

How Texas Averted the Great Recession



Prepared for
Houstonians for Responsible Growth
August 2009

How Texas Averted the Great Recession

Table of Contents

Executive Summary	1
Introduction: How Texas Averted the Great Recession	6
(1) The Great Recession	6
(2) The Housing Bubble Precipitated the Great Recession	6
(3) Texas Largely Averted the Great Recession	8
(4) Texas Largely Averted the Housing Bubble and Bust	14
(5) Restrictive Land Restrictions Intensified the Housing Bubble	16
(6) Less Restriction: How Texas Avoided the Recession and Bubble	21
(7) Comparing Texas and California	23
(8) Comparing Texas and Florida	26
(9) Comparing Texas and Portland	30
(10) The Texas Housing Market: Affordable and Stable	30
(11) Texas: Opportunity for All	33
(12) The Threat to Texas	34
(11) Texas Land Use Policies: A Model for the Nation	36

Table

More Restrictive Planning (Smart Growth) Policies & House Price Increases	20
---	----

Figures

1: Real Household Net Worth: 1952 to 2009	7
2: Real Value of Housing Stock: 1952-2009	7
3: House Prices & Income: United States	8
4: Metropolitan Area GDP: Peak to 2009	10
5: Employment: 2000-2008	10
6: Employment 2008-2009 Quarter 1	11
7: Unemployment: Peak to 2009 Quarter 1	11
8: Personal Income: 2000-2008	12
9: State Tax Collections: Annual Change	13
10: REO (Lender Owned) Properties: 3/2009	13
11: Sales Tax Collections: Annual Change	14
12: Housing Affordability: Texas & US	16
13: Construction Costs	17
14: Housing Affordability by Market Category	22
15: Median House Price Increases	23
16: House Prices: Texas & California	25
17: TX & CA Affordability: 2000 to Peak	25

18: Texas & Salinas Median Multiples	27
19: House Prices: Texas & Florida	29
20: Texas & Florida Affordability: 2000 to Peak	29
21: House Prices: Texas & Portland	31
22: Dallas-Fort Worth Median Multiple	31
23: Houston Median Multiple	32
24: San Antonio Median Multiple	32
25: Austin Median Multiple	33
26: Home Ownership Rates by Ethnicity	34

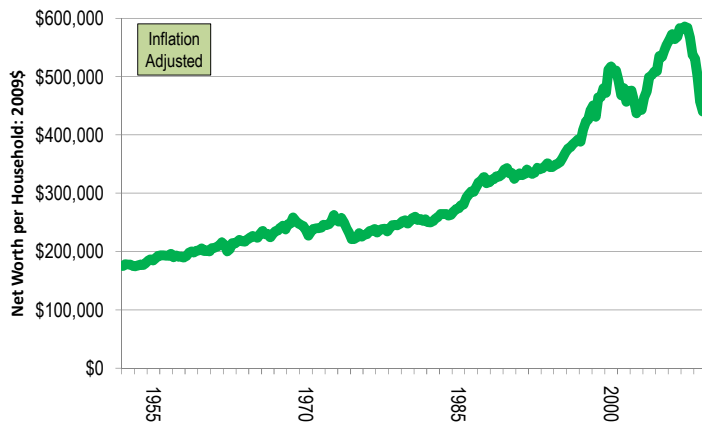
How Texas Averted the Great Recession

EXECUTIVE SUMMARY

Introduction: How Texas averted the Great Recession: Texas has received considerable publicity for superior economic performance during the recession (the “Great Recession”) and the fact that the “housing bubble” had very little impact in the state. The performance of Texas has been particularly favorable compared to its other largest state competitors, California and Florida, both of which experienced severe economic and housing market distress. One of the factors that helped Texas avoid both the Great Recession and the housing bubble was its market oriented land use policies. By contrast, where land use restrictions were more restrictive (California, Florida and other places), house price increases were far more substantial, as was the subsequent price collapse.

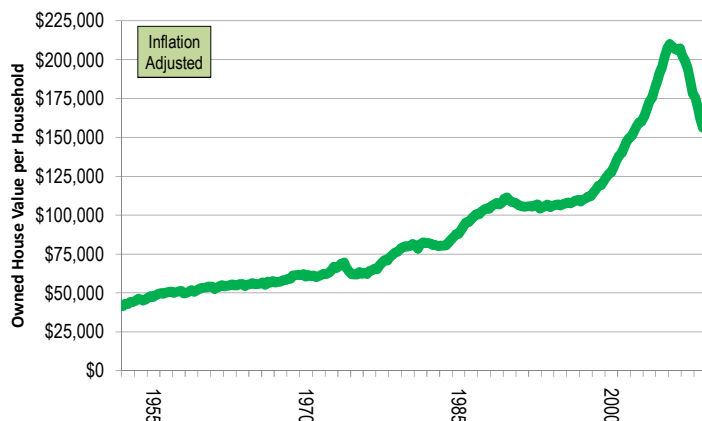
(1) The Great Recession: The world-wide Great Recession is the deepest economic decline since the Great Depression: This downturn has hit average households very hard. Gross housing values have declined 8 quarters in a row. The previous modern record is a single quarter. Household net worth has been reduced 25 percent, which is more than 1.5 times the previous record decline.

Real Household Net Worth: 1952 to 2009
UNITED STATES: PER HOUSEHOLD



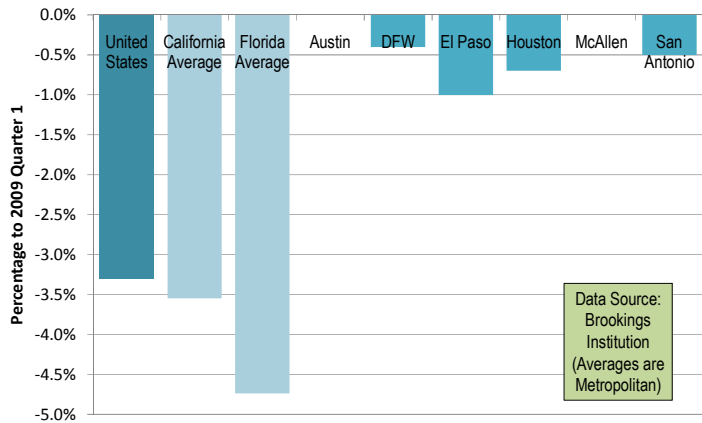
(2) The Housing Bubble Precipitated the Great Recession: House prices increased in the United States, creating a housing price bubble. Large numbers of homeowners became overexposed and were unable to make their payments when loan interest rates were reset, leading to huge losses. The losses were so great that they precipitated a global economic crisis (the “Great Recession”).

Real Value of Housing Stock: 1952-2009
UNITED STATES: PER HOUSEHOLD



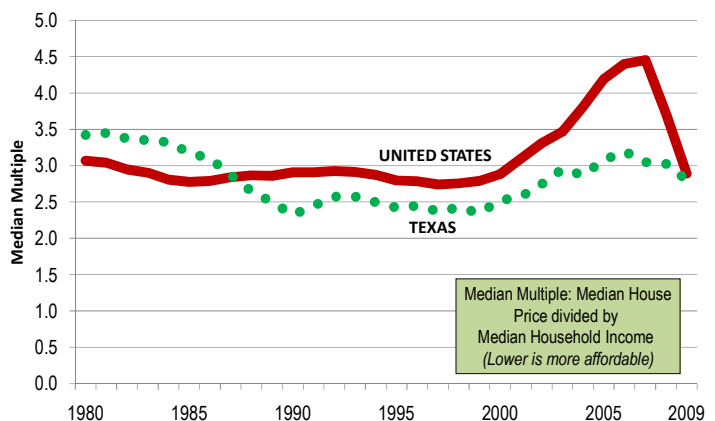
(3) Texas Largely Averted the Great Recession. Texas has largely escaped the economic distress experienced around the nation, especially its principal competitors, California and Florida. By virtually all measures, Texas has performed better in gross domestic product, employment, unemployment, personal income, state tax collections, and consumer spending. There has also been less mortgage distress in Texas. A Brookings Institution study ranked the performance of the 6 largest Texas metropolitan areas among the top 10 in the nation.

Metropolitan Area GDP: Peak to 2009
TEXAS METROPOLITAN AREAS IN CONTEXT



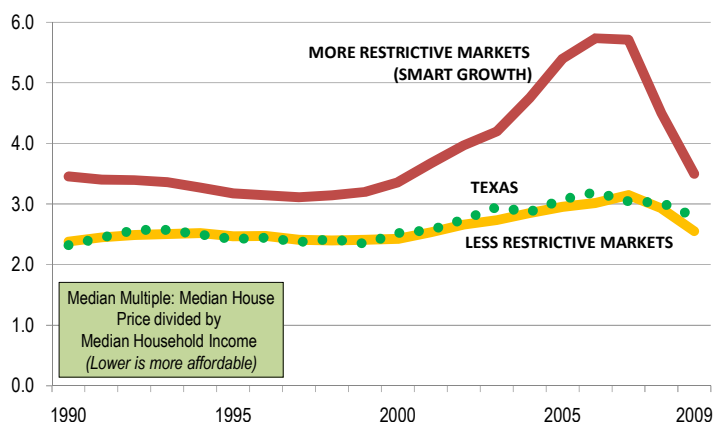
(4) The Texas Largely Averted the Housing Bubble and Bust: Even in the more liberal lending environment characterized by “sub-prime” mortgages, Texas has experienced far smaller house price increases than in California, Florida and many other states. House prices in California increased at a rate 16 times those of Texas, while Florida house prices increased 7 times those of Texas. As a result, the subsequent house price declines were far less in Texas.

Housing Affordability: Texas & US
1980-2009: MEDIAN MULTIPLE



(5) Restrictive Land Restrictions Intensified the Housing Bubble: House prices escalated at an unprecedented rate in some US markets, while in others the increases were modest. All of the markets with steep escalation have more restrictive land use regulations, which drive up the price of land for development. Where there were fewer land use restrictions, house price increases were far smaller. This land use regulation to house price increase relationship has been noted by many economists, including Nobel Laureate Paul Krugman and the Hoover Institution’s Thomas Sowell.

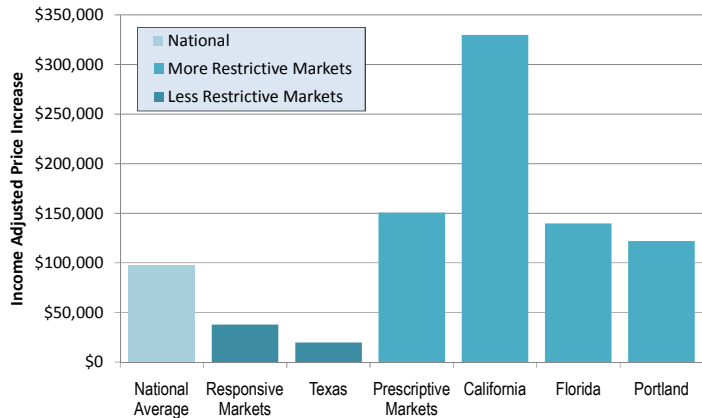
Housing Affordability by Market Category
1990-2009: MEDIAN MULTIPLE



(6) Less Restriction: How Texas Avoided the Recession and Bubble.

Because of less restrictive, yet environmentally responsible land use policies, Texas markets were able to accommodate the higher demand from more liberal loan policies without unprecedented house price increases. As a result, the collapse in house prices that occurred in California, Florida and other areas where price escalation had been unprecedented did not occur in Texas.

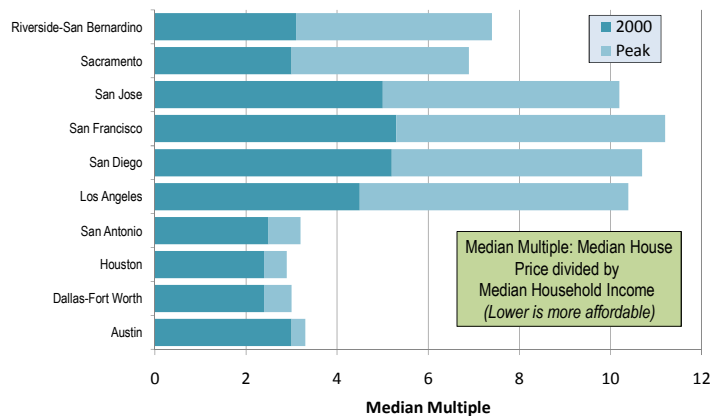
Median House Price Increases
NATIONAL, TEXAS & OTHER STATES: 2000-2007



(7) Comparing Texas and California:

Unlike California, housing remained affordable in Texas. California's housing affordability was near the national average in the early 1970s. Prices escalated after more restrictive land use regulations were adopted. Research has attributed the housing price increases to the restrictive land use regulation. Other factors have had little impact. Construction cost increases have been near the national average in California. Underlying demand is lower in California than in Texas and California has more than enough vacant land to accommodate demand.

