



# A Decade of Growth and Prosperity

## BRIEFLY

Ten years after the legislature adopted the Growth Management Act, Washingtonians continue to grapple with the effects of growth and economic development. Without question, the state's economic prosperity, concentrated in the Puget Sound region, has spurred population growth. And that increased population has, in turn, generated increased economic activity.

In a series of reports, the Washington Research Council will address some of the issues attending economic and population growth. This first report examines the relationship between growth and prosperity.

## Introduction

With a decade gone since passage of the state's Growth Management Act and with the volume of information written on various aspects of its success or failure reaching towering proportions, the debate over growth continues unabated. While at the edges the debate can be summarized as "pro-growth" versus "no-growth," for most Washingtonians the issue is more complicated. Now, the debate focuses on "smart growth," which many favor – although the definition of what's "smart" is far from uniform.

However defined, Washington has experienced – and, for the most part, enjoyed – spectacular growth in the last decade. Statewide the 1990s netted Washington 600,000 new workers. It was "the greatest job-generating decade in history," according to Chief Employment Security Economist, Dennis Fusco.<sup>1</sup> "Labor force growth shot up strongly early in the decade as net migration into the state ballooned, attracted by a rising area economy sitting in the midst of a national recession... as the national economy picked up..." he explains, "labor markets progressively tightened, and statewide unemployment dropped to 30-year lows in late-1999."

Personal income is up; unemployment is down. In the Puget Sound area, where most of the activity has been centered, housing prices have skyrocketed in response to unprecedented demand and new regulatory restrictions. Population growth also challenges the transportation system. Thousands of new vehicles have been added to a highway system that has seen minimal increases in capacity in decades. As a result, Seattle-area congestion now ranks second in the nation.

But the effects of growth have not been distributed uniformly. In eastern Washington and in many parts of rural western Washington, unemployment remains high and per capita personal income in some areas has actually fallen, relative to national averages. And even in the midst of prosperous metropolitan communities, poverty, street crime and homelessness continue to challenge urban policymakers.

In a series of papers the Research Council will address some of these issues and others that attend growth and prosperity and discuss their implications for public policy.

In this first paper we will discuss the nature of growth — its benefits and the challenges it presents business, civic and political leaders.

## No Prosperity Without Growth

Communities throughout the state, as well as both the state and federal governments, support numerous organizations that promote economic growth. Some coordinate the planning to determine the array of assets present on which an area may build its economy. Others develop programs to identify and attract specific business locations. Still others work to fashion financial packages that





help to ease the upfront location costs of a new facility. What's the purpose? What is the perceived reward that attracts such intense effort and investment?

The simple answer is the anticipation of wealth creation and greater prosperity.

## **Creating Wealth**

Businesses create jobs that support workers and their families. Together, workers, their families, and the businesses that employ them create taxable wealth. Tax revenues allow people to work together to accomplish objectives too big for a few to do by themselves. Working often through government, we are able to build and maintain schools, parks, utilities, roads, and many other services that benefit everyone.

So, wealth is really the primary element for us to understand and appreciate as we discuss the benefits of growth. The main statistical indicator of an area's wealth is total personal income. Based on figures produced by the Bureau of Economic Analysis, Washington State's total personal income grew from \$96.1 billion in 1990 to more than \$176.2 billion in 1999 (preliminary), representing a 50 percent inflation-adjusted increase. In King County, which claims about 41 percent of the state's economy and which has been the epicenter of the state's economic growth, total personal income grew from \$39 billion in 1990 to about \$68 billion in 1998 (most recent data available), an inflation-adjusted increase of nearly 44 percent.<sup>2</sup>

Per capita personal income (PCPI) – income per person, on average – in Washington has grown from \$23,878 in 1995 to \$30,295 in 1999. Compared with the rest of the country this has resulted in Washington moving from 18<sup>th</sup> nationally in PCPI to 12<sup>th</sup> in just five years.<sup>3</sup>

## **Wealth Supports Increased Consumption**

Increased income results in increased spending – for residential and commercial real estate and other property; for consumer goods; and for inputs to business production or service. Retail sales illustrate the upward trend of our wealth in Washington. Statewide, taxable retail sales grew from \$48.5 billion to \$80.2 billion from 1990 to 1999, according to the state's Department of Revenue. This represents inflation-adjusted growth of about 35 percent. This magnitude of retail spending generated retail sales and use revenues for the state's general fund that grew from about \$3.3 billion in Fiscal Year (FY) 1990 to nearly \$5.3 billion in FY 1999.<sup>4</sup>

In King County growth in retail sales tax revenues was similar. From about \$218 million in 1990, County tax revenues from retail sales grew to \$364 million in 1999, a growth of 36 percent adjusted for inflation.

## **Wealth Supports Community Development and Shared Resources**

Income and taxes, together with a large enough population, make it possible for communities to support a variety of recreational and social activities and facilities. Consider Seattle. With a population upward of 520,000, in a



metropolitan area of 2.3 million, residents and visitors support art museums, an aquarium, a zoo, several professional team sports and two new stadiums, the opera, numerous theaters, several universities, world-class hospitals and health care resources, to say nothing of a wide variety of shopping, restaurant, and nightlife venues.

### **Wealth Demands More People**

Population increase and business growth feed each other. As businesses locate and expand within an area, they need people to fill the jobs they create. Headlines throughout the state have captured well the plentiful job environment in Washington in recent years: “The Work Goes Wanting” (*The News Tribune*, 6/18/97), “Business Feeling Labor Pains” (*Wenatchee World*, 6/15/97), “Employment Agent Battles a Labor Shortage” (*Seattle Post-Intelligencer*, 8/7/97), “Labor Rate Remains Tight in County, State” (*The Columbian*, 8/20/97).

Statewide, unemployment continues to be low. In October of 2000 it was 4.4 percent compared with a national average of 3.6 percent. This rate reflects the seasonal characteristics that still affect much of the state’s economy. In the Puget Sound area King County’s unemployment rate was 3.4 percent, with Snohomish County following closely at 3.5 percent. Interestingly, unemployment in Kittitas County, east of King County and across the mountains, has also experienced a tight pool of labor resources, with a jobless rate of 3.9 percent. Pierce and Thurston Counties to the south have rates of 4.8 and 4.7 percent, respectively.

Population, though, is the growth factor most noticed by the average observer. As we quoted above, Washington’s population “ballooned” during the 1990’s, growing from 4.9 million in 1990 to 5.8 in 1999. This change amounted to 18 percent. Not surprisingly, much of it (50 percent) ended up in the Puget Sound area.<sup>5</sup>

### **More People, More Demand, More Opportunity – For Everyone**

As population grows, more opportunities are created for new and expanding businesses catering to the larger number of people, and the cycle of growth continues.

*Economic growth results in greater opportunity for people at the lower end of the economic ladder.* The ranks of people in poverty in Washington dropped from about 12 percent in 1993 to about nine percent in 1999. Nationally, by comparison, the 1999 poverty rate is about 12 percent.<sup>6</sup> And although poverty remains an issue in Washington, economic growth has clearly afforded important opportunities to people of all skill levels who might otherwise have been un- or under-employed. Workers just starting out – like recent graduates or newcomers to our country – as well as ethnic and social minorities and people needing retraining for jobs in the new economy are all more likely to find work in a growing economy.<sup>7</sup>

*Urban growth can benefit neighboring communities.* As we have shown, in the greater Seattle area and King County, as local resources are more fully utilized, labor, housing and transportation systems reflect their short supply both in time and money. Price increases and increased commute times have caused



people and businesses to look to nearby counties – Snohomish, Pierce, Thurston, Kittitas, Kitsap — for office space, employees and housing.

*The prosperity that economic growth brings also provides people with the discretionary time and money to share with others.* According to some environmental economists, “The need to choose between economic growth and environmental quality may seem obvious when economic activities affect the quality of our air or water... Yet data from around the world support a more optimistic view... Once people have enough income so that they are not struggling to put food on the table, they become more willing and able to take actions to reduce (or avoid) environmental damage and improve the quality of the environment... In economic terms willingness to pay for costly environmental measures is highly elastic with respect to income.”<sup>8</sup>

The Bill and Melinda Gates Foundation is only a recent, high profile, local example of how prosperity supports both local and global communities. For decades private foundations, like theirs, as well as private individuals have regularly contributed to a wide array of causes from large-scale efforts to discover new, life-saving drugs or purchase and preserve sensitive forests or wetlands to buying computers for schools and libraries and contributing to the local United Way.

So, growth goes well beyond just more people and more congestion. Done thoughtfully, growth can result in more prosperity, more opportunity, and more inclination on the part of an increasing number of people to help others and improve our world.

The issue is not growth versus no-growth or, indeed, *whether* we should grow. When an area has been identified to be attractive, as Washington State obviously has, growth is inevitable. The issue is *how* we should grow. Our challenge here in Washington, where quality of life and environmental integrity are strongly and widely held values, will be to lift the debate to a new level. The National Governor’s Association Center for Best Practices puts it this way, “Changing the way we grow requires a lot more than changing laws and redirecting state funding. Maintaining vibrant growth without adverse impacts also means developing public consensus for social and cultural changes that can protect and elevate a state’s quality of life and place.”<sup>9</sup>

This is the challenge. In future papers on growth we will address the importance of infrastructure to support growth; local governmental processes and their effect on growth; the impact of government regulation, including growth management, and fees on development costs; the effects of infill development; the balance between jobs and housing; how growth pays for itself in increased tax revenue; and the economic contribution of the real estate and development industry; as well as a discussion on the inventory of developable land and the barriers to their development.



- <sup>1</sup> *Growth Moderates and Economy Moves Forward*, Dennis Fusco, Chief Economist, LMI Review, Fourth Quarter 1999, Washington State Department of Employment Security, <http://www.wa.gov/esd/lmea>.
- <sup>2</sup> Selected Economic Data, Washington State Department of Employment Security, <http://www.wa.gov/esd/lmea/labmrkt/sed>, based information from the U.S. Department of Commerce, Bureau of Economic Analysis.
- <sup>3</sup> Selected Economic Data, Washington State Department of Employment Security, <http://www.wa.gov/esd/lmea/labmrkt/sed>, based information from the U.S. Department of Commerce, Bureau of Economic Analysis.
- <sup>4</sup> Quarterly Business Review, State of Washington Department of Revenue, 1990 and 1999, <http://www.dor.wa.gov>.
- <sup>5</sup> Population and Components of Population Change by County, 1990-2000, State of Washington, Office of Financial Management, Forecasting Division, <http://www.ofm.wa.gov/countypop/county.pdf>.
- <sup>6</sup> Poverty by State, 1993-99, U.S. Department of Commerce, Bureau of the Census, <http://www.census.gov/hhes/poverty>.
- <sup>7</sup> Washington State Economic Climate Study, Office of the Forecast Council, September 2000, Volume V, <http://www.wa.gov/ofc/pubs/clim0900.pdf>.
- <sup>8</sup> Economics, Private and Public Choice, James D. Gwartney, Florida State University, Richard L. Stroup, Montana State University, Russell S. Sobel, West Virginia University, The Dryden Press, 2000.
- <sup>9</sup> Growth and Quality of Life, National Governor's Association, Center for Best Practices, 1998, <http://www.nga.org/CBP/Activities/SmartGrowth.asp>.



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# A Firm Foundation for Growth

## BRIEFLY

Adequate infrastructure - roads, water and sewer systems, schools - can assure that accommodating the influx of new population works to the benefit of communities in fast-growing regions of our state. Today, however, Washington faces significant backlogs in necessary infrastructure investment.

While road construction and maintenance represents the most immediate and critical demand, reliable research documents substantial need for local government infrastructure investment, as well.

## Importance of Infrastructure

Infrastructure – roads, water and sewer systems, jails, parks, and schools – form the foundation of a community’s plan for economic growth and prosperity. Investing in well planned, properly financed, public infrastructure helps accommodate and direct growth to the benefit of the whole community.

The growth experienced by Washington State over the last decade demonstrates this is a place that people want to live. Washington’s economy has grown by 50 percent, spurring population growth of 18 percent. According to state projections, more people are on the way. The state’s official forecasters anticipate that statewide population will grow by 280,000 people by 2005 to total 6.1 million people.<sup>1</sup>

In a series of focus groups sponsored by the Washington Association of Realtors in July of 2000, citizens were asked to describe what actually attracts newcomers to our state. Said one: “(It’s) the variety of things that are offered here in this area. You have the lakes...the mountains...the city...the country...farms. Desert, rainforest...the coastline within a four or five-hour drive to Seattle. You have virtually every known type of terrain. It’s very unique in that way.”<sup>2</sup>

For many newcomers, of course, there is also the attraction of a well-paid job.

To accommodate significant population growth, well-planned and adequately maintained capital infrastructure is vital. Some “no-growth” advocates argue against expanding infrastructure capacity as a means of thwarting new development – the “if you don’t build it, they won’t come” technique, perhaps. But while withholding investment may temporarily slow the influx of people and inhibit economic activity, it also causes leap-frog development, sprawl, and poorly planned communities, compromising the integrity of existing systems, jeopardizing public safety, economic vitality, and, ultimately, our quality of life.

Infrastructure is like clean air and water. Everyone takes it for granted until there is an obvious problem.

Unfortunately, local and national studies tell us that problems with our infrastructure have become obvious. Assessments show roads, bridges, water systems, and waste disposal facilities as well as dams, schools, airports, and transit systems need billions of dollars of repairs, upgrades, and additions.

