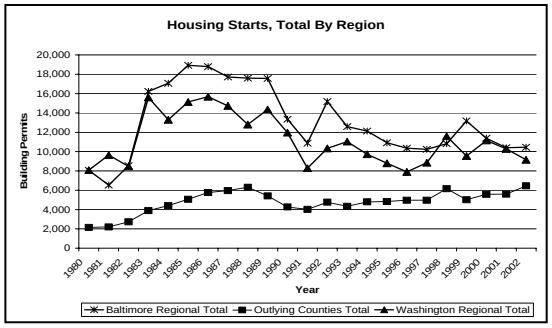
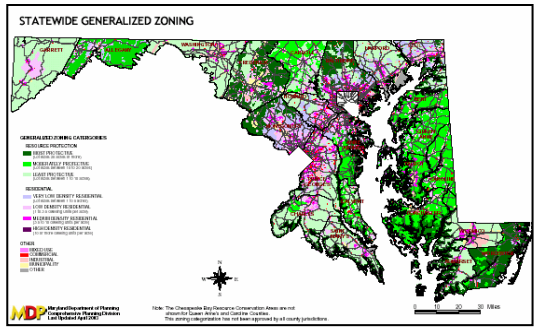
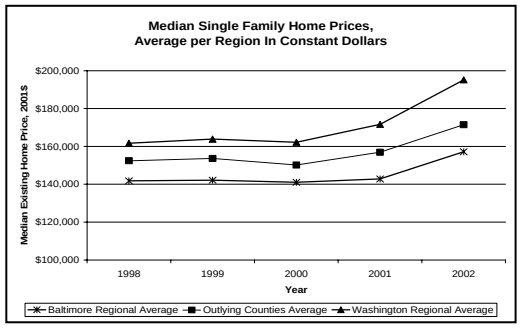
Smart Growth, Housing Markets, and Development Trends in the Baltimore-Washington Corridor







National Center for Smart Growth Research and Education
University of Maryland
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Smart Growth, Housing Markets, and Development Trends In the Baltimore-Washington Corridor

The National Center for
Smart Growth
Research and Education

Prepared for the Maryland National Capital Building Industry Association and the Home Builders Association of Maryland by the National Center for Smart Growth Research and Education, the University of Maryland College Park

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Executive Summary

Maryland is a dense and rapidly growing state. For this and other reasons, Maryland has been a national leader in a movement known as smart growth. Smart growth has many objectives, but concentrating urban growth in well defined areas while protecting rural land from development are perhaps its primary goals. Though public support for smart growth continues to rise, so do concerns that policies used to promote smart growth could have adverse effects on land and housing markets. To evaluate these concerns, this study provides information on housing markets and development trends in the Baltimore-Washington corridor.

The study finds that housing demand in the nation and in Maryland is strong, as revealed by rising prices and homeownership rates as well as by falling vacancy rates and housing-to-jobs ratios. In general, the housing market in Maryland exhibits trends similar to those in comparable jurisdictions, such as neighboring Virginia. The performance of specific housing markets in Maryland, however, varies widely, with strong growth in the suburbs, variable growth in rural areas and persistent weakness in Baltimore City. Further, in the Baltimore and Washington suburbs, housing prices are rising rapidly while housing starts remain sluggish.

Though this study does not prove that housing markets and development trends in Maryland have been adversely affected by land use policies, there is evidence to suggest that state and local constraints on development are contributing to problems of housing affordability and deflecting growth to outlying areas. The result could be more, not less, urban sprawl. Moreover, neither the state government nor most local governments in Maryland currently have adequate policies in place to monitor or address this problem. While the Maryland Smart Growth initiative has been successful in protecting natural areas and agricultural

lands from development, it has not had similar success in assuring a steady, future supply of affordable housing. Local governments, meanwhile, appear to have little incentive to address this problem.

To address this problem the state needs to assure that local governments address development capacity and housing affordability issues. This does not mean it should eliminate or immediately expand Priority Funding Areas. It does mean that the state should require local governments to include housing elements in their comprehensive plans, provide periodic estimates of housing and employment capacity, and develop modern and publicly accessible data on the location and capacity of developable land. Local governments must be active and willing participants in this process and the Maryland Department of Planning should provide whatever technical assistance may be needed.

Part I – Overview

Introduction

At a density of 529 people per square mile, Maryland is the sixth most densely populated state in the nation. Its current population of 5.3 million is expected to exceed 6.1 million by 2020. Concerns about the adverse effects of anticipated growth have prompted both the state and local governments in Maryland to impose restrictions on where new growth can occur and to provide incentives to encourage new growth to be located in targeted growth areas. Many of these policies have been in place for many years. For the first time in the state's long history, however, elected officials, planners, and the building and development industry are concerned about whether there will be sufficient land available to meet the housing needs of this rapidly expanding population.

This study is designed to inform debate on these issues by presenting information on housing market and development trends in the Baltimore-Washington corridor. The report contains four parts: Part I introduces the study and provides an overview. Part II describes growth management tools used across the nation and in Maryland, and discusses how such tools can affect housing markets. Part III presents and reviews recent trends in housing markets at the national, state, and local levels. Part IV presents conclusions and recommendations.

PART II – BACKGROUND

Urban Growth Management

Although widely known as smart growth in Maryland, efforts to mitigate the adverse effects of urban growth are more generally called urban growth management. Urban growth management tools come in many forms. The oldest and most popular growth management tool is zoning. Though many communities do not use zoning explicitly to control growth, zoning imposes restrictions on the type and intensity of land use and thus can have significant effects on the location and rate of urban expansion. Perhaps the best known urban management instrument is the urban growth boundary (UGB). UGBs are lines drawn around urban areas that delineate when and where urban development is allowed. In Oregon, the best known example in the U.S., UGBs must be drawn to contain a 20-year supply of land and the appropriateness of the boundary must be revisited every five-to-seven years. Instruments similar to UGBs are urban service boundaries, which identify where urban services are or will be provided. Lexington, Kentucky, has perhaps the oldest and best known urban service boundary. Urban service boundaries are often linked with adequate public facilities ordinances, which restrict or prohibit growth in areas inadequately served by roads, public water, public sewer, schools or other forms or urban infrastructure. Greenbelts, which surround urban areas with land dedicated to farming, natural resource protection, or public open space, represent another instrument to control growth. Only a few communities in the United States have greenbelt policies explicitly designed to contain urban growth—Boulder, Colorado, is most notable. Many other communities, however, have partial greenbelts created by the public purchase or permanent transfer of development rights in the urban fringe.

With the exception of zoning, the use of growth management tools has increased dramatically over the last decade. A recent survey of approximately 1,000 jurisdictions in the 25 largest metropolitan areas by Pendall, Martin, and Fulton (2001) found the following:

- Low density zoning is commonly used to limit growth management, especially in the Northeast;
- Many local governments purchase open space to manage urban expansion;
- Urban growth boundaries have been adopted by 17 percent of local governments;
- Thirty percent of local governments have adequate public facilities ordinances;
- The adoption of all urban containment policies has increased steadily over time;

The study by Pendall et al provides strong evidence that many local governments have adopted growth management tools; the study emphasizes, however, that the impacts of these tools on land and housing markets depend critically on their implementation. According to Pendall et al, for example, growth boundaries in Oregon, which must be reviewed at regular intervals, have smaller impacts on land and housing markets than growth boundaries which never expand.

