

**Housing Choices on the Edge:
The Mix and Affordability of Home Ownership Opportunities
in the Cities of Two Developing Counties
on the Western Border of the Chicago Metropolitan Area:
Kane and McHenry**

March 2001

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**Research made possible by a grant from the
Gaylord and Dorothy Donnelley Foundation**

Executive Summary

Executive Summary and Policy Conclusions

This report presents the findings of a study of the mix and affordability of home ownership opportunities in two developing counties within the western border of the Chicago Metropolitan Area. It is important to study owner-occupied housing opportunities because most American adults are, or aspire to become, homeowners. In 1999, an estimated 67 percent of all householders in the country owned their homes. Compared to renting, ownership makes possible a variety of benefits, such as deducting mortgage interest and real estate taxes for income tax purposes, profiting from any appreciation in the property's resale value, and using the home and yard with more freedom than if a landlord owned it.

It is important to examine housing choices and affordability in Kane and McHenry counties because those developing jurisdictions are close to the region's main employment centers. If the two counties do not contribute significantly to the supply of owner-occupied housing for the region's work force, the employees and self-employed persons who would otherwise choose to live there have three general alternatives:

1. they may contribute to the sprawling nature of the region's population by settling in farther-out locations like Boone, De Kalb or Kendall counties;
2. they may remain in, or move to, the central city or inner-suburbs that they would prefer to avoid either because of high prices such as in gentrifying neighborhoods or because of crime and other problems in deteriorating areas; or
3. finding the first two choices unacceptable, they opt out of the entire Chicago area to locate elsewhere in the Midwest or in other regions of the country. They would of course take with them their skills, their incomes and—in the cases of entrepreneurs—their capacities to create and sustain jobs.

With grants from the Gaylord and Dorothy Donnelley Foundation and the Cherry Family Foundation, a team of scholars from Northern Illinois University studied five major research questions about home ownership opportunities in municipalities of Kane and McHenry counties of the Chicago Metropolitan Area.

1. *What can analysis of recent home sales and inventories of subdivision lots tell us about the mix and affordability of home ownership opportunities in the two counties' municipalities?*

Mix of Home Ownership Opportunities

Sales recorded by the Multiple Listing Service (MLS) of Northern Illinois for the period January 1999 through September 2000 indicated a relatively limited choice in the mix of home ownership opportunities:

- There was a predominance of detached single-family homes—73 percent of the total sales in the 19 studied Kane County municipalities and 78 percent in the 19 McHenry County cases.

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- Over that 21-month period significant numbers of townhouse sales (at least 100) were found in just 14 of the 38 studied municipalities.
- Sales of units in duplexes, triplexes and quadplexes in sizable quantities (at least 100) were restricted to only two of the 38 cities.

As with the MLS sales, the inventories of active residential subdivisions yielded a preponderance of lots for detached single-family homes (SFHs). In Kane County during the fourth quarter of 1999, 88 percent of the available home sites was designated for detached SFHs, 11 percent for townhouses and 1 percent for other homes sold in multi-unit buildings. The corresponding values for McHenry County in the same time period were 80 percent, 14 percent and 6 percent, respectively.

Detached SFHs also tended to predominate when we analyzed the mix at the level of individual municipalities. That type of housing accounted for more than three-quarters of all units sold through MLS in 25 (or 66 percent) of the 38 individual municipalities under study. However, a comparison of our MLS data for 1999-2000 to the 1990 census findings for the same cities suggest that detached SFHs' share of total ownership housing may have diminished. In most of the studied municipalities, the percentage of MLS sales consisting of that kind of home was less than its share of the combined total of single-family homes, duplexes, triplexes and quadplexes in the census year. On the other hand, the data for new home sites—the subdivision lots—was not as promising of a good mix of housing types. In 25 of the 38 cities, from 81 percent to 100 percent of the available lots were designated for detached SFHs.

Policy Conclusions

If relatively few alternatives to detached SFHs are being built now, homebuyers will face an even narrower choice in future years. Having, for example, 90 percent of total inventory consisting of detached SFHs may not be bad for a community if the demand for alternatives is really limited to the remaining 10 percent. However, fiscal zoning, snobbery or inertia among developers may keep needed alternatives from being built. For such reasons, we recommend regular monitoring of the kinds of homes being marketed in new developments. Real estate professionals can tell a municipal government if the mix has become too narrow relative to consumer demand.

Variation in Prices of Homes

The average prices of homes sold through MLS in Kane and McHenry counties during 1999 and the first three quarters of 2000 varied appropriately by housing type. When middle- and moderate-income households consider buying townhouses or duplex units, many are looking for lower prices compared to detached SFHs. This quest would of course be frustrated if virtually all the townhouses and other alternatives to detached SFHs being marketed in a community were of the luxury type. In our two study counties, however, the townhouses, duplex units, etc., tended to be significantly cheaper. Across the 19 study municipalities in Kane County, townhouses sold through MLS averaged 37 percent less than detached SFHs; and the homes in buildings of two-to-four units cost 24

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percent less on average. The corresponding differences for the 19 McHenry County villages and cities were 46 percent and 23 percent, respectively.

The data on active subdivisions yielded the same pattern of cost differences across types of housing. Overall, and in almost all individual municipalities, the townhouses cost considerably less than did detached single-family homes. We made the comparisons among the subdivisions' lowest or "starting" advertised prices. The overall average by this measure for townhouses marketed in the Kane County municipalities was 31 percent below that of detached SFHs. The difference for the McHenry County cases was 41 percent.