A “Report Card for America’s Infrastructure”, released last year by the American Society of Civil Engineers, gave the nation’s infrastructure low marks. The worst mark – an F – went to schools. Roads and hazardous waste received D minuses. Mass transit, with the highest mark, only received a C. To fix all these, the report estimated would cost more than \$1 trillion nationally. Superfund cleanup is estimated to cost another \$750 billion.<sup>3</sup>





Writing last year about the “*Report Card*,” Daniel Turner, president of the American Society of Civil Engineers said, “The nation’s public works are public assets. All Americans have a stake in their upkeep and operation, and share in the expense of construction and maintenance...While some needs are being funded already through Federal, state and local programs and user fees, the current poor condition of the infrastructure indicates that investment levels are clearly inadequate.”<sup>4</sup>

Turner summed up the national problem this way. “While many infrastructure problems stem from limited funding at all levels of government, several other factors are involved. As a society, the nation continues merely to patch up outdated and fragmented...systems instead of investing in innovative technologies...and encouraging new behaviors. It also focuses efforts on “end-of-the-pipe” solutions...instead of reducing [the problem] at the source.”

In Washington last year, the state Public Works Board issued a report called the “State of Washington Local Government Infrastructure Study.” Based on a survey of 487 local governments, the study identified funding needs for a limited set of local infrastructure projects for the six-year period 1998-2003.<sup>5</sup> These totaled \$8.16 billion with an estimated funding shortfall of \$3.05 billion. Fifty percent of the money would go to roads and bridges, with the remaining 50 percent for domestic water, sewers and storm water systems.<sup>6</sup>

Transportation is undeniably the most critical of these needs. It’s been bad and getting worse for some time. Nearly three years ago, Roundtable leader and Microsoft chief operating officer Bob Herbold said, “We see almost unlimited potential for the future of computing technology, and we’ve searched the world for the best and brightest software programmers to help us realize that potential. However, something as mundane as traffic congestion is now a serious problem for our company. Today, gridlock adversely impacts our employees both in terms of getting to and from work and in trying to enjoy the great Northwest.”<sup>7</sup>

Roundtable chairman, Kerry Killinger and committee chair Bob Helsell, in a Seattle Times opinion editorial, added that congestion “harms our economy by stifling the flow of freight between businesses and to and from our ports...The ports of Seattle and Tacoma combine to form the second largest gateway for container cargo in the nation, behind Long Beach,” they wrote. “But our ports are losing market share because congestion is slowing access to them.”<sup>8</sup>

The Texas Transportation Institute confirmed their remarks citing congestion in the Seattle area to be among the worst in the nation.<sup>9</sup>

Traffic congestion has become a major factor in how people feel about growth in general. A Quality of Life Survey conducted in September 2000, by the Washington Association of Realtors found that the people’s resistance to growth had overwhelmingly to do with their concerns for traffic. “All other opinions and attitudes towards growth must filter through their [negative] feelings about traffic,” the survey concluded.<sup>10</sup>

Last month, the Governor’s Blue Ribbon Commission on Transportation released its findings and recommendations on what it terms, “the state’s transportation crisis.” In it the commission calls for spending between \$8 and \$12 billion over the next six years. In promoting its recommendations, the Commission said, “If enacted, our recommendations will ensure a safe and



reliable statewide system, ease congestion, speed delivery of products to port, preserve the quality of our air, and give the public transportation choices. This means people will be able to spend more time living their lives, not sitting in traffic. Our businesses will be confident that they can grow and prosper instead of looking to relocate. Our children will inherit an environment that is not choked by smog. And, people will be able to choose from a number of safe and sound ways to get from one place to another.”<sup>11</sup>

In the coming months there will be much debate over our infrastructure – transportation, to be sure, but also, water quality and supply, sewers, sewage treatment, school buildings, and energy supply. The debate at this juncture will not be on whether new and on-going investment is necessary. That question has been settled – the jobs are here; the qualities that have drawn people here will continue to attract; more people are on their way.

The debate now turns to how much it will cost; when it must be paid; how; and by whom. Most of these questions will be answered in Olympia and in local city halls.

In doing so, local and state lawmakers must establish priorities. If new sources of revenue are required – and it’s likely they are – they must assure the money is spent on critical projects, like water and sewer systems, roads, schools and parks, that help to accommodate growth and facilitate appropriate development. Recent elections have shown the public will support additional public investment when taxpayers believe the money will be spent prudently. Failure to provide the infrastructure necessary for a growing population increases the inevitable costs and jeopardizes the quality of life for existing residents.

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<sup>1</sup> Provisional Forecast of the State Population by Age and Sex: 1990 - 2020 November 2000 Forecast, State of Washington, Office of Financial Management, 11/2000. <http://www.ofm.wa.gov/popagesex19702020/forecast00.pdf>

<sup>2</sup> *Washington Needs to “Think Big” When Planning for Future Growth*, Washington Association of Realtors, <http://www.warealtor.com/warealtor/focusgroups.htm>.

<sup>3</sup> Report Card for America’s Infrastructure, American Society of Civil Engineers, 1999.

<sup>4</sup> *America’s Crumbling Infrastructure*, USA Today (Magazine), Daniel S. Turner, May 1999.

<sup>5</sup> The study limited the infrastructure needs considered to those local government issues involving roads, bridges, domestic water systems, sanitary sewers, and storm water systems. It further limited these capital projects to include only those contained in a “financially constrained” plan as defined under the Growth Management Act. As stated in the study, “Under GMA, local jurisdictions’ capital facilities plans are required to show that the financial capacity exists to meet planned improvements. Communities must prioritize their needs from a “full” list of projects by carefully balancing community needs, regulatory requirements, and available funding. The result of this balancing process is a financially constrained plan...”

<sup>6</sup> Local Government Infrastructure Study, Final Report, State of Washington, Public Works Board, June 1999. [http://www.crab.wa.gov/pwtf/Reports/Infrastructure Ex Summary.PDF](http://www.crab.wa.gov/pwtf/Reports/Infrastructure%20Ex%20Summary.PDF)

<sup>7</sup> *Transportation Woes Call for Bold Action*, Kerry Killinger and Bob Helsell Op-ed, Seattle Times, February 18, 1998. <http://archives.seattletimes.nwsourc.com/web/index.html>

<sup>8</sup> Ibid.

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<sup>9</sup> 1999 Annual Mobility Report, Texas Transportation Institute, 1999. <http://mobility.tamu.edu/study/PDFs/chapter2.pdf>

<sup>10</sup> *Smart Growth and other Land-Use Issues in Washington*, Public Opinion Strategies for the Washington Association of Realtors, September, 2000. <http://www.war.org>.

<sup>11</sup> Letter to Governor Locke from Blue Ribbon Commission on Transportation, November 29, 2000. <http://www.brct.wa.gov/>





**BRIEFLY**

Imbalances in the location of jobs and housing are an increasing problem in the most heavily urbanized areas of Washington. These imbalances contribute to a deterioration of the regional quality of life, extending commute times and increasing congestion.

# Managing Growth is a Balancing Act

Imbalances in the location of jobs and housing are an increasing problem in the most heavily urbanized areas of Washington. These imbalances lengthen commute journeys and increase congestion.<sup>1</sup> Moreover, the shortage of housing near to centers of employment pushes up house prices.

In the metropolitan Puget Sound region, in particular, conditions have significantly worsened in recent years. Unless the urban center increases the housing supply to accommodate workforce growth, the consequence will be a growing lack of housing affordable to middle-income workers, more arduous commutes, and a stifling of economic vitality.

Importantly, when the state adopted the Growth Management Act, maintaining an acceptable “jobs-housing” balance was a clear objective. In the state’s fastest growing region, however, job growth has far outpaced housing supply, aggravating the problem growth management attempted to relieve.

## There are significant jobs-housing imbalances in the central Puget Sound region

The State Growth Management Act, enacted in 1990, increased the powers of urban counties to regulate land use and requires the counties to use these powers.

The Act requires urban counties and their cities to adopt comprehensive plans to manage growth. These plans should channel development to urban areas and reduce sprawl. Most development is to be confined within an urban growth boundary.

Vision 2020 is the regional growth strategy for the central Puget Sound region adopted by the Puget Sound Regional Council under the Growth Management Act. Development is to be concentrated in urban growth areas. The urban areas in turn should be made up of compact communities, with jobs and housing concentrated in centers. As a result, it should be easier for people to walk, bike, and use transit. The centers will be framed by open space.

Achieving an acceptable jobs-housing balance is an explicit goal of Vision 2020.

In spite of growth management, however, jobs-housing imbalances in the location of jobs and housing are worsening across King, Pierce and Snohomish counties.

Growth over the past 30 years has resulted in significant disparities between new jobs and new housing.

Since 1970, the metropolitan region added more than a million jobs and just over 600,000 housing units. By 1999, there were 1,817,000 jobs and 1,254,000



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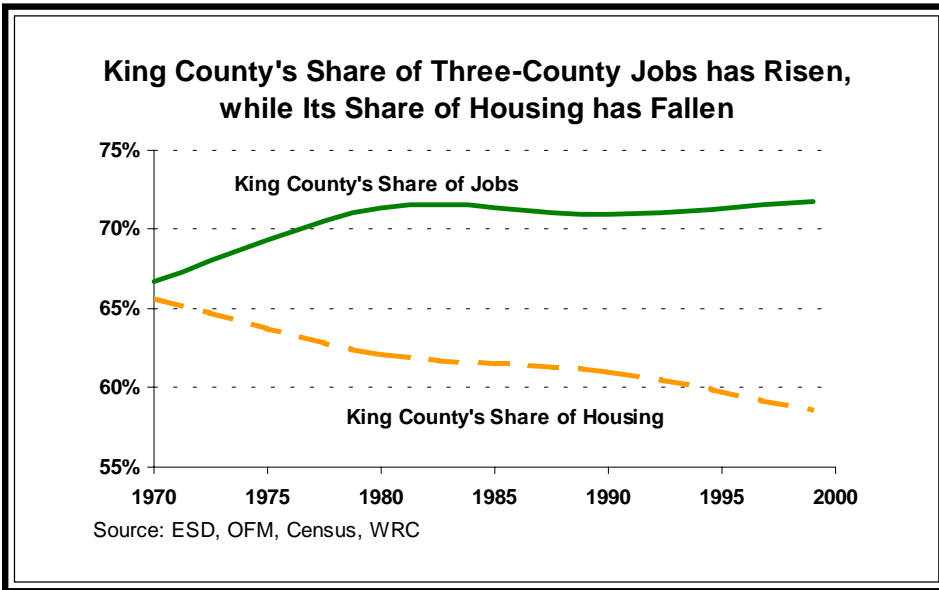
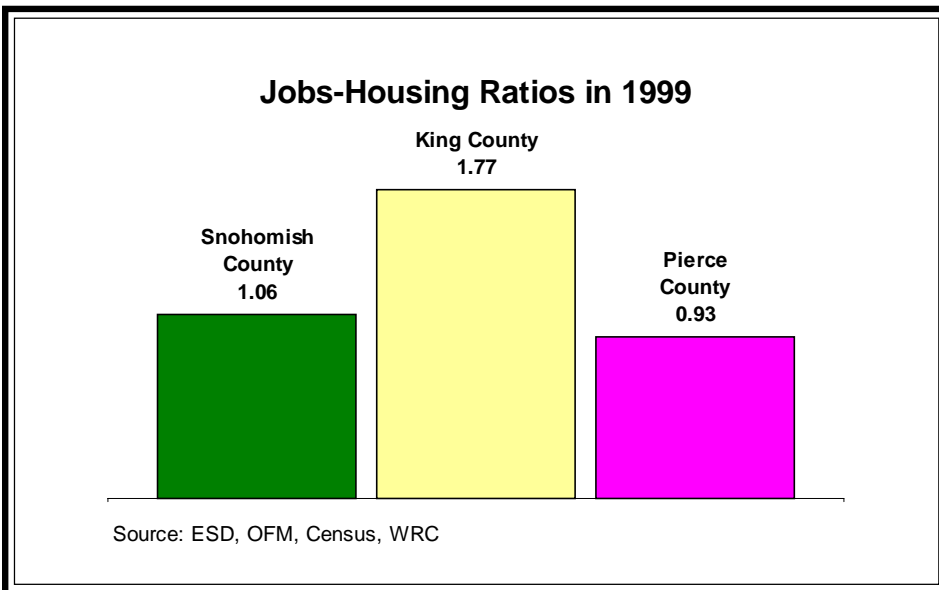


CHART 1

CHART 2



housing units in these three counties, a ratio of 1.45 jobs for each unit of housing. Three-quarters of the new employment landed in King County, but the county added only half of the new housing units. The county's share of the three-county job total increased from 67 percent to 72 percent over the period, while its share of total housing fell from 66 percent to 59 percent.<sup>2</sup> (See Chart 1.)

Between 1990 and 1999, King County added 262,000 jobs and 88,000 units of housing, three new jobs for each new housing unit.

As a result King County's jobs-housing ratio of 1.77 was significantly higher than the three-county average. Correspondingly, the ratios for Pierce County, 0.93, and Snohomish County, 1.06, were well below the average. (See Chart 2.)

The long commutes that are encouraged by these imbalances are a contributing factor to the region's infamous traffic congestion.

As well, the growing imbalance has contributed to escalating housing prices. Where the jobs-housing balance is most severe, housing costs have risen most dramatically. In December 2000, the median selling price of a house was \$250,950 for King County. For Pierce County, the median price was \$150,000; for Snohomish County, \$199,950.<sup>3</sup>

The GMA embodied elements of what some have termed "Smart Growth." Although the term that is subject to varying interpretations, GMA proponents were drawing on a fairly specific academic and planning tradition.

Let's briefly review.

### Balance is a key goal of Smart Growth

During the 1990s planners adopted the term Smart Growth to stand for a collection of principles for shaping regional development. Smart Growth favors mixed land uses, compact building design, and walkable communities with a strong sense of place. Center cities and existing older suburbs should encourage



infill development. New suburban development should be compact, to economize on infrastructure costs and facilitate pedestrian and transit access. Open space should be preserved.

Smart Growth emphasizes balancing jobs and housing to reduce the reliance on automobiles and the resulting traffic congestion. The goal is to provide people with the opportunity to live near to where they work.

