
Smart Growth and Housing Policy

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Imagine two metropolitan areas that grew in population and jobs at about the same rate between 1990 and 2000. Their household incomes also grew by about the same rate. The similarities end there, however. In 1990, one metropolitan area was engrossed in regional smart growth efforts, while the other pursued business as usual. Between 1990 and 2000, the smart growth metropolitan area, Portland, Oregon, saw its air pollution (ozone) problem nearly eliminated, dependency on single-occupant vehicles fall, neighborhood quality rise, energy consumption fall, density rise, overcrowding fall, preservation of open spaces rise, and incompatible land uses fall. In contrast, the business-as-usual metropolitan area, Atlanta, Georgia, experienced contrary outcomes (Nelson, 2000). Seeing the evidence from Portland and elsewhere, metropolitan Atlanta and the State of Georgia have embarked on several regional smart growth initiatives (Nelson, 2000).

Smart growth seems to make a difference but the concepts underlying it remain vague, especially as it related to housing policy. This article focuses on smart growth and housing policy. It addresses the following questions with respect to housing: What is smart growth? What are its promises? What are the challenges?

What is the Federal role?

What Is Smart Growth?

Smart growth is composed of the following five goals (Nelson, 2000):

- | **Preserve public goods.** Air, water, open space for air cleansing and flood control; historically, culturally, and scientifically significant places; scenic views and vistas; sensitive landscapes; and wildlife habitat are all considered “public” goods because there is no private market for their sale and everyone benefits. A key goal of smart growth is to preserve public goods for the present and future generations.
- | **Minimize adverse land use interactions and maximize positive ones.** Industrial plants with air pollution and odors are considered nuisances to nearby residents; they have an adverse impact on land uses. Apartments, though, have a positive influence on shopping centers. Although land extensive, single-use developments characterized by low-density residential subdivisions may be considered sacrosanct, their very single-use composition does not maximize

positive land uses. Village centers; day care, senior, and assisted living centers; and recreation areas maximize positive land uses. This second goal of smart growth aims to maximize the benefits of mixing land uses.

- | **Minimize public fiscal costs.** This goal is close to the pocketbook of taxpayers because it aims to create infrastructure systems and government services that impose the least burden on them for the benefits generated.
- | **Maximize accessibility of jobs and housing for all households.** In many parts of the Nation, present development patterns generate impressive benefits to narrow classes of the population but impose burdens on others. Suburban sprawl, for example, with its low-density, single-use development pattern prevents many low- and moderate- income households from living close to where suburban jobs are. This fourth goal of smart growth aims to maximize accessibility of jobs and housing for all households.
- | **Maximize quality of life.** It goes without saying that smart growth aims to maximize the quality of life, but what this means can be elusive. I suggest that it means maximizing incomes, housing opportunities, neighborhood and community safety, educational attainment, community vitality, and individual welfare for everyone.

Against this backdrop, Porter¹ notes that smart growth has five general operational objectives:

- | **Control the outward expansion of urban areas (containing urban sprawl).** In doing so, infill and redevelopment is made more economically feasible, infrastructure is used more efficiently, transportation options improve, and there is greater opportunity to create stable, sustainable communities.
- | **Stimulate inner-area revitalization.** Many central cities and their first- and sometimes second-tier suburbs suffer from outward expansion of development, yet they often have sufficient infrastructure, existing capital stock, and redevelopment opportunities to accommodate a large share of a region's growth.
- | **Use design to create attractive places.** Integrating land uses with infrastructure and transportation networks and creating visually attractive places can create the sense of community that most people desire.
- | **Preserve natural resources.** Overuse of water, air, and land can reduce quality of life. Preservation of natural resources, especially those in urban areas, contributes substantially to quality of life.
- | **Reorient transportation.** Much has been written about America's overdependence on the single-occupant mode of transportation. To be sure, automobiles are here to stay but they need not be the only way to travel to work,

shopping, services, or recreation. As the proportion of the “transportation-dependent” population increases (with age and disabilities), the need for transportation options becomes more apparent.

