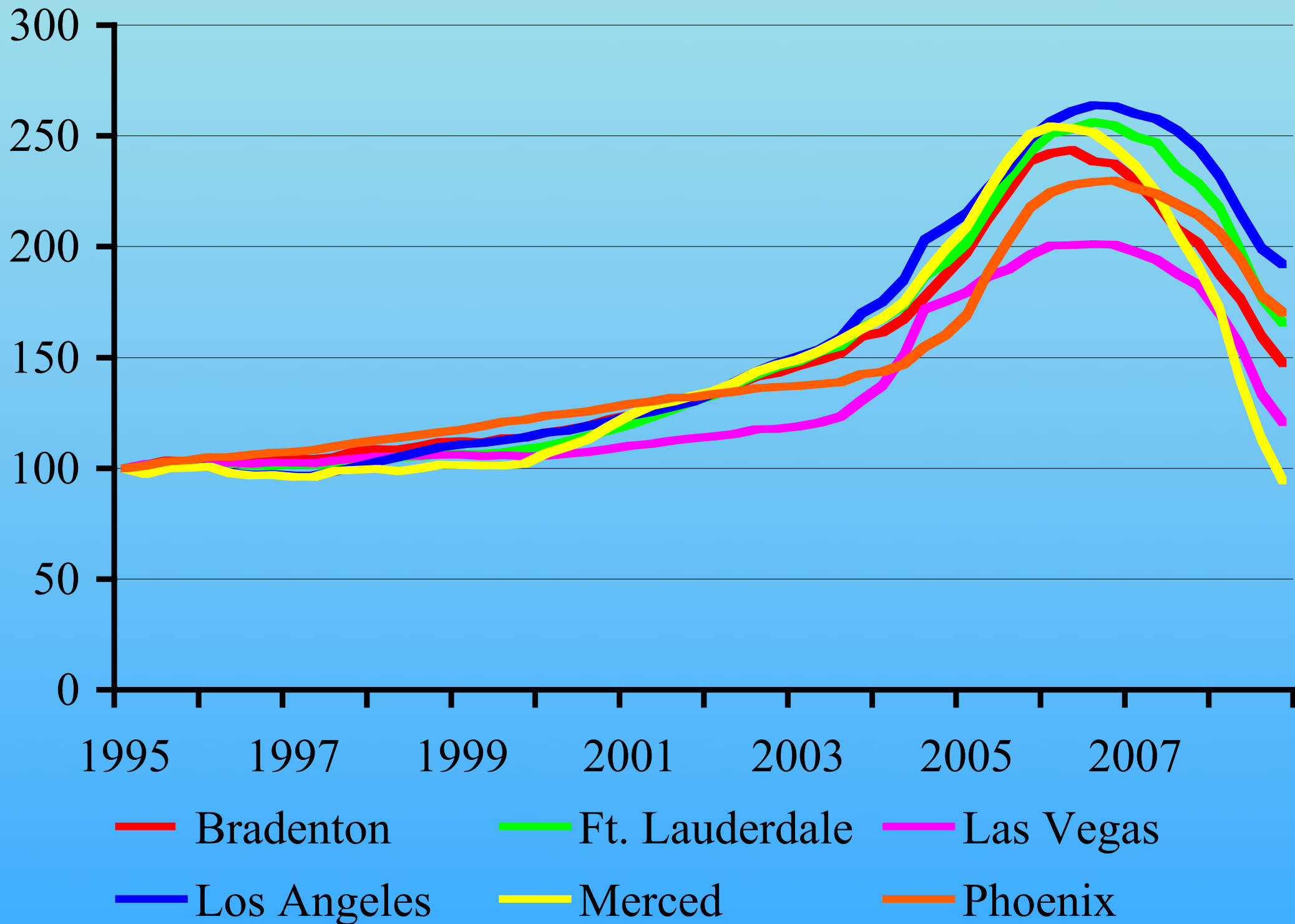




# *How Urban Planners Caused the Housing Crisis*

Over the past 35 years, I've spent my career reviewing government plans: forest plans, park plans, wildlife plans, transportation plans, urban plans, and regional plans. I've found that these plans almost always result in disaster. Most recently, the urban plans of a few cities and states led directly to the financial crisis that resulted in the current recession.

# Metro-Area Home Price Indices



We all know that housing bubbles such as the ones shown in this chart let to the collapse of housing prices, foreclosures, and bank failures.





Many people blame these bubbles on the Federal Reserve Board which supposedly kept interest rates too low for too long.



FARRINGTON  
© 2007 CAGLE CAROONS



Other people blame unscrupulous lenders for making loans to people who couldn't repay them.





Others blames speculators who drove up housing prices.



The McGraw-Hill Companies

# BusinessWeek

NOVEMBER 11, 2007

www.businessweek.com

## BONFIRE OF THE BUILDERS

HOW THEY HELPED BRING ON THE HOUSING CRISIS—AND HOW FAR THE DAMAGE WILL SPREAD

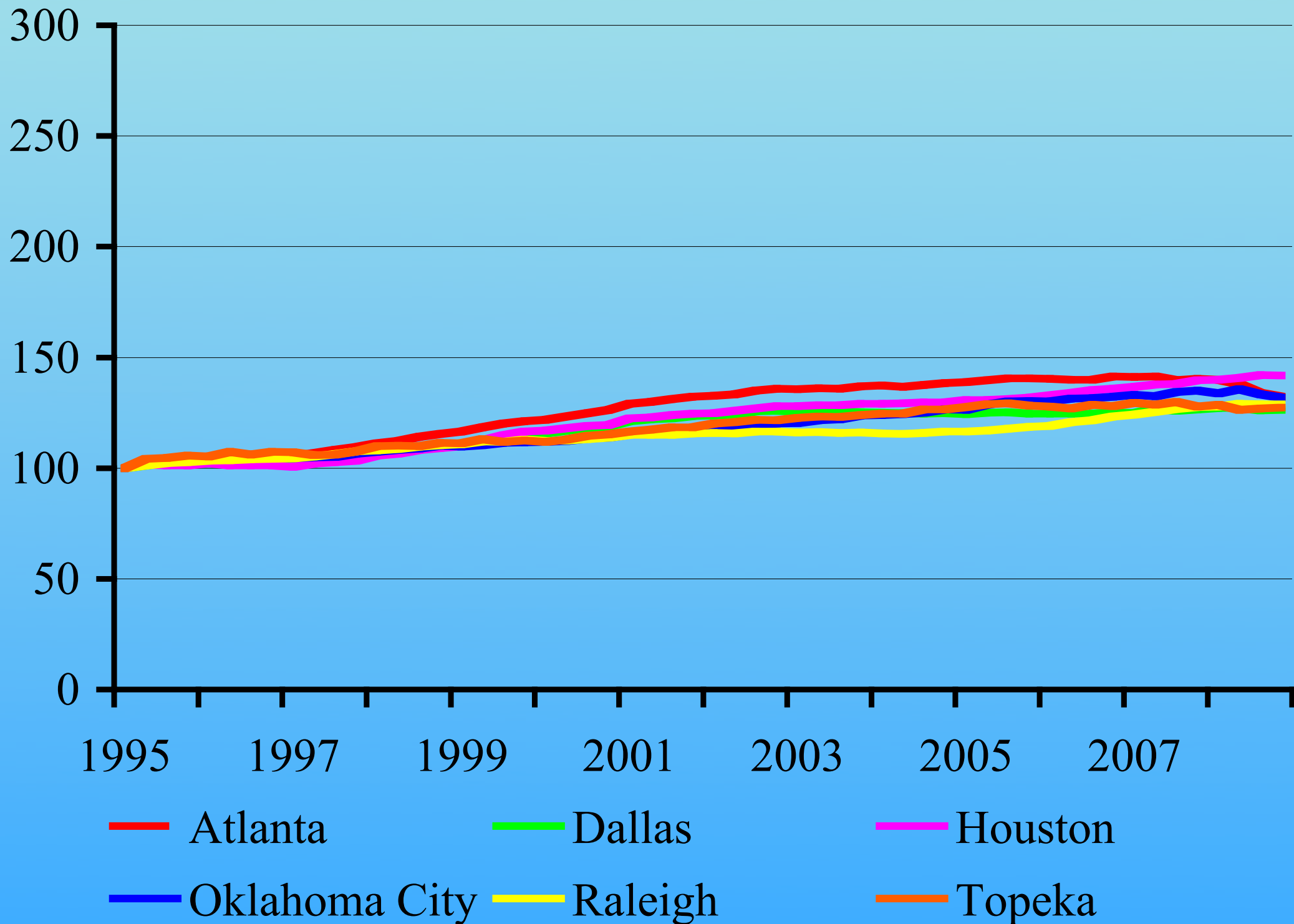


(PAGE 28)

And still others claim the problem was careless homebuilders who built too many houses. The problem with all of these explanations is that they apply nationwide.