### **The movement of jobs to the suburbs has not reduced congestion**

***Large-scale jobs-housing imbalances appear to be less of a problem in Washington's metropolitan areas away from the central Puget Sound region. For 1999, the countywide jobs-housing ratio for Clark County was 0.99; for Spokane County, 1.24; for Whatcom County, 1.07. There may be smaller scale imbalances that do not appear in the countywide data.***

The natural process of urban growth leads to a concentration of employment.

In the early stages of metropolitan growth, jobs tend to concentrate in downtown business districts, which are the focus of the metropolitan transportation system. Employers find it more profitable to locate at the urban center and bid up the price of land there. Residential uses move to the periphery of downtown where land is cheaper and eventually, if growth continues, to the suburbs.

Initially, the suburbs are simply bedroom communities. But as growth continues, the commute from the suburbs to downtown becomes increasingly difficult. Employment begins to move to the suburbs. As a consequence, the ratio of jobs to housing tends to grow over time in the suburbs.<sup>4</sup>

This shift of jobs to the suburbs might be expected to reduce commute times. However, Professor Robert Cervero of the University of California observes that “despite the steady migration of jobs to the suburbs . . . many suburban residents commute further than ever.” The reason, Cervero believes, “is a widening jobs-housing imbalance” within the suburbs.<sup>5</sup> Many suburban workers are forced into long commutes because they are unable to find affordable housing near their jobs.

Cervero identifies five forces that have contributed to these jobs-housing imbalances. Some suburban jurisdictions practice *fiscal and exclusionary zoning*. They use their zoning powers to encourage commercial and industrial developments for the bountiful taxes that these generate. At the same time the jurisdictions discourage housing for the people who work in these developments. Jurisdictions also impose *growth moratoria* to prevent the construction of new single family or multifamily homes, limit the number of permits that they will issue, or raise the minimum lot size for homes.

Restricted housing supplies raise the cost of housing, leading to *worker earnings/housing cost mismatches*. Moderately paid workers cannot afford the housing prices near many suburban job centers and are thus forced into long commutes. In the case of *two wage-earner households* it simply may not be possible to locate close to both places of work. Increasing rates of *job turnover* are a second demographic trend that contributes to jobs-housing imbalances. When workers have short expectations for job tenure, the incentive to move closer to the workplace is reduced.

Cervero finds considerable empirical support for the proposition that high suburban housing prices and high suburban jobs-housing ratios exacerbate congestion.



In a study San Francisco Bay area cities based on 1980 census data, Cervero found a negative correlation between the jobs-housing ratio and the percentage of the city's jobs that were filled with local residents.<sup>6</sup> In a subsequent study with 1990 census data, Cervero and Michael Bernick found that Bay area cities with high housing prices tended to have very high shares of their workers living elsewhere. Those who worked in cities with high jobs-housing ratios tended to have longer commute times.<sup>7</sup>

In a study focusing on suburban congestion, Cervero found that higher jobs-housing ratios were associated with increasing peak-hour freeway congestion.<sup>8</sup>

Laurence Frank and Gary Pivo found, in a study of the Puget Sound area, that those living in more balanced areas had shorter commutes, both in time and distance.<sup>9</sup> Reid Ewing used data from the 1990 census to study commute trips by residents of 500 Florida cities. He found that the more balanced were a city's jobs and housing, the more likely were residents to work in the city they lived in.<sup>10</sup>

## Conclusion

Done thoughtfully, growth results in more prosperity and more opportunity for the people who live here.

As the Research Council has previously observed, "the issue is not growth versus no-growth or, indeed, whether we should grow. When an area has been identified to be attractive, as Washington State obviously has, growth is inevitable. The issue is how we should grow."<sup>11</sup>

With the possible exception of those who would pull up the drawbridges and try to stop growth altogether, Washingtonians recognize that sensible ("smart") growth requires an adequate supply of housing affordable to people at all income levels. In the decade since the passage of GMA, residents of the Puget Sound region have seen an erosion of that housing supply. The present jobs-housing imbalance contributes to a deterioration of the regional quality of life, extending commute times and increasing congestion.

Increasing the amount of housing close to the work place, as anticipated by the GMA, will certainly require some changes in existing regulatory policy and, perhaps, in public opinion. But the benefits are clear. Until the housing supply catches up with employment growth in the metropolitan region, the potential of Smart Growth will remain unrealized.

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## Endnotes

- <sup>1</sup> Anthony Downs, *Stuck in Traffic: Coping with Peak-Hour traffic Congestion*, Washington, D.C.: 1992, p. 98.
- <sup>2</sup> Employment estimates based on data from the state Employment Security Department, adjusted to include workers not covered by unemployment insurance. Housing estimates from the Census and the state Office of Financial Management.
- <sup>3</sup> Northwest Multiple Listing Service.
- <sup>4</sup> Downs, pp. 101-102.
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# Local Government Efforts to Promote Economic Growth and Development

Cities and counties play a major part in the competition for economic growth and development. They can encourage growth by establishing policies and programs to accommodate development. Or, they can discourage development with uncertain, inconsistent policies and no-growth moratoria. Frequently, they do both. While discouraging growth – to the long-term detriment of the community – is by far the easier task, local governments here and across the country are demonstrating that smart growth policies can accommodate and foster economic growth while enhancing the community’s quality of life.

In this fourth of our series, *Growth in Perspective*, we discuss what local governments are doing to promote economic growth and development and what they need to do in order to be more successful.

As we have previously observed, there are as many interpretations of “smart growth” and how it should be accomplished as there are communities throughout the country. This is good news, according to Steve Hayward, a senior fellow with the Pacific Research Institute in San Francisco. Hayward says that a “simplistic, one-size-fits-all” approach would be a “profound mistake.”<sup>1</sup>

Growth policies must be sensitive to community values and conditions. But there are problems that are ubiquitous, and solutions and approaches that have common application. Current zoning in many areas, for example, makes smart growth illegal with requirements for wide streets, large set backs and lot sizes, and prohibitions on mixed uses. While regions will vary on how they choose to address these restrictions, there are a number of positive developments emerging according to the Urban Land Institute. These include:

- Alternative street design guidelines necessary to create smart growth neighborhoods;
- Alternative zoning overlays that permit greater mixes of use, lower parking requirements, and smaller setbacks;
- Developers that are building smart growth communities, earning good returns, and creating comparables necessary to financing future projects;
- Local governments that are speeding up permitting processes for developments that meet smart growth goals;
- States that are making brownfield redevelopment easier, providing liability protection, favorable financing, and discounted impact fees; and
- Capital gains tax revisions on home sales that allow people to trade down without incurring a tax penalty.<sup>2</sup>



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Infill housing in cities like Washington, D.C., Boston and San Francisco, where urban living is well established, in cities such as Dallas, Nashville and Milwaukee, where it is not, as well as in new compact suburban communities, like Harbor Town in Tennessee, Kentlands in Maryland, Laguna West in California, and Southern Village in North Carolina, have benefited from a fresh view of land use policies and are meeting with “remarkable acceptance across the country,” according to the National Association of Realtors (NAR).<sup>3</sup>

### **Coordination is the Key**

NAR which supports “smart growth” and “new urbanism,” says that “too often, local governments rush to adopt plans and ordinances without a community consensus on what it wants the future of the community to be.” NAR has found that local zoning and permitting regulations and restrictive building and environmental codes in many areas of the country have been adopted in a “piece-meal” fashion over time. Soaring housing prices, reduced effort to build affordable housing, racial and ethnic segregation, and traffic congestion, according to the report, are unintended consequences that can often be traced back to problematic local growth policies and regulations.<sup>4</sup>

In Washington the legislature enacted the Growth Management Act (GMA) in part to address these problems. Adopted in 1990, GMA requires cities and counties in the fastest growing areas of the state to prepare comprehensive plans. The rationale is, if a community coordinates all its critical growth-related activities, and if its plan is consistent with state and federal laws and regulations, it will achieve its growth and quality of life objectives more effectively. The critical growth elements that GMA requires are land use, housing, capital facilities, transportation, utilities, shorelines, and rural character. A community’s plans must articulate the amount, location, and density of various types of land uses – residential, commercial and industrial. Development regulations, like subdivision and zoning ordinances, are required. And, areas that are defined to be especially vulnerable, like wetlands and flood-prone areas, as well as farm and forest lands, must be identified and plans developed for their protection and conservation.

GMA recognizes that government decisions at all levels in land use, transportation, and capital facilities (such as roads, water and sewer systems) affect an area’s ability to increase its wealth and economic vitality. Confirming the NAR report findings, Washington’s Office of Community Development reports that prior to GMA, “. . . many Washington cities and counties had land use regulations that were developed a piece at a time, not necessarily consistent with each other or based on a set of common goals. . . Now, the GMA requires local governments planning under GMA to adopt development regulations that carry out and are consistent with the comprehensive plan.”<sup>5</sup> In order to facilitate orderly development, land use regulatory reform, passed in 1995, requires all local governments in Washington “. . . to establish integrated, consolidated land use permit systems.”<sup>6</sup> In turn, once these plans have been reviewed and adopted, state agencies are also required to adhere to them.<sup>7</sup>

Beyond a comprehensive, integrated approach to addressing what can seem to be the conflicting goals of economic vitality and quality of life, the NAR report suggests that a good first step is for a community to conduct a “smart growth



audit.” This audit would review a community’s policies and regulations — comprehensive plans, zoning ordinances, transportation plans, environmental policies, water and sewer plans, capital improvement programs, permit regulations, and other related documents — and evaluate the extent to which they promote the goals of the community, accommodate growth, encourage or discourage responsible development, and are consistent with one another.

If done properly, Washington comes close to requiring its communities planning under the GMA to perform the tasks associated with a smart growth audit. RCW 36.70.130 requires counties to fully review and evaluate their development regulations, comprehensive plans, and critical areas ordinances and their effectiveness in achieving goals and accommodating growth. Success is hard to document yet, however, according to Holly Gadbow at the Office of Community Development. “There are so many deficits,” she says. She believes our focus needs to be on building infrastructure to meet existing needs first and then developing adequate infrastructure for new growth.

Infrastructure lays the framework. Washington Association of Realtors (WAR) points out, “Infrastructure is an important investment in the growth of society, the economy and our quality of life. Investing in infrastructure helps accommodate and facilitate quality growth to benefit the whole community.” In fact, providing the infrastructure can attract new business, that in turn drives the economic engine that funds many of the services the community wants, WAR says.

“Wise growth policy” will assure adequate infrastructure to accommodate growth and long-range capital budgeting at both the state and local levels,” says Pacific Research Institute’s Hayward. Again, Washington’s GMA anticipates the goal, however, as noted in an earlier report in this series, there has been little infrastructure gain in ten years (see ePB 00-37, December 18, 2000, *A Firm Foundation for Growth*).

And the nature of infrastructure is changing with changing technology. Advanced telecommunications infrastructure, like fiber optic cable, which allows high-speed connections for voice, data, and internet communication, has risen to the top of the list in recent years. Many smaller communities in Washington believe this development has the potential to jump-start their rural economic development programs. Hundreds of private telecommunication service providers are now regulated by the state Utilities and Transportation Commission and are poised to compete with one another. In a made-to-order example of public-private partnership, local public utility districts and rural ports in Washington are installing fiber, taking it the “last mile” to the doorstep of customers throughout their respective regions. Private telecom companies will then be able to lease bandwidth and compete for retail customers.

Even with this promising development for rural areas, local governments must coordinate their infrastructure development with their land use plans. Infrastructure – highways, roads, sewers, sewage treatment, water, and storm water facilities, and now advanced telecommunications — potentially involves many different local and state agencies, like port authorities, special fire, water, irrigation, transit, school, parks, hospital, or utility improvement districts, city street and county road departments, as well as private businesses providing cable, natural gas, electricity, telecommunication, and garbage services. “Only with



well-thought-out-capital facilities plans that include adequate financing methods will local governments and Washington be able to effectively and realistically provide for growth,”<sup>8</sup> says the state’s OCD.

## **A Helping Hand Helps**

Beyond specific policies and regulations, local government sets the tone for growth and development by making it either easier or more difficult to do business at city hall or the county courthouse. A coordinated permit review process can play a key role. Technology is helping. Increasingly, cities, counties, and various local agencies and organizations are providing basic educational and timesaving information on permitting over the Internet.

The city of Seattle’s Online Permit Desk, for example, provides businesses and individuals not only the ability to view the whole Municipal Code for the city, but an increasing ability to:

- apply for certain permits;
- view the status of their permit applications or complaints;
- request a required inspection;
- view daily over-the-counter permits issued; as well as
- locate information on recent code changes.<sup>9</sup>

This use of Internet communication reduces the need for individuals to spend the time in traffic, on-hold, or in lines getting information from the local permitting offices, or money on increasingly expensive, hard-to-find parking in order to go to city hall in person.

The city’s web site also provides links to regional economic development resources. The private, non-profit Economic Development Council (EDC) of Seattle and King County, for example, offers a matrix of resources and appropriate agencies or organizations to contact for questions from licensing and permitting, financing, worker training, labor relations, marketing, taxes, exporting, siting, to technical assistance for business expansions, retentions, relocations, and new locations.

The EDC web site also provides information on:

- the local market for office, industrial, retail and apartment space, offering the total leasable area available, vacancy rates, and average square foot lease rates in various areas of the county;
- the electric, gas, water, sewer, and telecommunications utilities operating in the area with rate comparison by user class with other selected cities through the country;
- the tax structure, explaining the various taxes that apply to doing business in the state and the local area;
- the research and development organizations and activities present in the area that provide ready access to cutting-edge perspectives on developments that could affect the direction of business and business technology;
- the area’s global trading relations and the resources available that support international trade; and finally,



- ❑ the area’s different modes of transportation and how long in days or hours it takes to get from the Puget Sound area to various metropolitan areas around the country.<sup>10</sup>

As helpful and welcoming as these resources are, however, ‘you’ve gotta know the territory.’ The cities in King County are all different and “fragmentation is an issue,” according to Mike Luis, Manager with the Housing Partnership. “Permit processing is handled differently in different communities. Building departments are different with different policies. Some are better than others; some are just less busy,” he says. This frustrates builders and potentially exacerbates an already complex development process.