Growth Management in Maryland

Maryland's current approach to urban growth management began over 30 years ago with the passage of the State Planning Act, which gave the state authority in certain instances to intervene in local land use issues (Cohen 2001). During the 1980s, several environmental protection measures were enacted that further constrained land use, including the Chesapeake Bay Critical Areas Act, which limited development within 1,000-feet of mean high tide along the shoreline of the Bay and its tidal tributaries. In 1992, the Maryland Economic Growth, Resource Protection and Planning Act required local governments to incorporate seven visions[1]

[1] These visions are: (1) Development is concentrated in suitable areas; (2) Sensitive Areas are protected; (3) In rural areas, growth is directed to existing population

and a sensitive-areas element in their comprehensive land use plans, to encourage economic growth and regulatory streamlining, and to review their plans every six years. Once a plan is adopted, local governments may approve development projects that include state funds only if they are consistent with the plan. The state also may not fund a public works or transportation project unless the project is consistent with the applicable local plan. The 1992 Act does not require local governments to establish UGBs, though UGBs were recommended by the Maryland Office of Planning. Baltimore, Frederick, Howard, Washington, and Montgomery Counties have some form of UGBs (MOP 1992a).

In 1997, the Maryland General Assembly enacted the Smart Growth and Neighborhood Conservation initiative. This program was composed of five elements: the Priority Funding Areas Act (PFAs); the Rural Legacy Program; the Voluntary Cleanups/Brownfields initiative; the Live Near Your Work program; and the Job Creation Tax Credit program. Though all of these programs are intended to alter urban development patterns, the first two represent the core of the program and have the most potential to constrain urban growth and affect housing markets.

Under the PFA legislation, State spending on infrastructure and other growth related expenditures is restricted to areas specifically designated for urban growth. By statute, PFAs include the traditional urban areas of the State: All 157 incorporated municipalities in the State, including Baltimore City; the heavily developed areas inside the Baltimore and Washington beltways; neighborhoods that have been designated by the Maryland Department of Housing and Community Development for revitalization; Enterprise Zones; and Heritage areas. In addition, counties may designate other areas as PFAs as long as those areas meet minimum state criteria for density, provision of water and

centers and resource areas are protected; (4) Stewardship of the Chesapeake Bay and the land is a universal ethic; (5) Conservation of resources, including a reduction in resource consumption, is practiced; (6) To assure the achievement of (1) through (5) above, economic growth is encouraged and regulatory mechanisms are streamlined; (7) Funding mechanisms are addressed to achieve these visions.

sewer services, and the county's overall PFA plan is consistent with the county's 20-year growth projections. Areas eligible for county designation include (MOP 1992b):

- Areas with industrial zoning;
- Areas with employment as the principal use, and areas that are served by, or planned for service by, a sewer system;
- Existing communities with existing sewer and water services that have an average density of two units per acre;
- Rural villages designated in local comprehensive plans; and
- Other areas that meet specific density and urban service criteria.

Unlike UGBs, PFAs do not represent regulatory instruments that by themselves contain urban development. Instead, they attempt to contain urban growth by using moral suasion and the availability of state funds as incentives. According to *Smart Growth, A Comprehensive Review of Trends and Issues for the Future*, published by the Maryland Department of Planning and the Governor's Office of Smart Growth (2002) about 90 percent of new housing in the 1950s and 1960s was built within the boundaries of the Priority Funding Areas later designated under the 1997 Smart Growth law. But in the 1970s, there was a major drop-off of housing in those areas and by 1998, only 75 percent of new units were being built there. In 2000, that number crept back up to 76 percent. Despite that modest increase within the old growth areas, low density, large lot development outside of Priority Funding Area boundaries was consuming about 75 percent of all the land being used for new development in the state.

While the PFA program attempts to use state financial resources as an incentive to encourage growth in targeted geographic areas, the Rural Legacy Program was established as one of several state efforts to protect natural areas or farmland threatened by encroaching

development. Under the Rural Legacy Program, the State provides funds for land preservation through a competitive program specifically designed to limit the adverse impacts of urban growth. With these funds the State facilitates the purchase of conservation easements for large contiguous tracts of agricultural, forest and natural areas subject to development pressure, and fee interests in open space where public access and use is needed. Local governments and private land trusts can identify Rural Legacy Areas and compete for funds to complement existing land conservation efforts or create new ones. During the first five years of the Rural Legacy Program, grants totaling $132.9 million were awarded to protect an estimated 51,800 acres. A total of 25 Rural Legacy Areas have been designated in 21 of Maryland's 23 counties. The program's long-range goal was to protect between 200,000 and 250,000 acres during its first 15 years, although purchases have declined sharply the past two years due to current budget shortfalls. Rural Legacy acquisitions have been augmented by land and easement purchases through several other state and local government programs, including the state's GreenPrint Program, a parkland acquisition program called Program Open Space, and the state's farmland preservation program, as well as a number of local government park and farmland protection programs.

The state of Maryland also regulates the provision of water and server services. State law requires each county and Baltimore City to prepare water and sewer plans that cover a 10-year period, which are consistent with comprehensive plans, and are approved by the Maryland Department of the Environment. Further, such plans must include information regarding the capacity of existing systems, present level of usage, and projections for use of capacity. Water supply and sewer services are not to be extended unless they conform with the plan.

A recent report (Whipple 1999) prepared for the Chesapeake Bay Foundation found county compliance with state requirements mixed. Most counties have developed plans consistent with these regulations. But

plans vary widely in content, format, and relevance, and frequently do not conform with state staging requirements.

Finally, Maryland law (Article 66B) explicitly enables local government to establish Adequate Public Facilities Ordinances (APFOs). An APFO "bases development approvals under zoning and subdivision laws on specifically defined public facility standards" (MOP 1992c). Their intent is to prevent development from exceeding the capacity of existing public infrastructure to provide adequate public services, such as schools, roads, or sewer or water service. As such they can be used to prohibit or delay development both inside and outside existing urban areas.

Like other growth management instruments, the effects of APFOs depend critically on their implementation. When used in conjunction with a sound and effective capital improvement plan, which facilitates the timely extension of urban infrastructure, APFOs can serve as effective instruments for guiding urban growth. When urban infrastructure is not provided in a timely fashion, APFOs can trigger growth moratoria, arrest housing development, and deflect growth to even less desirable locations. Unfortunately, there is no empirical evidence on which effects are most prevalent.