There was significant price differentiation also among the detached SFHs sold during 1999 and first three-quarters of 2000. Those differences were found in both inter-municipality and within-city comparisons. For example, in 31 of the 38 studied municipalities, the difference between the price of the sold home 10 percent of the way through the whole distribution of MLS sales (from cheapest to most expensive) and the home 90 percent of the way was at least \$100,000. In 15 cases it was at least \$150,000.

Affordability of Homes

We were particularly interested in the affordability of Kane County and McHenry County municipalities to moderate- and median-income households in the "outer counties" of Boone, De Kalb and Kendall counties who sought to move to our two "destination" counties, perhaps in order to live closer to employment centers. Also analyzed were the opportunities in Kane and McHenry counties for buyers from Cook County. But to simplify this "Executive Summary," we summarize mostly the findings for the outer counties.

Affordability to Households at the Threshold of the Moderate Income Range

Neither Kane nor McHenry counties offered significant ownership opportunities for outer-county households at the threshold of the moderate-income range, that is, those earning \$38,290, which was 81 percent of the average 1999/2000 median household income for the those three counties. In the studied Kane County and McHenry County municipalities, only a few active subdivision developments (18 out of the total of 351, or 5 percent) had starting prices within the financial reach of families with this level of income. Their choices among existing homes being sold, which we measured via MLS listings, were somewhat broader. But still, by our estimates, they could have afforded only 23 percent of the total homes sold via MLS in the Kane County municipalities and 16 percent of those in McHenry County. Eighty-three percent of the affordable homes in Kane County were found in just two municipalities: Aurora and Elgin. Moreover, just 16 percent (three) of the studied Kane County municipalities and 16 percent (three) also of the McHenry County cities reported as many as a quarter of their total sales being affordable to this kind of buyer. Among the potential moderate-income buyers who earned \$38,000-\$40,000 and worked in the study area during 2000 were legal secretaries, bricklayers and automobile mechanics with five years of experience, as well as police patrolmen and women in the third pay grade.

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Affordability for Median Income Households

Households at the median-income level (\$47,271) had significantly wider choices. By our calculations the average such household in the three outer counties could have afforded 44 percent of the total MLS sales in Kane County and 35 percent in McHenry. However, only two cities—Aurora and Elgin—accounted for more than three quarters (79 percent) of those affordable homes sold in Kane. On the other hand, Kane looks just as good as McHenry by the indicator of affordability by individual municipality. In just over half of the studied cities/villages (53 percent) of both counties, the median-income buyer should have found at least a quarter of total sales within his/her financial reach.

Not surprisingly, new construction tended to be less affordable than the mostly pre-owned homes marketed through MLS. Only 20 percent of the total active subdivisions in the Kane County municipalities offered starting prices that were affordable to the average median-income household from the outer counties. The corresponding value for the McHenry cities was just 13 percent.

Municipalities that emerged as relatively unaffordable in the analysis of MLS sales tended also to be unaffordable in the assessment of the subdivision inventories. In other words, new construction was not compensating for the high prices of existing housing units. In all, 16 (or 42 percent) of the studied communities may deserve the adjective "restrictive," because both their MLS sales and new homes were probably beyond the reach of median-income households from the outer counties.

2. To what extent have municipalities in Kane and McHenry counties adopted the restrictive tools of requiring relatively large minimum lot sizes, lot widths, front yard setbacks and right-of-ways for subdivision roads?

We measured the incidence of four kinds of local-government land use regulations that have the potential to inflate housing prices. Mandated minimum lot sizes, lot widths and front setbacks may artificially increase the final cost of homes if there are buyers willing to accept smaller sizes. The larger the required lot area, the fewer building lots the developer can carve out of the land purchased for development; hence, the more he/she must charge per lot to realize investment expectations. Wider city subdivision lots normally demand more expenditure per dwelling on home site features that are determined by width: sidewalks, curbs, gutters, road pavement and utility lines extending along streets. Front setbacks greater than consumer tastes require unnecessarily increase the costs of driveways, front walks and utility-line connections between the home and any lines running laterally along the streets. Finally, minimum rights-of-way for subdivision streets may also have significant cost impacts. The larger the required distance, the less land a builder has for houses and therefore the more each of the diminished number of homes must bear the collective costs of development.

In our analysis of the land use regulations of 38 municipalities with at least 20 MLS sales in 1999 and the first three quarters of 2000, we found that regarding:

- *Minimum lot area:* Fifteen out of the 38 (or 39 percent) required at least 10,000 square feet in their least restrictive zoning district for detached SFHs, while only nine (24 percent) had relatively low minima, 7,500 square feet or less.

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- *Minimum lot width:* Six of the 38 (16 percent) mandated at least 100 feet of width in their most liberal districts, while 14 (37 percent) permitted less than 70 feet (40 to 66 feet).
- *Minimum front yard:* Seven had front yard setbacks as high as 35 to 50 feet, while 20 (53 percent) reported 30 feet in their least restrictive zone and 11 provided for something less—20 or 25 feet
- *Minimum right-of-way for subdivision streets:* There was little variety in this regulation. The subdivision ordinances of 13 municipalities specified 66 feet and another 21 required 60 feet.