### In Conclusion

Certainly GMA and its implementation in Washington have been controversial. But, underlying most GMA concerns has been a recurring theme that bears repeating: Responsible development depends upon government policies that are clear, consistent, and certain.

In spite of all the different approaches to growth across the country, and all the disagreements on whether or how to manage it, some unifying axioms are emerging for growth communities:

- ❑ When government regulations, fees, and processes add unnecessary costs to development projects, building prices will rise unnecessarily.
- ❑ When land use policies and regulations result in constricted housing supply, prices will rise.
- ❑ When government policies withhold the capital investment in infrastructure necessary to accommodate growth, the community at-large will bear the costs in terms of traffic congestion, pollution, overcrowding, and a generally diminished quality of life.
- ❑ Time-consuming processes, inconsistent policies, costly and onerous permitting and development regulations will eventually stall an area’s economic engine.

When these steps are avoided and communities begin to plan for growth in a spirit of accommodation, economic growth may ensue that enhances a region’s quality of life, contributes to environmental responsibility, and increases community vitality.

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**BRIEFLY**

The Growth Management Act presents several challenges for the real estate development industry. The help of local governments in meeting these challenges is critical to the success of Smart Growth.

# Growth Management Effects on Real Estate

As communities develop their visions for the future, they are deciding how much land is needed for their growing populations. Washington State, under the 1990 Growth Management Act, and dozens of cities and counties around the country, have drawn geographical boundaries designed to halt sprawl and concentrate development into urban growth areas (UGAs). By channeling growth into these urban areas, and assuring the appropriate infrastructure is available, government intends to encourage economic development even as it preserves environmental quality.

But early examples of how these policies actually play out in real life demonstrate that growth management can have serious, unintended consequences. It has contributed to increases in land prices and development costs. These, in turn, have driven up new housing prices and placed an upward pressure on prices for existing housing.

The following paragraphs discuss how growth management has affected the real estate market, including buildable lands within the UGAs. As well, because financing of real estate development projects is so critical to their success, this paper reviews the financial community’s wariness of Smart Growth projects, and how local governments are responding.

## Urban growth boundaries restrict supply, contribute to increased real estate prices

The intention of urban growth boundaries is to promote “smart growth,” rather than to stop growth. Communities that draw growth boundaries seek to balance several goals, including stimulating economic development while preserving resource lands and rural areas. However, without revising existing land use policies and regulations to accommodate them, such boundaries limit the supply of land for new housing, leading to higher prices both for vacant land and for existing housing within the boundaries.

Consider Portland’s example. As part of Oregon’s statewide growth management law, a growth boundary was drawn around the Portland area in 1979. It encompassed 24 cities and three counties. The regional government, Metro, sought to increase housing density and to redevelop urban areas. “Meanwhile,” according to a 1999 study published by the Reason Public Policy Institute, “housing prices have increased dramatically. In less than a decade, Portland has transformed itself from one of the most affordable to one of the least affordable housing markets on the West Coast. While inflation as measured by the Consumer Price Index increased by 52.5 percent from 1990 to 1995, lot prices in Portland more than doubled,” the study says.<sup>1</sup>



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Efforts to widen the Portland boundary have met resistance from environmental activists and zero-expansion advocates, according to the study. In a compromise between these interests and pro-development groups, Metro voted to expand the boundary in late 1998, but not by much. Since then, Metro has agreed to extend the boundary still farther, in a move to dampen the rapidly rising cost of housing.

What is happening in the Portland area is typical of conditions in many parts of the country, according to the National Association of Home Builders (NAHB). As a result, debate has sharpened “over urban growth that is restricting development patterns and inflating the value of land still available for residential use.”<sup>2</sup>

The debate has also heated up in King County. In line with the state’s Growth Management Act, King County established its urban growth boundary in 1994. Combined with soaring job and population growth in the mid to late 1990s, housing prices in the UGA skyrocketed.

The rising cost of housing in King County has been exacerbated by strict local zoning codes that often do not permit higher residential densities. The Seattle-King County Association of Realtors, in a 1997 study, concluded that the county’s cities had failed to allow for enough housing and were behind schedule by about 12,600 units (over the six-year period from 1990-1996).<sup>3</sup> Indicating a generally positive market response, but still suggesting a problem of some magnitude, King County agreed that its cities were collectively behind schedule, estimating a shortfall of 1,450 housing units over the three-year period from 1995 to 1997.<sup>4</sup>

According to the Washington Center for Real Estate Research, which says that a “6-month supply describes a fairly balanced market,” King County has “a scant 1.8-month supply of homes priced under \$80,000.” In a recent news release on housing supply, Center Director, Glenn Crellin said, “King consistently has the most limited supply, with only a total 3.6-month’s inventory for all price ranges...indicative of continued price increases.”

In an attempt to keep up with the market demand, Seattle has increased the number of permits it has issued. In a new report the city says that Seattle issued 6,685 housing permits in 2000, up 50 percent from the prior year. New condominium and apartment complexes of 100 units or more accounted for more than half of the housing growth — the fastest the city has ever seen, according to the report. About 2,500 of the units — 37 percent of the total — are scheduled for the greater downtown area.<sup>5</sup>

This record housing boom is probably still not enough to fill market demand. For example, for every five jobs created in Seattle during the past five years, only one housing unit has been built. Not surprisingly, the jobs-housing balance on a county-wide basis is not as severe (for more information on the jobs-housing balance question, see Washington Research Council, ePB 01-1, *Managing Growth is a Balancing Act*). Meanwhile, low vacancy rates have pushed rents up by an average of 25 percent in the past five years.<sup>6</sup>

An example of the difficult struggle to manage rapid sprawl in rural areas and direct development to urban areas is playing out currently in King County. The County Council adopted a controversial moratorium as part of the county’s



updated Comprehensive Plan. Prohibiting large schools and churches outside urban growth areas, the moratorium will last nearly a year while a task force reviews the issue.

King County Executive Ron Sims requested the moratorium, which was then approved by a majority of the council. They expressed concern that such facilities produce traffic congestion on rural roads and require heavy infrastructure, such as sewer lines.

Moratorium supporters say churches are trying to develop inexpensive or donated property that will, in turn, spur more development. Meanwhile church officials are organizing their opposition.

### **Concept or reality - developing inside Urban Growth Areas**

From a bureaucratic standpoint, the definition of “buildable land” includes any area within the UGA that meets the Smart Growth criteria of more efficient land use and preservation of environmentally sensitive land.

From a developer’s viewpoint this can be only achieved by increasing density and building more compactly. According to the National Association of Home Builders (NAHB), compact development helps reduce infrastructure and development costs, provides more opportunities for pedestrian access, promotes densities that can be served more efficiently by mass transit, and results in more affordable housing.<sup>7</sup>

Compact development could be clustered single-family homes in the suburbs, higher density housing around transit stops in the inner suburbs, or traditional neighborhoods with mixed uses. NAHB suggests several alternatives for compact development: Cluster Developments, otherwise known as Open Spaced Development or Conservation Development, Higher Density Development, Traditional Neighborhood Developments, Transit-Oriented Developments, Master Planned Communities/Planned Unit Developments, and Mixed-Use Developments.<sup>8</sup>

Every community has unique housing, economic and environmental goals. Smart Growth concepts have taken on many different and innovative forms to balance the interests of all involved parties. Consider just three examples:

In the city of Frederick, Maryland, a northwest suburb of Washington D.C., there is a large mixed-use development receiving national and international acclaim from designers, builders, and homeowners alike. Wormald’s Mill seeks to mimic patterns and densities of development from years past. The 307-acre development has a mix of housing types, including condominiums, duplexes, quad units, and single-family homes with prices ranging widely from \$105,000 to \$350,000. In addition, more than 100 acres of the site are designated for natural parkland.<sup>9</sup>

In Portland, developers are using smart-growth strategies to accommodate the brisk demand for retail space. They are restoring older buildings within the Portland city limits and constructing mixed-used properties. Still, new supply continues to trail demand, keeping retail vacancy rates very low — hovering around three to four percent since 1994 — compared to the U.S. average of seven



to eight percent. Tight supply, in turn, has led to increasing lease rates and sales prices. On average, rents in Portland have climbed 25 percent since 1995, while sales prices have risen more than 20 percent over the same period.<sup>10</sup>

Closer to home, Redmond Ridge is a master-planned community near Redmond. Situated on 1,000 acres, the project will eventually hold 1,500 homes and condominiums ranging from \$180,000 to \$460,000, 272 apartments, 4,000 to 5,500 people, a 1.2 million square foot business park, 100,000 square feet of retail, and more than 600 acres dedicated to parks, trails, wetlands, and forests. The development plans include more than 14 parks, including soccer and baseball fields, a 4,000 square foot community center with tennis, volleyball, and basketball courts, playground equipment, meeting rooms, and a community YMCA, and 15 miles of hard and soft-surface trails. Six builders – Quadrant, Centex, Meadow Ridge Homes, Carino, CamWest, and Simpson Housing – are involved in the initial residential phases, with future development to include a retail center, fire station, new elementary school and a high tech business park.

Often, however, local zoning codes do not permit compact development. And even when land is zoned appropriately, citizen opposition can prolong the permit approval process (as it did at Redmond Ridge), run up development costs with expensive legal fees, and even defeat some projects in the end.<sup>11,12</sup>

So, while development within the UGA is technically possible, maybe a demonstrable improvement over existing conditions, local regulations, property rights and values, political and citizen opposition often combine in a way that — at a minimum — drives up real estate prices. In the most severe instances these conditions can cause the developer to abandon the project all together.

### **Support of the financial community is critical, banks say “show me”**

All this has not been lost on the financial community, which has been slow to embrace Smart Growth. Banks are rationally reluctant to finance projects that require variances in local zoning code or that may meet with organized citizen resistance. Yet, Smart Growth’s ability to move forward and demonstrate success depends greatly upon the financial community’s willingness to invest.

There are several obstacles that are causing most of the problem.

1. Difficulty identifying suitable comparables during the appraisal process;
2. Lack of good market research to show the financial feasibility of higher-density smart growth projects; and
3. No clear presentation of project objectives, risks, and mitigation alternatives.

Projects that entail heavy upfront costs, including potential legal expenses of defending against community opposition, greater expense of environmentally sound infrastructure, and the possibility of being politically derailed have a greater challenge in obtaining financing.<sup>13</sup>

These problems have led to finger-pointing as to who bears responsibility for Smart Growth’s success.

During an Urban Land Institute (ULI) Smart Growth forum held in April of



2000, some participants argued that the banking community should look beyond the bottom line, partner with each other to achieve better yields and reduce risks, increase their awareness of community visioning, and adopt incentives such as smart growth credits, in order to accommodate more and better Smart Growth projects.

Others say it is government that is promoting this kind of development, so it should underwrite and thereby reduce the financial risks for the private investment community. Senior Urban Land Institute executive Ron Terwilliger from Trammell Crow stated, “There are developments that are not economically feasible unless the government contributes either through tax-increment financing or direct construction of some of the infrastructure.”<sup>14</sup>

Not surprisingly, these views have their detractors. Over time, however, these problems will be addressed and eventually disappear as more Smart Growth developments are built and demonstrate a track record of community acceptance and financial success.

In the meantime, developers look to alternative sources of financing such as real estate investment trusts (REITs), pension funds, and insurance companies and they are using nationally successful developments as surrogates for local comparables in order to bolster their financing applications.<sup>15</sup>

### **Local governments respond**

The ultimate goal of land use planning models like Smart Growth is to create more livable communities and improve land use efficiency. Their objective is to increase urban densities and preserve open space. However, the transition from more traditional planning policies to these new views on development policy is resulting in adverse impacts on local housing markets, as witnessed by recent examples in Portland, Oregon and King County, Washington.

In addition to widening the boundaries and allowing more area to be designated “urban,” local governments have identified other steps to achieve Smart Growth goals. These include:<sup>16</sup>

- Streamlining and expediting permitting processes for developers;
- Encouraging a wider variety of housing options;
- Allowing smaller residential lots and expanding the range of allowable lot sizes;
- Permitting manufactured housing on individual lots;
- Providing density or height bonuses for including affordable housing in a project;
- Encouraging infill development where infrastructure already exists;
- Establishing minimum densities in residential zoning. (For example, requiring that houses be sited to allow future development at densities similar to older towns and small cities;
- Rehabilitating older buildings;



- Reintroducing the mixed-use concept into permitted development (Mixed-use includes apartments or condominiums built above retail and commercial development);
- Preserving or improving existing housing stock;
- Allowing accessory dwelling units or “granny flats” in single-family residential areas;
- Approving market-rate housing developments that include some low-income housing units;
- Providing tax incentives for multifamily housing in urban centers;
- Encouraging using old-style homes, with front porches and alleys in the back, to foster livable walkable neighborhoods;
- Allowing townhomes and zero-lot line homes; and
- Incorporating the regional “fair-share” affordable housing concept into policies and plans to more equally contribute towards housing needs with a region.

In order to achieve a reasonable balance between quality of life, affordable housing, and economic growth, communities will need to find solutions appropriate to their specific circumstances. But, the bottom line message seems clear. As Snoqualmie Mayor R. Fletcher was quoted recently, “We are going to have growth...There’s no way around it.”<sup>17</sup> Now, we need to anticipate and accommodate it as best we can.

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**BRIEFLY**

Encouraging infill development is universally accepted as good public policy. But in spite of all the advantages, developers of infill housing face a number of impediments. Cities should work to remove these impediments.