In sum, over the past three decades, the state of Maryland has enacted or otherwise assembled an assortment of land use programs, requirements, and enabling legislation that can serve to contain or redirect urban growth. Local governments were required to adopt comprehensive plans and assure that local regulations are consistent with those plans in 1992. The Rural Legacy and Priority Funding Area programs were adopted in 1997, although the first Rural Legacy grants were not awarded until the summer of 1998 and local governments were given until October 1998 to map their PFA boundaries. Local implementation under both acts took some time. Further, under previous and current land use statutes, local governments in Maryland have

been managing growth for decades—and considerable land use authority remains at this level. Thus, Maryland has many land use programs, adopted at different dates, and implemented in varying degrees by local governments. This makes it difficult to discern the effects of Maryland's land use policies on housing markets with precision. Precise statistical examination is beyond the scope of this study.

Growth Management and Housing

The availability of housing is critically important to the well-being of citizens in the United States. According to a recently released report (Millennial Commission 2002), housing represents more than one-third of the tangible assets of the United States and more than 50 percent of the average homeowner's net worth. Studies have also shown that not only is the availability of housing important, but also the quality of the neighborhoods in which that housing resides. Children of homeowners in stable neighborhoods are more likely to complete school, have better test scores, and have fewer behavioral problems. In national demonstration projects, families who live in better neighborhoods achieve better educational, behavioral, and employment outcomes. Housing within quality communities clearly matters for a host of reasons that extend beyond the roof and exterior walls.

The United States has perhaps the best housing stock in the world. Yet access to decent, affordable housing is not universal among U.S. citizens. In 1999, the average U.S. citizen paid approximately 20 percent of household income on housing; yet one in nine households reported spending over 50 percent. Problems of housing affordability, not surprisingly, are most prevalent among the poorest of the poor. Among those with extremely low incomes, 56 percent of renters and 50 percent of homeowners are severely burdened by housing affordability. And though homeownership rates in 2001 reached an all-time high of 67.8 percent, significant gaps remain in homeownership rates between white and

minority households, even after controlling for differences in incomes.

Literature on the effects of growth management on land and housing markets is voluminous. For every study that finds that growth management has had detrimental effects on housing affordability there is one that finds they do not (see, e.g., Nelson et al 2002). This confirms that effects depend on local policies and market conditions. For the purposes of this study, the literature provides two useful foundations. First, there is ample and compelling evidence that growth management *can* adversely affect land and housing markets under certain conditions. Second, the place to look for the effects of growth management tools is in housing prices, starts, vacancy rates, housing/jobs ratios, and development activity trends (Landis 2002). Markets that are adversely affected by growth management policies tend to exhibit rising prices and falling starts, vacancies, and housing units per job.

PART III - RECENT TRENDS IN U.S. HOUSING MARKETS

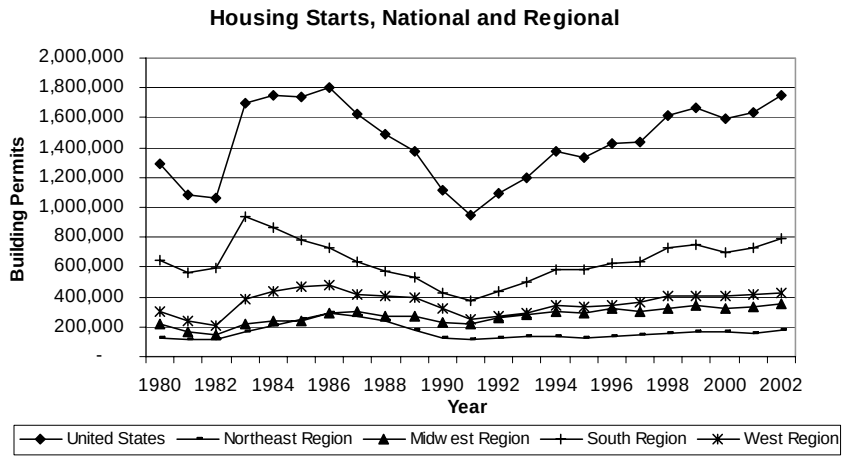
Housing markets are affected by a large, complex set of variables that are difficult to disentangle. Further, all measures are relative. That is, measures of current market conditions in one jurisdiction can only be judged in comparison to similar measures from some other place or time. Current housing prices in Maryland, for example, can be judged most usefully when compared to housing prices in other states or in Maryland at other times. This section, therefore, presents data on housing conditions and trends at the national, regional, state, and county levels. Analyses of these data cannot reveal cause and effects, but can be used to judge how conditions and trends at one level compare to changes at others.

National Trends

Though the economy of the United States has been sluggish over the past few years, the housing market remains strong. The primary drivers of demand for housing —population, jobs, and income — grew steadily in the 1990s and the housing industry responded as expected. With the exception of a slight dip in 1995 and 2000, housing starts have increased every year since 1991 (See Figure 1). Of the four census regions, the most rapid growth in housing starts has been in the South (Maryland and Virginia are both included in this region). Median sales prices for existing homes have risen continuously over roughly the same period, even after adjusting for inflation. Prices remain highest in the West and Northeast, but are rising rapidly in the South (See Figure 2). Homeownership rates in 2001 reached all time highs in every region of the country, though the number of housing units per job has fallen in every decade since 1980 (See Figure 3).

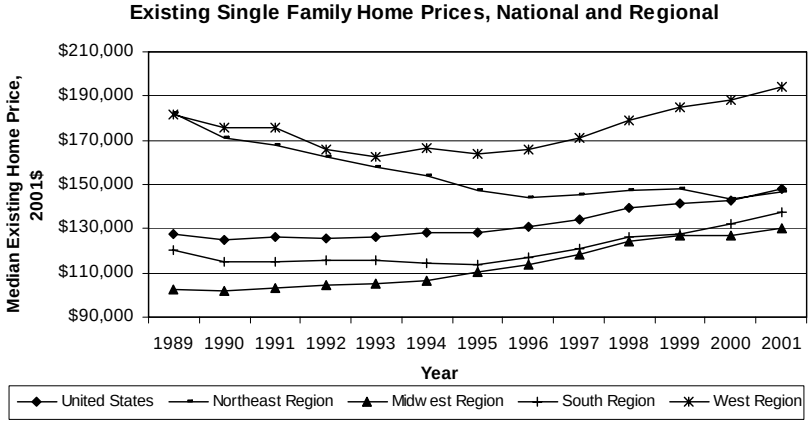
Observers of the national housing market attribute much of the recent strength of the market to falling interest

Figure 1



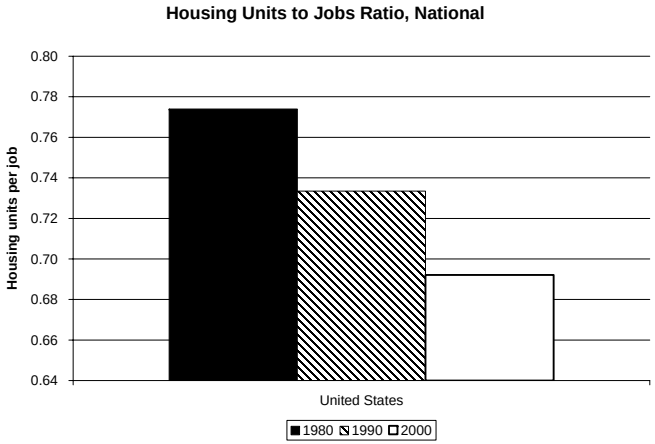
Source: U.S. Census Construction Statistics