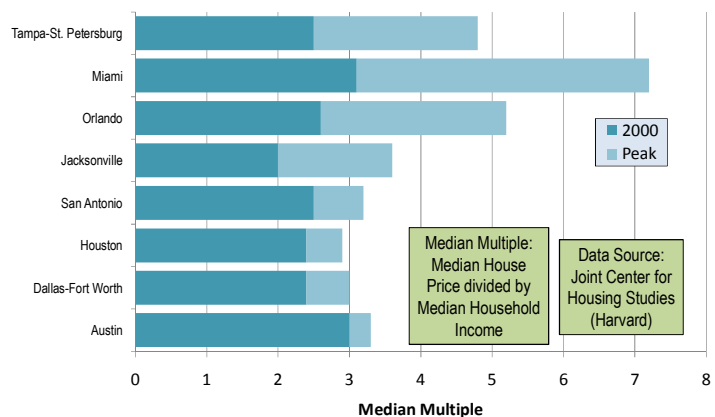
TX & CA Affordability: 2000 to Peak
TEXAS & CALIFORNIA (MEDIAN MULTIPLE)



(8) Comparing Texas and Florida:

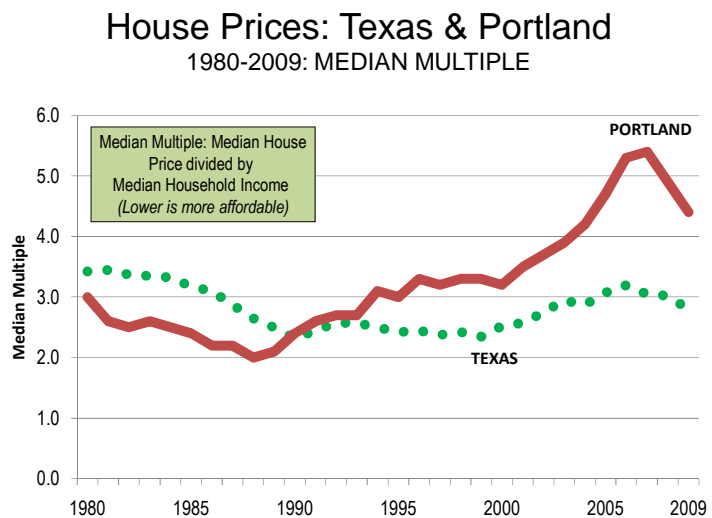
Unlike Florida, housing remained affordable in Texas. The affordability of housing in Florida was comparable to that of Texas in the 1990s. The higher demand from liberal loan policies exceeded the ability of the Florida land use regulation system to produce sufficient new housing at prices within historic norms, despite average construction cost increases and sufficient supplies of vacant land.

TX & FL Affordability: 2000 to Peak
TEXAS & FLORIDA (MEDIAN MULTIPLE)



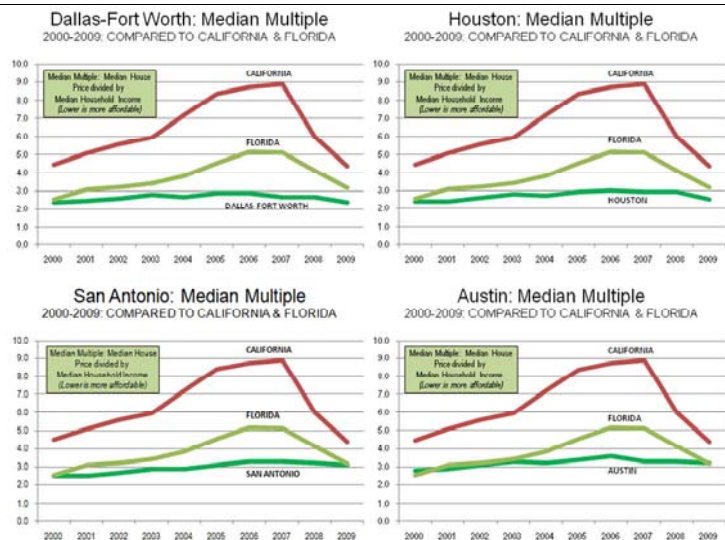
(9) Comparing Texas and Portland:

The Texas housing market has performed better than the “Portland model,” which relies on extensive restrictive land use regulation. Portland is a model in “smart growth” land use regulation (also called “growth management”). Portland’s regulations have been associated with significantly higher house prices. In 1990, Portland house prices relative to incomes were similar to those of the large Texas metropolitan areas. At the recent peak, the median Portland house price had risen to approximately 80% above Texas prices.



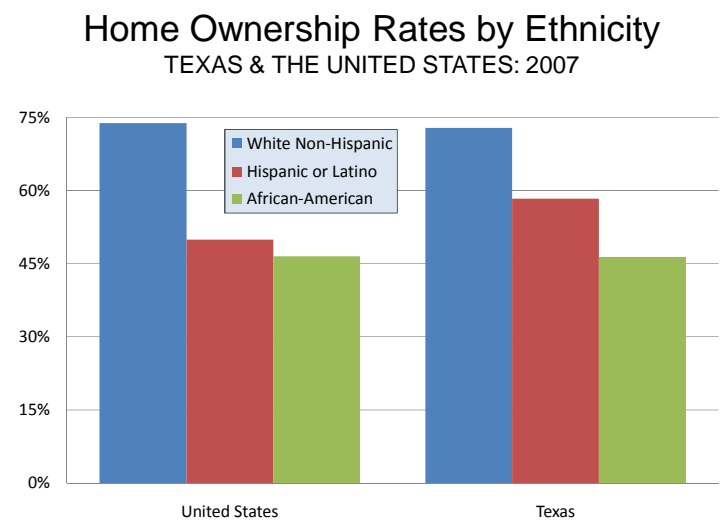
(10) The Texas Housing Market:

Affordable and Stable: Housing has remained affordable in all Texas metropolitan markets. Texas has some of the fastest growing markets in the nation. Dallas-Fort Worth and Houston rank second and third to Atlanta in population growth among metropolitan areas with more than 5 million population. Austin is the nation’s second fastest growing metropolitan area with more than 1 million population. In all of these markets, house prices remained stable, within historic norms, and avoided the “ups and downs” of the housing bubble.

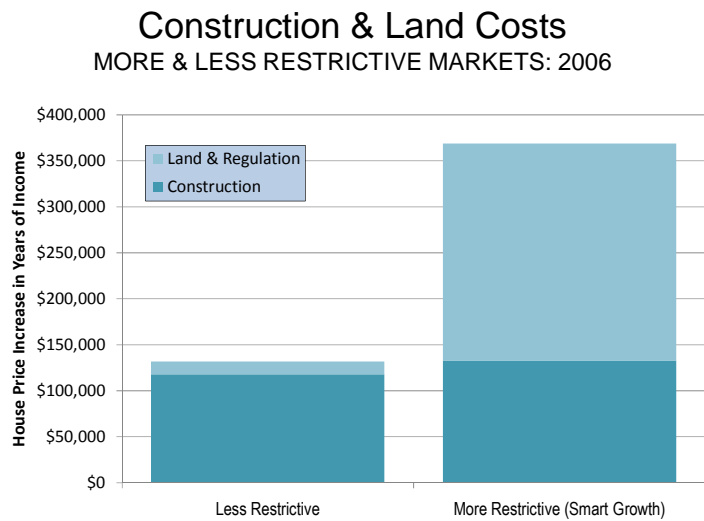


(11) Texas: Opportunity for All:

America has become a home owning nation, due principally to less restrictive land use regulation. More restrictive regulation and its inevitable house price increases, threatens to reduce the share of households owning their own homes in the future. Even after all of the efforts to bring minority households into the mainstream of economic life, minority home ownership rates continue at a third below those of white-non-Hispanics. This gap is unlikely to ever be closed in an environment where state and local governments are adopting policies that *must* increase the cost of houses, as has been the case in California, Florida and other states.



(12) *The Threat to Texas:* Yet, despite the success of the less restrictive land use policies in Texas, there are strong efforts to impose more smart growth policies. The impact could be devastating, especially from strategies that ration land that would raise land and house prices, as has occurred in California and Florida. In 2009, Governor Perry vetoed a bill that would have required the state to promote smart growth. Where smart growth policies have been adopted in some Texas municipalities, the negative impacts have been neutralized by the less restrictive land use policies in nearby jurisdictions.



(12) *Texas Land Use Policies: A Model for the Nation.* A principal reason that Texas averted the Great Recession is that its less restrictive land use policies prevented the most damaging impacts of the housing bubble. The result was less unemployment, stronger consumer spending and superior housing affordability. All of this makes Texas more competitive and positions the state well for continued economic growth. In contrast, Texas remains a destination of opportunity for households seeking the American Dream. Texas has avoided the “smart growth” fad. Its superior economic performance shows the state to be a model for the nation in land use regulation and in facilitating a high quality of life for its citizens. Had all states regulated land like Texas housing bubble might not have occurred.

INTRODUCTION: HOW TEXAS AVERTED THE GREAT RECESSION

Texas has received considerable favorable publicity due to its superior performance during the recession and the fact that the “housing bubble” had very little impact in the state. The performance of Texas has been particularly favorable compared to its other largest state competitors, California and Florida, both of which experienced severe economic and housing market distress. The contrast has been so great that *The Economist* magazine recently published an analysis noting the superior performance of the Texas economy in comparison to California.¹

One of the factors that helped Texas avoid both the Great Recession and the housing bubble was its market oriented and environmentally responsible land use policies. By contrast, where land use restrictions were more restrictive (California, Florida and other places), house price increases were far more substantial, as was the subsequent price collapse.

This paper examines the factors that have aided Texas in these accomplishments relative to the nation and especially to its major competitors, California and Florida.

(1) THE GREAT RECESSION

The world is enduring the longest and most pervasive economic downturn since the Great Depression. The general level of household misery is less than in the Great Depression, with more modest unemployment levels and overall incomes that are far higher than in the 1930s. However, by some indicators, the downturn, the Great Recession rivals the Great Depression. Households have been particularly hard hit in the Great Recession.²

- **Housing Prices:** The value of the nation’s housing stock declined for eight straight quarters, both in aggregate and per household terms. The previous modern record was a single quarter (Figure 1).
- **Household Net Worth:** Average household net worth has declined 25 percent from its peak less than two years ago (inflation adjusted), more than 1.5 times the largest previous loss (Figure 2).

Moreover, because of the nature of the substantial share of household retirement funds that were invested in real estate related equities, many households have lost major portions of their retirement funds.

(2) THE HOUSING BUBBLE PRECIPITATED THE GREAT RECESSION

It is generally agreed that the bursting of the US “housing bubble” precipitated the Great Recession. Moreover, it is generally agreed that house price declines in the United States were the proximate cause.

¹ “America’s Future: California v. Texas”, *The Economist*, July 11, 2009

² Analysis of Federal Reserve Board *Flow of Funds* data.

Real Value of Housing Stock: 1952-2009

UNITED STATES: PER HOUSEHOLD

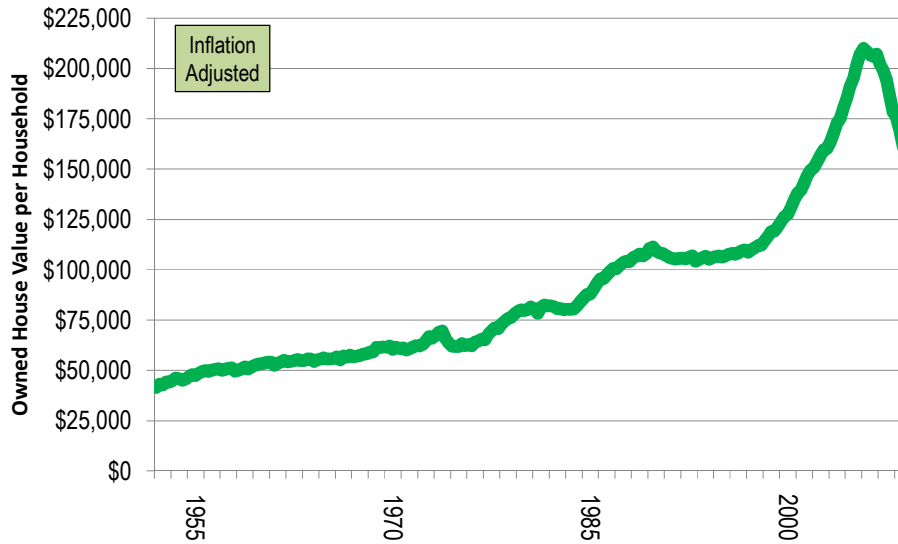


Figure 1

Real Household Net Worth: 1952 to 2009

UNITED STATES: PER HOUSEHOLD

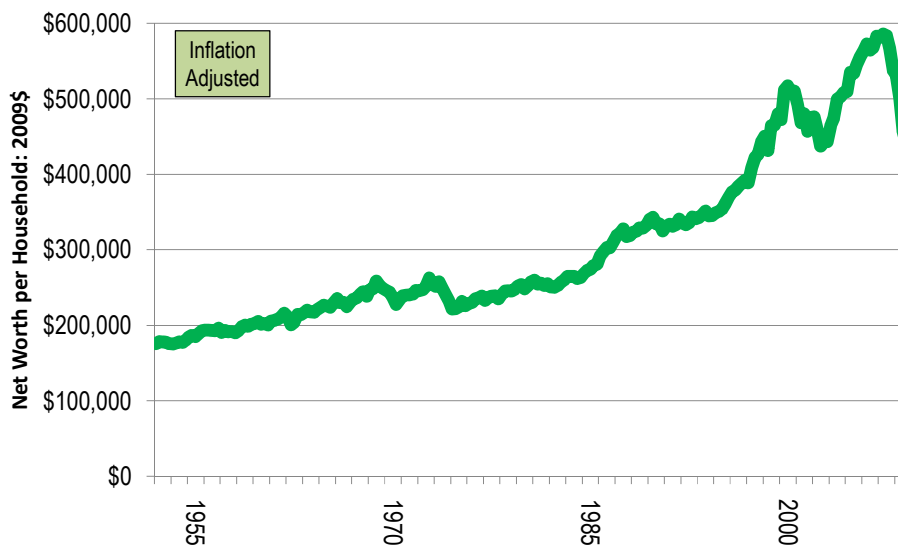
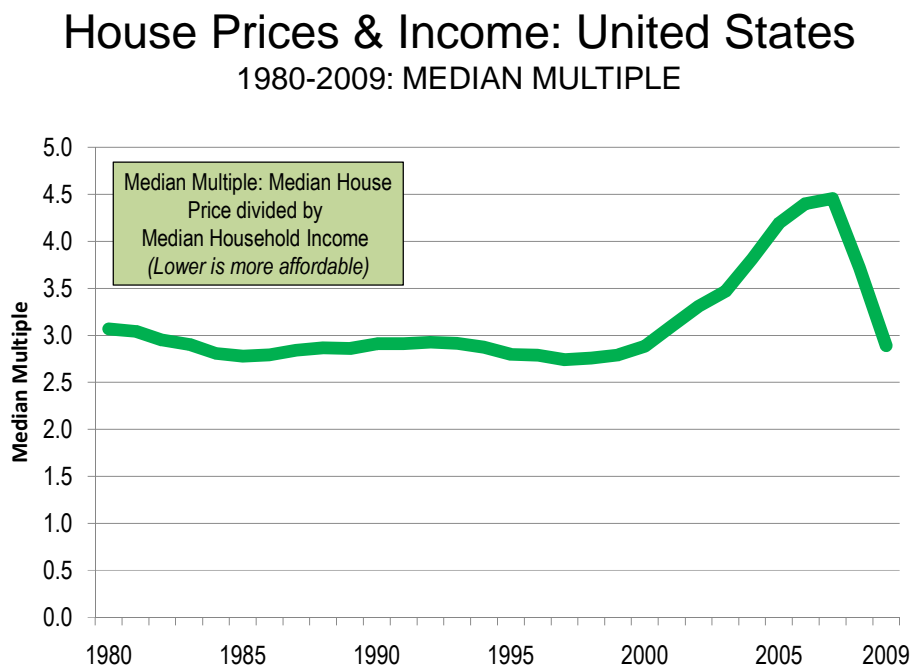


Figure 2

The Housing Market: What Happened? Financing for housing had become much more easily available over the past decade. New mortgage products allowed households who would not have qualified before to purchase homes. This included not only “sub-prime” loans, but also features such as negative amortization, “teaser” interest rates, less than full credit documentation and lower value to mortgage ratios. Other more qualified borrowers were able to obtain far larger mortgage amounts than could have occurred in the past. This greater availability of mortgage funding increased the demand for housing, which drove up prices and created the “housing bubble.” The nearly decade long “run-up” in prices attracted strong levels of real estate speculation, which further escalated prices.