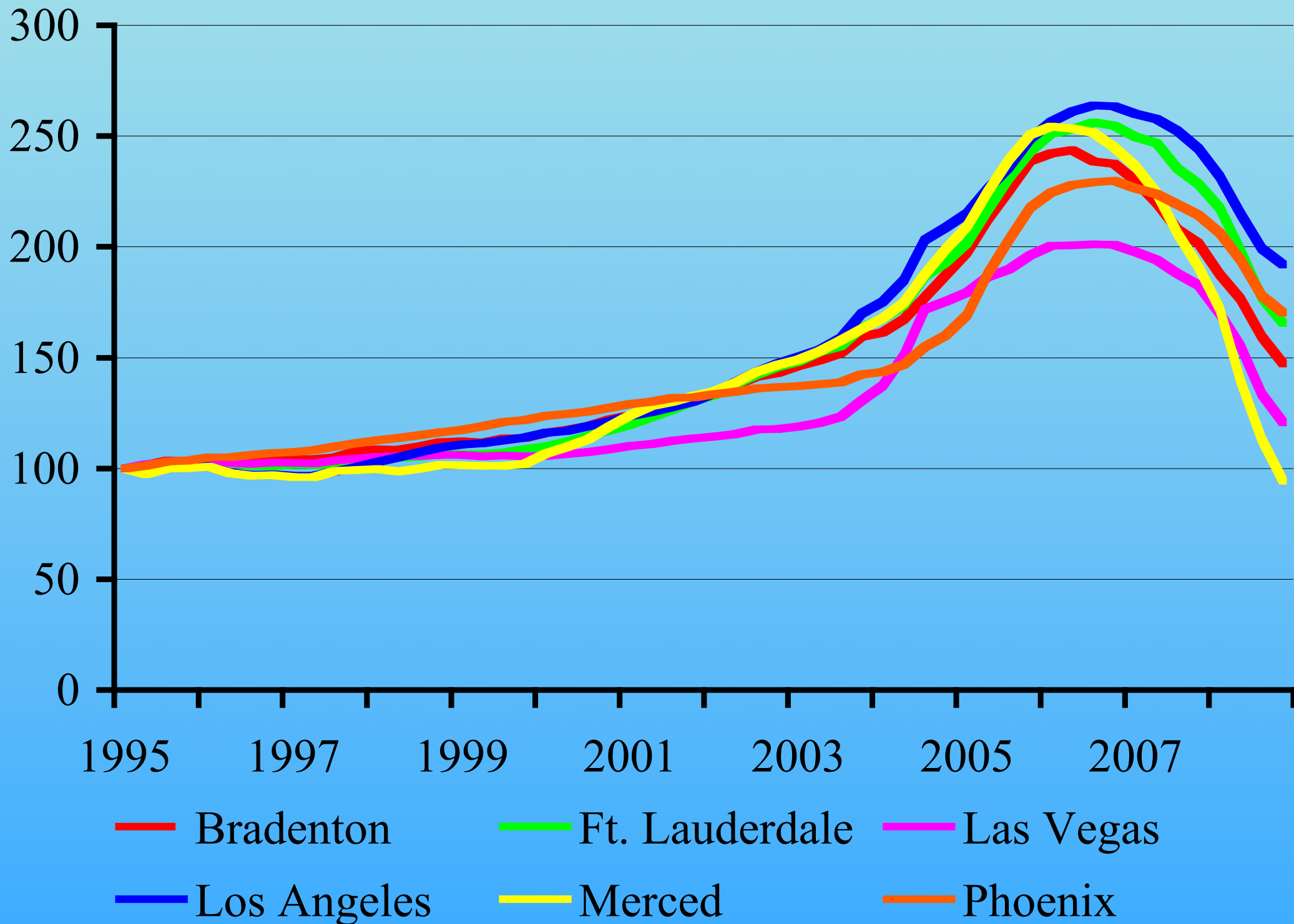
# Metro-Area Home Price Indices



But many housing markets did not experience housing bubbles. If low interest rates or subprime lenders caused the housing bubble, then we should have seen bubbles in rapidly growing cities like Atlanta, Dallas, and Houston, the three fastest-growing urban areas in North America.



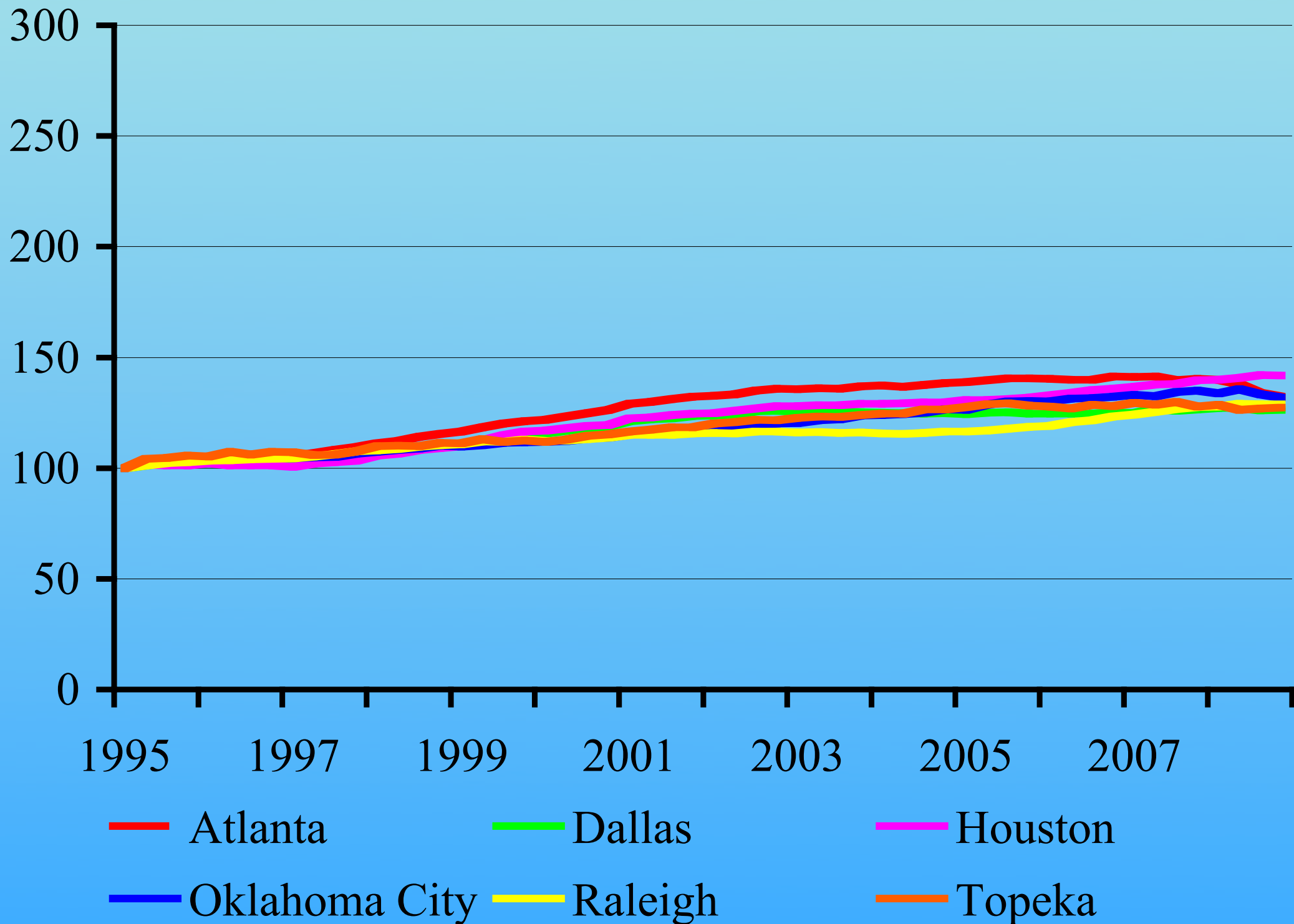
# Metro-Area Home Price Indices



Why did we see bubbles in California, Florida, and a few other states?



# Metro-Area Home Price Indices



But not in Georgia, North Carolina, and Texas?

# Growth-Management Planning: *Efforts to control the rate and/ or the location of future growth.*

The difference between states with bubbles and states without was urban planning, specifically a kind of planning called growth-management planning.





The first growth-management planner in history was Queen Elizabeth,





who drew an urban-growth boundary around London more than 500 years ago.





# *Town & Country Planning Act of 1947*

Eventually, London expanded outside of that boundary. But in 1947, the British Parliament passed a law that created greenbelts around cities and prevented development in and beyond those belts.



The result has been very high housing prices. For example, the black building in this photo is a single home in London.





It is 10 feet wide in front, but only 5 feet wide in back.