Let us now explore the promises of and challenges facing smart growth as it relates to housing.

What Are the Promises?

When it comes to housing, smart growth appears to focus on (1) increasing housing options, (2) integrating land uses with housing, and (3) elevating design. These are policy dimensions based on smart growth goals and objectives.

Increasing Housing Options

By far the dominant mode of housing in the United States is the single-family residential unit (composed of detached, attached, and manufactured home types). The share of single-family residential units has risen steadily since World War II. Between 1974 and 1995, for example, it rose from 71.3 to 73.1 percent (*American Housing Survey[s]*, 1974 and 1995).

At the same time, the composition of American households has changed substantially. In 1974, 42.1 percent of all households had children, but in 1995 this had fallen to 38.1 percent. The percentage of single-person households is on the rise, having been 19.5 percent of all households in 1974 but rising to 24.6 percent in 1995. Elderly households (where the householder is more than 65 years of age) have also increased, rising from 19.5 percent of all households in 1974 to 23.3 percent in 1995. These trends will continue well into the first half of the 21st century. For the most part, these households are not the stereotypical ones demanding traditional single-family residential options. One promise of smart growth is to expand housing options.

Integrating Land Uses With Housing

Ever since *Euclid, Ohio v. Ambler Realty Company*, planning in the United States has been preoccupied with separating land uses. Residential subdivisions not only do not allow commercial uses, such as the corner grocery, but they are separated several miles from industrial districts, office parks, and shopping centers. Automobiles are required just to get a quart of milk or bagels on Sunday morning. Smart growth promises to integrate land uses to recreate urban and suburban villages reminiscent of first-generation streetcar suburbs of the turn of the past century. For example, I have

shown that during the 1990s, metropolitan Portland's residential land uses became more integrated with other land uses while neighborhood quality rose, but in Atlanta land uses became more segregated while neighborhood quality fell (Nelson, 2000a).

Elevating Design

One of the concerns about smart growth, at least as Porter¹ portrays it, is that urban areas must become more compact, more dense, more mixed, and more of the very things modern suburban America is worried about. Design is thus key to making more compact, more densely settled, and more mixed attractive. Design involves more than physical appearance; however, it includes designing infrastructure, recreation, and transportation systems, and, more broadly, land use systems to create attractive areas to be that create a sense of place. Recent publications such as *Density by Design* (Fader, 2000) and *Valuing the New Urbanism* (Eppli and Tu, 1999) demonstrate the value of design and the housing market's receptiveness.

What Are the Challenges?

For each of the promises there are challenges facing smart growth housing policies.

Increasing Housing Options

In many parts of the country, the only form of housing that is allowed is single-family detached units. In metropolitan Atlanta, for example, entire counties do not allow apartments or cluster homes. In one of those counties, detached homes must have a minimum of 1,500 to 1,800 square feet in heated area and be situated on lots of 12,000 to 18,000 square feet. Many counties require expensive appointments such as three- or four-sided brick, sodded yards, and minimum landscaped areas. In one Atlanta county, 80 percent of all public teachers and new private-sector workers cannot afford to purchase homes built there, and they cannot rent apartments because apartments not allowed (Nelson, 1999). For perhaps millions of households there is no choice in housing type. This is a product of traditional zoning that is prevalent in every State. Changing local zoning practices will be very difficult. Indeed, in some places, the term *smart growth* is used to justify exclusionary zoning practices because they consider it "smart" to exclude low- and moderate-income households.

Integrating Land Uses With Housing

What happens when a community embraces smart growth? Banks are often unwilling to underwrite it. Take the example of Ridenour in suburban Atlanta, located at the intersection of two major highways on one of the largest tracts of vacant

land in the vicinity. Ridenour is a mixed-use development on 88 acres composed of 64 single-family detached homes, 80 townhouses, 124 condominium units, 350 apartments, 500,000 square feet of office space, 112,000 square feet of retail space, and a village center composed of a hotel, a nursing home, daycare facilities, and bed and breakfasts (Visser, 2000). The entire project will cost \$280 million to build, but local banks are willing to finance only the residential element. The \$32 million needed for the town center has not been secured.