Figure 2



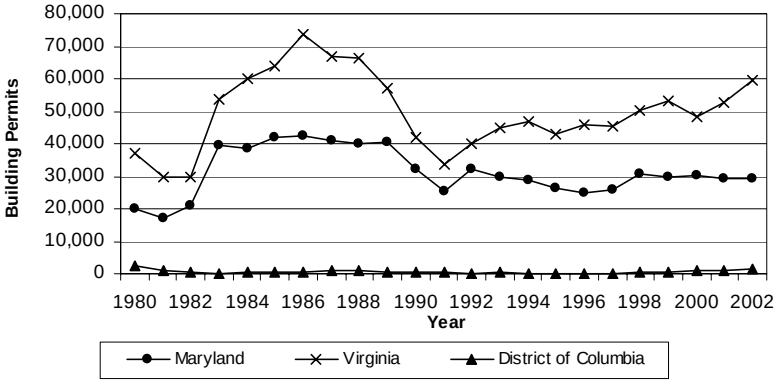
Source: National Association of Home Builders

Figure 3



Source: U.S. Census 1980, 1990 and 2000

Figure 4



Source: U.S. Census Construction Statistics

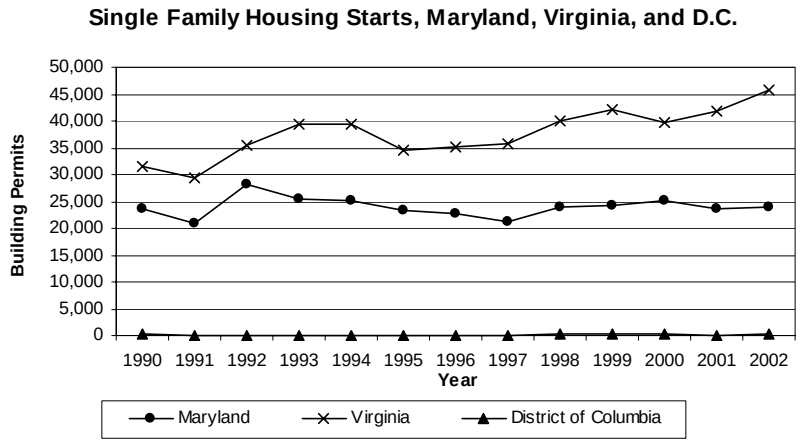
rates and declining stock prices (NAHB 2002). There is some concern that housing prices, like past stock prices, are unsustainably high; but long term demographic trends and the rising prospects for an economic recovery suggest otherwise.

Trends in Maryland, Virginia and the District

Housing trends in Maryland, Virginia and the District of Columbia are mixed. Employment and per capita incomes rose consistently in Maryland and Virginia over the last decade but remained fairly constant in the District of Columbia.

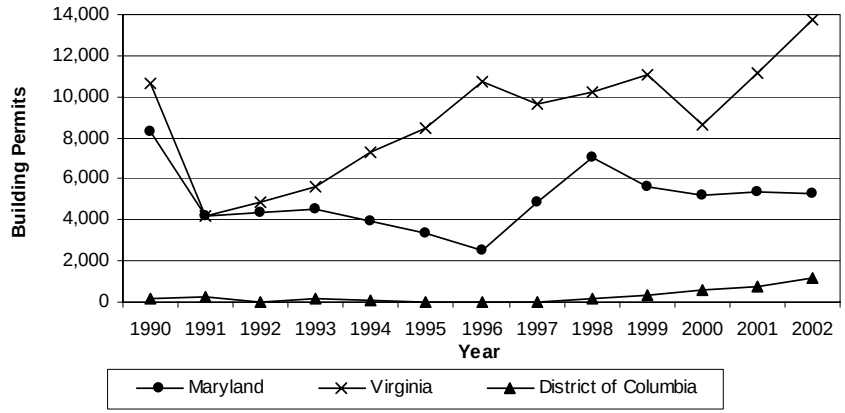
Housing starts per year in Virginia have increased fairly steadily since 1991, but did not reach highs set in the late 1980s. Starts in Maryland held steady over the decade of the 1990s, but also failed to reach levels set in the 1980s (See Figure 4). In Virginia, single family starts have fluctuated but exhibited an upward trend over most of the 1990s. In Maryland, single family starts held steady for most of the 1990s. Single family starts in the District remained consistently low as expected in a highly urbanized area (See Figure 5). Multi-family starts fluctuated widely in Virginia, Maryland, and the District, though an upward trend is visible in Virginia and the District (See Figure 6). Homeownership rates, meanwhile, have risen slowly in Virginia, Maryland, and the District since the early 1990s but generally remain higher in Virginia than Maryland (See Figure 7). Housing vacancy rates fell in Virginia and the District from 1990 to 2000 but rose slightly in Maryland (See Figure 8). The ratio of housing units to jobs fell in Virginia, Maryland, and the District from 1980 to 1990, fell in Virginia from 1990 to 2000, but rose slightly in Maryland and the District (See Figure 9).

Figure 5



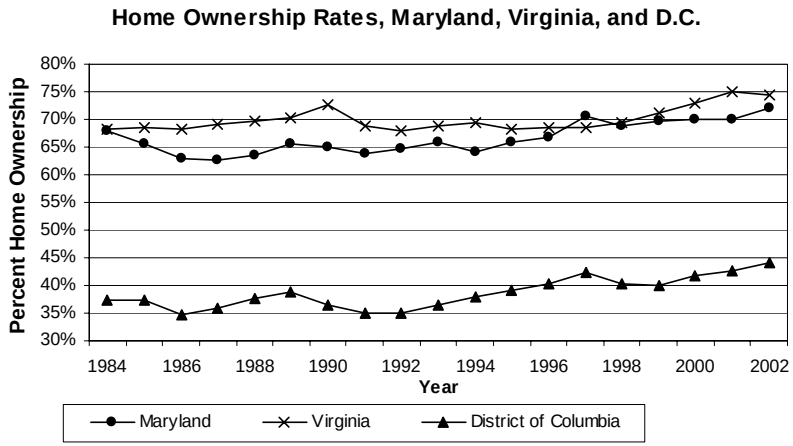
Source: U.S. Census Construction Statistics

Figure 6



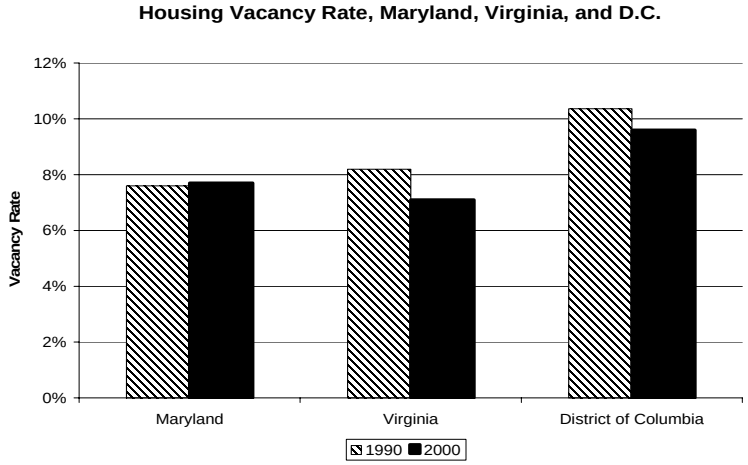
Source: U.S. Census Construction Statistics