\$933,000 in  
London

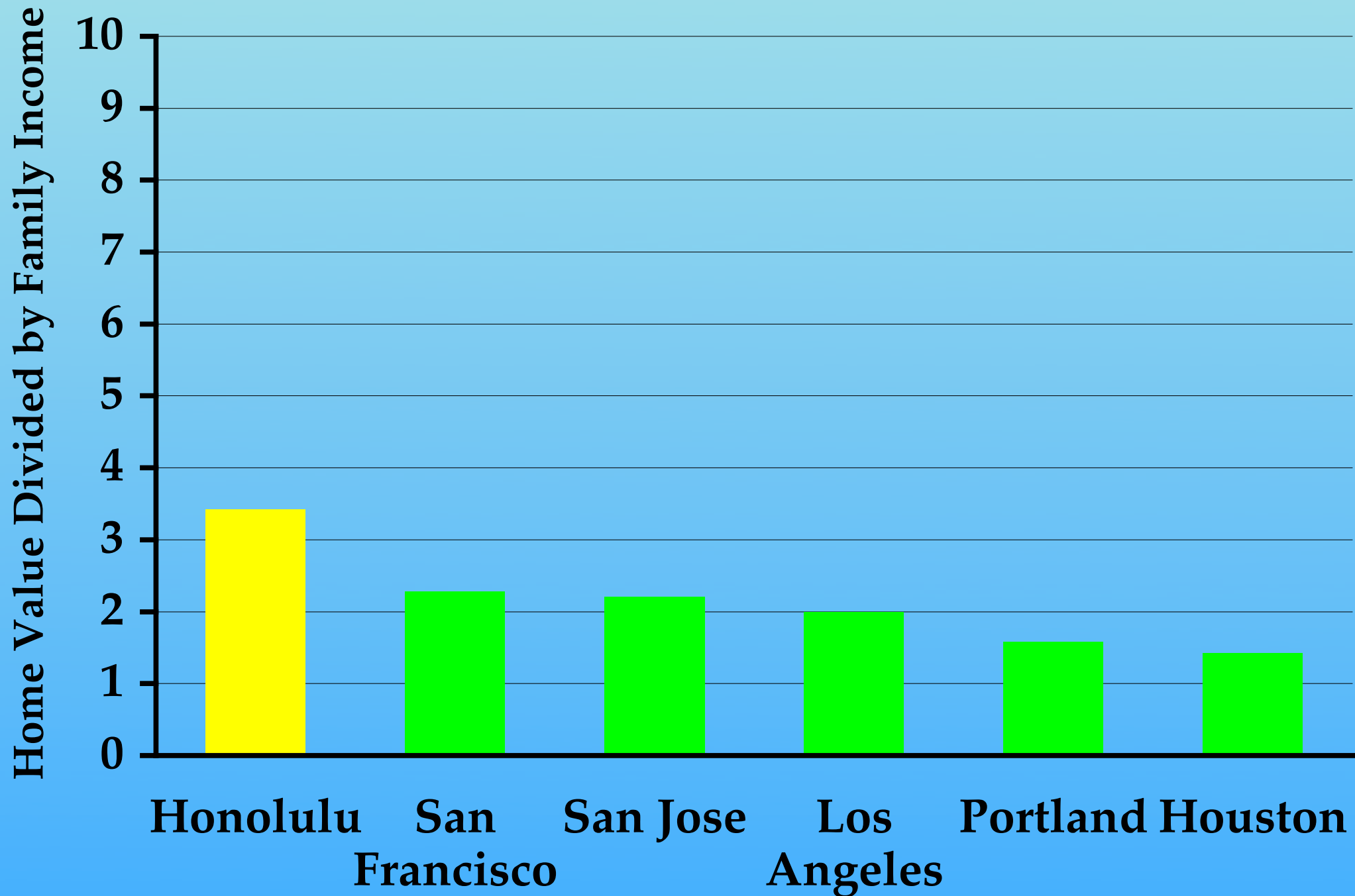
This house recently sold for nearly \$1 million.





The first American state to pass a growth-management law was Hawaii, which passed its law in 1961.

# 1969 Home Value to Income Ratios

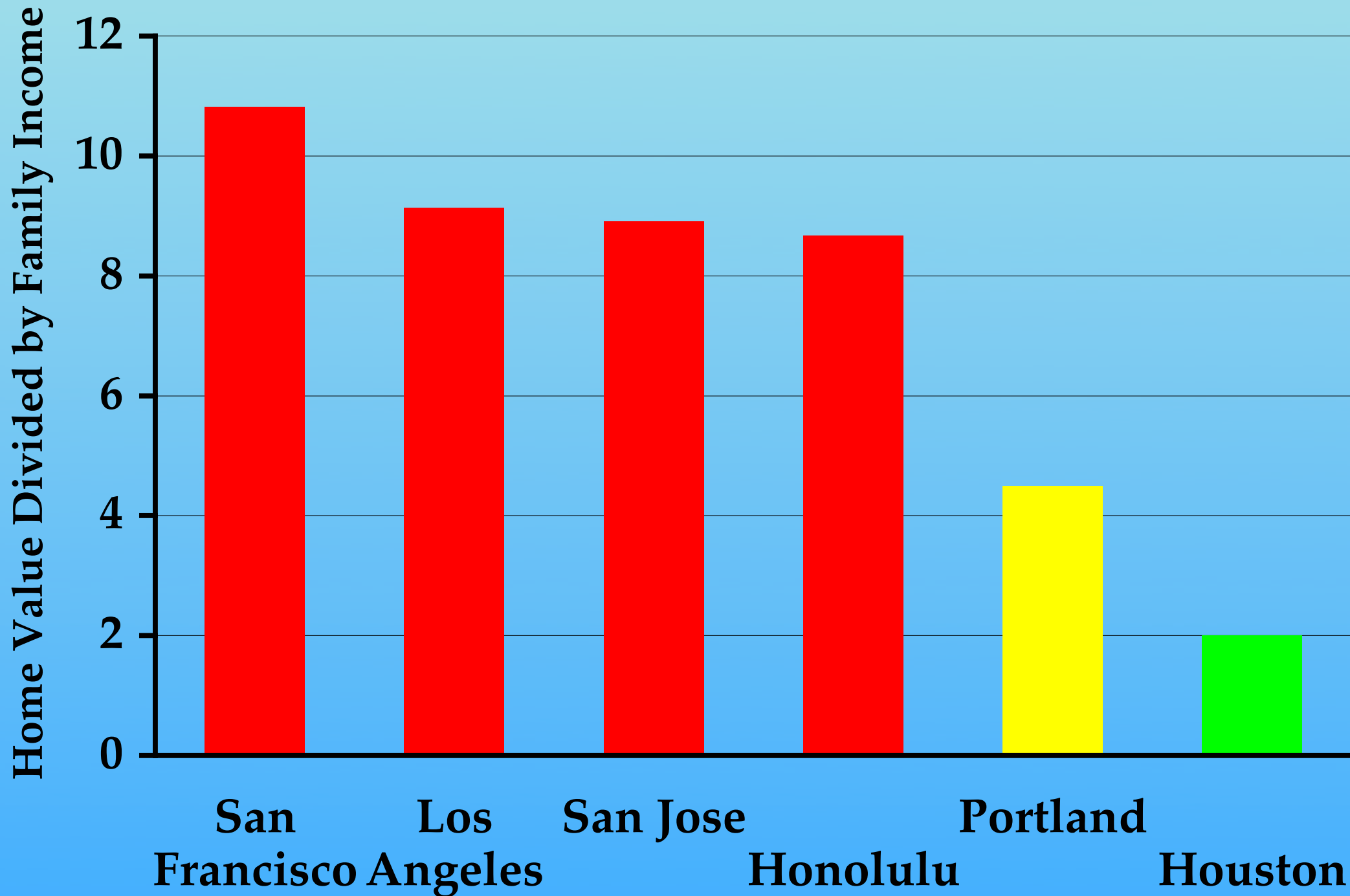


*Source: Census Bureau*

We often measure housing affordability by comparing the median home price to median family incomes. In an unregulated market, the price-to-income ratio is typically around 2, allowing families to buy homes and pay off their mortgages in well under 15 years. But by 1969, it was well over 3 in Hawaii.



# 2006 Home Value to Income Ratios



*Source: Census Bureau, HUD*

By 2006, Hawaii price to income ratios were more than 8, which meant that homeownership was unaffordable to all but the very wealthy. California homes were also unaffordable.



Many people think that California does not have a growth-management law, but actually it does.





In the 1950s and early 1960s, many cities such as San Jose were aggressively annexing land, and other cities complained that San Jose was taking land that they should have been able to annex.