For years, median house prices in the United States averaged approximately 3.0 times (a range of 2.5 to 3.5) median household incomes (a measure called the “Median Multiple”),³ which is illustrated by metropolitan area data between 1980 and 2000.⁴ During the housing bubble, prices escalated to the highest level ever recorded (Figure 3). By the time the market peaked in 2007, prices in some markets had more than doubled relative to incomes and were approaching nearly four times their historic relationship in other markets. In other markets, Texas included, house prices remained within historic norms relative to household incomes (see below).

Eventually, the housing bubble burst when many households were no longer able to pay their mortgages. The losses were so substantial that a large share of the mortgage finance business collapsed. This telescoped through the national economy, into the international economy and precipitated the Great Recession.



³ See: http://www.jchs.harvard.edu/publications/markets/son2009/son2009_appendix_tables.pdf.

⁴ Population over 1,000,000 in 2007 (51 metropolitan areas).

(3) TEXAS LARGELY AVERTED THE GREAT RECESSION

The economy of Texas has performed remarkably well during this economic downturn, avoiding the deep declines that have occurred in other parts of the nation, especially in California and Florida. In recent years, Texas has emerged as the fastest growing large state, a position long held by Florida. Indeed, there are now indications that Florida is *losing* population for the first time in more than 60 years.⁵

The superior performance of the Texas economy is demonstrated by a number of indicators.

Gross Domestic Product: The Brookings Institution reviewed the economic performance of the 100 largest metropolitan areas in the nation and found that, generally, the Texas metropolitan areas have performed among the top 20 over the last year. The gross domestic product of Texas metropolitan areas has fallen 1 percent or less, with Austin and McAllen experiencing no decline over the past year. These two metropolitan areas tied for first in gross domestic product performance among the top 100 metropolitan areas (Figure 4).

Employment: Texas has enjoyed strong employment growth in the 2000s. As of May, the state had lost 2.4 percent of its jobs since its peak and still had employment levels 11.8 percent above 2000. Employment levels have fallen back to mid 2007 level. In comparison, California has lost 5.7 percent of its employment since peak and has lost all jobs created since early 2000. Florida has lost 8.4 percent of its employment and all jobs created since early 2004. Nationally, the job loss has been 4.3 percent and employment levels are back to the level immediately before “9/11.” (Figure 5)⁶ According to the Brookings Institution, Texas metropolitan areas have also performed better than the rest of the nation in employment (Figure 6).

Unemployment: Unemployment has risen at a considerably slower rate in Texas than in California, Florida or the nation over the last year (Figure 7).

Personal Income: The growth in personal income in Texas has been well above the California and national averages and as of the first quarter of 2009 had declined only modestly. Florida’s personal income has declined at a greater rate and now trails that of Texas compared to 2000 (Figure 8).

⁵ The University of Florida reports that the state lost approximately 50,000 residents in the year ended April 2009 . The researchers noted high housing costs as one of the reasons for the out-migration, according to *The St. Petersburg Times* (<http://www.tampabay.com/news/business/economicdevelopment/article1026447.ece>).

⁶ The national employment figure also equals the mid-2004 level reached after the “9/11” downturn job losses.

Metropolitan Area GDP: Peak to 2009

TEXAS METROPOLITAN AREAS IN CONTEXT

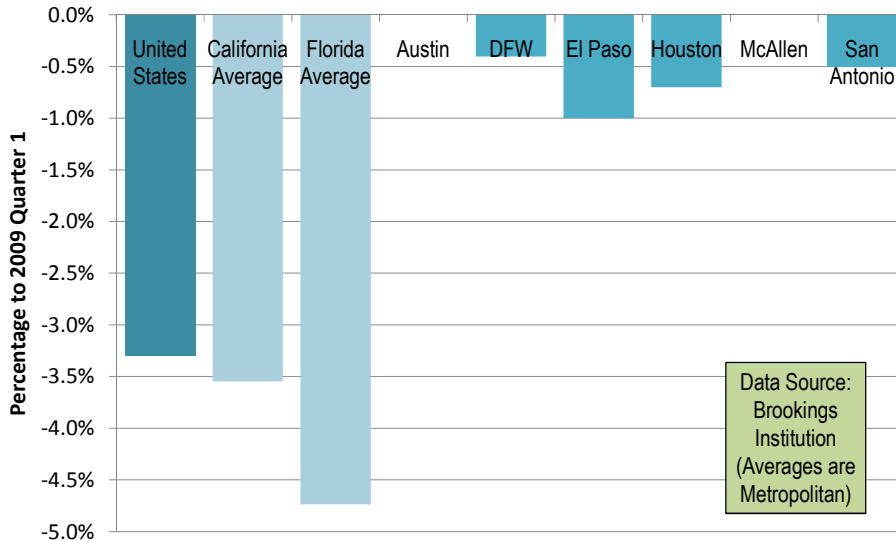


Figure 4

Employment: 2000-2008

TEXAS, CALIFORNIA, FLORIDA & UNITED STATES

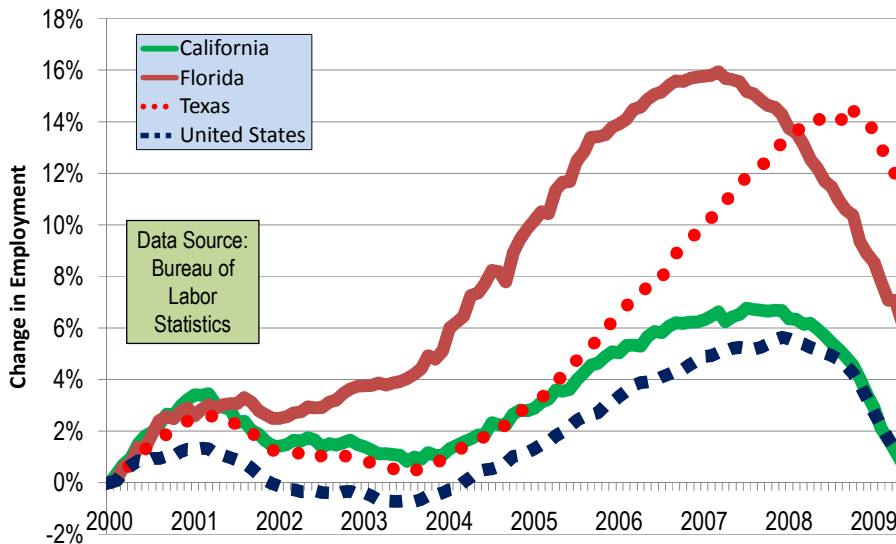


Figure 5

Employment: 2008-2009 Quarter 1 UNITED STATES & TEXAS METROPOLITAN AREAS

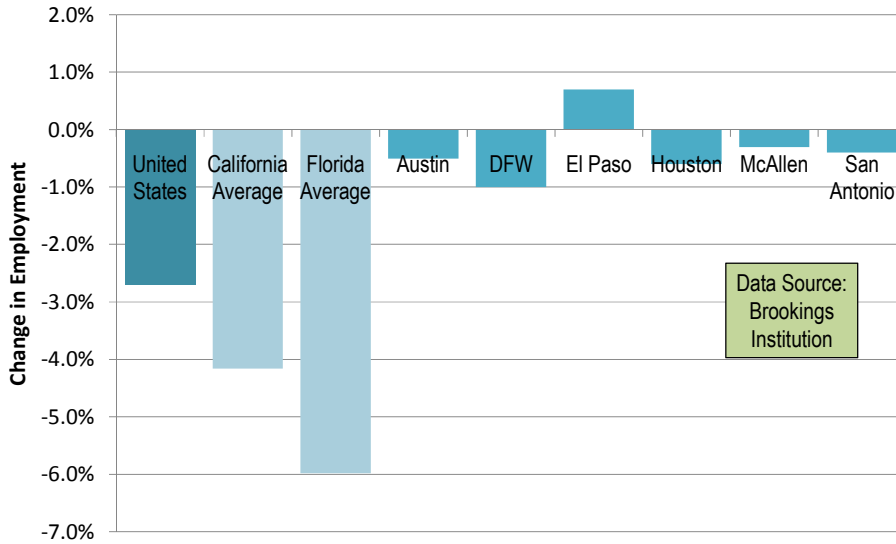


Figure 6

Unemployment: Peak to 2009 Quarter 1 TEXAS METROPOLITAN AREAS IN CONTEXT

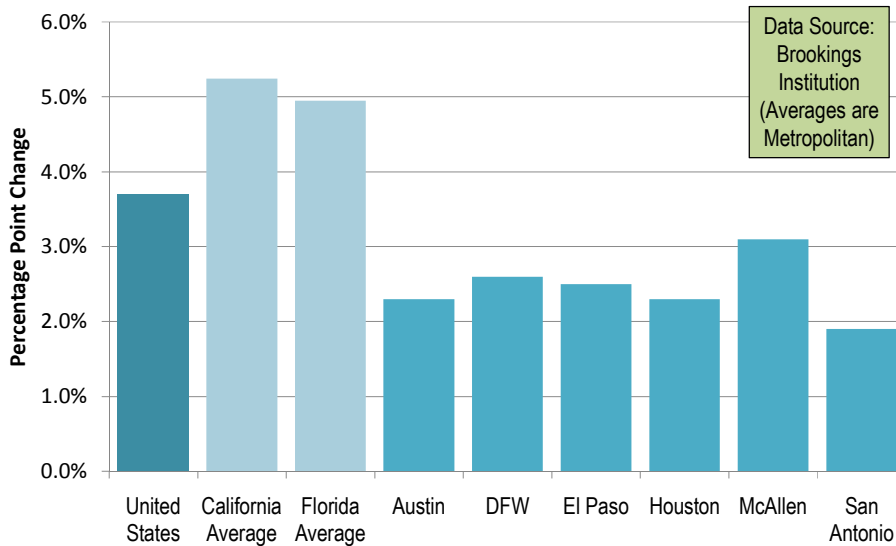


Figure 7

Personal Income: 2000-2008

TEXAS, CALIFORNIA, FLORIDA & UNITED STATES

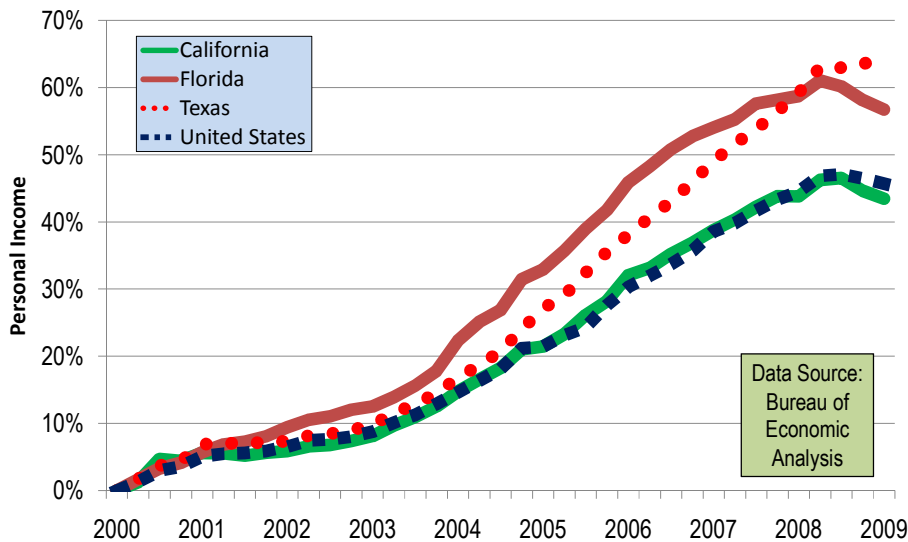


Figure 8

State Tax Collections: State tax collections have held up far better in Texas. Between 2007 and 2008, state tax collections were nearly up 11 percent, compared to two percent in California and 3 percent in the nation. State tax collections declined nearly 8 percent in Florida. Between the first quarter of 2008 and the first quarter of 2009, Texas state tax collections declined approximately 1 percent. This compares to a 5 percent decline in the nation and 11 percent declines in both California and Florida (Figure 9).

Mortgage Distress: Despite having a higher percentages of subprime mortgages than the national average, Texas experienced less mortgage distress.⁷ The Brookings Institution reports that the rate of “real estate owned” (REO) houses (Foreclosed upon houses that did not sell at auction and have reverted to ownership by the mortgage holder) in each of the Texas metropolitan areas is below the national average and well below the California and Florida rates (Figure 10).