Figure 7



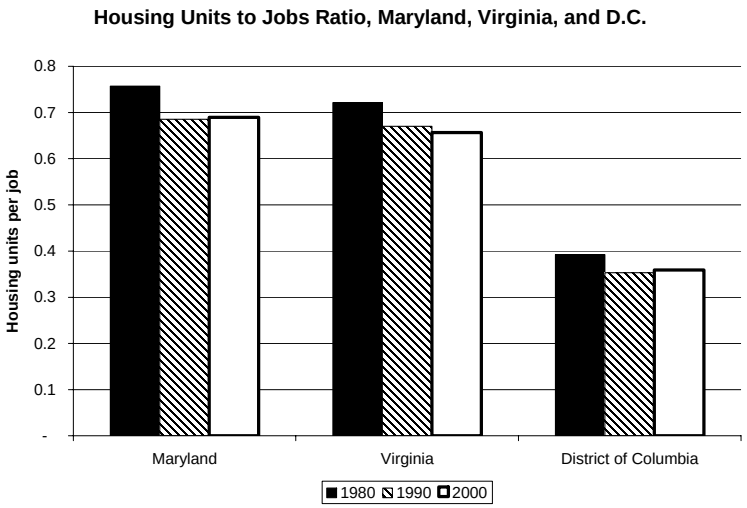
Source: U.S. Census Construction Statistics

Figure 8



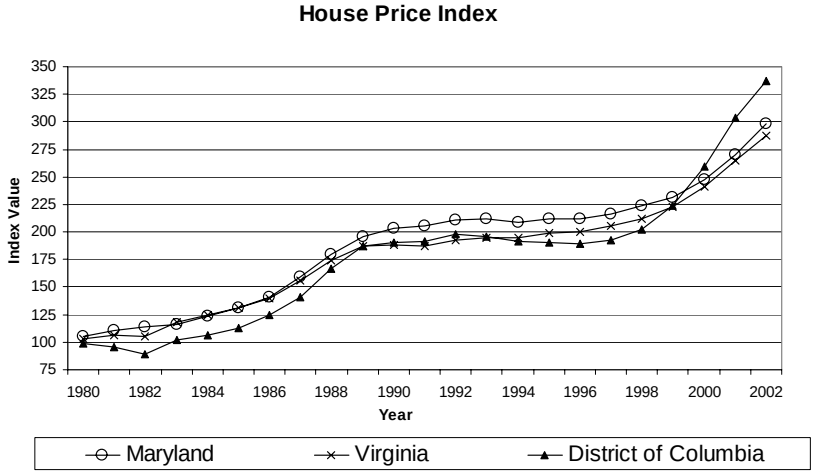
Source: U.S. Census 1990 and 2000

Figure 9



Source: U.S. Census 1980, 1990 and 2000 and U.S. Bureau of Economic Analysis

Figure 10



Source: U.S. Office of Federal Housing Enterprise

Housing prices in Virginia, Maryland, and the District have followed a similar pattern since 1980. Reflecting national trends in the business cycle and mortgage interest rates, prices rose rapidly in the late 1980s, late 1990s, and the early part of the new millennium. Since the mid 1980s, housing prices have been slightly higher in Maryland than Virginia. Prices in the District have risen dramatically in recent years (See Figure 10).[2]

Despite some general similarities, however, housing production differed dramatically between Maryland and Virginia. Although adjusted housing prices rose approximately 54 percent in Maryland and 58 percent in Virginia from 1991 to 2002, housing starts varied between 25,000 and 30,000 units per year in Maryland

[2] The HPI is a broad measure of the movement of single-family house prices. Each quarter, Fannie Mae and Freddie Mac provide information on their most recent mortgage transactions. These data are combined with the data of the previous 27 years to establish price differentials on properties where more than one mortgage transaction has occurred. The data are merged, creating an updated historical database that is then used to estimate the HPI.

but nearly doubled from approximately 33,000 to 60,000 units per year in Virginia.

In sum, as in the nation and the Southern census region, housing markets in Virginia remained vibrant over the 1980s and 1990s. Starts and homeownership rose unevenly, but there is some evidence of a tightening national housing market as prices have increased and the vacancy rate and ratio of housing units to jobs fell. Housing markets in Maryland also showed signs of strength. Housing prices and homeownership rates both increased, but housing starts in Maryland failed to accelerate as rapidly as in Virginia.

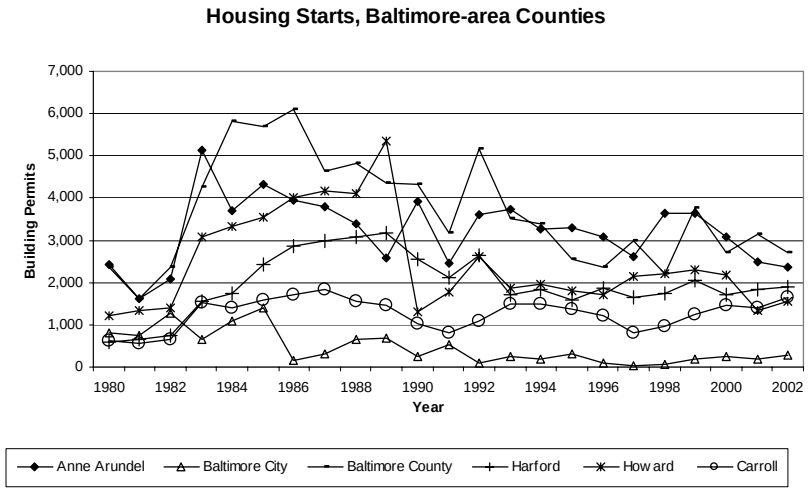
Some of these mixed results in Maryland, however, stem from radical differences in submarket trends (as discussed below). A large portion of Maryland's vacant houses, for example, are in Baltimore. Perhaps the most interesting and consistent patterns in housing market data come from the District of Columbia. In the District there is clear evidence of rising prices, increased homeownership, and falling vacancy rates.

Trends in Baltimore City and Selected Counties

Data for cities and counties provide additional insights about housing market trends in Maryland. Populations, jobs, and incomes increased steadily throughout the 1980s and most of the 1990s in every county.