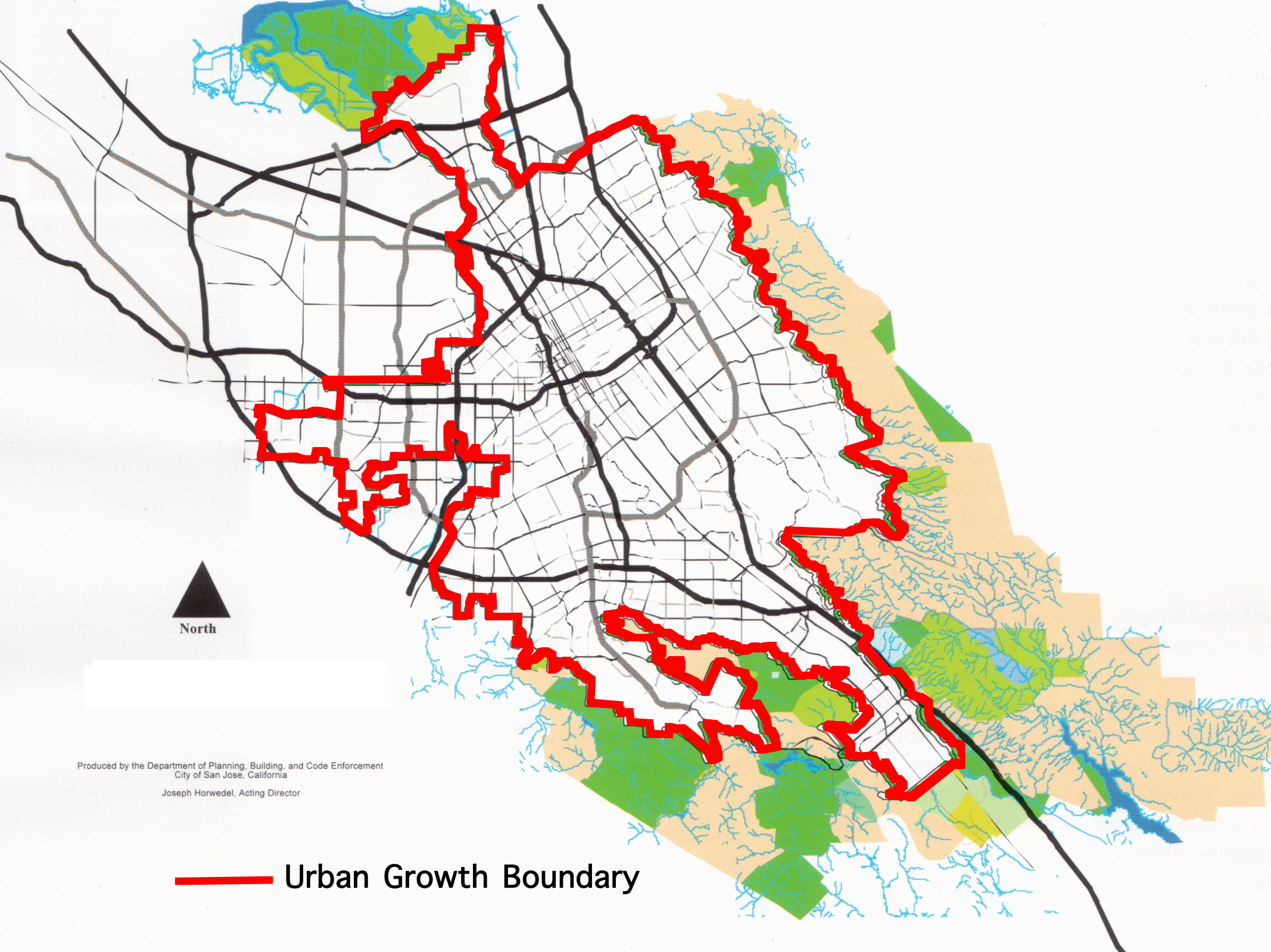
An aerial photograph of a city valley, likely Los Angeles, with mountains in the background. The text is overlaid on the image.

# **Local Area Formation Commissions**

- **Annexations**
- **Incorporation of cities**
- **Municipal utility districts**

To deal with such disputes, in 1963 the California legislature created Local Area Formation Commissions or LAFCOs for every county. These commissions could approve or veto all annexations, incorporation of cities, and creations of sewer, water, or other special service districts.





The LAFCOs consisted of two officials from every city in every county, and they quickly realized that they could simply deny all annexations and incorporations and thus force all new development to take place in existing cities. The land south and east of San Jose, for example, is all marginal pasture land, but has been off limits to development for nearly 40 years.



# *NIMBY Growth Management*



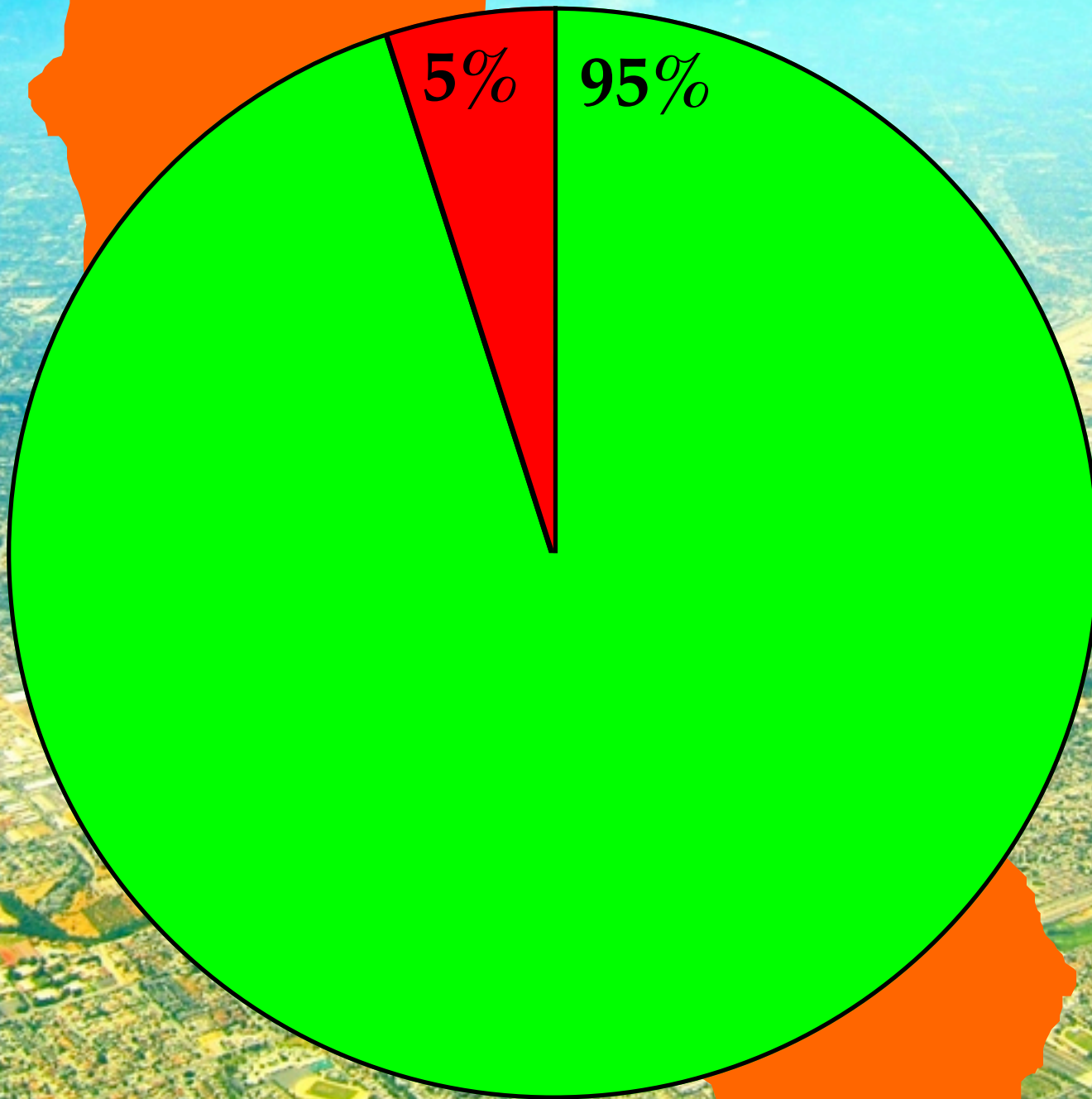
This could be called NIMBY growth management as many cities in California attempted to keep their densities low -- keeping new residents out -- because proposition 13 could penalize cities with large residential populations and rewarded cities with large retail sectors.





California is the nation's most populous state and its fourth-largest state by land area





yet nearly 95 percent of the people in the state are confined to just 5 percent of the state's land area -- no other state is so concentrated.





Urban-growth boundaries are not the only thing that keeps housing expensive. Since cities know that developers cannot develop outside the cities, they feel free to impose all sorts of onerous and time-consuming rules on development. For example, this area, known as Coyote Valley, is in the San Jose city limits.