# Accommodating Growth Through Infill Development

The Growth Management Act, Washington’s Smart Growth law, establishes a framework for communities to plan for how to accommodate growth, provide housing opportunities, encourage economic vitality, and preserve the environment while protecting property rights. The state seeks to prevent sprawl, to encourage compact development, to preserve open space and critical habitats, and to insure that growth occurs in areas where there is adequate public infrastructure. Among the Act’s key tools are urban growth boundaries, which tightly constrain the land available for development.

One of the expectations of the framers of the Growth Management Act (GMA) was that the urban growth boundaries would direct a substantial share of new housing into existing urban areas. Housing projects such as these are known as infill developments, because they fill in vacant or underutilized land.

The City of Seattle is seeing a boom in infill housing. Overall, King County added 99,000 housing units in the 1990s, down from the 123,000 added in the 1980s. In the city of Seattle, however, the number of added units increased by 1,000 from 19,000 in the 1980s to 20,000 in the 1990s.<sup>1</sup>

In the year 2000, the city issued permits for a record 6,685 housing units, double the number for 1999. With the demolition of 789 existing units, a net of 5,896 units will be added to the city’s stock of housing. More than one-half of the added housing is in buildings with 100 or more units. Over one-third of the new housing is downtown.<sup>2</sup>

Multi-family housing construction is much more volatile than single-family construction. The very high level of infill in Seattle in 2000 is probably a cyclical peak and not sustainable. If housing is to be affordable in the future under the constraints on development imposed by the GMA, infill must play an important role by ensuring housing opportunities are provided to accommodate projected growth.

## Infill Benefits Inner-cities

Encouraging infill development is universally accepted as good public policy. Analysts cite a number of advantages to infill.<sup>3</sup>

**Infill provides housing opportunities** necessary to accommodate projected growth. There is a growing demand for the types of housing units that infill provides. Expanding downtown office employment creates a demand for housing close to downtown.

In addition, the demographic trend towards smaller households favors infill housing. The “traditional” household, two parents with school age children, represents a declining share of the housing market. Many single, elderly and



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empty nest households prefer the lower cost and lower maintenance of an apartment, condominium or smaller house on a smaller lot.

**Infill encourages community revitalization.** Businesses benefit from increased activity and demand for goods and services. Infill housing can boost a city's economy. Many of the US's larger cities (though not Seattle) have been losing population, as the middle class flees to the suburbs. In such, cities encouraging the development of high quality urban neighborhoods of infill housing may help to lure back the middle class.

**Infill reduces sprawl.** Directing the construction of new housing into existing urban areas conserves rural farmlands and open spaces.

**Infill is less auto-dependent.** Transportation planners love infill. In-city residents drive less than suburban residents. Infill near downtown will be served by existing bus routes, and will provide additional riders with virtually no increase in service costs.

Urban Land Institute (ULI) notes that infill is a very cost effective way to expand transit ridership. Tri-Met, the Portland, Oregon transit agency has emphasized infill development near to its stations as a tool for building ridership. An analysis by Tri-Met staff of one agency-supported development found that "developing ridership in this manner was eight to 20 times more cost effective than it would have been through rail extensions, *even if the land had been given to the developer* (the land cost the developer \$130,000)."<sup>4</sup>

When infill development put housing units within walking distance of shops and services, auto use is further reduced.

**It may be less costly for government to provide services to urban infill development than to suburban greenfield development.** New suburban developments may require public investments in roads, water and sewer lines, schools and so forth. Urban infill development may be able to take advantage of existing capacity. In addition there may be economies of scale in providing public services. As infill increases the density of a city, the cost per resident of providing a given level of service may fall.

## However, there are obstacles

But in spite of all the advantages, developers of infill housing face a number of impediments.

**Americans have a strong cultural preference for single-family houses.** However, in urban settings, the paucity of undeveloped conventional lots and the high price of land make the addition of conventional single-family houses difficult.

The large multi-family projects that represent the majority of recent infill in Seattle are not the housing that the majority of the population desires. A September, 2000, survey by Public Opinion Strategies (POS) asked Washington voters a number of questions on housing.<sup>5</sup> Only 23 percent of the subjects said it was important to them to live in an urban area with many people living close together.

An infill alternative to multi-family housing is to build detached houses on smaller lots. For example, zero lot line houses, wide-shallow lots and zipper lots



are strategies that allow detached houses to be built on smaller lots. Clustering houses on a single lot can also save space. Townhouses and row houses are a form of single-family housing that uses land more efficiently.

But people like larger lots. In the POS survey, fully 83 percent of the Washington voters said that they wanted to live in an area where they can have large front and back yards.

**Neighborhoods often resist efforts to increase density.** The owners of single-family houses may oppose infill for fear that apartment houses will alter the character of the neighborhood. The POS survey finds that 77 percent disapprove of development that allows taller apartment and condominium buildings or single-family houses on smaller lots to increase density of their neighborhoods.

The uproar in Seattle following former Mayor Norm Rice's proposal to channel growth into "urban villages" is an example of this.

Developers need to be creative to overcome this resistance. Smaller multi-family building can be designed to look like houses. Urban cottages can be clustered on a single lot. Mixed-use development can place apartments over commercial uses. Existing historic structures can be creatively redeveloped as apartments or condominiums.

**Mixed-use development faces special obstacles.** As is the case with increased density, the POS survey shows mixed-use development to be unpopular, with 60 percent disapproving.

Both Seattle's Belltown neighborhood and downtown Bellevue have recently experienced booms in mixed-housing. However, as the Housing Partnership notes, the regulatory and land use policies allowing such developments have been in place for 20 years in both locations.<sup>6</sup>

Many Seattle area suburban cities are counting on mixed-use developments in their urban centers to meet housing goals. The examples of Seattle and Bellevue show that cities need to actively encourage mixed-use if it is to happen. Retail is trickiest part of mixed-use development. Cities need to assure that there will be an adequate base of customers for the retail to be successful.

**Vacant land comes with baggage.** The Urban Land Institute observes, "It is important to remember that sites that have been passed over for development or have not been redeveloped for another use are generally idle for a reason." Vacant land may be oddly shaped or difficult to build on. It may be environmentally contaminated. Or the need to demolish or remove the remnants of previous uses may increase development costs.<sup>7</sup>

Similarly, the adaptation of existing structures may bring problems of their own, including the constraints imposed by historic preservation and environmental concerns.<sup>8</sup>

**Infrastructure.** It is often asserted that the ability to use existing infrastructure is an advantage. However, in some cases the existing infrastructure is not adequate. "In many inner-city neighborhoods existing infrastructure needs to be repaired, replaced, or modernized to serve both new and existing development."<sup>9</sup> If the developer is forced to pay for these upgrades, the project may not pencil out.



**Regulatory burdens are high.** Infill tends to be more heavily regulated than new development in newly developing places.

Sometimes infill requires rezoning. Building codes can be unrealistic for rehabilitation projects. Restrictions on use can limit the types of units that can be developed.

Existing neighborhood groups can feel threatened by infill. The ability of these groups to participate in and slow down the regulatory process increases the time it takes to complete an infill project, raising costs.

**Questions concerning safety and school quality discourage many people from infill housing.** Urban areas are perceived by many people to be less safe than the suburbs. Families with children often choose suburban locations because they believe that suburban school districts provide a better education.

## What to do

To encourage infill development, and ensure each city provides housing opportunities necessary to accommodate growth, cities should:

**Assure that the city's regulatory framework encourages rather than discourages this type of development.** Regulation must accept the sorts of projects that are economically viable in the urban setting.

**Provide for the prompt processing of regulatory approvals and permits needed for infill development.** Delay adds significantly to costs.

**Make public investments and provide services that support infill development.** Government should provide the infrastructure that infill needs. People must feel that the neighborhoods targeted for infill are safe. Urban school districts must be improved.

**Gain community acceptance for infill development.** The government can identify neighborhoods where infill development should occur. It can work with the members of these communities to articulate a vision of the type of infill that will strengthen the neighborhood. Then, when developers come forward with projects that advance that vision, they should be allowed to move quickly through the regulatory process.

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## Endnotes

<sup>1</sup> Based on U.S. Census figures for 1980 and 1990 and Office of Financial Management estimates for 2000.

<sup>2</sup> "Record number of Housing Units Approved in 2000," City of Seattle News Advisory, Department of Design, Construction, and Land Use, January, 2001.

<sup>3</sup> Municipal Research and Services Center, *Infill Development: Strategies for Shaping Livable Neighborhoods*, Report No. 38, June 1997.

<sup>4</sup> Diane R. Suchman, *Developing Infill Housing in Inner City Neighborhoods: Opportunities and Strategies*, Urban Land Institute, 1997, page 9.



<sup>5</sup> Public Opinion Strategies, *An Oversample Study of 800 Voters in Washington on the Topic of Smart Growth and Land-Use Issues*, conducted for the National Association of Realtors and the Washington Association of Realtors.

<sup>6</sup> The Housing Partnership, *Mixed Use Housing in Urban Centers*, October, 1999.

<sup>7</sup> Suchman, page 39.

<sup>8</sup> Suchman, page 40.

<sup>9</sup> Suchman, page 41.



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**BRIEFLY**

Real estate is the base upon which the state's economy is built. Directly and indirectly, it accounts for a quarter of state employment. Taxes on real estate and real estate related industries provide much of state and local governments' tax revenues.

# The Contribution of Real Estate to the Washington State Economy

On the most basic level, Washington state is real estate. The state covers a roughly rectangular area of 70,000 square miles.

According to the U.S. Department of Agriculture, forests cover more than one half of the state's lands. Crops, pasture, range, and the Conservation Reserve Program account for another 35 percent. Only 5 percent of the state's lands are developed. <sup>1</sup>

This real estate supports a diverse economy. On the rich farmlands east of the Cascades, farmers harvest a bounty of wheat, apples and other crops. From private, state, and federal forestlands, loggers harvest timber to feed lumber and pulp mills. In giant industrial buildings, machinists assemble airliners. In suburban office parks, programmers write computer code. In urban laboratories, scientists search for new life-saving drugs. The people who work for these businesses live in houses, condominiums and apartments, and they buy the necessities of life in supermarkets and shopping centers.

There could be no state economy without real estate.

No tangible asset is more important to the economy than real estate. Throughout its history the nation's economic growth has been propelled by public policies promoting property ownership and development.

## Real estate represents over 40 percent of Americans' wealth

In the 4<sup>th</sup> quarter of 2000, the Federal Reserve Board estimated the net worth of American households and non-profit organizations to be about \$41.4 trillion. The value of U.S. real estate was about \$17.2 trillion. Real estate directly owned by households represented \$11.0 trillion of this total. Non-farm, nonfinancial businesses owned an additional \$4.9 trillion, while non-profits owned about \$1.3 trillion.

The \$17.2 trillion value of real estate was more than twice the value of U.S. personal income for 2000, \$8.3 trillion. <sup>2</sup>

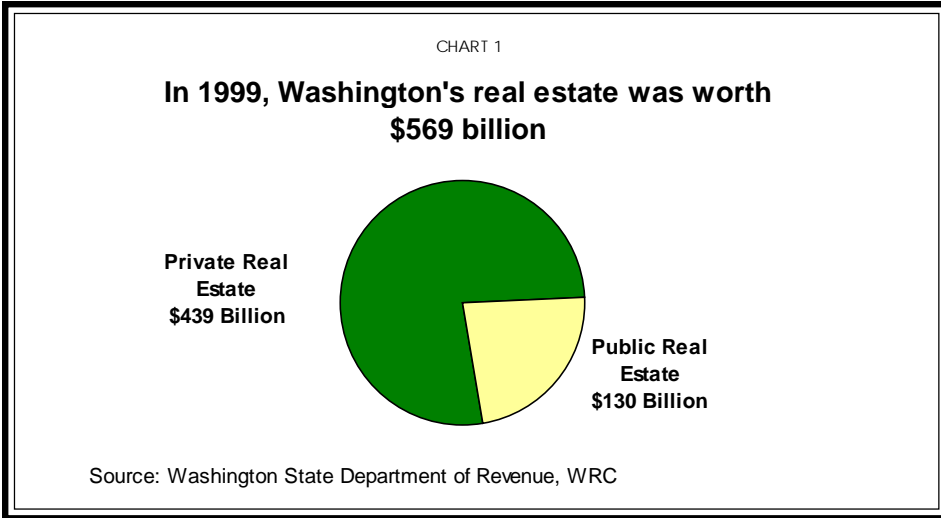


TABLE 1

Uses of Washington Land, 1997  
(thousands of acres)

Federal land			
Forest land	9,541	22%	
Other	2,382	6%	
Non-Federal Land			
Developed	2,065	5%	
Cropland	6,656	16%	
Conservation Reserve Program	1,017	2%	
Pastureland	1,193	3%	
Rangeland	5,857	14%	
Forest land	12,835	30%	
Other rural land	951	2%	
Total	42,497	100%	

Sources: USDA National Resources Conservation Service Natural Resources Inventory; USDA Forest Service 1997 RPA Assessment



In Washington state, for 1999, the value of private real estate, subject to the property tax, was \$423 billion. This value was 2.4 times the \$175 billion value of state residents' personal income for the year. (An additional \$30.4 billion in personal property was subject to the property tax.)<sup>3</sup>

In addition, governments held real estate worth roughly \$130 billion; non-profit private entities had about \$10 billion worth of property; and private property worth about \$6 billion was exempt.<sup>4</sup> (See Chart 1.)

### Real estate industries directly provide almost 10 percent of state jobs and 6 percent of state personal income

As noted above, all of the state's employment makes use of real estate in one way or another. However, certain industries are directly engaged in the enhancement and management of real estate. Four of these industries are identifiable in state employment data: general building construction, special trade construction (trades such as plumbing, masonry, and electrical), retailing of building materials and hardware, and real estate (real estate operators, developers, agents, and brokers). In 1999, these four industries provided 327,000 jobs in Washington state, 9.4 percent of the state's total employment.<sup>5</sup>

General building and special trade contractors accounted for nearly 189,000 jobs; retailers of building materials and supplies provided 25,000 jobs, while the real estate industry, real estate operators, developers, agents, and brokers, provided 113,000 jobs.