Consumer Spending: Comprehensive consumer spending data is not generally available; however state sales tax collections can be used to provide an indication of the trend.⁸ Based upon this data, it appears that consumer spending has held up far better in Texas than in California, Florida and the nation. In 2008, state sales tax collections were up nearly 5 percent in Texas, up 1.5 percent nationally, down 1.7 percent in California and down 4.3 percent in Florida. In the first quarter of 2009, Texas state sales tax collections were down 0.7 percent, compared to a 9.1 percent loss nationally, a 17.4 percent loss in California and a 14.2 percent loss in Florida (Figure 11).

⁷ <http://www.demographia.com/db-subpstate.pdf>.

⁸ Over the period reviewed, there were no state sales tax changes in Texas, California or Florida.

State Tax Collections: Annual Change TEXAS, CALIFORNIA, FLORIDA & UNITED STATES

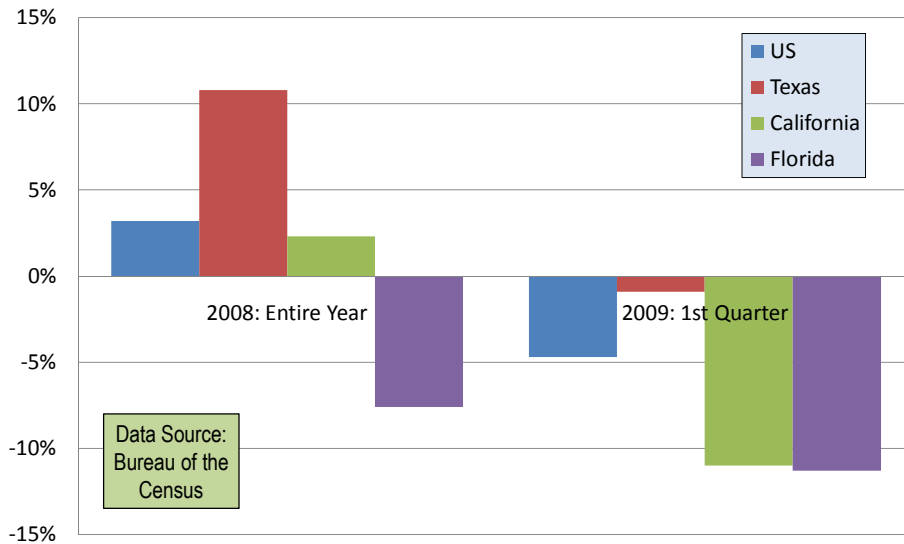


Figure 9

REO (Lender Owned) Properties: 3/2009 TEXAS METROPOLITAN AREAS IN CONTEXT

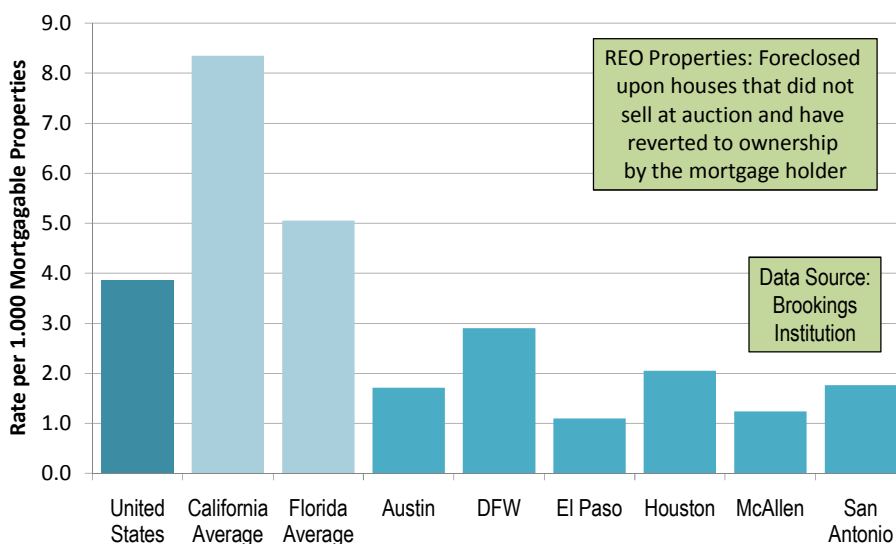


Figure 10

Sales Tax Collections: Annual Change TEXAS, CALIFORNIA, FLORIDA & UNITED STATES

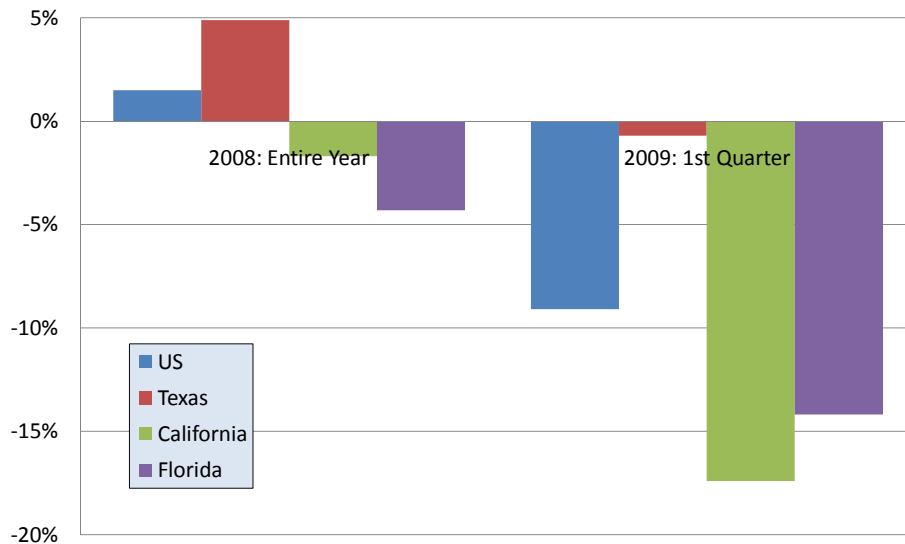


Figure 11

A Composite Ranking: The Brookings Institution ranking noted above shows 5 of the 6 best performing metropolitan areas in the nation to be in Texas, with San Antonio ranking number 1.⁹ Texas and adjacent states (Oklahoma, Arkansas and Louisiana) accounted for 9 of the top 10 best performing metropolitan areas in the nation. By comparison, 6 of the bottom 10 metropolitan areas are in California and Florida and no California or Texas metropolitan area ranks in the top 60.

(4) TEXAS LARGELY AVERTED THE HOUSING BUBBLE AND BUST

Not only has Texas weathered the Great Recession very well, it also escaped the extreme house price swings of the housing bubble and subsequent price collapses.

Generally, the housing bubble, which peaked in 2007, was far less severe in Texas than in many other areas. Even at the peak of the bubble, Texas house prices reached a Median Multiple of 3.2, only slightly above the historic average of 3.0 or below.¹⁰

⁹ http://www.brookings.edu/~media/Files/rc/reports/2009/06_metro_monitor/06_metromonitor.pdf and http://www.brookings.edu/reports/2009/06_metro_monitor.aspx as reported in <http://www.chron.com/dispatch/story.mpl/business/6483542.html>.

¹⁰ References are occasionally made to previous “housing bubbles,” in Texas and California. During the 1980s Texas housing bubble, the Median Multiple never exceeded 3.5 in the four large Texas metropolitan areas. During the 2000-2007 California housing bubble the Median Multiple in major metropolitan areas averaged 65% higher than in previous housing bubble and reached unprecedented highs (early 1990s).

Price Increases: Texas Compared to the Nation: Relative house prices in the nation increased at approximately four times the rate of Texas during the housing bubble (2000-2007). Overall, the Texas Median Multiple for major metropolitan areas peaked at 3.2 in 2006, 0.4 points (0.4 years of median household income) above the 1980 to 2000 average of 2.8. By contrast, the average national Median Multiple for major metropolitan areas peaked at 4.5, 1.7 points (1.6 years of median household income) above the 1980-2000 average of 2.9 (Figure 12).

In many markets, severe price declines occurred following the peak of the housing bubble. The losses cancelled out the housing bubble gains in some markets. However, just as Texas house prices increased at far lower rates than the national average, California and Florida, the declines in house prices in Texas were far less. The housing market distortion that occurred in places like California and Florida did not occur in Texas, which prevented a collapse in house prices.

Price Declines: Texas Compared to the Nation: The national decline in house prices, measured by the Median Multiple, was four times the loss in Texas. Texas house prices fell 0.4 points from the peak. In contrast, national house prices declined 1.6 points. Both in Texas and in the nation, the Median Multiple returned to 2000 levels, at slightly below 3.0 (Figure 12). The price collapses in California and Florida were much more, as is outlined below.

The superior housing affordability of Texas makes it a place of opportunity for young households and lower income households, many of who are minorities.

Housing Affordability: Texas & US 1980-2009: MEDIAN MULTIPLE

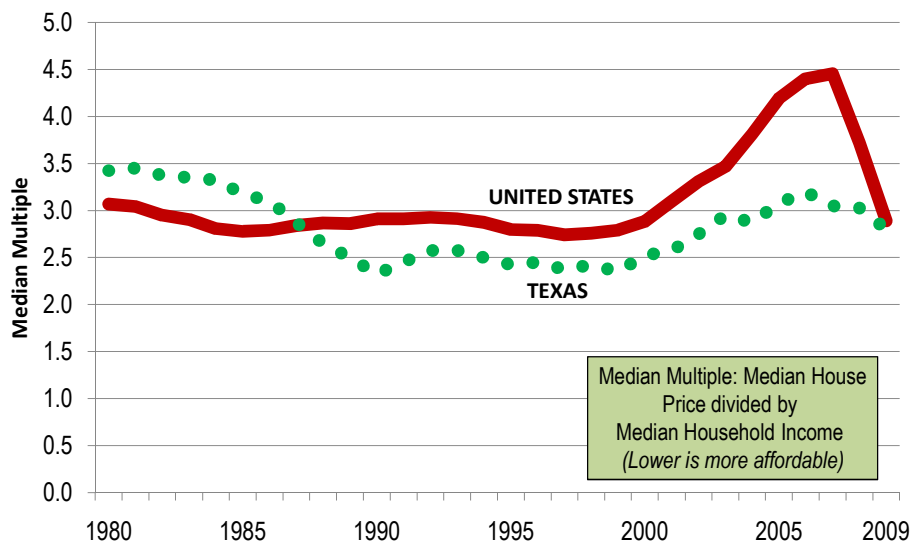


Figure 12

(5) RESTRICTIVE LAND RESTRICTIONS INTENSIFIED THE HOUSING BUBBLE

More liberal mortgage lending increased the demand for owned housing in the United States. Many analysts have blamed the housing bubble on the easier availability of mortgages and the resulting greater demand. The looser loan availability existed in all US markets. However, the housing bubble was limited to only half of the markets.

Some markets experienced unprecedented price escalation relative to incomes, while others experienced relatively little. For example, in California, median house prices escalated from 6 to 12 times median household incomes (the Median Multiple), while the largest Florida markets all exceeded a Median Multiple of 5. Similar escalation occurred in other areas. On the other hand, in Texas as in other less restrictively regulated parts of the country, the Median Multiple remained slightly above or even below the historic norm of 3.0 or below and there was little or no housing bubble.

The Housing Bubble: Concentrated Where Land Use Regulation is More Restrictive: The substantial price increase differences have been attributed to more restricted land use regulation by Nobel Laureate economist Paul Krugman of Princeton University, and others.¹¹

Some metropolitan areas have land use restrictions that make it much more expensive to build new homes. The most costly regulations are those that severely restrict the land on which residential construction can take place. These restrictions may be called “urban growth boundaries,” “urban service district,” or even growth areas. Their impact is to prohibit development on large swaths of land. This reduces the amount of land available, reduces price competition between land sellers with land that can be developed, and, as a result increases land prices. In short, too many buyers are “chasing” too few sellers. Other factors, such as hoarding of developable public land by government owners can also lead to substantially higher land prices (as in Las Vegas and Phoenix).¹²

Other restrictions, such as building moratoria, building quotas or limits, expensive amenity requirements (including mandatory “new urbanist” designs) and expensive “impact fees” invariably increase house prices. In some California communities, impact fees exceed \$60,000 per new house.¹³ The costs of these restrictions are passed on to purchasers of homes.

All of these strategies, many of which are labeled “smart growth or growth management”¹⁴ increase the price of underlying land for residential development.¹⁵ An examination of eight

¹¹ <http://www.nytimes.com/2005/08/08/opinion/08krugman.html> and <http://select.nytimes.com/2006/01/02/opinion/02krugman.html>

¹² Las Vegas and Phoenix are often incorrectly classified as less restrictive land use markets. However, the huge tracts of government owned land on which development is prohibited creates the same conditions of land supply shortage that increases land and housing prices in places like California and Oregon. See: <http://www.demographia.com/db-lvland.pdf> and <http://www.demographia.com/db-phxland.pdf>.

¹³ John Landis, Michael Larice, Deva Dawson and Lan Deng, *Pay to Play: Residential Development Fees in California Cities and Counties, 1999* (Sacramento: State of California Business, Transportation and Housing Agency), August 2001.