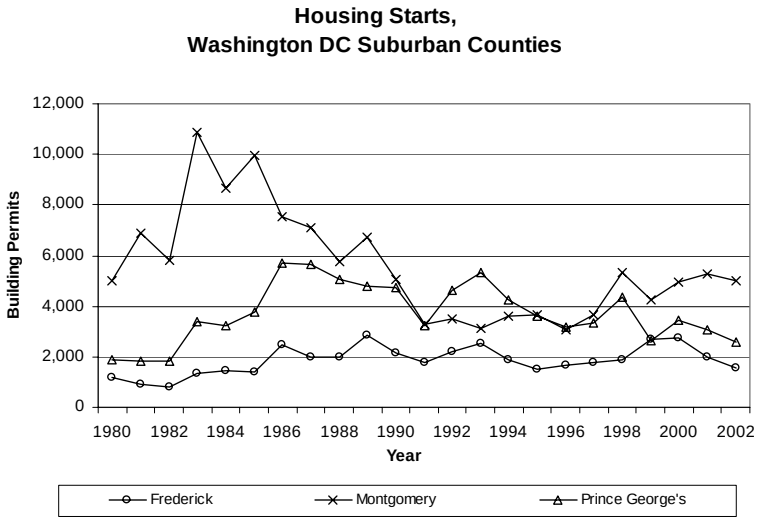
Housing starts in Baltimore-area Counties have fluctuated significantly but starts since the early 90s remain below levels reached in the 1980's in Anne Arundel, Howard, and Baltimore Counties (See Figure 11). Similar patterns are evident in Suburban Washington Counties. Starts in Montgomery and Prince George's Counties remain below levels in the 1980s though they remain fairly constant in Frederick County (See Figure 12). Starts in outlying counties have also fluctuated widely, but have trended upward since 1990 (See Figure 13).

Figure 11



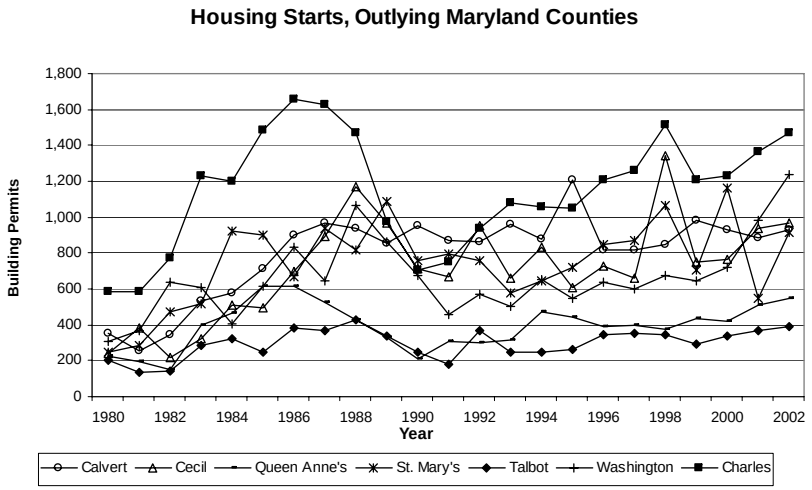
Source: Maryland Department of Planning

Figure 12



Source: Maryland Department of Planning

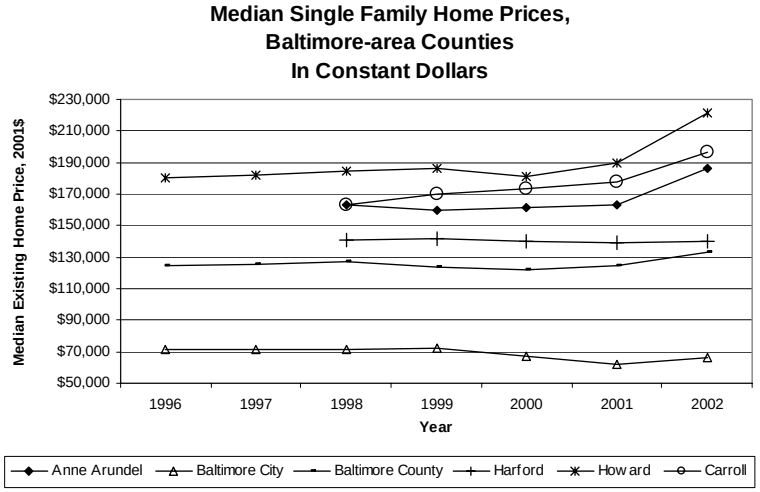
Figure 13



Source: Maryland Department of Planning

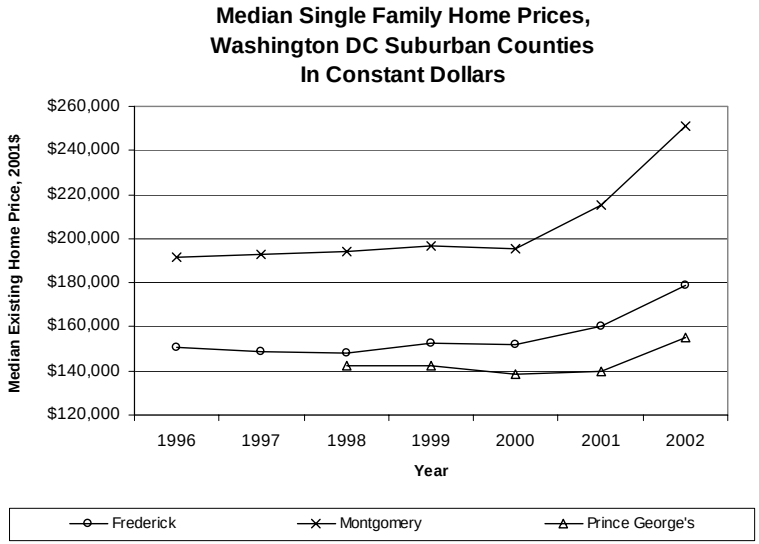
In many counties, inflation-adjusted housing prices rose slowly throughout most of the 1990s and more rapidly after the year 2000. In the Baltimore region, prices have risen most dramatically in Howard, Carroll, and Anne Arundel Counties. Prices remain depressed in Baltimore City (See Figure 14). In the Washington region, recent price increases are evident in Montgomery, Prince George's, and Frederick Counties (See Figure 15). In outlying counties, recent price increases are evident in every county but the most rapid increases are evident in Talbot and Queen Anne's Counties (See Figure 16).

Figure 14



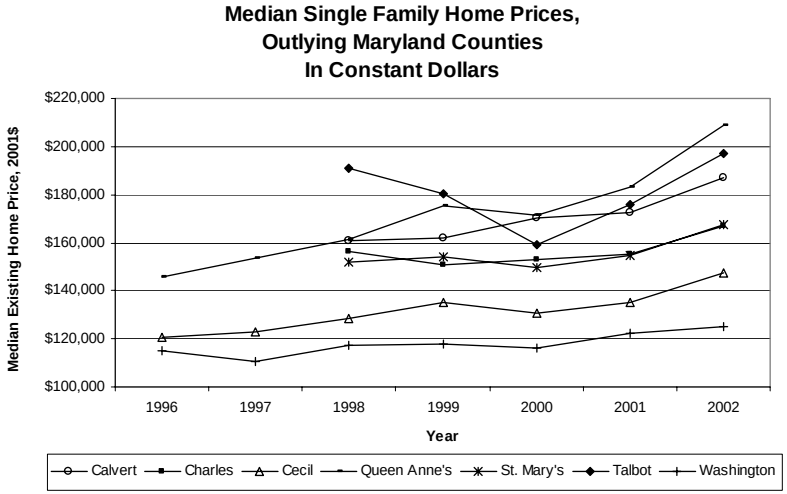
Source: Metropolitan Regional Information Systems, Inc.