3. *To what extent were the sale prices of homes associated with zoning policies, as opposed to other traits such as proximity to job centers, quality of schools and crime rates?*

Multivariate analysis revealed that minimum lot sizes, lot widths and front setbacks were related to average sale prices per municipality when we measured the lowest or "threshold" values for those three types of regulations, rather than the highest or median values. In all except one of the studied cities, there were residential zoning districts with higher standards. But the district with the lowest standards sets the "floor." The less affordable municipalities tended to have higher thresholds for those standards. For example, in half of that group the smallest required lot sizes were in the range of 10,000 to 40,000 square feet rather than the 5,000 to 8,400 square-foot range for a majority of the affordable cities.

Affordability was associated also with the total number of reported crimes per 1,000 residents, as well as with four measures of public school performance. For example, the fewer the crimes, the higher tended to be the average price of homes sold through MLS in a studied municipality. By contrast, the worse the reading scores among third graders, the lower the mean price tended to be.

4. *To what extent did the buyers of homes in municipalities with relatively high housing prices realize the expected benefits of living in exclusive communities, such as good schools, low crime and low real estate tax rates?*

- Levels of recorded violent crime were not significantly lower in the less affordable cities, but the latter did tend to report lower numbers of total crimes per 1,000 residents.
- Their property tax rates were not significantly less.
- Their schools did tend to do better by four measures of student performance: average ACT scores; high school graduation rate; third grade reading scores; and third grade math scores.

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Policy Conclusion

In the studied municipalities, the minimum lot sizes, lot widths and front setbacks could be relatively low *without* the cities also tending to experience comparatively high levels of property taxes or violent crime. Overall crime levels were higher and four measures of school performance, lower; but the expected relationship did not materialize between less expensive housing, on the one hand, and higher taxes and dangerous crime, on the other.

Our analysis also found that smaller mandated lot sizes, lot widths and front setbacks were associated with substantial savings in the average sale prices of newer detached SFHs, even after taking into account differences in distance to the "Loop" and in quality of schools. These findings provide support for policy makers who favor reducing the existing zoning standards or at least not raising them.

5. To what extent are housing prices in Kane and McHenry counties excluding persons in occupations that, though very important to the community's welfare, usually receive moderate compensation, such as nurses, teachers, librarians, fire-fighters, policemen and women, medical technicians and various types of repair technicians?

The negative consequences of high prices may include the exclusion of persons with occupations highly important to the municipality and better performed, at least some times of the year, if the persons live close by. For example, when air conditioners break down in the summer, users benefit if repair technicians can arrive on scene quickly. Plumbing emergencies may arise any time of the year. Anyone needing emergency medical treatment should hope that EMTs have convenient access from their homes to their stations and equipment and, also, that hospitals have nurses, x-ray technicians and other skilled staff who can report quickly when patient load requires it. When bad weather, traffic accidents, or other problems require extra policemen and women, the community should also benefit when the officers live close by.

For 14 such occupations, we obtained estimates of the annual salaries for persons with five years of experience and employed in Elgin. These salary data were available by city, and Elgin was the only sizable employment center located near the geographic middle of the studied municipalities.

Twelve of these 17 occupations recorded average salaries that limited the holders' choice to less than a quarter of the total dwellings sold in all 38 studied cities. For example, by our calculations air conditioning servicers earning the average salary for someone with five years of experience could have afforded 15 percent of the total homes sold (of all types—detached single-family, townhouses and units in duplexes, triplexes or quadplexes). Computer equipment repairers should have been able to buy 12 percent; television repairers, 6 percent; emergency medical technicians, 10 percent; x-ray technicians, 15 percent; and patrol policemen or women, 23 percent. Most of the homes affordable to these occupational groups were found in just two cities: Aurora and Elgin. Across the 38 studied municipalities, those two accounted for 59 percent of all homes sold for \$120,000 or less and 65 percent of total sales at \$100,000 or less.

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Since we had city-level data for patrol officers' salaries in 10 Kane County municipalities and school district average teacher salaries for all 38 studied municipalities, we could estimate also the number of MLS sales by municipality that were affordable to the holders of those occupations. By our calculations, two of the 10 cities in the analysis of patrol officers' salaries paid their patrol officers in the third salary grade well enough to enable them to have afforded at least 50 of the homes sold per year through MLS within those cities. In four others the sold homes affordable to such officers ranged from 20 to 37 per year. But in the remaining four municipalities (or 40 percent) the corresponding numbers were only zero to 14.

We estimated that in 14 (or 37 percent) of the 38 studied municipalities, grade school teachers receiving the district average salary should have been able to afford 50 or more of the homes sold through MLS per year. In another five (or 13 percent), the choices ranged from 15 to 49 houses. However, in 19 cases or half of the total cities/villages, from zero to only 14 homes were affordable. Without a second income in the household, or unless the home was bought some years in the past, it seems unlikely that the average-paid teachers could own homes in the communities they served.

Policy Conclusion

To assure adequate response times and/or sufficient staffing levels for key services, municipal governments should monitor where critical service providers live. Our analysis suggests that too many of them may not be able to live close enough to their clients. If so, city governments could encourage provision of adequately close-by housing through cost-savings reductions in zoning regulations. The community may become somewhat less exclusive, but in the process become better served.

Acknowledgements

The authors of this report would like to thank Dr. A. Ann Sorensen, Assistant Vice President for Research and Director of the Center for Agriculture in the Environment (CAE), American Farmland Trust (AFT), for providing intellectual guidance and support in the conduct of the research and finalization of the report; Teresa Bullock, also of CAE, for desktop publishing; Charles E. Trott, Director of Northern Illinois University's Center for Governmental Studies, and his colleagues: Thelma Hiland, Patsy Morelock and Sandy Petit, for their multifaceted support of the project; Kara Loving for her indispensable research assistance and editing work; and Cory Poris-Warren, for her highly important efforts in the research process.

