.

Government regulations impact the price of houses in these ways: increase underlying land costs, planning and development costs increase, financing costs rise, encourages more expensive homes, and increases construction costs.

So as we struggle to dig out of a deep recession – caused to a large degree by government housing policies – we look to our stronger economic regions to help pull us out. And that includes Northern Virginia. Yet, thanks to additional government policies Northern Virginia is saddled with housing prices that are substantially higher than would otherwise be the case. If the Washington Metropolitan Area had land use regulations similar to Atlanta, Houston, Indianapolis, Dallas, Raleigh or St. Louis then Northern Virginia would have much more affordable housing. That would mean more money available to buy shoes, go to a restaurant, take kids to the movies, etc. But now that money isn't available because it is tied up in the mortgage payments that are artificially high thanks to government regulation. Maybe the best "affordable housing" policy for the governments in Northern Virginia would be to reduce government regulation on home construction and look to Atlanta and the others communities where prices have been moderated because government has maintained its traditional role in the price of a home.

As Ronald Reagan used to say, "Government is not the answer, it is the problem." His instincts are proven right once again.

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