Figure 15



Source: Metropolitan Regional Information Systems, Inc.

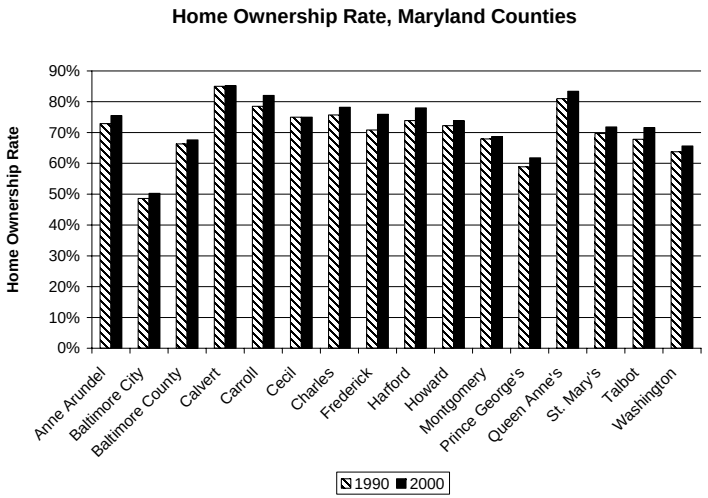
Figure 16



Source: Metropolitan Regional Information Systems, Inc.

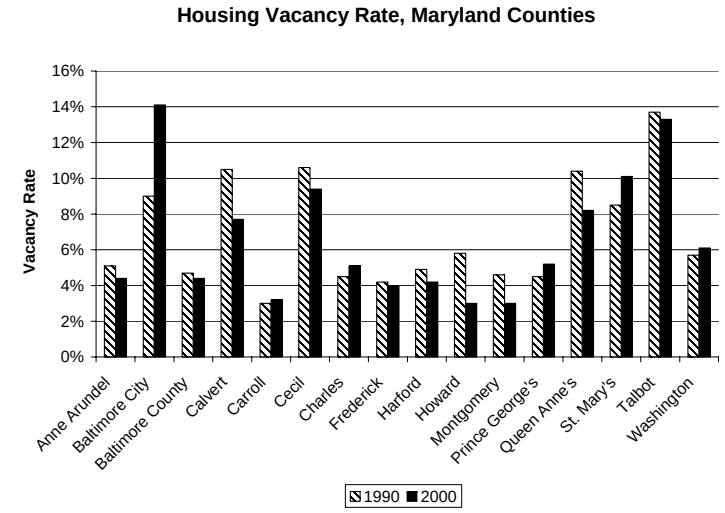
Home ownership rates rose in almost every county between 1990 and 2000, while vacancy rates fell in 10 of 15 counties. In Baltimore City, homeownership rates and vacancy rates increased (See Figures 17 and 18).

Figure 17



Source: U.S. Census 1990 and 2000

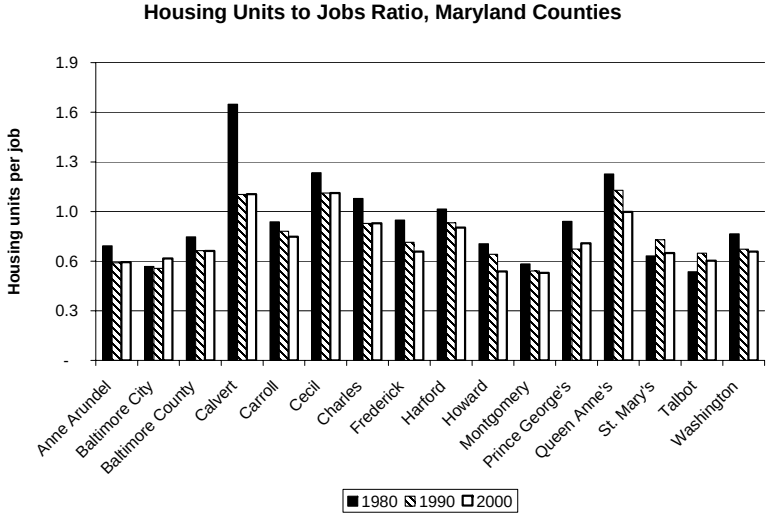
Figure 18



Source: U.S. Census 1990 and 2000

From 1980 to 2000, there was a decrease in the ratio of housing units to jobs in almost every county. Only in Baltimore City, Talbot County, and St. Mary's County were there more houses per job in 2000 than in 1980 (See Figure 19).

Figure 19



Source: U.S. Census 1980, 1990 and 2000

The trends reviewed above reveal three distinct patterns of housing market performance in the state over the last two decades: strong demand in suburban counties, weak

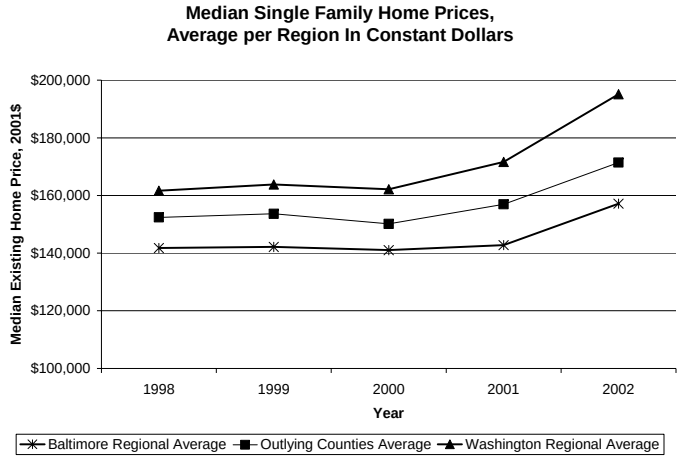
demand in Baltimore City, and variable demand in outlying counties. Similarly distinct patterns are evident in the response of housing markets over the last decade. Homeownership rates are up in every county. In the Baltimore and Washington suburban counties, where the majority of the state's population resides, rising prices, stagnant starts, falling vacancy rates and housing/jobs ratios provide evidence of increasing tightness From 1998 to 2002 inflation-adjusted housing prices rose approximately 11 percent in the Baltimore region (excluding Baltimore City), 23 percent in the Washington region, and 12 percent in outlying regions. Annual housing starts, however, fell 6 percent in the Baltimore region, fell 21 percent in the Washington region, and rose five percent in outlying regions. Though these data do not reveal the cause, they suggest that housing markets are not responding to rising demands for housing in the Baltimore and Washington regions.