¹⁴ Smart growth is a set of policies that attempts to make urban areas more compact and dense, some of which materially increase housing prices. To force development away from suburbs into inner cities requires restrictions on

markets showed that only six percent of the difference between new housing in more restrictive markets relative to less restrictive markets was attributable to house construction costs in 2006 (Figure 13).¹⁶

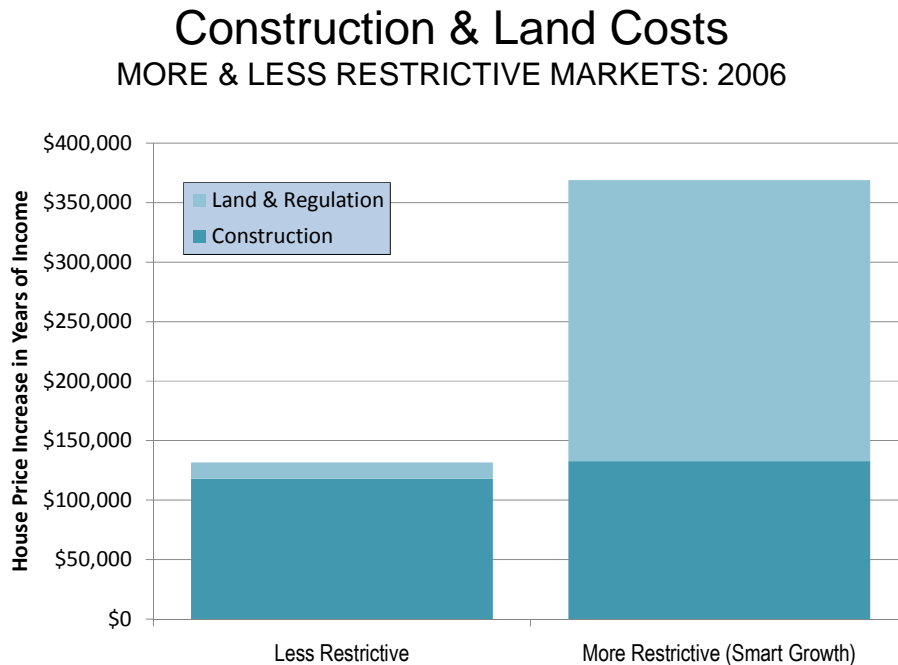


Figure 13

The Economic Evidence: Scarcity Raises Prices: It is an economic principle that prices tend to rise where supply is restricted. More restrictive land use regulations restrict the supply of land for new housing, and as a result, lead to higher house prices. This has been noted by a number of economists.

- Theo Eicher of the University of Washington produced a working paper placing much of the blame for house price escalation on land use regulation in cities around the nation.¹⁷
- Research by Harvard University’s Edward Glaeser, the University of Pennsylvania Wharton School’s Joseph Gyourko and others shows a strong relationship between more restrictive land use policies and higher housing prices.¹⁸

development that must necessarily increase housing prices. Another set of consequences is that the higher densities lead to greater traffic congestion and more intense local air pollution. Not all land use or smart growth restrictions have these kinds of negative effects (such as requiring infrastructure to be provided or requiring fundamental environmental compliance).

¹⁵ This increase in land price includes the capitalized value of “planning permission,” (the right to develop) and other restrictions.

¹⁶ <http://www.demographia.com/dhi-us8.pdf>

¹⁷ http://depts.washington.edu/teclass/landuse/housing_020408.pdf

¹⁸ Edward L. Glaeser and Joseph Gyourko, *The Impact of Zoning on Housing Affordability*, (Cambridge, MA: Harvard Institute of Economic Research, 2002).

- A United Kingdom government report by Kate Barker, a member of the Monetary Policy Committee of the Bank of England, blamed that nation’s loss of housing affordability on its prescriptive land use policies under the Town and Country Planning Act of 1947 (*The Barker Report*).¹⁹
- Reserve Bank of Australia Governor Glenn Stevens told a parliamentary committee that “An increase in state government zoning regulations is a significant factor driving up the cost of housing.” He also noted the increase in local and state government levies on new developments as a driver of higher housing prices.²⁰
- Former Reserve Bank of New Zealand Governor Donald Brash wrote that *the affordability of housing is overwhelmingly a function of just one thing, the extent to which governments place artificial restrictions on the supply of residential land*.²¹
- Research by Raven Saks of the Federal Reserve Board indicated that

*In places with relatively few barriers to construction, an increase in housing demand leads to a large number of new housing units and only a moderate increase in housing prices. In contrast, for an equal demand shock, places with more regulation experience a 17 percent smaller expansion of the housing stock and almost double the increase in housing prices.*²²

- An analysis by the Federal Reserve Board of Dallas notes the association between house price increases within metropolitan areas and the presence of more restrictive land use regulation, in the form of “supply restrictions,” high permitting costs and “not in my backyard” regulations.²³

The analysis further notes that markets with less restrictive land use regulation were able to accommodate the higher demand:

... Atlanta, Dallas-Fort Worth and Houston “weathered the increased demand largely with new construction rather than price appreciation because of the ease of building new homes.

¹⁹ Kate Barker (2004 and 2006). *Review of Housing Supply: Delivering Stability: Securing Our Future Housing Needs: Final Report—Recommendations*. Norwich, England: Her Majesty’s Stationery Office. www.hm-treasury.gov.uk/consultations_and_legislation/barker/consult_barker_index.cfm, and *Barker Review of Land Use Planning*, http://www.hm-treasury.gov.uk/media/4EB/AF/barker_finalreport051206.pdf.

²⁰ “RBA says land shortage driving house prices,” *Adelaide Now*, 17 August 2007, <http://www.news.com.au/adelaidenow/story/0,22606,22260763-5005962,00.html>.

²¹ Donald Brash, Introduction to the 4th Annual Demographia International Housing Affordability Survey, <http://www.demographia.com/dhi.pdf>.

²² Raven E. Saks, *Job Creation and Housing Construction: Constraints on Metropolitan Area Employment Growth*, <http://www.federalreserve.gov/pubs/feds/2005/200549/200549pap.pdf>.

²³ <http://www.dallasfed.org/research/houston/2008/hb0801.pdf>

- Australian Reserve Bank Governor Glenn Stevens made a similar point, contrasting the potential of readily available mortgage finance to either raise prices or expand the housing supply.

*A very real challenge in the near term is the following: how to ensure that the ready availability and low cost of housing finance is translated into more dwellings, not just higher prices.*²⁴

Finally, Glaeser and Gyourko note that housing bubbles generally do not occur in less restrictive markets.

*It is more difficult for house prices to become too disconnected from their fundamental production costs in lightly regulated markets because significant new supply quickly dampens prices, thereby busting any illusions market participants might have about the potential for ever larger price increases.*²⁵

Even Advocates Admit: Smart Growth Raises House Prices: Smart growth proponents often claim that more restrictive planning does not raise house prices. Indeed, the authoritative smart growth advocacy volume, *The Costs of Sprawl—2000* predicted that from 2000 to 2025 house prices in smart growth markets would *decline* relative to house prices in markets without smart growth.²⁶ Yet, this denial is negated within the same volume, which acknowledges the potential for higher house prices from 7 of 10 smart growth strategies (Table).²⁷ Further, the same volume finds that “lower land and housing costs” are “actually caused by” suburbanization²⁸ (the anti-thesis of smart growth) and that these lower land and housing costs are “unequivocally *a net benefit* to society as a whole.”²⁹

There is thus no dispute about the tendency for smart growth land rationing policies to raise housing prices, the only question is *how much* smart growth raises housing prices.

*While there is little agreement on the magnitude of the effect of growth controls on home prices, an increase is always the result.*³⁰

²⁴ <http://www.rba.gov.au/Speeches/2009/sp-gov-280709.html>.

²⁵ Edward L. Glaeser and Joseph Gyourko, *Rethinking Federal Housing Policy: How to Make Housing Plentiful and Affordable* (American Enterprise Institute, 2008), p.78.

²⁶ Robert W. Burchell, George Lowenstein, William R. Dolphin, Catherine C. Galley, Anthony Downs, Samuel Seskin, and Terry Moore, *Costs of Sprawl—2000*. Washington, DC: Transportation Research Board, 2002. It was predicted that house prices in more restrictive markets would decline \$13,000 relative to prices in less restrictive markets (2007\$). The reality is that in just seven years, median house prices increased \$162,000 in more restrictive markets relative to less restrictive markets. See: <http://www.demographia.com/db-2000-6med.pdf>.

²⁷ Robert W. Burchell, George Lowenstein, William R. Dolphin, Catherine C. Galley, Anthony Downs, Samuel Seskin, and Terry Moore, *Costs of Sprawl—2000*. Washington, DC: Transportation Research Board, 2002.

²⁸ “Suburbanization” is a synonym for the pejorative term, “sprawl.”

²⁹ Burchell, et al, Table 14-11.

³⁰ http://www.trpi.org/PDFs/housing_ca_latinos.pdf

Table Prescriptive Planning (Smart Growth) Policies: Including Potential for Increasing Housing Prices		
	Strategy	Potential to Increase Housing Prices
1	Regional Urban Growth Boundaries	YES
2	Local Urban Growth Boundaries	YES
3	Regional Urban Service Districts	YES
4	Local Urban Service Districts	YES
5	Large-Lot Zoning in Rural Areas	YES
6	High Development Fees & Exactions	YES
7	Restrictions on Physically Developable Land	YES
8	State Aid Contingent on Local Growth Zones	(Note) ³¹
9	Transferable Development Rights	
10	Adequacy of Facilities Requirements	
From Table 15.4, <i>Costs of Sprawl---2000</i>		

Thomas Sowell noted, however, a general lack of economic understanding among advocates of more restrictive land use policies, in his book *The Housing Boom and Bust*:

*It is very doubtful if many in academic communities who have campaigned zealously for land use restrictions under any of the heady and lofty labels used for these restrictions, have any idea that they are in any way responsible for the dire financial conditions in the country today or for the hundreds of thousands of workers who have lost their jobs.*³²

More Restrictive Land Use Regulation Generates Greater Speculation: The influence of excessive land use restrictions in raising house prices draws high levels of speculation. The Federal Reserve Board of Dallas associates the rising prices from more restrictive land use regulation with higher levels of real estate speculation, which drives prices higher still.

*These price increases then fed off themselves. Rising prices—whether for gold, corn or houses—often foster a bubble mentality, contributing to speculative demand.*³³

The land use restrictions and the resulting scarcity generated a speculative frenzy that drove house prices so high in California, Florida and some other markets that the intensity of losses could not be sustained and a large portion of the mortgage finance industry was bankrupted, which led directly to the international financial crisis (the “Great Recession”).

³¹ Any successful implementation of Strategy #8 would lead to higher housing prices because it would involve implementation of strategies #1 through #4 and #7, all of which have the potential to increase housing prices.

³² Thomas Sowell, *The Housing Boom and Bust*, New York: Basic Books, 2009, p. 116.

³³ <http://www.dallasfed.org/research/houston/2008/hb0801.pdf>

More Restrictive Land Use Regulation Leads to Greater House Price Volatility: More restrictive land use regulation also contributes to price volatility, bringing more chaotic “boom and bust” cycles to housing markets. They convert what would have otherwise been modest price bubbles into extreme price bubbles.

This is noted by Glaeser and Gyourko, who summarize the findings of a number of studies:

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

...price bubbles are more likely to form in tightly regulated places, because the inelastic supply conditions that are created in part from strict local land-use regulation are an important factor in supporting ever larger price increases whenever demand is increasing.³⁴

The Consequences: The trend of house prices during the housing bubble bears out both the economic analysis noted above and the “negated denials” of the smart growth proponents. Between 2000 and 2007, median house prices in major metropolitan areas with smart growth increased at a rate substantially higher than in markets with less restrictive land use regulation. The major metropolitan areas of California and Florida alone accounted for nearly \$2.5 trillion (or \$2,500 billion) in house value price escalation, approximately one-half of the national price escalation that occurred up to the peak of the housing bubble.³⁵ The gross price increase was far lower in Texas, at less than \$75 billion. From 2000 to the peak of the housing bubble, ***the median house price in California increased \$330,000 and \$140,000 in Florida. In contrast, the median house price increased only \$20,000 in Texas*** (Figure 14).³⁶ The larger price increases in more restrictive markets, such as California and Florida, led to much larger mortgage losses per house, which precipitated the collapse of the mortgage market and the Great Recession.

(6) LESS RESTRICTION: HOW TEXAS AVERTED THE RECESSION AND BUBBLE

Thus, the easier availability of mortgage loans had very different impacts in metropolitan markets based upon their regulatory environments. Where there was more restrictive land use regulation, as in California and Florida, there was a housing bubble, with its unprecedented house price increases, unprecedented house price declines and extreme economic distress. Where there was less restrictive land use regulation, such as in Texas, the higher demand was accommodated by the relative ease in inexpensively expanding the housing supply. Price increases were small, as were the subsequent price reductions.³⁷

³⁴ Edward L. Glaeser and Joseph Gyourko, *Rethinking Federal Housing Policy: How to Make Housing Plentiful and Affordable* (American Enterprise Institute, 2008), p.78.

³⁵ <http://www.demographia.com/db-overhang.pdf>.

³⁶ Calculated from National Association of Realtors and Harvard Joint Center on Housing Studies data. Median house price adjusted for change in median household income.

³⁷ Texas has regulations on home equity loans, which limit lending to 80 percent of the house value. These regulations, however, do not apply to first mortgages on houses. The effect of the home equity restrictions would have been to reduce the loan delinquency rates, but to impact the demand for housing little, since home equity loans are generally taken out on housing that is already owned. First mortgages finance house purchases. As a result, the Texas home equity regulations would seem to have little or no impact on housing prices.

Housing Affordability by Market Category 1990-2009: MEDIAN MULTIPLE

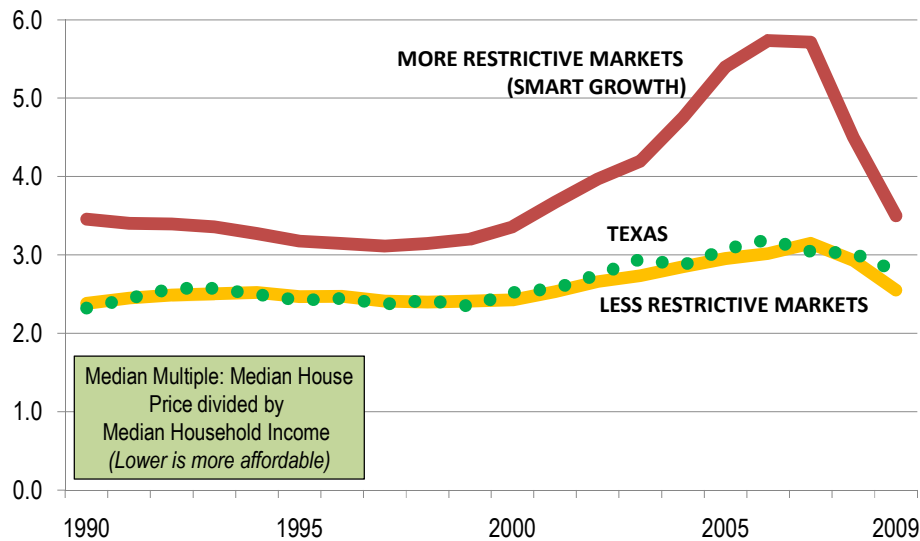


Figure 14

In fact, house prices in some smart growth markets increased so much that by 2007 the median priced house cost \$1,000,000 more (including mortgage interest) in San Diego and Los Angeles, than in Dallas-Fort Worth, Houston and San Antonio in 2007. The difference compared to San Francisco and San Jose exceeded \$1,500,000.³⁸

The price increases that could have fueled a “burst” never occurred in Texas. In this regard, the situation in Texas is far different than in many other parts of the country, especially California and Florida and other areas with more restrictive land use regulations (Figure 15). According to the Brookings Institution, Texas generally has the least restrictive land use policies in the nation.³⁹

Texas’ superior housing affordability has attracted international attention. The Organization for Economic Cooperation and Development (OECD) singled Texas out for its moderate price increases during the housing bubble.⁴⁰ OECD also referred to house price increases associated with more restrictive land use regulation in California, New Jersey, Massachusetts, New Hampshire and the Washington DC area.