**DRAFT  
ENVIRONMENTAL IMPACT REPORT**

**COYOTE VALLEY  
SPECIFIC PLAN**

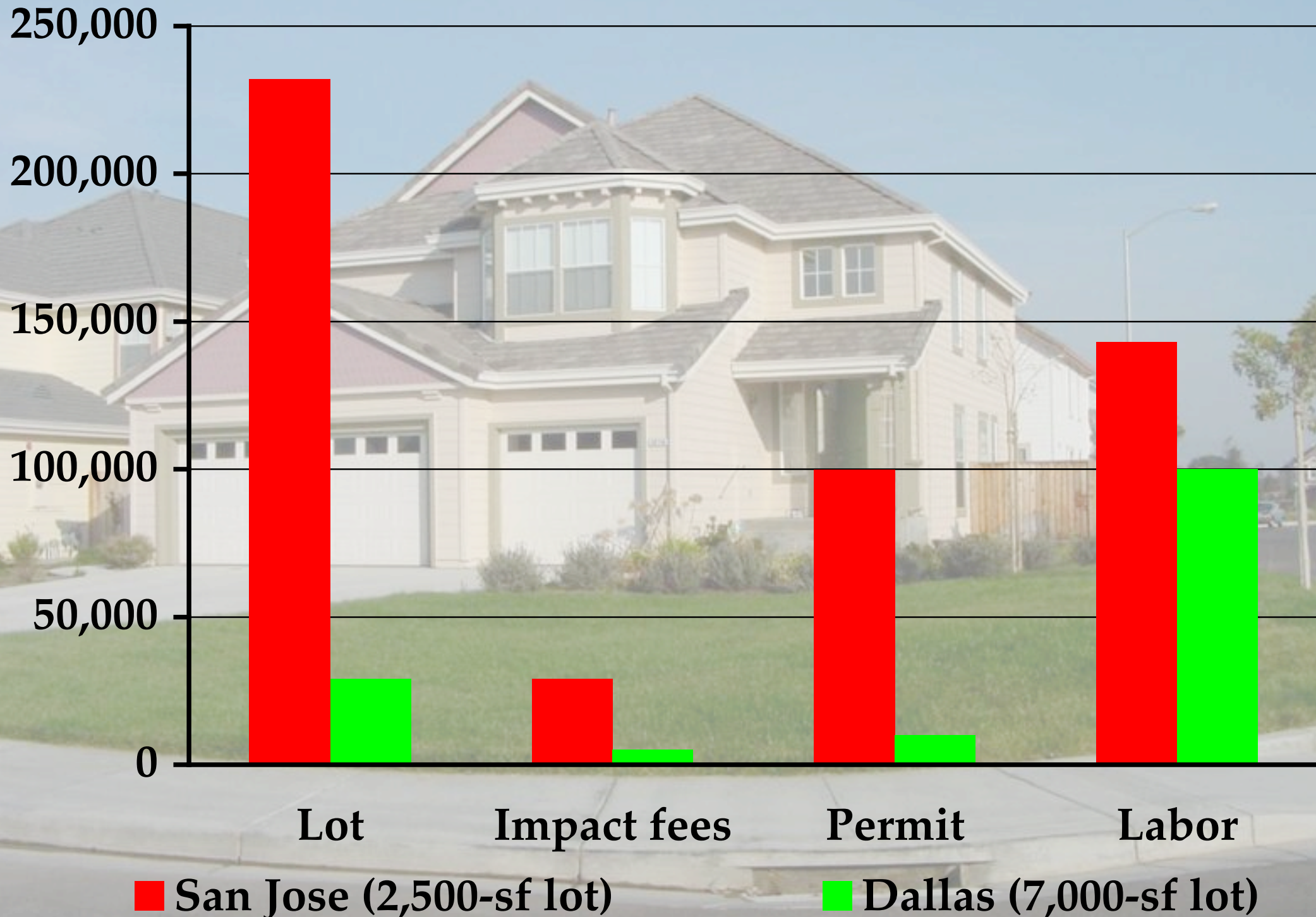


**Volume I of III  
EIR Text**

Developers spent close to \$15 million doing the environmental analyses required to develop Coyote Valley and eventually gave up.



# San Jose vs. Dallas Housing Costs



A 2002 comparison of homes prices in Dallas and San Jose found that land costs are responsible for nearly \$200,000 of the difference, but the cost of getting the permit -- including the risk that developers will never get a permit -- increases the costs by nearly \$100,000 more. San Jose also feels free to charge much higher impact fees, and because of the region's high housing costs, labor costs are also higher.



Joseph Perkins, a Bay Area radio personality, says that “smart growth is the new Jim Crow.” Studies show that the number of black families in the San Francisco Bay Area is actually declining for lack of affordable housing.



# Smart Growth:

*Efforts to make urban areas denser and more transit-, bicycle-, and pedestrian-friendly.*

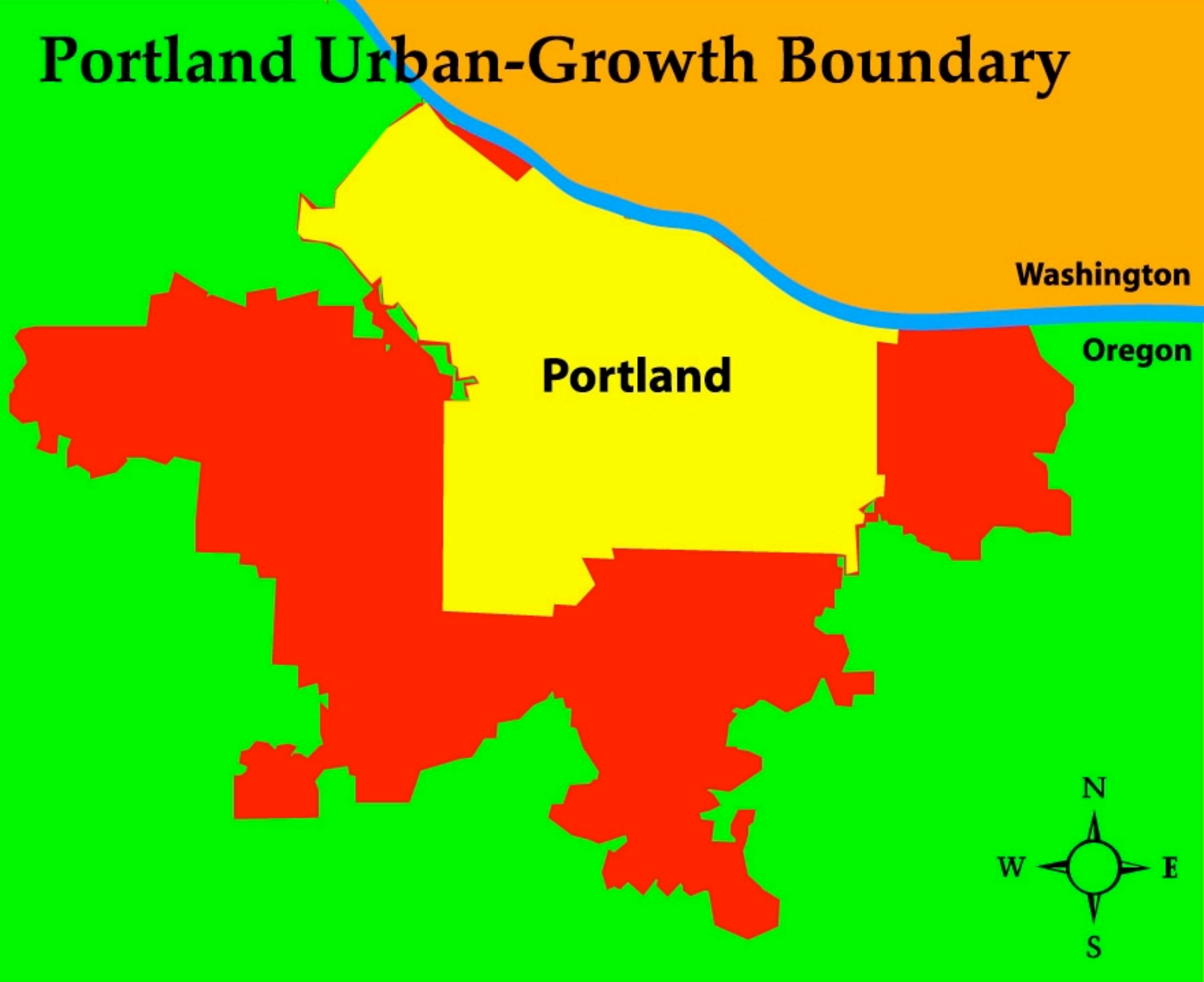
The most recent form of growth-management planning is called smart growth. Unlike NIMBY planning, smart growth calls for increasing urban densities.



Oregon is often considered the nation's leader in smart-growth planning. Every city in Oregon is required to have an urban-growth boundary.