These jobs generated \$10.4 billion in personal income, including \$6.6 billion in wages and salaries. (See Table 2)

### Accounting for the multiplier effect raises share of jobs related to real estate to 24 percent

Industries within the state are linked in a web of purchase and sales relationships. As a result, when one of the states industries expands, increased activity ripples through the state's economy. The money goes round and round. Economists construct "multipliers" to capture the effects of these linkages.

TABLE 2

**Direct employment and income in real estate industries in 1999**

	Employment	Personal Income	Wages and salaries
General building contractors	57,969	2,289,069	1,588,936
Special trade contractors	130,679	4,983,091	3,347,559
Building materials and garden equipment	25,439	712,340	613,205
Real estate	113,403	2,366,777	1,005,808
<b>State Totals</b>	<b>3,488,620</b>	<b>174,948,129</b>	<b>103,397,869</b>

Source: Bureau of Economic Analysis



The Washington Input-Output model provides multipliers for various state industries, which can be used to calculate the full impacts of real estate related industries on Washington employment.

The total employment multiplier for construction other than highways is 2.667. Thus for every person directly employed, construction supports an additional 1.667 jobs. The total employment multiplier for the Finance, insurance and real estate industry is 2.543. The multiplier for retailing is 1.869. <sup>6</sup>

The effects of these multipliers are shown in Table 3. The 188,600 jobs in general building and trade construction ripple through the economy to produce

another 314,500 jobs for a total of 503,100. Similarly, besides those directly employed, the retailing of building materials and garden equipment supports 22,100 indirect jobs supports and real estate supports 175,000 indirect jobs. Together, these four real estate related industries accounted for 839,000 jobs, nearly one-quarter of the state's total.

The Urban Land Institute reports "in newer, rapidly developing economies, real estate markets can propel economic growth." Construction activities may account for 9 to 12 percent of employment in a growing economy but only 2 to 4 percent in an economy that is stagnant. <sup>7</sup>

### Direct taxes on real estate and real estate related industries provide significant tax revenues to state and local government

Many vital community services are made possible by revenues derived from real estate.

The property tax is the largest single tax levied directly on real estate. It accounts for about 30 percent of taxes collected by state and local government in Washington. Property tax levies totaling over \$5.4 billion were due in the state in 2000. About 93 percent of this, or \$5 billion, was levied against real property. <sup>8</sup>

A second major real estate tax source is the real estate excise tax. This tax is imposed on the transfer of ownership of real estate. For FY 1999 the REET was levied against sales with a total value of \$33 billion, generating \$423 million for the state. For calendar year 1999, the REET generated \$161 million for cities and counties. <sup>9</sup>

In addition, considerable business and occupation (B&O) tax and sales tax revenues are generated by industries that are directly tied to real estate.

Construction generated \$110 million in B&O taxes in 1999. Of this \$46 million was for general building contractors and \$51 million was for special trade contractors (including plumbing, heating, and electrical). Heavy construction, such as highways, accounted for \$14 million. <sup>10</sup>

TABLE 3

#### When indirect effects are included, real estate accounted for 24 percent of state jobs in 1999

	Direct Employment	Indirect Employment	Total	Share Of State Employment
General building contractors	57,969	96,634	154,603	4.4%
Special trade contractors	130,679	217,842	348,521	10.0%
Building materials and garden equipment	25,439	22,106	47,545	1.4%
Real estate	113,403	174,981	288,384	8.3%

Source: Bureau of Economic Analyses, WRC

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Wholesaling of lumber and construction materials generated \$19 million in B&O, while retailing building materials and hardware generated \$24 million in B&O.

The real estate industry generated \$33 million in B&O.

Contracting generated \$833 million in state sales tax and roughly \$134 million in local sales tax in 1999. Retail sales of building materials and hardware totaled \$210 million in state and \$34 million in local sales tax.

**In summary**, real estate is the base upon which the state's economy is built. Directly and indirectly, it accounts for a quarter of state employment. Taxes on real estate and real estate related industries provide much of state and local governments' tax revenues.

As federal, state, and local governments consider land use controls, development regulations, and other growth management measures that restrict the use of real estate, it would be wise to consider the potential consequences in lost jobs, personal income, and tax revenue.

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## Endnotes

<sup>1</sup> United States Department of Agriculture: Natural Resources Conservation Service Natural Resources Inventory and Forest Service 1997 RPA Assessment.

<sup>2</sup> Federal Reserve Board, *Flow of Funds Accounts of the United States*.

<sup>3</sup> Department of Revenue, *Tax Statistics 1999*.

<sup>4</sup> Property values imputed from revenue losses due to the exemptions reported in Department of Revenue, *Tax Exemptions 2000*.

<sup>5</sup> U.S. Department of Commerce, Bureau of Economic Analysis.

<sup>6</sup> Office of Financial Management, *Washington State Input Output, 1987 Study*.

<sup>7</sup> Urban Land Institute, *America's Real Estate: Natural Resource, National Legacy*, page 16.

<sup>8</sup> *Property tax statistics 2000, Tax Statistics 1999*.

<sup>9</sup> *Tax Statistics 1999*, State Auditor, Local Government Finance Reporting System.

<sup>10</sup> Department of Revenue, *Quarterly Business Review, Calendar 1999*.



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**BRIEFLY**

In this brief, we discuss buildable land, as it is defined by the Growth Management Act (GMA), explain the challenge of knowing how much is available in any given urban area, and consider the constraints to developing these lands.

# Smart Growth and Buildable Land

Washington’s Growth Management Act directs local communities to establish areas where growth is encouraged and supported with adequate facilities. At the same time, it encourages designating other areas for rural uses and resource protection. More compact urban development, the theory goes, will help to preserve and protect sensitive land and other environmental resources and allow urban services to be built and delivered more efficiently.

Drawing the urban growth boundary is not an easy act. Sufficient buildable land must be included within the urban area to accommodate future growth. If too little land is included, restricting supply, the price of land and housing will shoot up, prompting legal challenges and political pressure to extend the urban growth boundaries. On the other hand, many believe that designating too much urban area can defeat the purpose of the growth boundary.

In this brief, we discuss buildable land, as it is defined by the Growth Management Act (GMA), explain the challenge of knowing how much is available in any given urban area, and consider the constraints to developing these lands. We discuss how local governments are determining the land they have available for development and what measures they are taking to increase their inventory of buildable land.



## Defining “buildable land”

In Washington, local cities and counties are designating urban growth areas (UGAs) to include “areas and densities sufficient to accommodate the county’s expected growth for the succeeding 20 years” (GMA, Section 12, RCW 36.70A.120). To provide for this growth, local communities need a clear understanding of what land is realistically available and suitable for development.

According to the state’s Community, Trade and Economic Development department (CTED), buildable lands are, “All vacant, partially-used, and under-utilized parcels that are: (a) designated for commercial, industrial, or residential use; (b) not intended for public use; and (c) not constrained by critical areas in a way that limits development potential and makes new construction on a parcel unfeasible.” CTED goes on to define these parcels:

- Vacant land is land with no structures or with building improvements valued at less than \$500.
- Partially-used parcels are properties with uses that are consistent with zoning, but which contain enough land to be further subdivided without rezoning. A single house on a ten-acre parcel, where urban densities are allowed, is partially developed, for example.
- An under-utilized parcel is an improved property that is zoned for more intensive use. For instance, a single-family home on multifamily-zoned land is under-utilized.

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Even though these categories exist and a specific property may qualify under the definitions, it may not necessarily be suitable for future development. Wetlands, steep slopes, and polluted sites can potentially limit use and development of individual properties, as can the unavailability or limited capacity of the public infrastructure (sewer, water, roads, etc.). The supply of available land may also be limited by economic factors, such as the market feasibility of developing on specific sites, or by the property owner's desire to withhold the land from the market. An additional factor to be considered in evaluating the adequacy of land capacity is the trend toward smaller household sizes, increasing the number of housing units required to serve the population over the twenty-year planning horizon.

In addition, many, if not most, communities in Washington are multi-minded about development, even "smart growth"-type development: Developers say that getting permits for Smart Growth projects is complicated and time-consuming, with standards differing from community to community. This drives up the costs of new development, exerts an upward pressure on the prices for existing housing, and reduces the availability of affordable housing. Often, local zoning and development regulations don't even allow for smart growth development. Local governments say they don't have enough information or staff to provide timely reviews and decisions. Environmental organizations complain that the cumulative effects of projects are not considered when permits are issued. Neighborhood groups oppose projects saying they generate too much traffic or otherwise diminish their quality of life.

For all these reasons determining whether these lands can realistically be developed or redeveloped is a challenge local jurisdictions have yet to meet.

### **On the horizon**

But even with current program and political constraints, some innovative developments are being approved. And, a wider range of housing choices is demonstrating how the land available may be used more efficiently.

In Renton, Washington, for example, downtown officials are promoting redevelopment of the downtown commercial core. Metropolitan Place is the first of several combined-use projects planned in King County. The new, privately owned building will include some of the components of the county's six-year Transit Development Plan. A 150-space park-and-ride will be developed with retail space and 90 mixed-income apartments built above, all across from a transit hub. The developer, Don Dally says that combining transit, affordable housing and business opportunities into one project is simply good land use.

Eakin/Youngentob Associates from the Washington, D.C. metropolitan area have built high-quality infill town house projects on sites previously ignored. The company's Courthouse Hill project in Arlington, Virginia won the Urban Land Institute's 1998 Award for Excellence for small-scale residential development. Town-homes of the 1970's and 1980's have given way to upscale courtyard and city homes, which rival and often exceed the size and cost of single-family detached homes.



## **Constraints and collaboration**

No one denies that Smart Growth can be challenging. (For a more detailed discussion on Smart Growth, see ePB #5 entitled *Growth Management Effects on Real Estate* by the Washington Research Council.) In some cases, communities are answering this challenge by banding together to balance the concerns of the developers, local governments, environmental organizations, and neighborhood groups in order to accomplish Smart Growth goals. And state legislatures are acting to sort various state regulatory barriers, removing inconsistencies and contradictions and rationalizing the various timelines.

In Washington, for example, permits are subject to the Growth Management Act, the State Environmental Policy Act, and the Shoreline Management Act, each with a different focus, process, and set of time requirements. In 1995, the legislature adopted regulatory reform aimed at combining these laws to make them more streamlined and predictable. Since then, a number of communities have taken advantage of this reform to speed up permit processes.

The city of Renton, Washington took advantage of the reform in the fall of 1998 with a “rapid review” of a mixed-use office/residential redevelopment by SECO Development, Inc. For development of an area along the shores of Lake Washington known as Southport, SECO Development needed a decision on land use and environmental review within nine months in order to secure financing and exercise an option to purchase the site. The city was able to complete its review by combining growth management and environmental requirements, and by designating its planned actions under the State Environmental Policy (SEPA). During an intensive six-month review process, the Renton City Council changed the comprehensive plan designation for the site from Industrial to Center Office Residential, amended the zoning code, and adopted a planned action ordinance. The city prepared a combined comprehensive plan and supplemental environmental impact statement (EIS) to cover all of the actions. The city’s efforts cut off six months of the approval process. Eliminating the multiple project environmental reviews, future hearing examiner reviews, and potential appeals also reduced processing time.

Tacoma, Washington has a growth management monitoring system to carry out its comprehensive plan, including an ordinance that spells out how growth impacts will be managed for 13 city services. The city also encourages dense urban development by providing greater flexibility in height and bulk regulations.

## **Local efforts to monitor buildable lands**

Ten years into the state’s Growth Management Act, “Smart Growth” concepts are still taking shape in Washington. And there are many skeptics who believe that regardless of what is done, the urban growth boundaries have been drawn too tightly to accommodate growth for the next twenty years. They point to the effects that are already being experienced in the Puget Sound area like housing price inflation and affordability, congestion, and homelessness.

State officials, however, say the question is still being studied. The Buildable Lands Program in Washington State is a long-term undertaking to monitor the supply of land in various communities. Currently in its early stages, thousands of parcels of land are being evaluated for the density and intensity of



residential, commercial, and industrial development, tracking information about employment, critical areas, and capital facilities among other key data.

Six Western Washington counties and the 97 cities and towns within their boundaries are participating in this effort in order to answer two basic questions: (1) Do local governments have enough suitable land to accommodate expected growth for twenty years? and (2) Are urban densities being achieved in urban growth areas?

Gathering data annually, participating jurisdictions will compare the level and type of development that has occurred with that which was expected at five-year intervals. The first evaluation is scheduled for September 1, 2002. If gaps are identified between projected targets and actual experience, local governments are to make adjustments for the next five-year period using techniques that don't involve moving their urban growth boundaries.

### **Enhancing land availability**

With urban area populations on the rise and developable urban land increasingly scarce, especially in downtown areas, communities and developers are seeking creative ways to increase the amount of buildable land.

In his February address to Congress President Bush supported reclamation of toxic brownfields – those sites so polluted by past industrial practices that they sit idle, paralyzed by a combination of federal liability laws and prohibitively expensive rehabilitation work. The National Association of REALTORS®, and National Association of Home Builders (NAHB) agree that reclaiming these sites, which number nearly half a million nationwide, is important for urban redevelopment. The question of future federal liability, however, has been a significant barrier and action by Congress is crucial. “Congress needs to enact legislation to reform brownfields federal liability laws so that thousands of brownfields sites in urban markets can be used for new housing and mixed-use development,” says NAHB President Bruce Smith.

Freeway caps are another measure being considered. Similar to Seattle's Freeway Park near the Convention Center, Portland planners are currently working to build caps above portions of their freeway. These will not only reunite surrounding neighborhoods, they say, but also create new area for development in a city that is fast running out of downtown space. There are economic and technical complexities to these types of structures. Les Jacobson, an assistant regional administrator for traffic for Washington's department of transportation explains that along with ventilation systems, fire detection and lighting systems have to be maintained. The more freeway that is covered, the more complex the issues become. Jacobson notes, “Construction costs are high, and though there is potential for investment through development, I don't know that investment can offset the initial capital costs”.