Elevating Design

Good design sells but the problem is that it is also expensive. Even when it is reasonably priced, good design can lead to higher rates of appreciation that effectively price people out of a market for which a project may have been originally targeted. For example, a recent study showed homes in New Urbanism communities to experience a premium price averaging approximately 11 percent and sometimes as high as 25 percent, even when construction standards are controlled (Eppli and Tu, 1999). It is possible that the supply of well-designed communities is insufficient to meet demand.

What Is the Federal Role?

It would seem that as the Nation's agency whose mission it is to provide decent, safe, and sanitary housing to every American and to provide sustainable communities, smart growth would be at the heart of what the U.S. Department of Housing and Urban Development (HUD) does. This seems to be the case as evidenced through a variety of housing and community development programs that have been initiated or retooled substantially during the Clinton Administration. HOPE VI; housing vouchers, employer tax credit programs in Empowerment and Enterprise Zones, and creation of new and expansion of existing targeted housing programs for elderly, disabled, and low-income individuals are significant efforts just now having measurable community impacts. HUD is also leading smart growth initiatives, especially the growing smart network, and in working with key industry groups to foster smart growth housing policies at the local level, particularly through the Building Homes in America's Cities initiative (with the National Association of Home Builders and allied interests). Few would question that more could be done.

There are other notable Federal efforts. The White House Task Force for Livable Communities (2000) is coordinating several smart growth initiatives among Federal agencies, local governments, foundations, and the private sector. They include

initiatives such as expanding transportation options, reclaiming brownfields, modernizing school construction and expanding the role of schools in communities, using open space to enhance communities' sense of place, expanding opportunities for affordable housing, improving community safety, using the clean air act to stimulate infill development, fostering disaster resilience, and assisting communities with their water needs. Numerous partnerships have been formed to achieve these objectives.

The Federal role is shaped by Administration efforts to assure that growth is smart in terms of equity, the environment, and the economy. The economy is generating more benefits to more people than ever before, and key environmental challenges are being addressed. Equity is more problematic. In many parts of the country, housing prices and rents are rising faster than wages, and despite gains in homeownership, many groups remain far below the national average in ownership. To address equity in the context of smart growth, the Federal Government may consider rewarding communities for inclusionary housing efforts and level the development playing field between the urban core and suburbs.

Consider first inclusionary housing rewards. For many hundreds of communities (usually suburban communities) State fiscal structures reward them for pursuing exclusionary housing practices. This leads to local zoning requiring large lots, large homes, low densities, and restrictions against apartments. Blatant exclusionary housing practices are unconstitutional and violate the Federal Government's Fair Housing Act, but dismantling blatant practices through the courts is simply not efficient and does nothing about the more common and subtle exclusionary practices. There is another way. If communities are *rewarded* for inclusionary housing practices, perhaps many will break down exclusionary barriers.

The design of a reward program should be composed of six elements. First, the rewards should probably go to the States, who in turn could pass a share of the rewards along to local governments. States are the logical starting point because they hold the key to reshaping statutes that pass rewards along to local governments (see Burby et al., 1997 for a review of State role in shaping local policies).

Second, some index of inclusionary housing needs to be developed by which the Federal Government can objectively measure progress towards inclusion. The index could be simple, such as number of "affordable" housing units per capita or an index

of housing segregation between housing types and prices among communities. Whatever it is, the index must be transparent and based on consensus so that States and housing interests have a common understanding of the basis on which rewards will be given.

Third, there should be a time dimension included in the reward structure. Some States may have more to do than others to achieve affordable housing index targets, but they should be rewarded for making positive steps. Other States that are already more inclusionary than the norm should be given both an immediate reward and an incentive to do more.