# Portland Urban-Growth Boundary



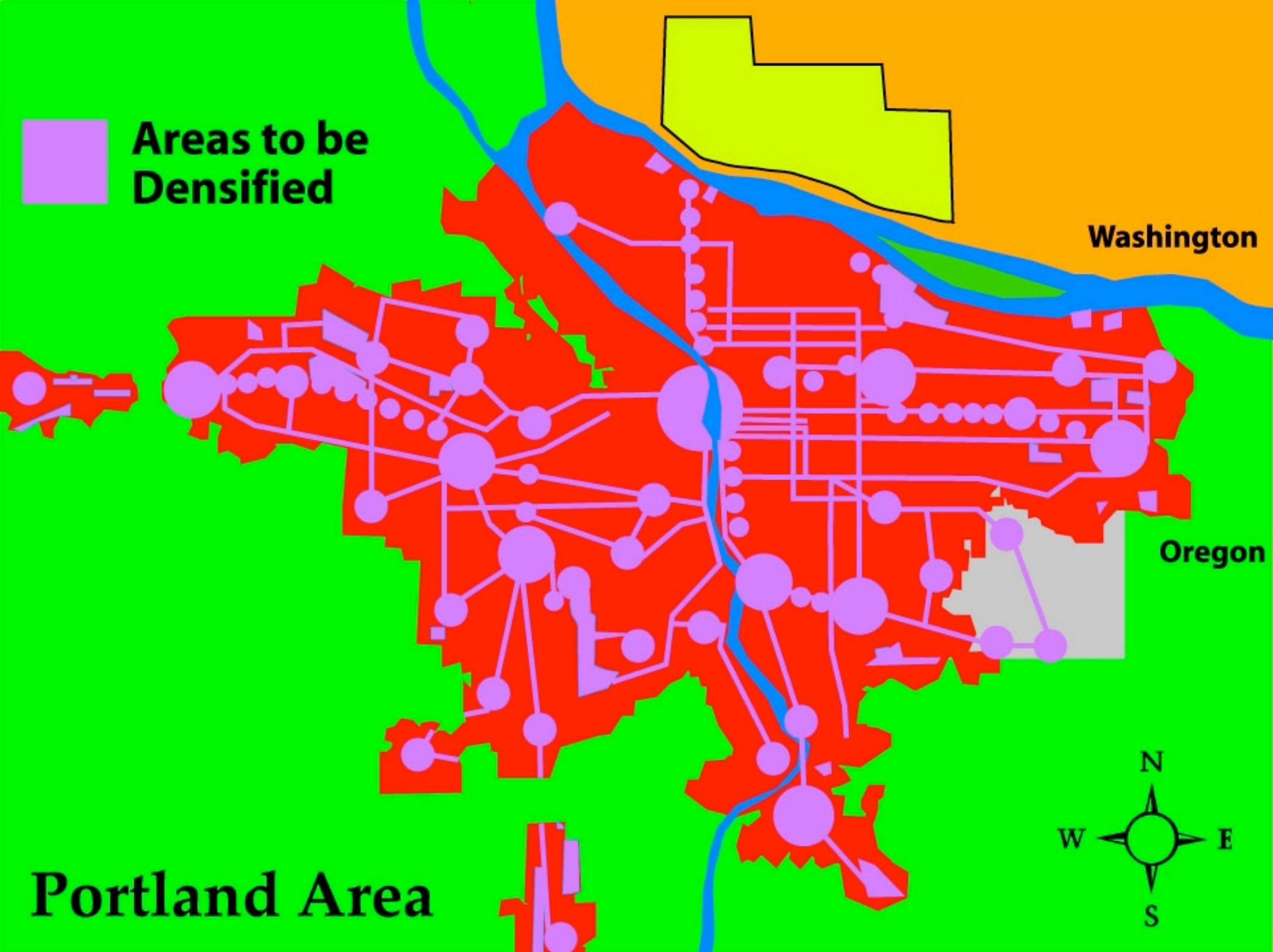
Portland's urban-growth boundary encompasses Portland and 23 incorporated suburbs.





Outside the boundary, 97 percent of Oregon is so strictly zoned that you can only build a house on your own land if you have at least 80 acres and you earn at least \$40,000 to \$80,000 (depending on soil productivity) a year farming it.





For the most part, planners have decided that Portland should grow up not out, that is, get denser, so they rezoned all of the purple areas on this map for high-density developments.



This neighborhood of single-family homes has been rezoned for apartments, so it is starting to see apartment grow up in people's back yards.



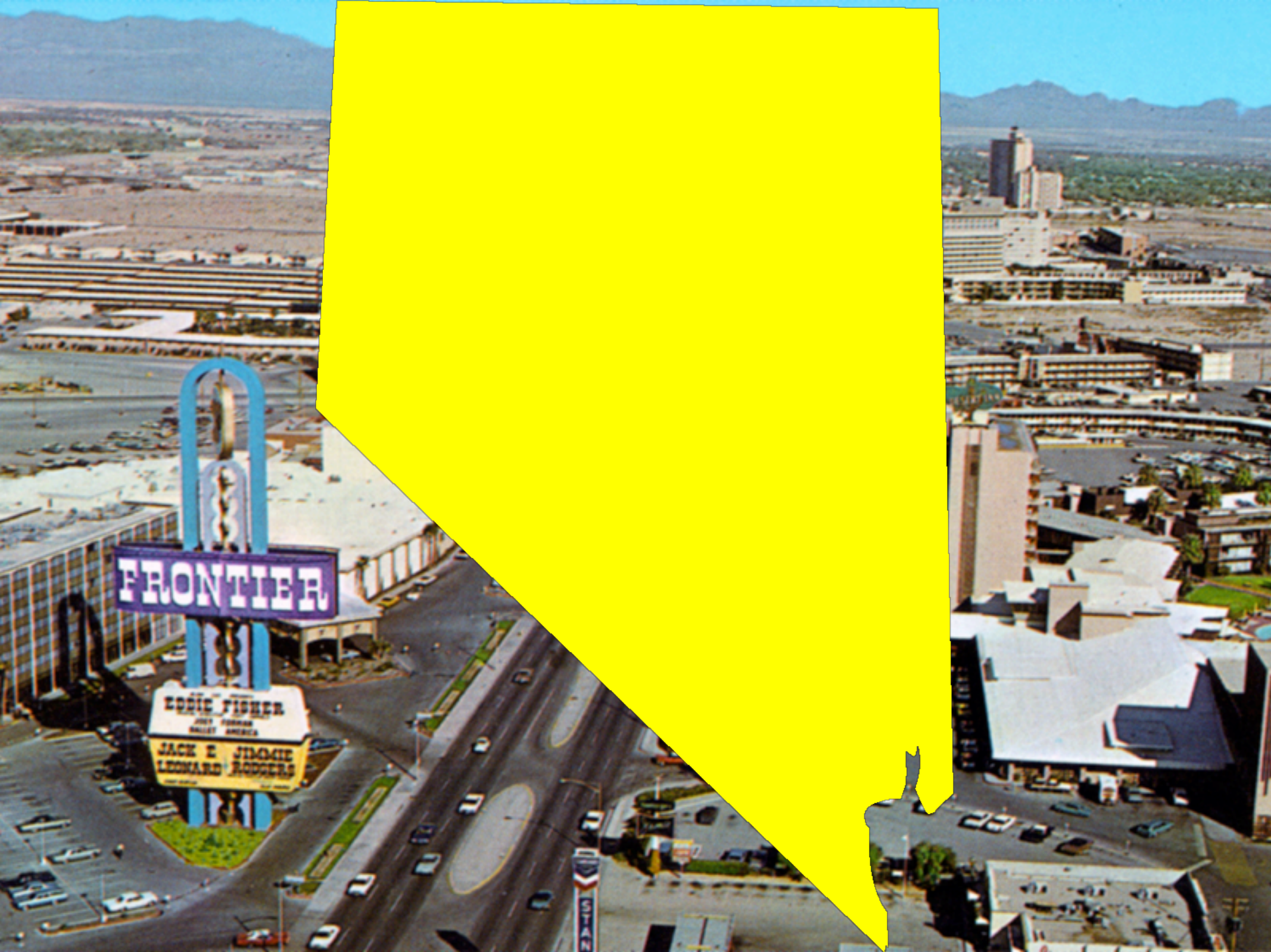


Meanwhile, Massachusetts gets its growth-management planning from another source.



Like many other New England states, Massachusetts has given up on county governments, which means cities have control of land uses in the entire state, and they prevent development outside their boundaries.





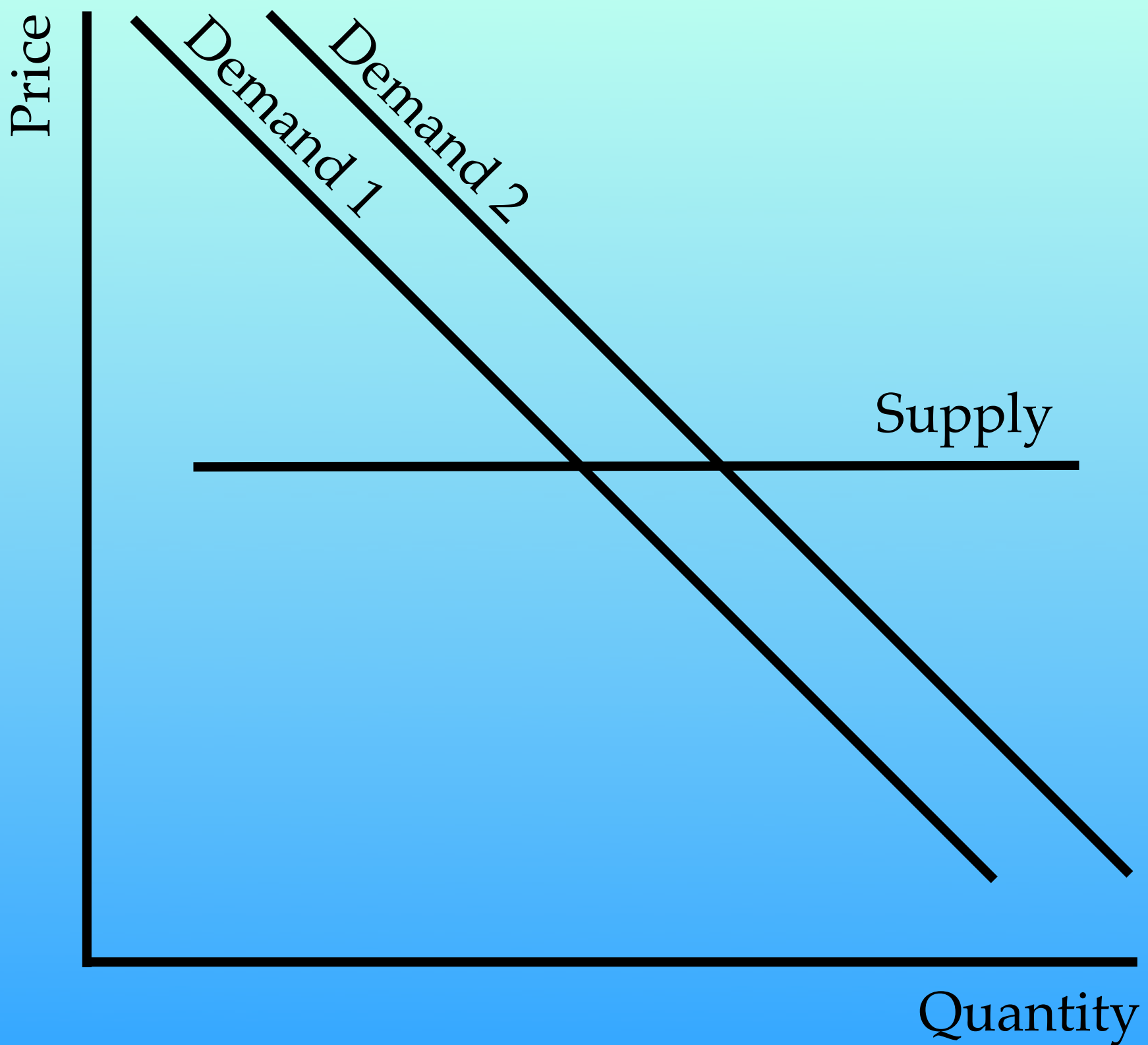
Nevada had very affordable housing until recently. Nearly 90 percent of the state is federal land, but the Bureau of Land Management has sold land to developers to accommodate growth in Las Vegas and Reno.