Financial support for this research was kindly provided by the Gaylord and Dorothy Donnelley Foundation and the Cherry Family Foundation.

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Chapter 1

Introduction

This introductory chapter has three main purposes. First we try to persuade the reader of the importance of our research focus and set of research questions. Second, we describe our selection of study sites (43 municipalities in two counties on the western edge of the Chicago Metropolitan Area). Third, we preview the contents of the report's three other chapters.

Research Focus

This report presents the findings of a study of the mix and affordability of home ownership opportunities in two developing counties within the western border of the Chicago Metropolitan Area. It is important to study owner-occupied housing opportunities because most American adults are, or aspire to become, home owners. In 1999 an estimated 67 percent of all householders in the country owned their homes.¹ Compared to renting, ownership makes possible a variety of benefits, such as deducting mortgage interest and real estate taxes for income tax purposes, profiting from any appreciation in the property's resale value, and using the home and yard with more freedom than if a landlord owned it.

It is important to examine housing choices and affordability in the Chicago area's Kane and McHenry counties because those developing jurisdictions are relatively close to the region's main employment centers. If these two counties do not contribute significantly to housing the region's work force, the employees and self-employed persons who would otherwise like who would otherwise choose to live there have three general alternatives:

- they may contribute to the sprawling nature of the region's population by settling in farther-out locations like Boone, De Kalb, or Kendall counties;
- they may remain in, or move to, the central city or inner-suburbs that they would prefer to avoid either because of high prices such as in gentrifying neighborhoods or because of crime and other problems in deteriorating areas; or
- finding the first two choices unacceptable, they opt out of the entire Chicago area to locate elsewhere in the Midwest or in other regions of the country. They would of course take with them their skills, their incomes and—in the cases of entrepreneurs—their capacities to create and sustain jobs

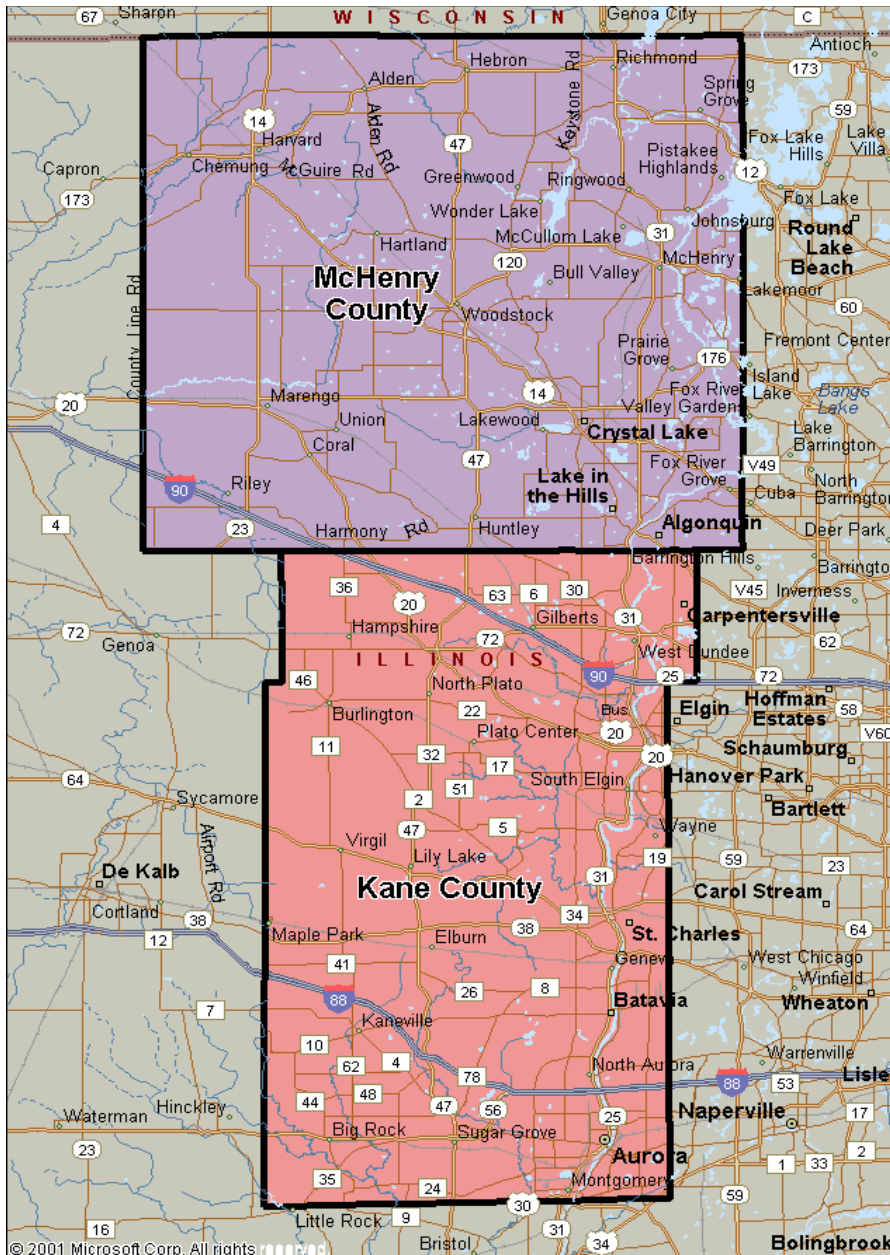
For many of the new households predicted for the Chicago Metro Area, Kane and McHenry counties have the potential for providing reasonably priced home ownership opportunities with relatively short commutes. Adjoining north to south, these two

¹ As reported by the National Association of Home Builders, <http://www.nahb.com/facts/forecast/ownship.html>.