A principal reason that the Texas economy survived the Great Recession is that it avoided the housing market bubble and bust that struck so intensely in states where the house prices inflated

³⁸ <http://www.demographia.com/dhi2008.pdf>

³⁹ http://www.brookings.edu/~media/Files/rc/reports/2006/08metropolitanpolicy_pendall/20060802_Pendall.pdf.

⁴⁰ <http://masetto.sourceoecd.org/vl=5566029/cl=21/nw=1/rpsv/cgi-bin/wppdf?file=519z9c4j8xzt.pdf>, Box 2.

the most,⁴¹ such as California and Florida. Moreover, according to Alan Berube of the Brookings Institution, the lower price increases *meant less speculative lending, and less fallout from the mortgage crisis*. Further, he associated more stable house prices with better economic performance in metropolitan areas.⁴² This is consistent with research by Raven Saks of the Federal Reserve Board, who found that:

*...metropolitan areas with stringent development regulations generate less employment growth than expected given their industrial bases.*⁴³

In Texas, residential land markets were allowed to respond to the rising demand with sufficient supply, with demand driving greater construction, rather than higher prices. Moreover, as the Dallas Federal Reserve Bank report indicates, in Houston, less restrictive land use regulation also aids development within the inner city.⁴⁴

Median House Price Increases NATIONAL, TEXAS & OTHER STATES: 2000-2007

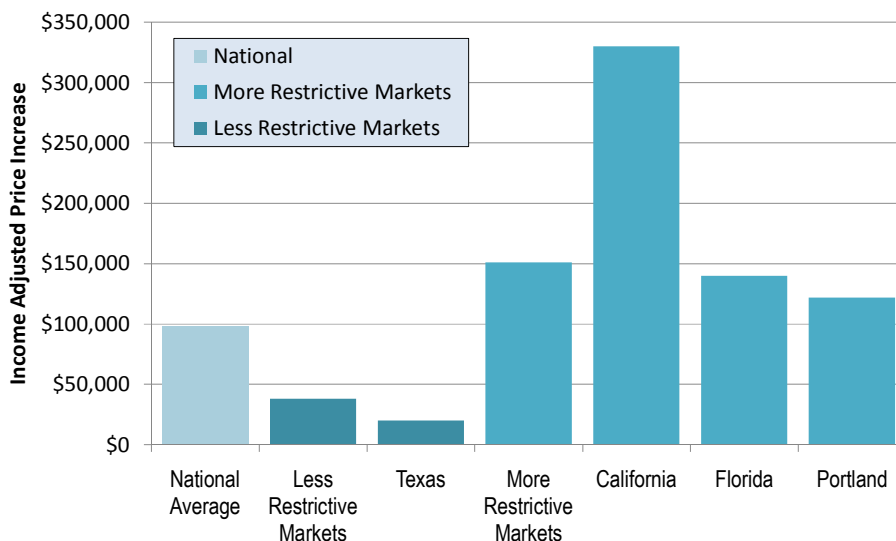


Figure 15

(7) COMPARING TEXAS AND CALIFORNIA

California has had the nation’s highest housing prices since the late 1970s. As late as 1971, house prices in the major metropolitan areas of California were “approximately the same” as in other metropolitan areas.⁴⁵ By 2000, the median house price in the California metropolitan areas

⁴¹ For further analysis, see http://www.city-journal.org/2008/18_3_houston.html

⁴² http://www.brookings.edu/opinions/2009/0628_economy_berube.aspx.

⁴³ Raven E. Saks, *Job Creation and Housing Construction: Constraints on Metropolitan Area Employment Growth*, <http://www.federalreserve.gov/pubs/feds/2005/200549/200549pap.pdf>.

⁴⁴ <http://www.dallasfed.org/research/houston/2008/hb0801.pdf>

⁴⁵ William Fischel, *Regulatory Takings, Law, Economics and Politics*, Cambridge, MA: Harvard University Press, 1995 (p. 235).

was more than \$200,000 higher than in the Texas areas. Yet, according to the US Bureau of Economic Analysis, per capita incomes rose nearly 10% *more* in the Texas metropolitan areas than in the California metropolitan areas between 1971 and 2000.⁴⁶

William Fischel of Dartmouth University has associated the post 1970 house price increases in California compared to the rest of the nation with more restrictive land use regulation.⁴⁷ The price differences only widened further during the housing bubble.

Price Increases: Texas Compared to California: California house prices relative to incomes increased 10 times the rate of Texas. In contrast to the Texas 0.4 point Median Multiple increase, California's rose 4.5 points (4.5 years of median household income), peaking at 8.9. This is nearly 3 times the Median Multiple standard of 3.0⁴⁸ (Figure 16). The average house price increased more than \$330,000 in California (relative to household income) between 2000 and 2007, more than 16 times the median house increase in Texas of approximately \$20,000.⁴⁹

Price Declines: Texas Compared to California: The subsequent decline in California house prices was 10 times the loss in Texas. Texas house prices fell 0.4 points from the peak. In contrast, California house prices declined 4.5 points. California's Median Multiple fell to the 2000 level (4.4), yet continues to be well above the 3.0 Median Multiple norm (Figure 17). The huge average house price declines in California and other more restrictive land use markets led to losses that could not be sustained by mortgage lenders.

Accounting for the Differences in Price Increases: Various other factors have been suggested to account for California's escalating prices relative to Texas and the rest of the nation. None justify the difference.

The difference is not construction costs. Since 1970, California's construction costs have risen at less than the national average. During the period of greatest house price escalation, 2000 to 2007, California's construction costs rose 10 percent *less* than the national average.⁵⁰

The difference is not demand: The more liberal mortgage loan environment increased the demand for home ownership around the country. Virtually the same "easier money" mortgage products were available in Texas and other states as were available in California.

⁴⁶ Calculated from data at www.bea.gov.

⁴⁷ William Fischel, *Regulatory Takings, Law, Economics and Politics*, Cambridge, MA: Harvard University Press, 1995 (pp. 218-252).

⁴⁸ Calculated from Harvard Joint Center on Housing Studies data. <http://www.jchs.harvard.edu>.

⁴⁹ Calculated from <http://www.demographia.com/db-overhang.pdf>

⁵⁰ Calculated from construction index information in *RS Means Square Foot Costs: 28th Annual Edition*.

House Prices: Texas & California 1980-2009: MEDIAN MULTIPLE

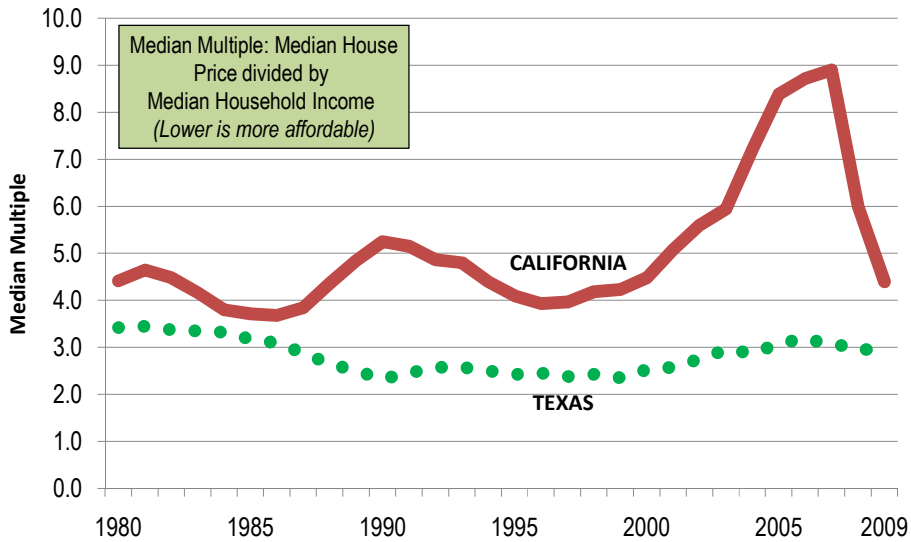


Figure 16

TX & CA Affordability: 2000 to Peak TEXAS & CALIFORNIA (MEDIAN MULTIPLE)

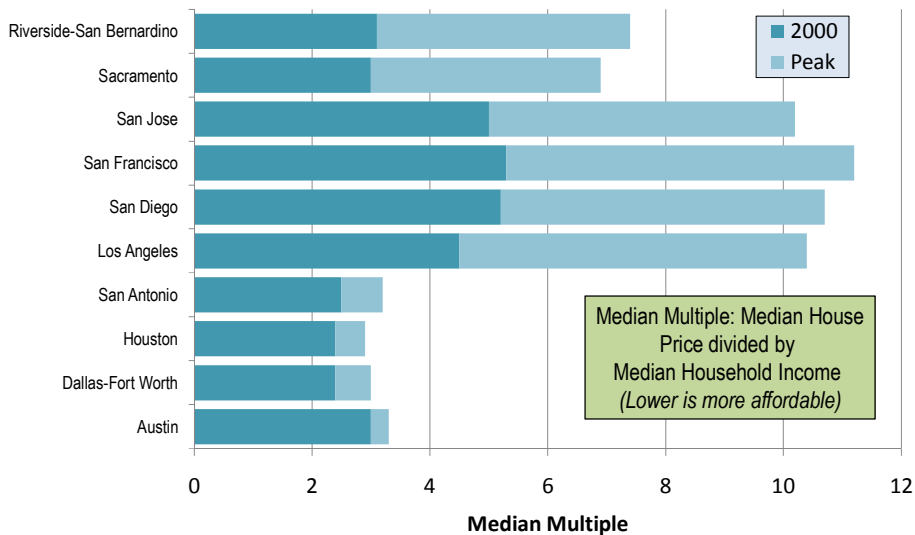


Figure 17

Moreover, other indicators point to a *lower* demand in California. The first indicator is domestic migration, which is the movement of people between areas of the nation (this does not include international migration). Domestic migration is a “leading indicator” of demand for home ownership because people moving from other states are more likely to buy houses than foreign migrants⁵¹ and newborn babies, the other sources of population growth. California’s domestic migration would suggest that the underlying demand for home ownership *was thus considerably less than average*, and surely much less than in Texas. Between 2000 and 2007, California lost more than 1,350,000 people to other states, 3.6 percent of its population. Only six states had greater domestic migration losses. By contrast, Texas added more than 550,000 domestic migrants.

Demand tends to raise prices only where supply is limited. Indeed, the strong demand from people moving into Texas and other fast growing areas might have been expected to raise house prices more than elsewhere in the nation. Dallas-Fort Worth, Houston and Atlanta are the fastest growing metropolitan areas with more than 5,000,000 population in the high-income world. Austin is the third fastest growing metropolitan area in the United States with more than 1,000,000 population. Each of these metropolitan areas experienced strong domestic migration gains between 2000 and 2007. Yet, relative house prices rose little. By comparison, the four large coastal California metropolitan areas (Los Angeles, San Francisco, San Diego and San Jose) all had strong domestic migration losses, but experienced relative house price increases that took their Median Multiples to more than 10.0.

The Difference is Not Vacant Land: Some analysts have suggested that house prices are higher in California because there is less vacant land to develop. While it is true that there is more undeveloped land in Texas than in California, there is more than sufficient land adjacent to California’s major metropolitan areas to accommodate millions of additional houses.⁵²

The Salinas metropolitan area is a particularly stark example (south of San Francisco). This metropolitan area, with a *declining* population of just 400,000 has enough suitable land to accommodate 14,500,000 new residents at Los Angeles densities.⁵³ While the

⁵¹ According to the 2000 United States Census, foreign migrants arriving in the previous decade had a median household income 20 percent below the national median. Between 2000 and 2007, foreign migration to California was 5.2 percent relative to its 2000 population. Foreign migration to Texas was 3.9 percent of the 2000 population. Overall foreign and domestic migration to California was 1.6 percent of the 2000 population and in Texas was 6.6 percent of the 2000 population.

⁵² A 2000 update of the California state housing plan concluded that there was more than enough vacant developable land to accommodate future growth at current development density rates.

<http://www.hcd.ca.gov/hpd/hrc/rtr/chp3r.htm>.

⁵³ Estimated using United States Census of Agriculture (2007) data. As a matter of information, urbanization in the form of “*Farmland conversion does not pose a threat to U.S. food and fiber production*” according to the United States Department of Agriculture (see Economic Research Service, United States Department of Agriculture, *Crop Use and Urbanization*, October 26, 1999). In fact, between 1950 and 2000, the agricultural land taken out of production in the United States was greater than the land area of *both* Texas and Oklahoma. Less than one-sixth that abandoned farmland was converted to urban uses, despite a population increase of 85 percent. Calculated from United States Department of Agriculture and United States Bureau of the Census data (see: <http://www.demographia.com/db-usacultura2000.htm>).