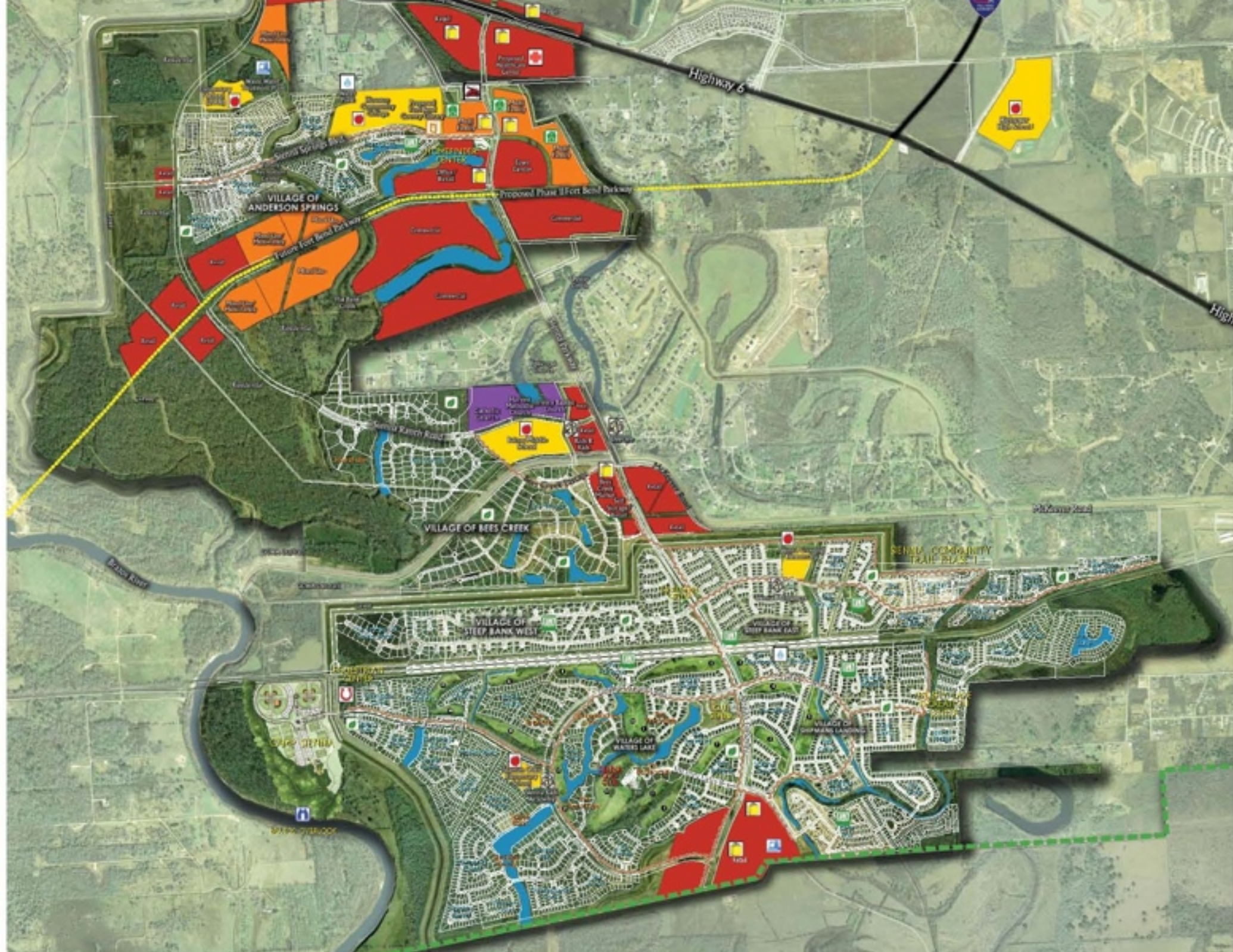
However, in 1998 Congress directed that most of the proceeds from land sales should be directed to buying more land and taking it out of development. This meant developers would have to buy several acres to net one. Housing prices almost immediately started rising.





In the absence of government regulation, housing supply is “elastic,” meaning an increase in demand leads to small or no increases in price because developers can meet the demand.





For example, in Texas counties are not allowed to zone, so developers can acquire land, subdivide it, and make it available for homebuilders to meet any demand.





Developers typically build all the infrastructure and create a “municipal utility district” that charges homebuyers an annual fee for 30 years to repay the costs.





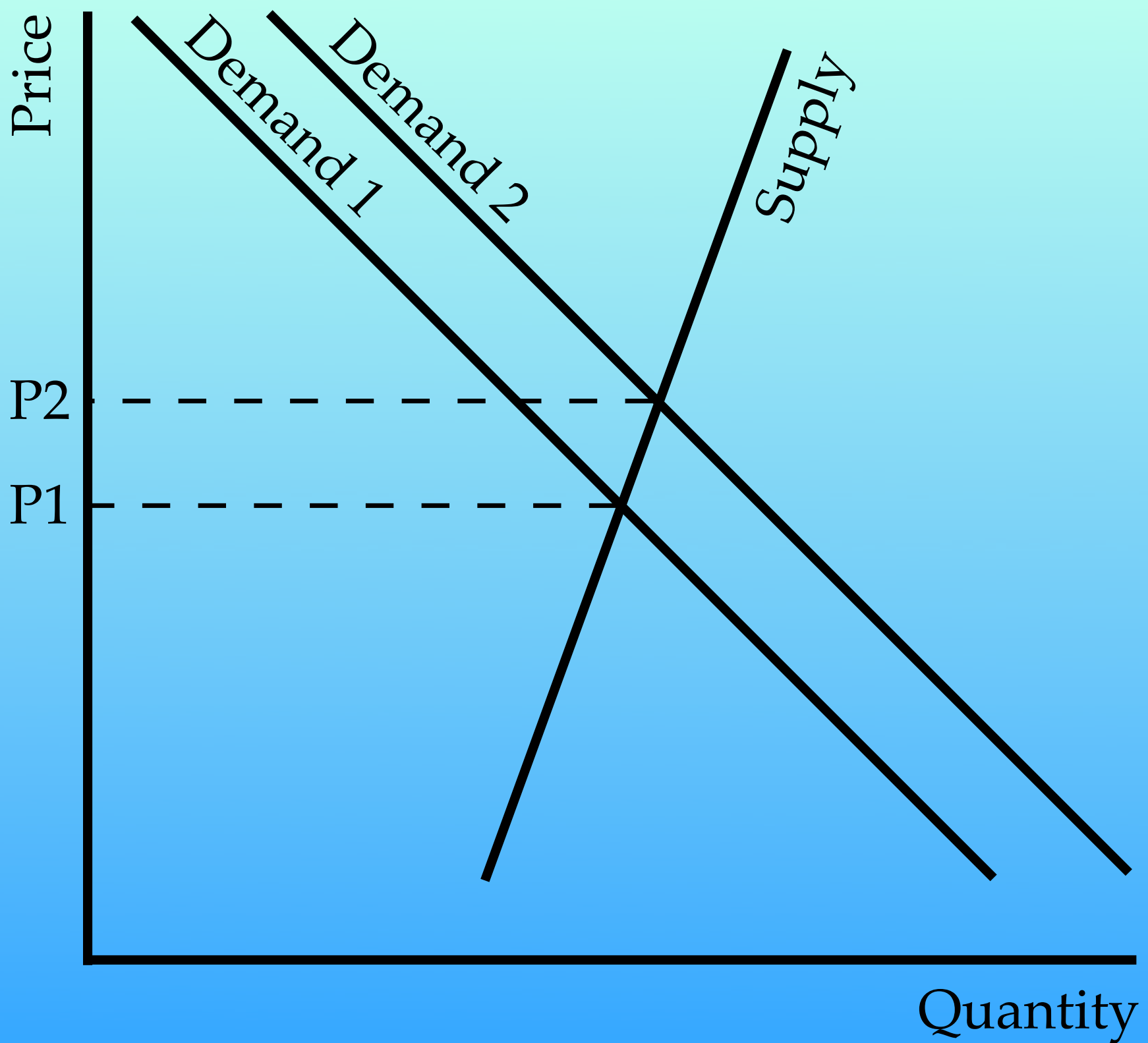
New homes tend to be very affordable, starting in the 110s in some developments. When demand for housing increases because, for example, interest rates decline, builders simply build more homes to meet the demand. Dallas-Ft. Worth and Houston are growing faster than 125,000 people per year and yet did not experience significant price increases in the 2000s.