The Washington State Growth Management Program offers the following approaches to increasing developable property in urban areas:

- ❑ Inventory and evaluate publicly-owned lands and dispose of unneeded properties to someone committed to their development. Cities and counties are sometimes unaware of all the property they have acquired over the years through tax delinquency,



donation, or land banking. Sale of these properties could provide money for local government development efforts, promote infill development, and possibly in combination with other properties, form larger areas more suitable for development;

- Swap publicly-owned land for other, more environmentally sensitive or desirable parcels to the mutual benefit of both the public and developers;
- Tax vacant, residentially zoned land at rates based on permitted uses rather than current use as a disincentive to holding land for future development;
- Rezone land where there is excess supply of a particular use or where current zoning is limiting redevelopment;
- Provide incentives for infill development, allowing higher densities, establishing minimum densities, improving infrastructure, and making public grants.

Private industry trade associations, like the Silicon Valley Manufacturing Group (SVMG), support these concepts. The SVMG represents 190 of the largest private sector firms in the Silicon Valley, providing 275,000 jobs. In 1985, a task force of the organization (then known as the Santa Clara County Manufacturing Group) addressing housing costs and land availability recommended that zoning be changed to:

- Increase available land by allowing for a few more homes per acre; and
- Convert some industrial and commercial parcels to residential use.

SVMG found that acres of land were underused. Many municipalities within Santa Clara Valley allowed developments that failed to meet their zoned densities. And, like many places, Santa Clara was also over-zoned for commercial development. Thus, commercially zoned land represented a tremendous resource for new housing development.

Accommodating growth remains a fundamental GMA requirement, one that will be tested in the coming years. A “white paper” by The Environment Group of the law firm, Perkins Coie LLP, states: “... the review and evaluation now mandated by the GMA to begin in 2002 will, for the first time, require counties and the cities (especially those within the six buildable lands program counties) to determine whether they have actually provided the land, densities, and capital facilities to accommodate growth and whether they are actually accommodating the planned for growth, both residential and nonresidential.”

The authors note several possible points of contention confronting planners and policy makers. For example, forcing employment growth within urban centers may lead to a deterioration of transportation service levels. As well, they point out that “... existing UGAs may be unable to increase the density required to accommodate growth” because of environmental considerations.

Therefore, it is important to remember that UGAs do not have to remain forever locked within fixed boundaries. Indeed, many legislators recognized ten years ago that the UGAs would have to be flexible, expanding in response to changing demographic and environmental factors.

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In the end, urban areas that are experiencing pressures for rapid growth, as the Puget Sound and Portland areas have over the last several years, may find that innovative approaches to infill development are necessary, but insufficient responses. Indeed, the Portland area has recently extended its growth boundaries in order to accommodate growth there. Housing price inflation and affordability, congestion, homelessness, work force mobility, and potentially, work force availability are the result of boundaries that are too tightly drawn. They were anticipated in the early 1990s during the pre-legislation growth management debates in Washington State. These and other land use regulatory issues will be discussed in an upcoming Growth Brief on the effects of regulation on development costs.





**BRIEFLY**

Governments impose regulations on development for reasons they consider sound, but such regulations result in higher prices for homebuyers. Urban growth boundaries, impact fees, sensitive area and wetland ordinances, and complicated, prolonged permitting processes are not only contributing to the costs of developing new housing, but inflating the prices of existing housing throughout Washington and the country.

# Impact of Government Regulations and Fees on Housing Costs

Governments impose regulations on development for reasons they consider sound, but such regulations result in higher prices for homebuyers – often times significantly higher.

The National Association of Home Builders measured the increases to housing prices caused by regulations in a 1998 survey. The association asked builders in 42 markets across the country to break down the cost of building a house. They responded that government regulations, delays and fees added an average of 10 percent to the total building cost, accounting for upwards of 20 percent of the sales price in some markets. <sup>1</sup>

This is consistent with the experience in Washington State, according to the Building Industry Association of Washington (BIAW).

Urban growth boundaries, impact fees, sensitive area and wetland ordinances, and complicated, prolonged permitting processes are not only contributing to the costs of developing new housing, but inflating the prices of existing housing throughout Washington and the country.

The Portland region, for example, has been praised as a model for containing sprawl with its urban growth boundary, which was drawn in 1979. Substantially unchallenged by strong growth pressures until the 1990’s, however, the boundary’s effects on land and housing supply and price have only become apparent in recent years.

In 1999, a consortium of 17 organizations, including real estate and environmental interests, produced the “Oregon Housing Cost Study.” The study noted that Oregon produced proportionately fewer homes than the rest of the country. By 1997, Portland’s median house sale price of \$155,000 surpassed the national median price of \$127,000, and during the first quarter of 1998, only 35 percent of the houses sold in Portland were affordable for families earning the city’s median income. <sup>2</sup>

A February 2000 report by the Cascade Policy Institute, in Portland, says that “after a decade of rapid price growth, the Portland housing market is now becoming a challenge even for families with copious amounts of education and multiple incomes.” <sup>3</sup>



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## Effects of growth boundaries

Government-imposed urban growth boundaries have effectively created land shortages. According to the report, *Squeezed out: No swingset, no sandbox, no space left for the American Dream*, “If a developer has to start with land that is



700 percent higher in price than would be the case without restrictive zoning, the only way to moderate the effect of that cost on the finished product is to build more homes on the same amount of land.”<sup>4</sup>

In the early 1990s, when the Growth Management Act was still being debated, University of Washington Professor Emeritus of Geography, Richard Morrill said “...[an urban zone] ignores environmental realities and land economics.” Unbuildable land and the zeal of most urban planners, he said in a 1991 report,<sup>5</sup> conspire with growth pressures to result in urban growth boundaries too tightly drawn. These, in turn, bestow “an unfair and unearned excess value on owners who happen to be within the boundary,” displace lower-income households, and contribute directly to increased homelessness.

Experience in the Puget Sound area is proving him correct. Despite a decisive (75 percent) rejection of I-547 by voters statewide, growth management was passed by the legislature in 1990. Urban boundaries were drawn around Seattle and other Puget Sound cities. And, even though planners dutifully measured the vacant or underutilized land available and compared it with the amount of land they expected would be needed to accommodate 20 years of population growth, they are coming up short today.

Morrill predicted the problem: The amount of land seemingly available included unbuildable wetlands and other sensitive areas, steep slopes, brownfields (sites so polluted with toxic industrial wastes and steeped in government-created liability issues that no one is willing to touch them), and privately owned properties with owners not wanting to sell or develop. The necessary result, say Morrill and others around the country, is to build more apartment houses and other multi-family structures. According to a Chicago Sun Times article from December 2000, single-family home starts fell by 0.4 percent, while apartments, condos and other multifamily projects jumped by 12.9 percent.<sup>6</sup>

Tightly drawn urban growth boundaries that restrict the supply of land and inhibit new additions to urban housing stocks have contributed to housing price inflation in the Puget Sound area over the last several years. According to the Freddie Mac Housing Price Index, which matches sales or appraisals of the same house over time, Seattle urban area housing prices in the 4<sup>th</sup> quarter of 2000 were up nearly 45 percent over the 4<sup>th</sup> quarter of 1995. This compares with housing price growth nationally of about 38 percent. In the most recent release of this index the Seattle-Bellevue-Everett metropolitan area ranked 24<sup>th</sup> of 163 metropolitan areas throughout the country in housing price growth.<sup>7</sup>

In addition, urban growth boundaries are given at least partial blame for several other effects:

- ❑ **Home ownership has dropped in the Puget Sound area.** As land and home prices inflate within the urban area due to constrained availability, infill development increasingly occurs in the form of apartment houses in order to accommodate more people on less land. According to the Census Bureau, the Seattle-Bellevue-Everett metropolitan area fell from its rank of 22<sup>nd</sup> of the top 75 metro areas in home ownership in 1990 to 47<sup>th</sup> in 2000.<sup>8</sup>
- ❑ **More housing is unaffordable to the average family.** According to Bill Kreager of Mithun Partners (a prominent Northwest architectural firm)



in a speech to the Economic Forecast Conference 2001 of the Economic Development Council of Seattle and King County, housing prices are so high that 70 percent of today's homes are not affordable by those households who make at or less than the median income. He says that many prospective residents (often highly recruited employees our businesses are trying to attract to fill job openings) turn down a move to the Seattle area because of the high costs.<sup>9</sup>

- ❑ **There are more childless families in the city.** According to an analysis of the 2000 Census by the Seattle Times, Seattle has the smallest percentage of children of any big city in the country except for San Francisco. "The exodus of children from Seattle has its roots in "white flight" to avoid school busing in the 1970s, but today the trend may have more to do with Seattle housing prices and the kinds of people who are able to pay \$350,000 for a bungalow," says the Seattle Times, adding that "Some observers think...the city looks more and more like a theme park for adults."<sup>10</sup> Research conducted for the Washington Association of Realtors® finds substantial differences in the housing preferences of people, generally relating directly to their age and lifestyles. For example, single people, working couples without children, "empty-nesters," and single parent families needing access to public services tend to choose to live in cities, often in or near downtown areas. On the other hand, the majority of families with children continue to prefer larger homes with yards, the kind of housing more commonly associated with suburban living or the more expensive city neighborhoods.
- ❑ **Traffic is more congested as families move further out to find affordable housing.** "American urban areas now spread for miles and miles, and trip origins and destinations are dispersed so widely that public transit is incapable of serving all but a small percentage of trips, and travel distances are simply too long for bicycling and walking," says Wendell Cox.<sup>11</sup>
- ❑ **The shrinking pool of workers willing or able to afford to make the congested commute will jeopardize economic vitality.** "Potentially worse yet, our housing crisis may undermine our economic growth and stability. Employers may turn away from King County when the labor shortage is exacerbated by employees unable to live anywhere near where they work, or when businesses are forced to pay exorbitantly high wages to compensate for high housing prices to attract and retain workers," say Cynthia Sullivan and Dwight Pelz of the King County Council.<sup>12</sup>

## Project Requirements, Restrictions and Delays

In addition to restrictive urban growth boundaries, government agencies at all levels continue to add time-consuming requirements and tighten restrictions on building. Significantly, nearly 73 percent of the builders who were surveyed as part of a 1998 National Association of Home Builders study said that the lengths of time they were experiencing to obtain routine single-family project approvals (zoning and subdivision) increased over the decade between 1987 and 1997. None of the builders surveyed reported that project approval waits were shorter.<sup>13</sup>



While different jurisdictions have different requirements and processes (a separate problem for builders), most housing developments take upwards of 13 months or more from application to building permit approval.<sup>14</sup> In the worst cases according to BIAW, King County permits can take more than three years, especially if infrastructure (sewer, primarily) is not present.

An abbreviated list of costly development requirements includes:

- ❑ **Impact Fees** – Often-controversial, these charges are assessed on new development, as a condition of approval, to pay for public facilities needed to serve new growth. Only local governments that plan under the Growth Management Act may use impact fees. For a complete discussion of impact fees see *Rethinking School Impact Fees* by the Washington Research Council<sup>15</sup> and *Paying for Growth’s Impacts* by the Washington State Department of Community Development.<sup>16</sup>
- ❑ **Green Belt, Park, or Recreational Set Asides** – Cities are stating in their growth development plans the objective of maintaining a current standard of baseline services for park and recreation facilities for a designated population. In Washington State, an impact fee calculation specifies the number of acres of parkland the community wishes to maintain per person and the estimated cost per acre of land acquisition and improvement.<sup>17</sup>
- ❑ **Open Space Lands and Critical Areas** – These are government-designated areas considered to be unsuitable for urban development. One of the first steps in growth management planning emphasizes the importance of critical area protection by requiring them to be identified and protected. For instance, according to Washington State’s growth management program, wetlands store storm water and release it slowly into the groundwater, reducing downstream flooding and filtering out pollutants before they reach the aquifer for community drinking water.<sup>18</sup> Building permit conditions often require buffers around wetlands or applicants may be required to create or enhance resources elsewhere to compensate for those affected by the project.<sup>19</sup>
- ❑ **Federal Regulatory Requirements** – Projects must also meet the requirements of federal laws like the Clean Air and Clean Water Acts. If a project requires a federal permit, the permitting agency is responsible for determining if an endangered species is harmed. If it is, a formal Endangered Species Act Section 7 analysis is triggered, requiring a biological assessment of the project’s effects on endangered species and their habitat. Even if a preliminary evaluation finds no significant harm is likely, a citizen lawsuit may be brought against the permitting agency charging non-compliance with Section 7 requirements, slowing down or halting the project.<sup>20</sup>
- ❑ **Local Permitting Processes** – In most jurisdictions, local zoning codes do not yet permit “compact” development. Compact development includes clustered single-family homes in the suburbs, higher density projects around transit stops in the inner suburbs, or traditional neighborhoods with mixed uses.<sup>21</sup> Even when land is zoned to allow compact developments, citizen opposition can prolong the permit



approval process, running up development costs with legal fees, even defeating some projects.<sup>22</sup>

- **Multi-Jurisdictional Authorities and Conflicts** – Building permits are subject to a multitude of local, state, and federal laws, including the Growth Management Act, the State Environmental Policy Act, the Shoreline Management Act, as well as the Endangered Species Act, the Clean Water Act, and others at the federal level. Because each has a different focus, process, and timeline, coordinating large projects is normally a challenge.<sup>23</sup> San Diego builder Ferrest Brehm summed up the problem, “The bottom line is that there are too many approvals and reviews for land development, and many are repetitive or overlapping.”<sup>24</sup>

In a recent paper presented to the Seattle Economist Club, Dr. Morrill summed up growth management saying it “preserves the quality of life of the elite at the expense of the less affluent majority.” “Both within and without the [urban growth boundary],” he continues, “the adverse social effect is to reduce housing quality and home ownership... And, always, higher density increases congestion.”

