

Las Vegas: Prescriptive Planning (Smart Growth) Destroys Housing Affordability

The Las Vegas metropolitan area is sometimes erroneously characterized as having a responsive (traditional or liberal) land use market. In fact, the Las Vegas market is highly prescriptive, as a result of the combination of strong land use regulations (“smart growth”) and the large share of developable fringe land by the US federal government, which has been restricting sales to maximize revenues.

Federal Government Drives Up Housing Prices: Doug French, a bank executive writing for the Nevada Policy Research Institute noted that the federal government’s failure to sell land for residential development at a rapid enough pace had led to substantial increases in house prices in the Las Vegas area (the fastest growing metropolitan area in the United States with more than 1,000,000 population).¹ As a result, builders and developers had bid up the land price in period auctions to ensure their supply of land for construction --- a practice called “land banking” (it is also a form of speculation).

The federal government owns 90 percent of the land in Clark County, which contains the entire Las Vegas urban area and private land for development has been in short supply for some time. According to French, the price of land for housing generally sold for \$40,000 to \$50,000 per acre in the late 1990s. By the time French was writing (2000), the price at auction had risen to \$250,000. Over the past two years, the average price has been \$563,000.² Rising land prices are the principal element of house price escalation in the Las Vegas area.

From his 2002 vantage point, *Feds Drive Up Nevada Home Prices*, French noted that the median house price in Las Vegas was \$124,000 in 1995 and had risen to \$187,000. He noted that if this rate continued, the median house price would be more than \$280,000 by the end of the decade. He was far too conservative. By the end of 2006, the median house price had reached nearly \$320,000.

The federal government has been auctioning land at a rate well below what the market could accommodate. This is illustrated by the large increase in prices per acre and in a comparison with agricultural land values.

Agricultural land in the Las Vegas metropolitan area had a value per acre of approximately \$3,000 according to the 2007 United States Census of Agriculture. At the

¹ <http://www.npri.org/publications/feds-drive-up-nevada-home-prices>.

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http://www.blm.gov/pgdata/etc/medialib/blm/nv/field_offices/las_vegas_field_office/snplma/pdf/grand_matrices/program_stas_12-08.Par.11653.File.dat/ProgramStatisticsApr08.pdf.

2008 federal government auction prices, “raw”³ land was being sold at more than 175 times the value of agricultural land per acre.⁴

There is no shortage of developable land in the Las Vegas area. Within 40 miles of the city center, there is enough rural flat land to accommodate a population of more than 10,000,000 at Los Angeles urban area densities.

If land had been freely available for development, purchasers would not have paid such high prices for the land sold by the federal government.

Excessive Regulation in Boulder City: The problem is more than insufficient federal sales. Boulder City, at the southern end of the urban area, has a strong growth management act. Moreover, the city is effectively prohibiting development in more than 150 square miles of open desert land, some of which would be appropriate for developing new housing. Given Boulder City’s unique position, south of a pass between Henderson and Boulder City, the desert preserve represents the equivalent of an urban growth boundary to the south of the urban area.

Brookings Institution Land Use Planning Rating: In addition, the Las Vegas metropolitan area is rated as “containment lite” by the Brookings Institution in *From Traditional to Reformed: A Review of the Land Use Regulations in the Nation’s 50 largest Metropolitan Areas*.⁵ This is further indication that the metropolitan area has converted from responsive (traditional or liberal) land use regulation to prescriptive land use regulation.

Prescriptive Land Use Regulation and Price Volatility: Not only does prescriptive land use regulation artificially increase house prices, but it also makes prices more volatile. Prescriptive land use regulation brings more chaotic “boom and bust” cycles to housing markets. They convert what would have otherwise been modest price bubbles into extreme price bubbles. This is noted by Glaeser and Gyourko, who summarize the findings of a number of studies:

Recent research also indicates that house prices are more volatile, not just higher, in tightly regulated markets.

*...price bubbles are more likely to form in tightly regulated places, because the inelastic supply conditions that are created in part from strict local land-use regulation are an important factor in supporting ever larger price increases whenever demand is increasing.*⁶

³ “Raw” land has not yet been connected to street, sewer and other utility systems.

⁴ From 2002 to 2007, the average value per acre of agricultural land in the Las Vegas metropolitan area *declined* approximately 15 percent, while auction prices per acre *increased* by more than 10 times (more than 1,000 percent).

⁵ http://www.brookings.edu/reports/2006/08metropolitanpolicy_pendall.aspx

⁶ Edward L. Glaeser and Joseph Gyourko, *Rethinking Federal Housing Policy: How to Make Housing Plentiful and Affordable* (American Enterprise Institute, 2008), p.78.

The mortgage meltdown has hit the Las Vegas area about as hard as any in the country, and median house prices have since reached \$185,000,⁷ a decline of more than 40 percent. But, given the insufficient land sales rate and the excessive exurban land preservation provisions, house prices in the Las Vegas metropolitan area are again escalate well beyond historic norms once the economy recovers.

Las Vegas provides an example of how land rationing, from both “smart growth” policies and insufficient government land sales can lead to far higher house prices and reduced housing affordability.

<http://www.demographia.com.db-lvland.pdf>

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⁷ November 2008 price from <http://www.dqnews.com/News/Las-Vegas/RRCLNV090106.aspx>.