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UW study: Rules add $200,000 to Seattle house price
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Backed by studies showing that middle-class Seattle residents can no longer afford the city's middle-class homes, consensus is growing that prices are too darned high. But why are they so high?

An intriguing new analysis by a University of Washington economics professor argues that home prices have, perhaps inadvertently, been driven up $200,000 by good intentions.

Between 1989 and 2006, the median inflation-adjusted price of a Seattle house rose from $221,000 to $447,800. Fully $200,000 of that increase was the result of land-use regulations, says Theo Eicher — twice the financial impact that regulation has had on other major U.S. cities.

"In a nationwide study, it can be shown that Seattle is one of the most regulated cities and a city whose housing prices are profoundly influenced by regulations," he says.

A key regulation is the state's Growth Management Act, enacted in 1990 in response to widespread public concern that sprawl could destroy the area's unique character. To preserve it, the act promoted restrictions on where housing can be built. The result is artificial density that has driven up home prices by limiting supply, Eicher says.

Long building-permit approval times and municipal land-use restrictions upheld by courts also have played significant roles in increasing Seattle's housing costs, he adds.

(While his data reflect owner-occupied homes within the city of Seattle only, Eicher thinks the same basic findings may apply to surrounding cities.)

Eicher's $200,000 conclusion doesn't surprise Kriss Sjoblom, staff economist for the Washington Research Council, a nonpartisan organization that examines public-policy issues.

"It's actually pleasing," Sjoblom says, "that we finally have data that allows us to show things we thought were there all the time."

A UW professor for 13 years, Eicher is also the founding director of the UW's Economic Policy Research Center. Its goal is to provide analysis that will inform regional policy debates.

Eicher says the research center long wanted to analyze the impact of regulation on housing prices, and found a way when researchers at the University of Pennsylvania developed the Wharton Residential Land Use Regulatory Index. Based on a survey of more than 2,500 U.S. municipalities, it provided the first nationwide analysis and comparison of the effects of land-use regulation.

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Eicher requested Seattle's data from the Wharton Index and analyzed it further. That led him to put a price tag on local land-use regulations.

He received no outside funding for the project and stresses he makes no value judgments about whether regulation is good, bad or needs to change.

Rather, Eicher wants the public to "understand the impact of their choices. There's always a cost associated with the cityscape. Who wants to have no parks in the city? Or, a 10-story high-rise in Blue Ridge? But there's a cost to that."

Compared with 250 major U.S. cities, he says, Seattle:

• Is first in terms of the impact of state political involvement in land issues.

• Is in the top 3 percent for approval delays for new construction.

• Is in the top 10 percent in local political pressure influencing land use.

As an example of how this plays out, Eicher explains that "the statewide growth-management plan gave King County few options but to require that landowners in rural areas that haven't already cleared their land to keep 50 to 65 percent of their property in its 'natural state.' This forced greater density in Seattle."

Then a King County referendum to repeal some of the county's land-use restrictions was judged illegal in 2006 by the state Supreme Court because it violated the state's Growth Management Act.

"The state is intervening to restrict supply. It's not that there's no land at all," Eicher says.

Economists hold that housing costs are driven by supply and demand, and say those factors have certainly influenced the cost of Seattle's housing.

But Eicher argues that "demand does not need to drive up housing prices."

Cities such as Houston and Atlanta, which have few growth restrictions, have shown that. They've been able to add enough housing to meet demand, so their home prices have risen more moderately than heavily regulated San Francisco and Boston, which have a harder time increasing housing.

According to the Wharton study, cities such as Seattle that have high median incomes, high home prices and a large percentage of college-educated workers tend to have the most land-use regulations.

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Sjoblom says that makes sense: "People with higher incomes want the kind of amenities that regulation provides," he says. "If you're a homeowner and growth controls are imposed and housing prices shoot up, you're grandfathered because you own the place. In theory people will say it's [rising prices] a bad thing, but in practice it's not hurting them."

Sjoblom says that's why making the changes that would foster affordability are so hard to get past the public, some 68 percent of whom are homeowners. "When you bring up specific things, like allowing multifamily housing in their neighborhood, they have misgivings."

That frustrates renters, who suspect they're being priced out. And they're right, according to a housing-affordability index created by the Washington Center for Real Estate Research at Washington State University.

Last summer, King County's potential first-time buyers earning the median family income ($75,143) had just 37 percent of the financial wherewithal to buy the median-priced single-family house ($477,000) at the prevailing interest rate (6.47 percent).

Five years earlier, when King County's median-priced house cost $282,500, median-income, first-time buyers possessed 72 percent of the income needed.

(No breakout statistics are available for Seattle.)

But various government regulations make it challenging to add more affordable housing, notes Sam Anderson. He's executive officer of the Master Builders Association of King & Snohomish Counties, which has pushed government to rethink some of the regulations.

Anderson estimates that regulatory costs comprise up to 30 percent of the total cost of building a new house (land costs included). The laundry list of fees and requirements can run to 30 or more, depending on where the house is built.

Among them, Anderson says, are transportation, school and park impact fees, stormwater management fees, critical-areas mitigation and monitoring, pavement requirements and rockery permits.

And then there's the dollar cost of the process itself.

Building in Seattle can be very time-consuming compared with nearby cities, because of Seattle's neighborhood-based design-review process, says Linda Stalzer, project development director for the Dwelling Company, an Eastside homebuilder.

Add together all the various review and comment periods, and it can take 12 to 18 months to get to the point of applying for a building permit, she says.

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Design-review committees, composed of citizens interested in architecture and development, are located throughout Seattle; their job is to review commercial and multifamily housing designs before they're approved.

"Depending on how complicated your project is, it might take you three or four times to get through it," Stalzer says.

On a 25-unit Capitol Hill town-house project now under way, Stalzer estimated the various fees (including consulting and mitigation costs, but not building permits or land prices) have totaled about $650,000.

"I think there's value in going through the process because we're building things that have an impact on communities," Stalzer says. "The difficult part is the process isn't very efficient."

In the final analysis, Eicher believes Seattle's regulatory climate exists because its residents want it. "My sense is land-use restrictions are imposed to generate socially desirable outcomes," he says. "We all love parks and green spaces. But we must also be informed about the costs. It's very easy to vote for a park if you think the cost is free."