In sum, the national housing market remains strong despite a sluggish economy. Rising prices, starts, and homeownership rates but falling vacancies and housing-to-jobs ratios suggest that housing markets are particularly strong in the South Census region, which includes Maryland. The housing markets of Maryland, Virginia, and the District also remain relatively strong. Housing prices in all three jurisdictions continue to rise, but relatively slower rates of housing starts and more rapid rates of housing price escalation suggest that housing markets in Maryland and the District are more constrained than those in Virginia. In the District, constraints reflect the nearly complete buildout of a district with fixed boundaries. In Maryland, this is not the case.

The performance of housing markets in Maryland varies distinctly. Rising prices in the Baltimore suburbs, Washington suburbs, and the outlying counties suggest there is growth in demand in all three regions (see Figure 20). In the outlying areas, steady or rising housing starts suggest that supply is responding to demand in these areas. Flat or falling starts in the Baltimore and

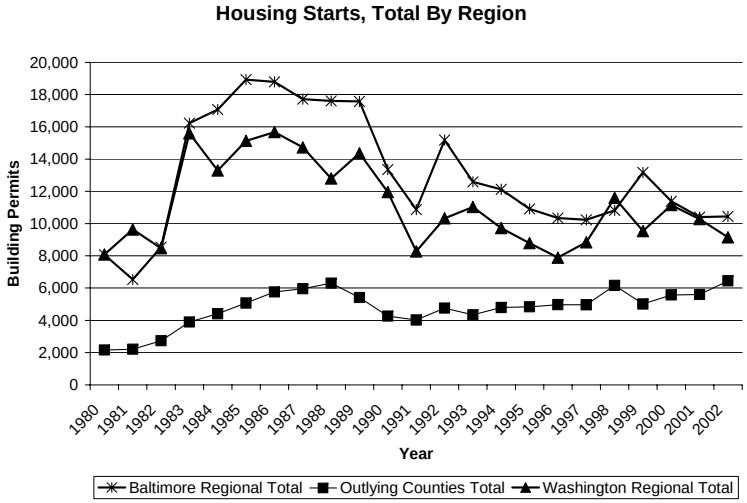
Washington suburbs, however, suggest that supply is not responding to the growth in demand (see Figure 21). Thus, based on trends in housing prices, starts, vacancy rates, and housing-to-jobs ratios, there is evidence of significant supply constraints in the Baltimore and Washington suburbs. Identifying the precise nature of those constraints is beyond the scope of this study, but since raw land in suburban counties is not in short supply, zoning, sewer capacity, and adequate public facility ordinances are likely candidates.

Figure 20



Source: Metropolitan Regional Information Systems, Inc.

Figure 21



Source: Maryland Department of Planning

Conclusions

Since 1997, the State of Maryland has had a highly acclaimed, statewide growth management program widely known as Smart Growth. The intent of the program is to prevent urban development in rural areas while encouraging urban development in urban areas. The available evidence suggests that the program has had mixed success. Through the purchase of land and the withholding of state support for infrastructure investments in rural areas, there is some evidence to suggest that a smaller proportion of urban development is occurring outside Priority Funding Areas. But based on county-level data, there is also evidence that growth is being deflected from suburban counties to outlying exurban counties.

With the exception of slower growth in housing starts, performance indicators for housing markets in Maryland are similar to those in Virginia, which does not have a statewide growth management program. This is likely for three reasons. First, housing markets are strongly influenced by national and even international economic factors. Second, growth management is to some extent practiced by local governments in every state. And it is unclear whether local policies are more restrictive in states with statewide growth management programs, like Maryland, than in states where growth management remains a local responsibility, like Virginia. Third, housing markets in Maryland vary widely by region. This makes it likely that the impacts of stringent controls in some counties are offset by weak controls in others.

Though largely circumstantial, the evidence suggests that land use policies in the Washington and Baltimore suburbs are constraining housing supplies. Prices in the suburbs—like those in the rest of the nation -- have risen rapidly in recent years. But housing starts, unlike in the

outlying Maryland counties, in Virginia, and in the nation as a whole, have not risen correspondingly. It is possible that factors other than land use policies have contributed to these trends; but because the state's smart growth program discourages development outside PFAs and most local governments limit development inside PFAs, there is good reason to suspect these are contributing factors. Further, few local governments maintain information about development capacity and how quickly development capacity is being absorbed, thus there is inadequate information to rule this out this possibility.

To prevent the adverse effect of land use policies, it is not necessary that local governments expand Priority Funding Areas, urban growth boundaries, or sewer service sheds to accommodate anticipated growth. Recent studies have shown that such expansion may have little effect on housing affordability (Conder 2001, Bramley 1999). Growth can also be accommodated by increasing development capacities within existing urban areas. Increasing capacity for high density and mixed use development holds the most promise for both increasing the supply of affordable housing and protecting natural resources. The potential of this strategy diminishes every day, however, as capacity in Priority Funding Areas is absorbed by low density development and development is deflected into rural areas.

Like land use programs in other states, Maryland's Smart Growth program has strong goals and requirements that further resource preservation, but unlike other states, Maryland's program has no affordable housing goal and no requirement that local governments must accommodate growth within urban areas. Most local governments in Maryland currently do not monitor residential development capacity and are therefore ill-equipped to assure that future capacity is sufficient to meet the housing needs of the state's citizens. Information about development capacity is disparate, imprecise, incomplete, and in many jurisdictions, unnecessarily inaccessible. This is not because the

information is difficult to maintain or costly to produce (c.f. Knaap 2001). Its timely provision, however, will require vigilance, accountability, and a balanced approach to protecting natural resources and accommodating needs for housing. But these are not requirements of Maryland's approach to Smart Growth.[3]

Recommendations

Smart growth in Maryland, despite its national acclaim, is still young and relatively immature. Experience in states with more mature programs suggest that programs tend to develop unevenly—often in response to changing circumstances and newly identified deficiencies (Knaap and Nelson 1992). In these times of booming housing markets and fragile economies, now is a good time to strengthen the housing elements of Maryland's program and to take advantage of newly evolving planning technologies. Toward that end we offer the following recommendations:

- **Recommendation #1**: Local governments should be required to include a housing element in their comprehensive plans.
- **Recommendation #2:** Local governments should be required to include estimates of development capacity in their housing elements.
- **Recommendation #3**: Local governments that adopt urban growth boundaries should be required to demonstrate capacity to accommodate their share of projected growth within those UGBs.
- **Recommendation #4**: The Maryland Department of Planning should establish standards for presenting comprehensive plans and development regulations in geographic information systems formats and require local governments to submit this information in accordance with these standards.

[3] Since this report was first drafted, Governor Ehrlich issued an executive order authorizing the Maryland Department of Planning to conduct a development capacity study. This is good first step towards addressing these issues.

- **Recommendation #5:** Geographic information data developed by local governments should be made publicly available using web technology.
- **Recommendation #6**: The Maryland Department of Planning should provide technical assistance to counties to help them follow the recommendations above.
- **Recommendation #7**: The effect of APFOs on future development capacity in Maryland should be the subject of additional research.

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