## Endnotes

- <sup>1</sup> *Annual Builder Practices Survey*, National Association of Home Builders, 1998. [Responses are for constructing a 2,150-square-foot house with three or four bedrooms on a lot between 7,500 and 10,000 square feet.]
- <sup>2</sup> Oregon Housing Cost Study, Committee to Study Housing Affordability, Bay Area Economics (BAE), 1999. <http://www.bayareaeconomics.com/Jobs/378.htm>
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- <sup>4</sup> Ibid.
- <sup>5</sup> Myths and Facts about Growth Management, Richard Morrill, Ph.D. and David C. Hodge, Ph.D., Dept. of Geography, University of Washington, January 1991.
- <sup>6</sup> *Housing construction rises 2.2%*, Chicago Sun Times, Jeannine Aversa, December 21, 2000.
- <sup>7</sup> *Freddie Mac Conventional Mortgage Home Price Index Continues to Reflect Strong Housing Values*, Freddie Mac, March 27, 2001. <http://www.freddiemac.com/news/archives2001/4q00hpi.htm>.
- <sup>8</sup> *Housing Vacancies and Homeownership Annual Statistics: 2000*, U.S. Census Bureau, <http://www.census.gov/hhes/www/housing/hvs/annual00/ann00t14.html>.
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- <sup>10</sup> *Seattle Leads the way with fewer children*, Seattle Times, Mike Lindblom, April 8, 2001.
- <sup>11</sup> *How “Smart Growth” Intensifies Traffic Congestion and Air Pollution*. By Wendell Cox, Senior Fellow in Urban Policy, The Independence Institute, Sept. 25, 2000. <http://i2i.org/SuptDocs/Enviro/AirPollutionSmartGrowth.htm>.

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- <sup>12</sup> *Housing Crisis In King County Is Real*, Cynthia Sullivan and Dwight Pelz, King County Council, in a Special to The Times, Seattle Times, July 24, 1998.
- <sup>13</sup> *Regulatory Burden on New Home Buyers Averages 10 percent*, Builder, Urban Land Institute, January 1999.
- <sup>14</sup> Ibid.
- <sup>15</sup> *Rethinking School Impact Fees*, Washington Research Council, February 1995. <http://www.researchcouncil.org/Reports/1995/SchoolImpactFees/SIF%20MainFrame.htm>
- <sup>16</sup> *Paying for Growth's Impacts – A Guide to Impact Fees*, Washington State Growth Management Program, Washington State Department of Community Development, January 1992.
- <sup>17</sup> Ibid.
- <sup>18</sup> *Defining Rural Character and Planing for Rural Lands, A Rural Element Guide*, Washington State Growth Management Program, Washington State Department of Community, Trade and Economic Development, March 1994.
- <sup>19</sup> *Growing Too Smart Too Far-Taking Implications of Smart Growth Policies*, Duane J Desiderio, Land Development, Winter 1999.
- <sup>20</sup> Telephone conversation with Lloyd Moody, Washington State Department of Ecology, May 2001.
- <sup>21</sup> Smart Growth: Building Better Places to Live, Work and Play, National Association of Home Builders, 2000.
- <sup>22</sup> Ibid.
- <sup>23</sup> *Solving the permit controversy*, Hope, Shane, AICP, About Growth, Washington State Office of Community Development, Winter 2000-2001.
- <sup>24</sup> *Regulatory Burden on New Home Buyers Averages 10 percent*, Builder, Urban Land Institute, January 1999.





**BRIEFLY**

The construction of a new home generates a considerable amount of revenue for state and local government. About half of this is sales tax. And about half of all of the tax and fee revenue goes to the state rather than to local governments.

# Taxes and Fees on the Construction of a House

The construction of a new home generates a considerable amount of revenue for state and local government.

This brief details the taxes and fees that government receives as a result of the construction of a house. The analysis is based on an actual house recently constructed in Kirkland. This house sold for \$250,000, well below the average price for new houses in King County. Even so the construction and sale of such a house generates nearly \$22,000 in taxes and fees for state and local government.

## Sales Tax

Generally, it is the sales tax that accounts for the largest share of government revenue from the construction of a house.

The calculation of the amount of sales tax generated by the house is somewhat complicated. The sale by a builder of a completed house to a consumer is not subject to the sales tax, for in Washington state the sale of real estate is exempt from the retail sales tax. However, the builder's purchases of construction materials and payments to contractors for construction work are subject to the tax.

In King County, the sales tax rate is 8.8 cents per dollar. Of this, 6.5 cents goes to the state. If the sale takes place in unincorporated King County, the county gets 1 cent for general purposes. If, instead, the sale takes place in a city, the city gets 0.85 cent and the county gets 0.15 cent. The county also gets 0.8 cent for Metro transit, the county's bus system. (This rate recently increased from 0.6 cent.) Sound Transit, the regional transit system gets 0.4 percent. Finally, 0.1 cent goes into a County criminal justice fund, which distributes money to cities and the county based on population.

Sales taxes on the Kirkland house total \$10,391.

## Real Estate Excise Tax

The sale of real estate is subject to the Real Estate Excise Tax (REET). For sales in King County, the seller pays a state REET at the rate of 1.28 percent of the purchase price and a local REET at the rate of 0.50 percent. The local REET goes to the county if the property is located in an unincorporated area; otherwise it goes to the city.

REET is collected both when the builder buys the lot and when the builder sells the completed house to the consumer. In the case of the Kirkland house, REET totals \$4,865.

## Business and Occupation Tax

As a sale of real property, the sale by a builder of a completed home to a consumer is not subject to the state business and occupation (B&O) tax.



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However, payments received by a primary contractor are subject to the B&O tax at the retailing rate, 0.471 percent, while those received by subcontractors are taxed at the wholesaling rate, 0.484 percent. Similarly, sales of materials to a builder or a contractor are subject to B&O.

B&O tax on the Kirkland house totals \$555.

### Property Tax

The builder will pay property taxes over the period that he owns the lot. A number of different jurisdictions receive shares of the property tax, including the state, county, city, and school district. For the Kirkland house, the builder owned the lot for 18 months and paid \$430 in property taxes.

The owner of the new home will pay about \$2,700 annually in property tax.

### Impact Fees

State law provides local governments with a number of tools through which to recoup from developers and builders the costs of providing public facilities to serve new housing. Foremost among these tools are impact fees.

The growth management act allows local governments to assess four types of impact fees: for fire protection, parks, schools, and roads. The money raised through impact fees must be spent “for system improvements that are reasonably related to the new development,” and only “in conformance with the capital facilities plan element of the comprehensive plan.”

<b>Taxes and Fees on a New \$250,000 House</b>	
Sales Tax	10,391
Business & Occupation Tax	555
Property Tax	430
Real Estate Excise Tax	4,865
School impact fees	0
Transportation impact fees	966
Parks impact fees	612
Fire Protection impact fees	0
Water/Sewer connection charges	3,861
<b>Total</b>	<b>21,680</b>

The builder of the Kirkland house pays to the city a road impact fee of \$966 and a park impact fee of \$612.

However, because Kirkland is an established urban area the builder does not pay impact fees for fire protection or schools.

Fire protection is provided by the City of Kirkland. The city’s existing fire protection facilities are sufficient to handle the growth foreseen in the near term, and new developments do not require major

improvements to the city’s fire protection facilities. A 1998 survey conducted by the Association of Washington Cities found that fire protection impact fees are relatively rare, with the greatest fee being the \$313 imposed by Mount Vernon.

The situation is similar for schools. The Lake Washington School District serves Kirkland, Redmond, part of Sammamish, and portions of unincorporated King County. Overall, the district is adding new classrooms to serve growing enrollments. However, enrollments at the district’s Kirkland area schools are below capacity. For that reason, the City of Kirkland does not impose a school impact fee.

The district does receive a fee of \$4,279 for a single-family house built in unincorporated King County. And this amount is less than the \$6,131 that the County collects for the Issaquah School District.



## Connection Charges

In some cases a new residential unit imposes no cost on the city for water or sewer, as the existing capacities of water and sewer lines are sufficient to accommodate the increased flows. In other cases there is a need to increase capacity. New housing in Kirkland pays water and sewer capital facility charges that have been set to recoup these costs on average.

The water capital facilities charge for the house is \$2,150. The sewer charge is \$1,711.

### Distribution of Revenue from New \$250,000 Homes

State of Washington	11,844
King County	236
City of Kirkland	7,875
Lake Wash. School District	141
Metro Transit	945
Sound Transit	472
King County Criminal Justice	118
Other Districts	49
<b>Total:</b>	<b>21,680</b>

## The Bottom Line

In the Kirkland example state and local government would receive \$21,680 in taxes and fees as a direct result of the construction of the \$250,000 house. Taxes thus represent about 8.7 percent of the selling price. A little over one half of this amount, \$11,844, goes to the state. The city gets 36 percent, \$7,875. The county gets a total of \$1,181, for its general fund and for transit, 5 percent of the total. In this example, the school district receives only a small amount, because the local schools have the capacity to absorb the

additional enrollments generated by new housing and no school impact fee is imposed. In other locations, school districts receive considerable revenue from the construction of houses.

At the state level, nearly all of the revenues go into the general fund, to pay for ongoing state services. At the local level, 70 percent of the revenues are dedicated to fund the construction of public facilities, while 30 percent pay for general operations.

It should also be noted that, in addition to the taxes and fees detailed here, government regulations may add between 10 and 20 percent to the cost of a new house. (See Washington Research Council, *Impact of Government Regulations and Fees on Housing Costs*, ePB 01-18, May 24, 2001.)

## Does Growth Pay for Itself?

Many studies claim that most residential development doesn't pay its own way. As a general rule, they say, residential development costs more than the revenue it generates. The main drivers of this equation are the number of children (school costs), the level of service provided, and the value of the property. Those that say growth does not pay for itself point out that there is no service demand from the new residents until they move in to the home. After they move in, they demand services in excess of their property taxes. However, what these claims fail to take into account is other tax revenues these individuals provide through increased sales and business taxes.

Retail, commercial and industrial land uses generally provide positive net revenues to the local governments and often offset the "shortfall" associated with

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residential uses. And in fact, local governments sometimes seek to discourage residential construction while courting “profitable” nonresidential uses. While this adds to the economic vitality of the individual community, non residential land uses must be balanced with housing if regional economic development is to be sustainable. (see Washington Research Council *Managing Growth is a Balancing Act*, ePB 01-1 January 25, 2001, for a more detailed discussion).

As we have pointed out, building activity provides very attractive tax revenues to the state and local government. State and local governments may find it prudent (and a wise use of funds) to direct these one-time revenues to fund the gap in infrastructure needs. As the Washington Association of REALTORS points out, “Sufficient funding of infrastructure is a critical investment in our communities: it provides the backbone for a community’s quality of life, the framework for economic development, and lays the essential groundwork for accommodating residential, commercial, and industrial growth. Our state’s economic growth is threatened by the lack of sufficient infrastructure funding. We must provide a vision for achieving economic vitality and quality of life through a coordinated and prioritized Infrastructure Investment Strategy.”

If a community wants to get a handle on growth, it should facilitate quality growth through more effective use of its capital improvements program, and more effective use of the one-time tax revenues generated from home construction. Local governments should finance infrastructure projects that encourage economic growth and quality development. The construction of these community revitalization projects will encourage investments in job-producing private development, and expand the tax base. Community revitalization projects include infrastructure improvements — such as streets and roads, water and sewer systems construction, sidewalks and streetlights, parking and dock facilities, and park and recreation facilities. These investments will encourage the economic growth and prosperity the community wants and needs (see Washington research Council *Economic Growth and Prosperity*, ePB 00-35 December 4, 2000), bringing with it the increased on-going tax revenues from property, sales, and business taxes that will pay for the public services the community demands.





**What tax revenues does the construction of a house generate in your community?**

Use this work sheet to calculate the revenues generated by the construction of a house in your community. Because the calculation makes use of a number of rules of thumb, the result will be only an approximation.

Before performing this calculation, you will need to specify the value of the new house and determine a number of tax and fee rates:

- House value: (HV) = \_\_\_\_\_
- Local sales tax rate: (LST) = \_\_\_\_\_
- Local real estate excise tax rate: (LREET) = \_\_\_\_\_
- School impact fee: (SIF) = \_\_\_\_\_
- Transportation impact fee: (TIF) = \_\_\_\_\_
- Parks impact fee: (PIF) = \_\_\_\_\_
- Fire protection impact fee: (FPIF) = \_\_\_\_\_
- Water connection charge: (WCC) = \_\_\_\_\_
- Sewer connection charge: (SCC) = \_\_\_\_\_

The local sales tax rate can be calculated by subtracting the state rate of 6.5 percent from the overall tax rate in the jurisdiction where the house is being built. (In King County the overall tax rate is 8.8 percent and the local rate is 2.3 percent.)

The local real estate excise tax rate can be obtained from the county treasurer’s office, which is responsible for collecting the tax, or from a realtor. (The most common local rates are 0.25 percent and 0.50 percent.)

Impact fees and connection charges can be obtained from the local building department.

**Calculation**

	State		Local
Sales tax	0.0325 X (HV) = _____	(LST) X 0.5 X (HV) = _____	
B&O tax	.0024 X (HV) = _____		
REET	0.0128 X (HV) = _____	(LREET) X (HV) = _____	
Property tax	0.0005 X (HV) = _____	0.0015 X (HV) = _____	
School impact fee		(SIF) = _____	
Transportation impact fee		(TIF) = _____	
Parks impact fee		(PIF) = _____	
Fire protection impact fee		(FPIF) = _____	
Water connection charge		(WCC) = _____	
Sewer connection charge		(SCC) = _____	

Sum column for state total: \_\_\_\_\_ Sum column for local total: \_\_\_\_\_

Sum state and local totals for grand total: \_\_\_\_\_