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counties form most of area's western border (see the map in Figure 1.1). Both are medium-sized counties with abundant land for housing development. Kane's total land surface consists of about 521 square miles; McHenry's, 611 square miles. In each county more than 60 percent of the total surface is still in farms. These large quantities of open space should help to make the land costs of development relatively modest. However, as discussed later in the report, exclusionary zoning policies offset the price effects of abundant land.

Figure 1.1: Map of McHenry and Kane Counties



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Both counties expect high population growth because of their locations. Served by four commuter rail lines and two east-west interstates, they offer to prospective home buyers tolerable commuting times to the employment centers in Downtown Chicago and around O'Hare International Airport, as well as along the Northwest and Eastwest tollways. The area's regional planning body, the Northeastern Illinois Planning Commission (NIPC), predicted in May 2000 that by the year 2020 the six-county metro area will have grown by 754,303 households compared to 1990, and that 20 percent of that increase (or 153,152) would be found in Kane and McHenry counties.²

Our Five Main Research Questions

1. What can analysis of recent home sales and inventories of subdivision lots tell us about the mix and affordability of home ownership opportunities in the two counties' municipalities?

Chapter 2 presents our findings about the mix of home ownership opportunities in 1999 and the first three quarters of 2000 (i.e., from January 1999 through September 2000). For homes that were sold through the Multiple Listing Service (MLS), we obtained data on the percentages of total sales consisting of detached single-family homes, townhouses, duplexes and other kinds of dwelling units. Similar percentage breakdowns were made for subdivision lots offered for new construction by builders and developers.³ An economically and socially healthy community requires a mix of housing choices. Not every household can afford, needs or is physically able to cope with, detached single-family homes. The concept, "life cycle housing," indicates that within the same village, city or neighboring communities, families can find starter and move-up homes. Then, when their space needs diminish or divorce or death of a spouse reduces financial capabilities, they can find smaller dwelling units.⁴ Staying in the same areas, they are able to keep their friends, church or synagogue memberships; their children can remain in the same schools; and they can retain other valued social ties. Townhouses, duplexes and multi-family units can serve well as either starter homes or downsized dwellings for singles, couples without kids, empty nesters, seniors, widows/widowers and divorcees.

Chapter 3 describes our findings about affordability to moderate- and middle-income households, of both homes sold through MLS and new construction offered by subdivision developers. One of our four measures of affordability is the percentage of homes sold or marketed in the municipality that could be purchased by median-income households in Cook County. A second is the corresponding percentage for households in three counties to the west of McHenry and Kane: Boone, De Kalb and Kendall. More specifically, we wished to determine how financially feasible it would be for households in the middle of the income distributions for their counties to move either:

² Northeast Illinois Planning Commission, "Preliminary Revised Population, Household, and Employment Forecast," "SSA [South Suburban Airport Alternative] Households," released May 18, 2000, www.nipc.cog.il.us/revised_2020_table.htm.

³ Our database for subdivision lots covered only the first and fourth quarters of 1999.

⁴ Reid Ewing, 1996. *Best Development Practices* (Chicago: American Planning Association), pp. 134-135.

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- *Eastward* to Kane and McHenry, thereby being closer via commuter railroads and highways to job centers in Chicago, around O'Hare Airport and elsewhere such as along the tollway corridors; or
- *Westward*, out of communities in Cook County that families no longer find desirable for their residences, settling in Kane or McHenry rather than being forced to move to an outer-ring county like Boone, De Kalb or Kendall.

In this analysis of financially feasible destinations for moving households, we excluded DuPage County, which lies directly to the west of Cook, because the former is one of the Midwest's most expensive areas in which to live.

Our third and fourth measures look at the affordability of homes to "moderate-income" households in both Cook County and the outer three western counties (Boone, De Kalb and Kendall). Like other students of affordable housing, we examined opportunities for moderate as well as middle-income households; and we used as our standard for moderate, 81 percent of the county median income. It is the threshold of "moderate income" used by the U.S. Department of Housing and Urban Development."⁵ The third measure focuses on homes sold during 1999 and first three quarters of 2000 through the Multiple Listing Service, while the fourth looks at the affordability of units offered through subdivision developments.

The database for sold homes is maintained by the Multiple Listing Service of Northern Illinois, to which we gained access by becoming an Associate Member of the McHenry County Association of Realtors.⁶ Data on active subdivision developments and their price ranges for new homes came from the American Metro/Study Corporation, which conducts quarterly surveys of subdivisions in all Chicago area counties.

Measurements of mix and affordability over a year and three quarters (January 1999 to September 2000), though obviously insufficient for projecting future housing choices, provide a baseline and hopefully will stimulate further monitoring with the same focus. Some kind of ongoing study is needed because we cannot assume that market forces alone will yield the types of housing opportunities required for a healthy economy. As found by a Bush Administration Advisory Commission (1991), many suburban governments restrict housing out of desires to minimize the fiscal burden of new development, to maximize the appreciation of existing homes' values and/or to exclude certain ethnic or racial groups believed to threaten property values and related quality-of-life values (crime rates and achievement levels in the public schools).⁷

⁵ Mike E. Miles, Richard L. Haney, Jr., and Gayle Bernes, 1996. *Real Estate Development Principles and Process*, Second Edition. (Washington D.C.: ULI-The Urban Land Institute), 554 pp.