Salinas area was *losing* nearly 15 percent of its population to domestic migration (2000 to 2007), house prices rose to a Median Multiple of 10.9 in 2007, more than three times the historic average. By comparison, all of the Texas metropolitan areas, also with plentiful vacant land, retained Median Multiples of under 3.5 at the peak of the housing bubble (Figure 18).

Texas & Salinas Median Multiples PEAK OF THE HOUSING BUBBLE(2006 OR 2007)

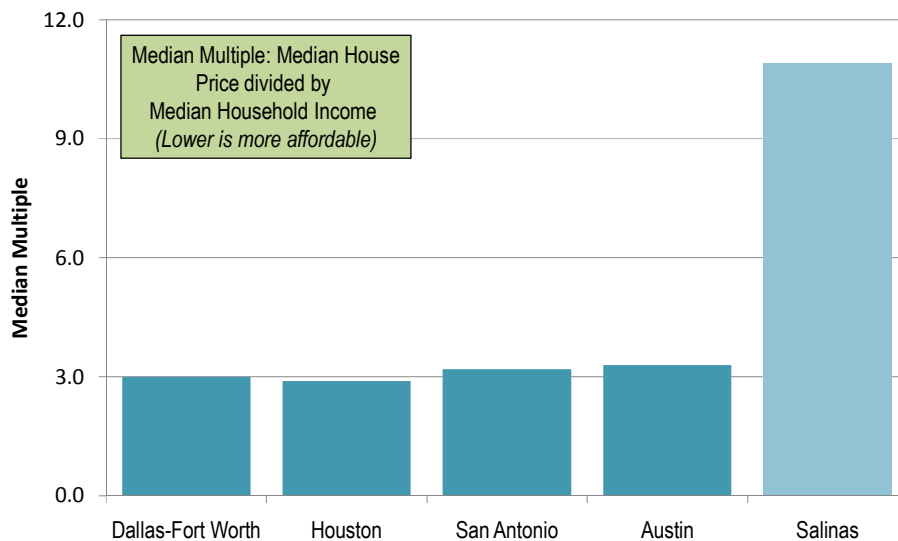


Figure 18

The 2000 update to the California state housing plan noted that: *The key constraint on the State's development capacity is political, not environmental.*⁵⁴ In releasing the plan, California's Secretary of Business, Transportation and Housing, Maria Contreas-Sweet prophetically noted:⁵⁵

... the State's ability to sustain its economic expansion is threatened by continuing housing affordability and supply problems.

California is no longer seen as a state of opportunity as it was in previous decades. The state's excessively high house price increases are raising fundamental equity concerns. A report by the Tomas Rivera Institute notes that restrictive land use policies are a substantial barrier to Latino households in California.

Whether the Latino homeownership gap can be closed, or projected demand for homeownership in 2020 be met, will depend not only on the growth of incomes and availability of mortgage money, but also on how decisively California moves to dismantle regulatory barriers that hinder the production of affordable housing. Far from helping,

⁵⁴ <http://www.hcd.ca.gov/hpd/hrc/rtr/chp3r.htm>.

⁵⁵ <http://www.hcd.ca.gov/hpd/hrc/plan/shp/>

*they are making it particularly difficult for Latino and African American households to own a home.*⁵⁶

Yet, despite these concerns, the elected leadership of the state has recently made the regulatory environment even worse in California. The state enacted Senate Bill 375 in 2008, which will impose far stronger state regulations on residential development. At the same time, the state attorney general has forced some counties to adopt more restrictive land use regulations through legal actions. California, which had for decades been considered a state of opportunity, is making home ownership and the pursuit of the “American Dream” far more difficult.

Thus, the difference between the house price escalation of California and the house price stability of Texas is attributable to the differences in land use regulation. California’s land use planning system prohibited development on large amounts of suitable land, imposed the nation’s most expensive development impact fees and often arbitrarily limited the number of houses that could be built. All of these factors drove the price of housing much higher. In California, excessive land use restrictions are associated with strong house price escalation and less affordability, while in Texas, less restrictive land use regulations are associated with maintaining historical housing affordability norms.

(8) COMPARING TEXAS AND FLORIDA

A similar comparison can be made to Florida, which experienced far higher increases in house prices than Texas as well as a housing price collapse. Unlike in Texas, the more liberal loan policies produced increased demand that exceeded the ability of the Florida land use regulation system to respond with housing that was affordable in relation to historic norms.

Price Increases: Texas Compared to Florida: Florida house prices relative to incomes increased six times the rate of Texas. In contrast to Texas’ 0.4 point increase, Florida’s Median Multiple rose 2.4 points (2.4 years of median household income), peaking at 5.2. This is approximately 75 percent above the 3.0 Median Multiple standard⁵⁷ (Figure 19). The median house price increased approximately \$140,000 in Florida (relative to household income) between 2000 and 2007. This is nearly 7 times the median house increase in Texas of approximately \$20,000 over the same period (Figure 20).⁵⁸

Price Declines: Texas Compared to Florida: The decline in Florida house prices was five times the loss in Texas. Texas house prices declined 0.4 points from the peak. In contrast, Florida house prices declined 2.0 points. Florida prices fell 3.2 Median Multiple points.

Accounting for the Differences in Price Increases: As in California, other factors have been suggested to account for Florida’s escalating prices relative to Texas and the rest of the nation. Again, none justify the difference.

⁵⁶ Waldo Lopez-Aqueres, Joelle Skaga, and Tadeusz Kugler (2002). *Housing California’s Latino Population in the 21st Century: The Challenge Ahead*. Los Angeles, CA: The Tomas Rivera Policy Institute. Pp. 23-31 (http://www.trpi.org/PDFs/housing_ca_latinos.pdf).

⁵⁷ Calculated from Harvard Joint Center on Housing Studies data. <http://www.jchs.harvard.edu>,

⁵⁸ <http://www.demographia.com/db-overhang.pdf>.

House Prices: Texas & Florida 1980-2009: MEDIAN MULTIPLE

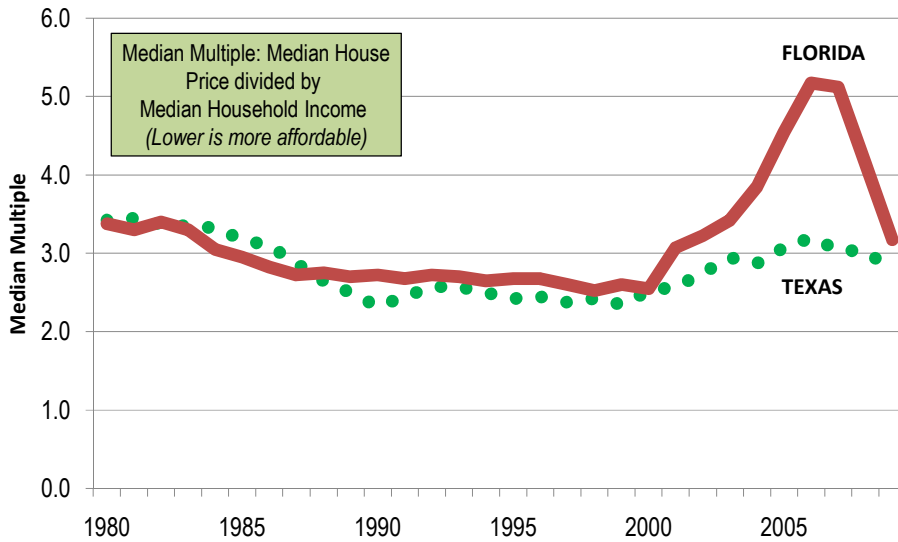


Figure 19

TX & FL Affordability: 2000 to Peak TEXAS & FLORIDA (MEDIAN MULTIPLE)

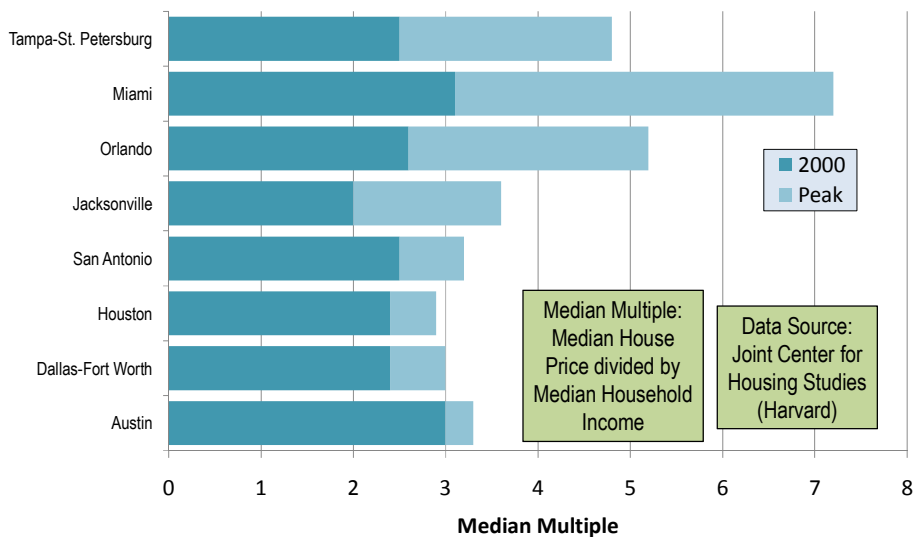


Figure 20

The difference is not construction costs. During the period of greatest house price escalation, 2000 to 2007, Florida's construction costs increased at approximately the national average.⁵⁹

Demand and Land Supply: Florida, like Texas, has experienced strong underlying demand for housing, having led the nation in domestic migration for most of the years since 2000. However, greater demand would have increased housing prices only if there were a shortage of land for residential development. However, there is sufficient suitable land in each of the major Florida metropolitan areas to more than double the population at Los Angeles urban area densities.⁶⁰

As in the case of California, the far more intense housing bubble and bust in Florida resulted from differences in land use regulation. Florida's land use planning system prohibited development on large amounts of suitable land, which drove the price of the remaining developable land much higher. In Florida, excessive land use restrictions are associated with strong house price escalation and reduced affordability, while in Texas, less restrictive land use regulations are associated with maintaining historical housing affordability norms.

(9) COMPARING TEXAS AND PORTLAND

The Texas housing market has been far more stable than that of the Portland area, which is often cited as a national leader in smart growth. Portland's smart growth land use restrictions began to have a material effect on house prices when much of the land inside its urban growth boundary had been developed and the regional planning agency decided to force infill and densification, rather than allowing additional development on and beyond the urban fringe. The result was that Portland's housing prices rose at a greater rate than any other major metropolitan area in the 1990s⁶¹ and continued to rise through the housing bubble of 2000 to 2007. In 1990 the Median Multiple in the Portland metropolitan area was 2.4, only slightly above the 2.3 average of the four largest Texas metropolitan areas. By 2007, Portland's Median Multiple had risen to 5.4, approximately 75% above the Texas metropolitan average of 3.1. Portland prices had escalated to become \$130,000 more than in the Texas metropolitan areas (Figure 21). Over the same period, per capita personal income growth was less in Portland than in the Texas metropolitan areas.⁶²

(10) THE TEXAS HOUSING MARKET: AFFORDABLE AND STABLE

In contrast to the unprecedented and pervasive house price increases in California and Texas housing markets, relative price stability was virtually universal in Texas markets and remained consistent with historic norms. As a result, the volatile "boom and bust" price were avoided throughout Texas (Figures 22-25).

⁵⁹ Calculated from construction index information in *RS Means Square Foot Costs: 28th Annual Edition*

⁶⁰ Estimated using United States Census of Agriculture (2007) data. See: <http://www.demographia.com/db-usacultura2000.htm>.

⁶¹ Calculated from Harvard Joint Center on Housing Studies data. <http://www.jchs.harvard.edu>.

⁶² Calculated from www.bea.gov data.