Fourth, there should be a competitive element, as well as an automatic award structure, to maximize efforts towards inclusionary housing. The competitive element can be very simple; States doing the most to achieve affordable housing as measured by the index within a given period of time (accounting for the fact that some States have much more to do than others) would receive the largest share of the competitive rewards. Any State, however, that shows reasonable progress (perhaps against preset targets) would receive a minimum reward.

Fifth, the rewards must be substantial, conceivably billions of dollars. The size of the reward itself could be based on reasonable estimates of the extent to which the Federal Treasury benefits from inclusionary housing. For example, to the extent to which inclusionary housing leads to improved accessibility to jobs, especially in the suburbs, aggregate incomes will rise nationally. For example, if full inclusionary housing can generate just \$1,000 more in household income for just 20 percent of the Nation's households, the Federal treasury would grow by \$2 to \$5 billion (depending on applicable marginal tax rates). This does not include other benefits such as likely reduction in transportation costs and air pollution, lower crime and higher educational attainment by the lowest income households, and a more socially integrated society.

Sixth, there should be a redoubling of those incentives that are known to be effective in producing housing with more emphasis on rewarding States that are effective. The Low-Income Housing Tax Credit (LIHTC) program run by the Treasury Department could be expanded with incremental credits going to those providers who make units available to very low-income individuals. Incremental credits could be awarded to States that have demonstrated their ability to maximize production of housing for

very low-income individuals. For example, some States award LIHTCs to providers who provide high numbers of low-income housing units and promise to retain low-income units beyond the 15-year minimum, whereas others simply award LIHTCs on a first-come-first-served basis, often based on just meeting minimum expectations. Incremental LIHTCs could be used to reward States for doing well but without penalizing others that just do the minimum.

Housing vouchers have also proven themselves but face two significant limitations: there are not enough of them, and, in some markets, they are not competitive. States can play a role here, as well. One form of inclusionary housing can be State-level matching of vouchers, especially in high-cost metropolitan areas. The effect may be a higher inclusionary housing score and thus eligibility for Federal inclusionary housing rewards.

Leveling the playing field between the urban core and suburbs can be a second significant initiative of the Federal Government. This would not be done by making development in suburbs more difficult but rather by making development in the urban core far easier and profitable than is the case today. Three initiatives come to mind.

First, urban brownfields and even “grayfields” need a jump start for redevelopment. Federal laws may need to be overhauled to address liability issues but certainly Federal resources need to flow more freely to urban core communities to transform areas blighted by brownfields into community assets and national economic engines.

Second, urban core infrastructure is often in the way of progress either because of its age or because of its undercapacity relative to demand and often both. Reinvesting in urban core infrastructure can yield substantial benefits, and yet it is a cost that cannot be avoided because the infrastructure already exists and must be attended to.

Third, the Federal Government can help facilitate urban core infill and redevelopment. The Million Home Initiative spearheaded by HUD and the National Association of Home Builders is but one example of how HUD is working with State and local governments and private interests to reshape decisionmaking processes. Similar bridges can be built with retail, office, and urban industrial interests to create One Million More Jobs in the urban core.

There is a final initiative that the Federal Government can launch: Crafting a national consensus on and vision about smart growth. The term can mean different things to different people; therefore, smart growth initiatives can be troubled by inconsistent perceptions about what it is. This is not to say that there is a single definition or vision—there is not. It is to say, however, that a set of guiding principles can help sustain popular interest in the concept.

Concluding Observations

Consider the stakes ahead for the next generation. Over the next 25 years, up to half of the built environment existing in 2025 will have been built between now (2000) and then. (This assumes a 25-percent increase in structures to support population and employment growth and demolition of just 1 percent of the present building stock annually.) The opportunity to reshape the built environment has not been equaled since perhaps the end of the World War II. Now is the time to shape a vision to ensure that the future built environment will generate more benefits for more people, more equitably, than the current built environment.

Endnote

¹ Douglas R. Porter. 1999. *Whither Eastward Ho!* Unpublished paper. Chevy Chase, MD: Growth Management Institute.

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