⁶ We are very grateful to Mr. Jim Schaid, Realtor, for encouraging us to apply for membership.

⁷ Advisory Commission on Regulatory Barriers to Affordable Housing, 1991. "*Not in My Back Yard*": *Removing Barriers to Affordable Housing* (Washington, D.C.), Chapter 2.

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Fiscal Zoning

Bogart defined "fiscal zoning. . . [as when] people are excluded if they pay less in local taxes than they receive in public services."⁸ Observing local governments in the Twin Cities metropolitan region, state legislator Myron Orfield found that many developing suburbs tried to maximize the building of "expensive housing and/or commercial-industrial property with low service demands [for schooling, policing, welfare assistance] so as to increase their tax base per household and keep their costly social needs (and taxes) down."⁹ In a 1996 paper, Robert Burchell, a leading scholar of fiscal impact analysis, developed a "Hierarchy of Land Uses and Fiscal Impacts" that classified eight types of housing. Whether a type was considered to be a money-maker for public agencies or a loser depended on its likely demand for services compared to the taxes and fees expected to flow from it to the public service providers. For example, he predicted that the following four kinds of homes were likely to be money-losers for school districts because their relatively high numbers of bedrooms would translate into too many school children relative to their assessed valuations for property tax revenues:

- townhouses with three to four bedrooms;
- inexpensive detached single-family homes, also with three to four bedrooms;
- garden apartments with three or more bedrooms; and
- mobile homes with no restrictions on number of occupants.

On the basis of the same two determining variables, Burchell argued that schools tend to break even or make money from:

- expensive single-family homes;
- age-restricted housing; and
- multi-family units with small numbers of bedrooms (two-to-three bedroom townhouses, garden condominiums with no more than two bedrooms and high-rise/garden apartments with only one bedroom or studios).¹⁰

Life-Style-Protection Zoning

Most Americans appear to prefer living in neighborhoods consisting of: (a) households that have cultural backgrounds and incomes similar to their own; and (b) homes that cost at least as much as their own. For example, survey studies indicate that whites fear increases in their vulnerability to crime if they live near African Americans.¹¹ A related perceived threat is that the entry of lower-income families into the neighborhood may reduce the resale value of existing homes. Such families are assumed to increase the costs of services (police, schooling and welfare) without generating compensating extra property or sales taxes.¹² Their children are expected also to do less well in school than higher-income peers. Therefore, it is feared that when prospective buyers search Internet

⁸ William T. Bogart, 1993. "What Big Teeth You Have!: Identifying the Motivations for Exclusionary Zoning," *Urban Studies*, 30 (No. 10): 1670.

⁹ Myron Orfield, 1997. *Metropolitics* (Washington D.C.: Brookings Institution Press). p. 5.

¹⁰ Robert W. Burchell, 1996. *Economic and Fiscal Impacts of Alternative Land-Use Patterns*, (New Brunswick, NJ: Center for Urban Policy Research, Rutgers-The State University), p. 19.

¹¹ Wesley G. Skogan, 1995. "Crime and the Racial Fears of White Americans," *The Annals of the American Academy of Political and Social Sciences*, 539 (May): 59-71.

¹² Anthony Downs, 1994. *New Visions for Metropolitan America*, (Washington D.C.: Brookings Institution Press), p. 23.

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home-buying services or printed realtor listings for information on tax rates, standardized school scores and crime levels, the communities "letting in" lower-income families will compare poorly relative to exclusionary zoning jurisdictions. Moreover, anticipating what they believe to be their customers' desires, some realtors steer white buyers away from racially changing communities.¹³

Whatever the causes of American homeowners' concern about changing neighborhoods, most of them appear to oppose the introduction of housing that is less expensive than their own. In a 1999 national survey of 2,000 randomly selected households, 78 percent of the respondents were against building multi-family apartment buildings in their neighborhoods. Even townhouses were not very welcome; 54 percent of the sample were adverse to them. The "NIMBY" (not-in-my-backyard) attitude extended also to single-family homes constructed "at a higher density (smaller lots or more homes per acre) in your neighborhood"; 77 percent was the level of opposition to that type of new housing.¹⁴ Given these attitudes, it is not surprising that many local governments practice exclusionary zoning.

2. To what extent have municipalities in Kane and McHenry counties adopted the restrictive zoning tools of requiring relatively large minimum lot sizes, wide frontage widths, deep front yard setbacks and wide right-of-ways for subdivision roads?

Chapter 4 reports our findings, by municipality, about the prevalence of price-inflating development standards. When zoning ordinances require at least a quarter-of-an-acre rather than a fifth or sixth, the finished home's price tends to be higher because more land must be purchased per home. Another way to understand the same effect is to realize that the builder's land and other development costs must be spread over fewer dwelling units.

A wide frontage translates into more expenditure on the street's curbs and gutters, the sidewalks and lateral utility lines. A deeper setback means higher costs for extending sewer, water and gas connections to the house from mains located in the street's right-of-way. The home's driveway may also be longer than if the setback were shorter. Wide minimum widths for the right-of-way may increase home prices charged by developers, as they must recoup the cost of more land being dedicated to public purposes rather than being available for private use.