House Prices: Texas & Portland 1980-2009: MEDIAN MULTIPLE

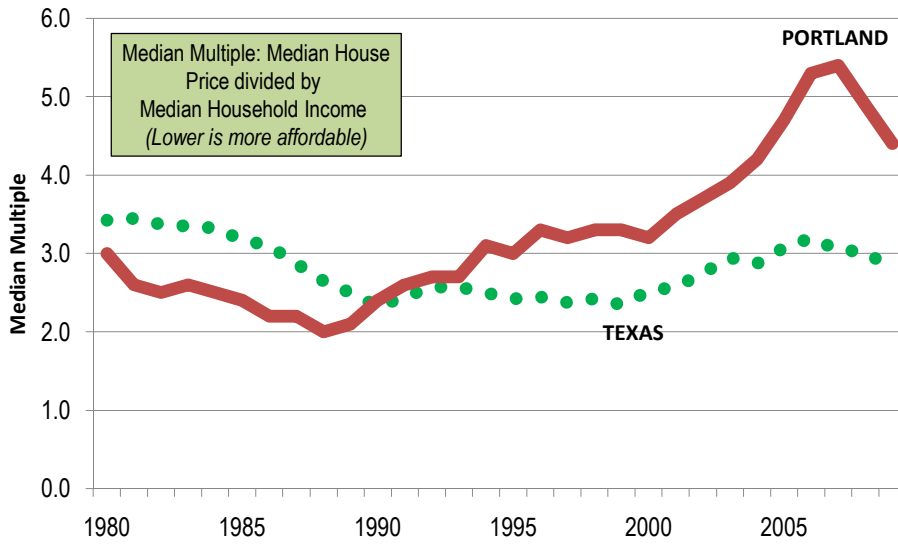


Figure 21

Dallas-Fort Worth: Median Multiple 2000-2009: COMPARED TO CALIFORNIA & FLORIDA

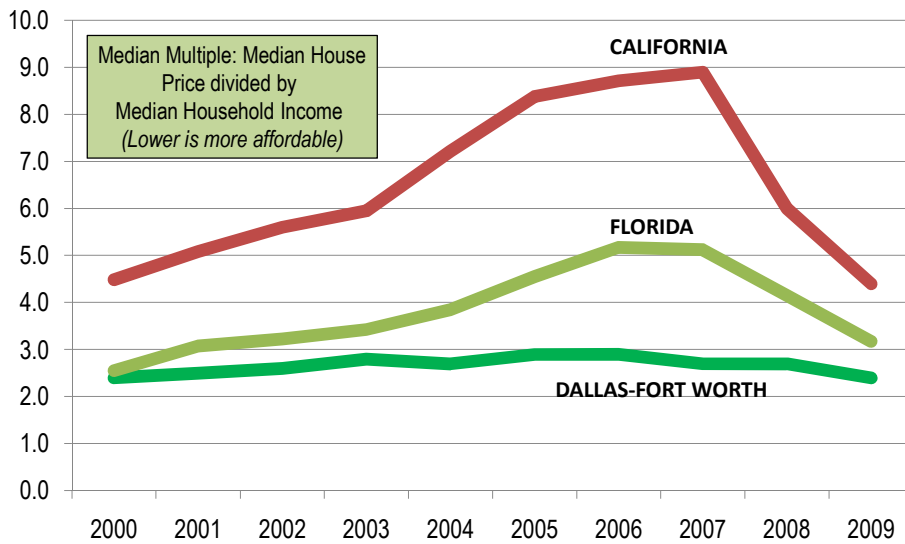


Figure 22

Houston: Median Multiple

2000-2009: COMPARED TO CALIFORNIA & FLORIDA

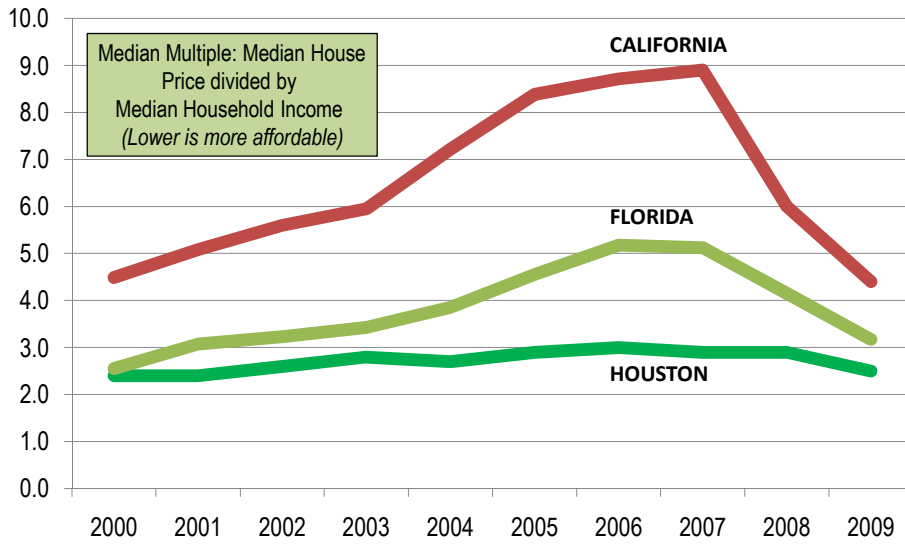


Figure 23

San Antonio: Median Multiple

2000-2009: COMPARED TO CALIFORNIA & FLORIDA

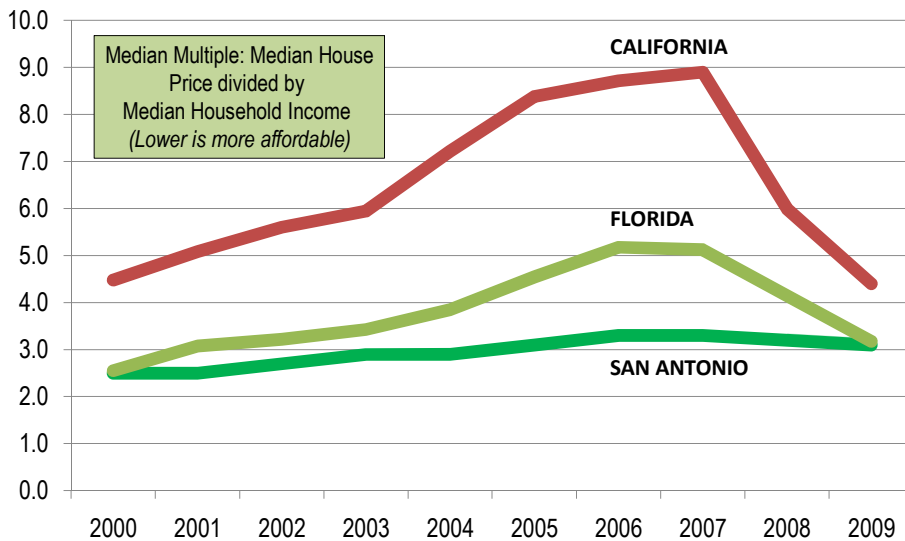


Figure 24

Austin: Median Multiple 2000-2009: COMPARED TO CALIFORNIA & FLORIDA

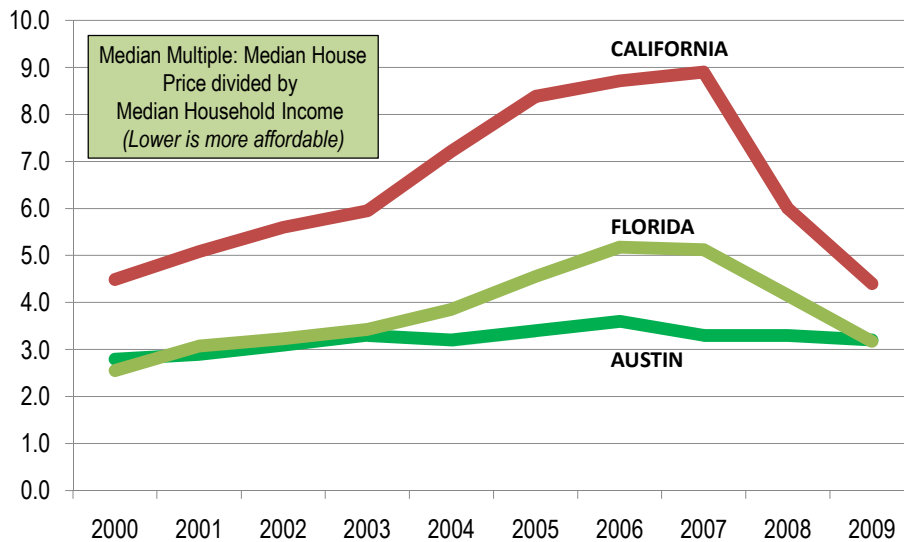


Figure 25

(11) TEXAS: OPPORTUNITY FOR ALL

The greater affordability and more stable economy that characterized Texas have combined to make the state a place of particular opportunity.

Home Ownership and Opportunity: One of the most important economic and social developments in the nation was the expansion of home ownership, which rose from less than 45% at the beginning of World War II (1940) to more than 65% today. This was largely made possible because of less restrictive land use regulations that permitted the building of houses on cheap urban fringe land that was affordable to what was to become the world’s most affluent middle class. In the world of more restrictive land use regulation, quality housing that is affordable is far less likely to be available to average American households.

Minority Home Ownership Rates: Moreover, housing affordability is a matter of both economic and social importance. For decades, the nation has sought not only to increase the share of households that have a stake in the “American Dream” of home ownership, but also to extend the “American Dream” in equal measure to ethnic minorities. Yet, nearly a half-century after Dr. Martin Luther King’s “I have a dream” speech, African-American and Latino households have a home ownership rate that is a full one-third less than that of non-Hispanic whites.

As the Tomas Rivera Institute pointed out (above), Latinos and African Americans are finding it increasingly difficult to aspire to home ownership in California.⁶³ In an environment with higher than justifiable housing prices, housing affordability must decline for all groups in the longer run. The goal of increasing African-American and Latino home ownership rates to match those of white-non-Hispanics has been put beyond reach in California and Florida by more restrictive land use regulations. The goal could still be achieved in Texas, because of its land use policies that keep house prices reasonable. Indeed, Latino home ownership rates are much to the white-non-Hispanic rate in Texas than in the nation as a whole (Figure 26).⁶⁴

What Texas has Accomplished: Texas has preserved housing affordability and avoided the land market volatility that has so ravaged California and Florida and other smart growth areas. As a result, the citizens of Texas, of all ethnicities, enjoy greater opportunities, not only to own their own homes but also to enjoy lifestyles that can only be maintained and improved by a strong economy.

Home Ownership Rates by Ethnicity TEXAS & THE UNITED STATES: 2007

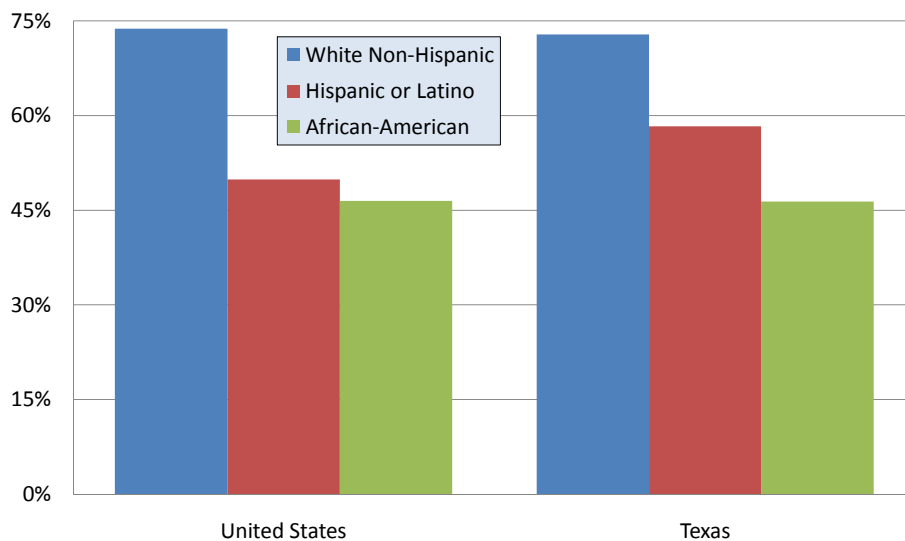


Figure 26

(12) THE THREAT TO TEXAS

Yet, despite the favorable economic performance and opportunities for home ownership that less restrictive land use policies have encouraged in Texas, there are strong efforts to impose smart growth policies. Some major cities and metropolitan planning organizations are proposing smart

⁶³ Waldo Lopez-Aqueres, Joelle Skaga, and Tadeusz Kugler (2002). *Housing California's Latino Population in the 21st Century: The Challenge Ahead*. Los Angeles, CA: The Tomas Rivera Policy Institute. Pp. 23-31 (http://www.trpi.org/PDFs/housing_ca_latinos.pdf).

⁶⁴ Calculated from United States Bureau of the Census, American Community Survey, 2007.

growth strategies. Well funded national and local organizations are also seeking adoption of smart growth policies at the metropolitan area level.

The impact of smart growth policies could be devastating to the competitiveness of the state. The most destructive impacts would come from strategies that ration land and thereby raise its price, leading to the huge price increases in housing in California and Florida. These policies include urban growth boundaries, building prohibitions on land that is suitable for development and expensive development impact fees (see Table above).

In 2009, the legislature passed a bill that to establish a state government program to encourage and centralize the development of “smart growth.” Governor Perry vetoed the bill, indicating that it would seek to impose a *one-size-fits-all approach to land use and planning that would not work across a state as large and diverse as Texas*.⁶⁵

The lack of a “one-size-fits-all” or smart growth planning regime in Texas has been an important factor preserving housing affordability and avoiding the housing market distress and economic downturns that have occurred where more restrictive land use policies are the rule. Some Texas jurisdictions have smart growth policies. Perhaps the strongest such policies are in the city of Austin. Yet, Austin’s policies have not had the same impact as those in California and Florida because Texas law ensures a competitive market for land. Texas law does not permit counties to implement destructive land rationing policies in the unincorporated areas over which they have jurisdiction. Moreover, in the Austin area, suburban municipalities, such as in Williamson County, have declined to follow Austin’s smart growth policies. As a result, residential land markets remain relatively inexpensive. Imposition of a smart growth regime would change that.

Further, as growth policies have been adopted by governments around the nation, policymakers have virtually never considered the negative impacts of rising house prices or the economic difficulties that occur due to greater land market volatility. It will be important for government in Texas to resist these more restrictive land use policies that would reduce the competitive of the state, destroy opportunities for Texans, and stunt job creation and economic growth. It would be a grave mistake for Texas to follow the restrictive land use policy examples that have so distorted housing markets in California and Florida (and other smart growth areas).

(13) TEXAS LAND USE POLICIES: A MODEL FOR THE NATION

Thus, a principal reason that Texas largely averted the Great Recession is its less restrictive land use policies, which prevented the most damaging impacts of the housing bubble.

By averting the Great Recession, tax collections did not suffer the huge declines that occurred in states like California and Florida. Households, with housing costs that remained within historic norms, had more discretionary income to spend on consumer goods, and consumer spending remained stronger in Texas. Finally, Texans were far less likely to have lost their jobs.

Texas is positioned strongly relative to its major competitors and much of the rest of the nation. Texas attracts more than its share of business expansion investment as a result of its favorable

⁶⁵ <http://governor.state.tx.us/news/veto/12632/>

tax climate and business regulation.⁶⁶ All of this is enhanced by the stable housing market, which ensures strong housing affordability and makes the state more attractive to the indispensable quality work force required for the expanding economy.

Texas, Land Use Policy and Opportunity: The reality is that the economics of land markets are intertwined with economic growth, job creation and opportunity. The housing bubble was concentrated where there are more restrictive land use regulations and it was in the same areas that the economic disruption was most intense.

However, unlike states like California and Florida, Texas, with its less restrictive land use regulations, remains a state of considerable opportunity for average American households. This is one of the reasons that the state continues to experience healthy growth, both in its economy and population.

Texas has done well to avoid the “smart growth” fad. Its superior economic performance through the Great Recession is witness to the fact that Texas is a model for the nation, not only in land use regulation, but also in facilitating a high quality of life for its citizens. Indeed, if Texas land use policies had been in place around the nation, the housing bubble would have been far smaller or might not have occurred.

⁶⁶ <http://www.taxfoundation.org/research/show/22658.html>.