The Price-Increasing Effects of Exclusionary Zoning

A 1998 survey by the National Association of Home Builders asked members to estimate costs attributable to government regulations and rules for a 2,150-square-foot house with three to four bedrooms built on a 7,500 to 10,000 square foot lot. The average cost savings across 42 markets was 10 percent if "unnecessary government regulations, processes and fees were eliminated."¹⁵ Individual builders' stories provide more dramatic examples. A developer in Colorado, said:

¹³ David C. Keating, 1995. "Exclusionary Zoning: In Whose Interests Should the Police Power Be Exercised?" *Real Estate Law Journal*, 23: 305-331.

¹⁴ National Association of Home Builders, 1999. *Smart Growth: Building Better Places to Live, Work and Play* (Washington D. C.) pp. 14-15.

¹⁵ National Association of Home Builders, 1999. *The Truth about Regulatory Barriers to Affordable Housing*. (Washington D.C.), p. 4.

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The neighborhood groups defeated us after two years. We changed the site from 161 townhouses to 49 single-family homes. We lost all the planning principles of density, and from affordable homes of about \$135,000 each we wound up with a price of almost \$200,000 per home.¹⁶

Reporting in 1991, the Bush administration advisory commission on affordability found "evidence that increases of 20 percent to 35 percent in housing prices attributable to excessive regulations are not uncommon in the most severely affected areas of the county" (e.g., the West Coast).¹⁷

3. *To what extent were the 1999-2000 sale prices of homes associated with zoning policies, as opposed to other traits such as proximity to job centers, quality of schools and crime rates?*

The sale prices of homes may be determined by many factors other than current residents instructing their local governments to block higher-density developments. Areas may become "built-out," with the remaining land being expensive for development because it is scarce. Alternatively, there may still be a lot of developable land within the municipality or annexable to it; but the community's proximity to job centers, its excellent schools, low crime rates, low real estate tax rates and other positive traits make it highly desirable. When municipalities earn this kind of reputation, developers and builders working there may prudently specialize in upscale housing products. As Pogodzinski and Sass noted, "Zoning may, in part, simply mimic market allocation and assign land to its most valuable use."¹⁸

In Chapter 4 we describe, by municipality, these two general types of potentially causal traits: governmental regulations and the community's social, fiscal and locational characteristics. Then we use multivariate analysis to determine the strength of associations between any of those traits and the affordability of homes sold in the studied municipalities.

In doing this explanatory analysis, we can also address another interesting research question:

4. *To what extent did the buyers of homes in municipalities with high housing prices realize the expected benefits of living in exclusive communities, such as good schools, low crime and low real estate tax rates?*

If these desiderata are not found more frequently in high-priced municipalities compared to moderate-priced, some of the main justifications for restrictive zoning will not be supported.

¹⁶ David R. Mark, 1997. "Face Off," *Builder*, 20 (No. 12): 128.

¹⁷ Advisory Commission on Regulatory Barriers to Affordable Housing, 1991, cited above, p. 1-1.

¹⁸ J.M. Pogodzinski and T.R. Sass, 1994. "The Theory and Estimation of Endogenous Zoning," *Regional Science and Urban Economics*, 24 (No. 5): 603.

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The Consequences of Restricted Mixes of Housing Opportunities

5. *To what extent are housing prices in Kane and McHenry excluding persons in occupations that, though very important to the community's welfare, usually receive moderate compensation, such as nurses, teachers, librarians, fire-fighters, policemen and women, mechanics, medical technicians and various types of repair technicians?*

Whether or not the causes of restricted choices of housing include local government regulations, the consequences of high prices may be to exclude from a community persons who are needed to live within it or at least close by. When furnaces or air conditioners fail, repair times should be faster if the person with the requisite skills lives in the same town. Emergency medical services should be more reliable during winter storms if nurses, x-ray technicians and other needed, moderately paid personnel are not required to travel long distances from home to work. And during severe weather or industrial accidents, communities need off-duty police and fire fighters to respond quickly to augment the scheduled staff. The quality of these and other public services—such as schools and libraries—may depend on key staff living within reasonable distances of the facilities where they work.

Lack of affordable housing may also cause problems for businesses when trying to hire key staff. A Massachusetts policy study from the late 1990s found that high housing costs were making companies in that state unable to compete for workers.¹⁹ Chapter 3 presents our findings about the kinds of valued service personnel who likely faced limited home ownership opportunities in the two counties during our study period.

Choice of Research Sites

Kane and McHenry counties are developing suburbs in the sense that in recent years they experienced considerable population growth, they have substantial quantities of developable land remaining within their borders, and high rates of continued growth have been predicted. Between 1990 and 2000, Kane's population increased by 27 percent; and McHenry's by 24 percent (Table 1.1). As mentioned earlier, both counties have over 500 square miles of land. According to the 1997 federal *Census of Agriculture*, 63 percent of Kane's total land surface was then still in farms; and the corresponding percentage for McHenry was 62 percent (Table 1.1). Almost all the farmland in that part of Illinois is either flat or gently rolling, that is, very suitable to housing development. Given these large areas of buildable land and given the two counties' good transportation linkages to job centers to the east, among their other attractions (e.g., good schools), Kane and McHenry are expected to experience substantial new growth. The Northeastern Illinois Planning Commission predicts that by the year 2020, Kane County will have grown by 55 percent compared to 1995; and McHenry, by 54 percent (Table 1.1).

For four reasons, the two counties provide appropriate sites for our study of variation in home ownership across municipalities:

¹⁹ Andrew M. Sum, *et al.*, 1998. *The Road Ahead: Emerging Threats to Workers, Families, and the Massachusetts Economy*, The Massachusetts Institute for a New Commonwealth. www.massinc.org

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1. Together they contain a sizable number of incorporated villages and cities—52, for 43 of which our housing data sources included nontrivial levels of home sales or marketing of subdivision lots (the studied cities are listed in Table 1.2).
2. There has been considerable building activity in the two counties, most of which has occurred in municipalities rather than in unincorporated areas. Across the four years 1996-1999, the villages and cities issued an average of 89 percent of the total building permits in Kane and 88 percent in McHenry (Table 1.1).
3. The 43 municipalities in our study turned out to exhibit considerable variety in the mix and affordability of housing opportunities, on the one hand, and in their zoning policies, on the other. Efforts to explain variation in economic phenomena need to have significant variability in both what is to be explained and in the conditions hypothesized to be explanatory factors.
4. In studies focusing on housing costs, it helps greatly to have subject municipalities that are geographically close. Then we can assume that building materials and labor costs are relatively constant across the 43 study sites. Otherwise, we would have a daunting measurement problem in trying to track down and document differences in those potentially major causes of variation in the sale prices of homes.

As shown in Table 1.2, these 43 municipalities are very diverse in the sizes of their estimated 1999 populations. Seven had fewer than 1,000 inhabitants; 18 are in the range of 1,000 to 4,999; and five each in the three groupings: 1) 5,000 to 9,999, 2) 10,000 to 19,999 and 3) 20,000 to 29,999. Three exceeded 30,000: Crystal Lake with almost 32,000, Elgin with 87,429 and Aurora with 124,321. This variety allows us to test the hypothesis that affordability tends to vary by size of the municipality. Anthony Downs (1994) suggested that it should be "much easier for middle- and upper-income residents to exert enough political control to engage in exclusionary zoning if they live in small, relatively homogeneous localities."²⁰

The studied villages and cities vary considerably also in their rates of reported crime, the quality of their schools, distance to major job centers, the physical sizes of the homes sold and other variables that are hypothesized to determine housing prices (see tables 4.1 to 4.3 in Chapter 4).

²⁰ Anthony Downs (1994) , cited above, p. 20.

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Table 1.1: Population growth, land in farms and building permits for KANE and MCHENRY Counties		
Traits	Kane	McHenry
2000 Population for whole county ¹	404,119	260,077
Percentage increase 1990 to 2000 ¹	27%	42%
Predicted % increase, 1995-2020 ²	55%	54%
Percentage of county's total land surface in farms, 1997 ³	63%	62%
Total residential units for which building permits were issued, 1996 to 1999 ⁴	19,322	11,485
Percentage of those total permits issued by municipalities ⁴	89%	88%

Sources:

¹ 2000 Census.

² Northeastern Illinois Planning Commission, 2000. "Table A: Preliminary Revised Population, Household, and Employment Forecast," www.nipc.cog.il.us/revised_2020_table.htm. These forecasts assume that a new major airport will not be built in Will County.

³ U.S. Bureau of the Census, 2000. *1997 Census of Agriculture*, govinfo.library.orst.edu/cgi-bin/ag-list.

⁴ Northeastern Illinois Planning Commission, 2000. "Building Permits," 1996, 1997, 1998, 1999.

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Table 1.2: Municipalities in the study, with their estimated 1999 population and 1998 area (in square miles)		
Municipality	1999 Estimated Population¹	1998 Area in Square Miles²
County: Kane		
Aurora	124,321	24.10
Batavia	23,202	8.05
Carpentersville	25,546	9.07
East Dundee	3,048	3.23
Elburn	2,300	2.68
Elgin	87,429	18.75
Geneva	18,755	8.20
Gilberts	1,266	3.41
Hampshire	2,005	5.29
Huntley	3,221	13.29
Lily Lake	588 ³	2.16
Maple Park	641	0.45
Montgomery	4,877	4.28
North Aurora	9,071	4.75
Sleepy Hollow	3,879	2.16
South Elgin	16,096	6.20
St. Charles	25,955	13.61
Sugar Grove	3,479	6.53
Wayne	2,056	2.41
West Dundee	4,481	2.34
County: McHenry		
Algonquin	21,666	9.77
Barrington Hills	4,531	8.14
Bull Valley	637	5.55
Cary	14,645	4.80
Crystal Lake	31,989	16.94
Fox Lake	8,791	2.21
Fox River Grove	4,449	1.48
Harvard	7,279	5.27
Hebron	803	0.71
Island Lake	7,475	1.91
Johnsburg	4,631 ³	6.35
Lake in the Hills	23,631	9.62
Lakemoor	1,779	2.91
Lakewood	1,986	3.39
Marengo	5,313	4.06
McHenry	19,797	11.91
Oakwood Hills	1,896	1.14
Prairie Grove	824	4.81
Richmond	914	1.39
Ringwood	520 ³	2.24
Spring Grove	3,310	6.03
Wonder Lake	1,389	0.84
Woodstock	17,529	10.71

¹ Data from *Chicago Tribune's* "Homes" Website, 1999 Population:

[<http://cgi.chicago.tribune.com/homes/commun/townlist.htm>][cgi.chicago.tribune.com/homes/commun.src/hform.htm.]

² Kane County Development Department, 1999. "Acreage Study"; and McHenry County Department of Planning and Development, 1999. "Municipal Acreage: McHenry County Townships – 1998".

³ 1992 Population .