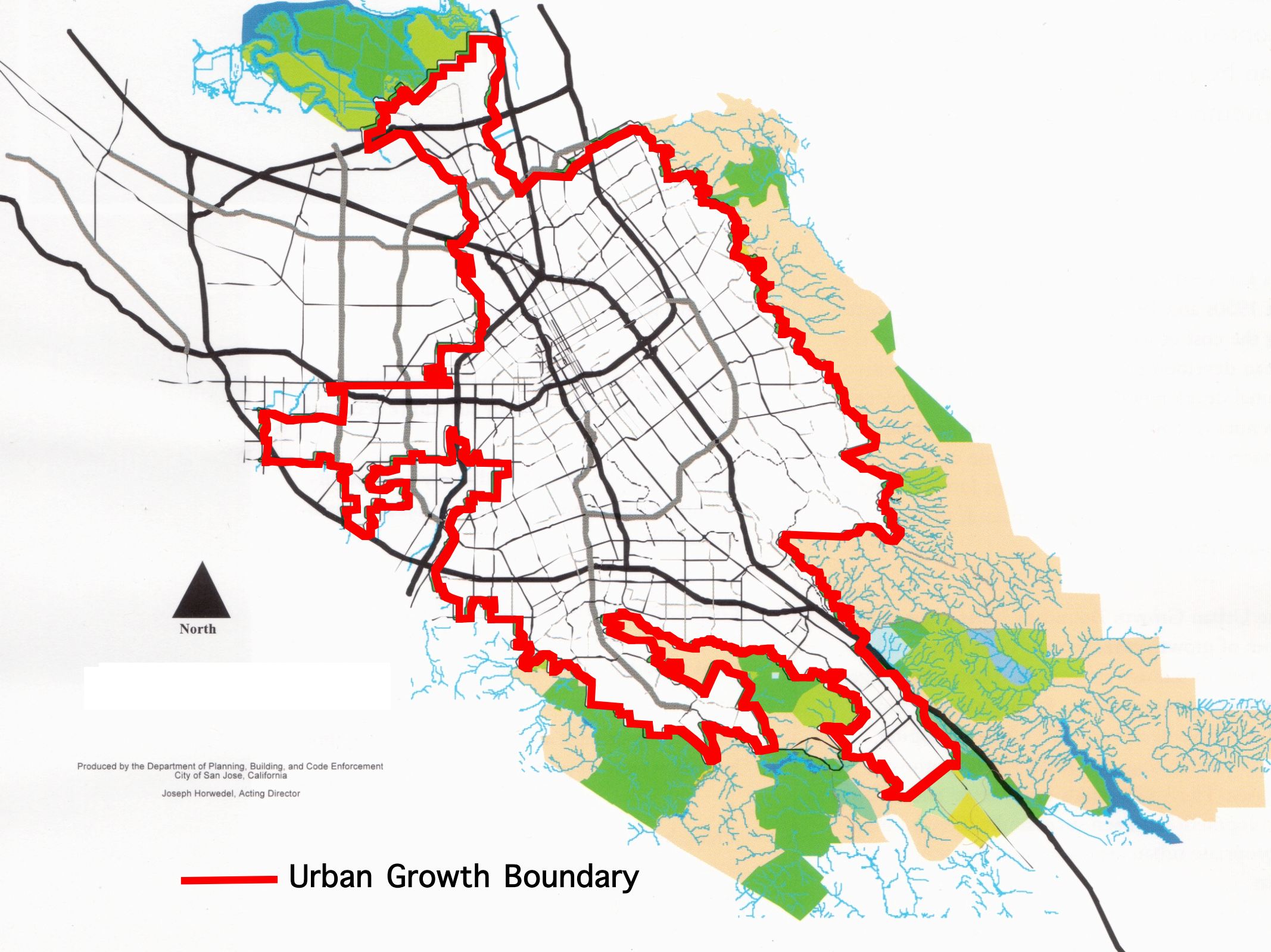
To further insure that existing residents don't have to subsidize growth, many new roads in the region are toll roads. This four-lane highway was built for \$2.5 million a lane mile. By comparison, most light-rail lines cost \$50 million a mile or more and carry far fewer people.





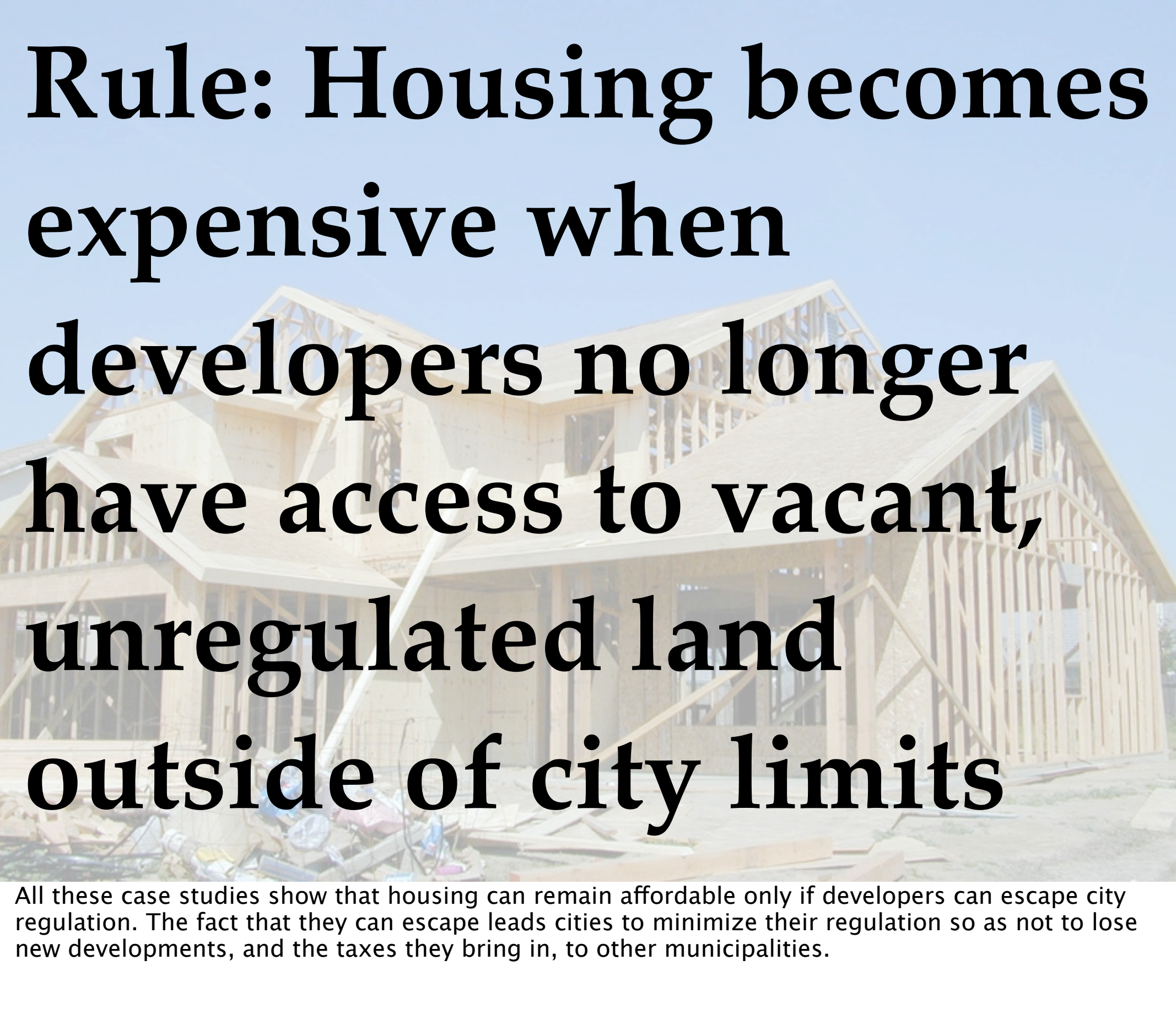
When government regulates housing, the supply becomes “inelastic,” which means that a small increase in demand can lead to a large increase in price.





That's what happens in places like California, where it can take years for developers to get permits to build. By the time they get the permits, demand may be cooling off so they end up with a big surplus of housing and prices crash.



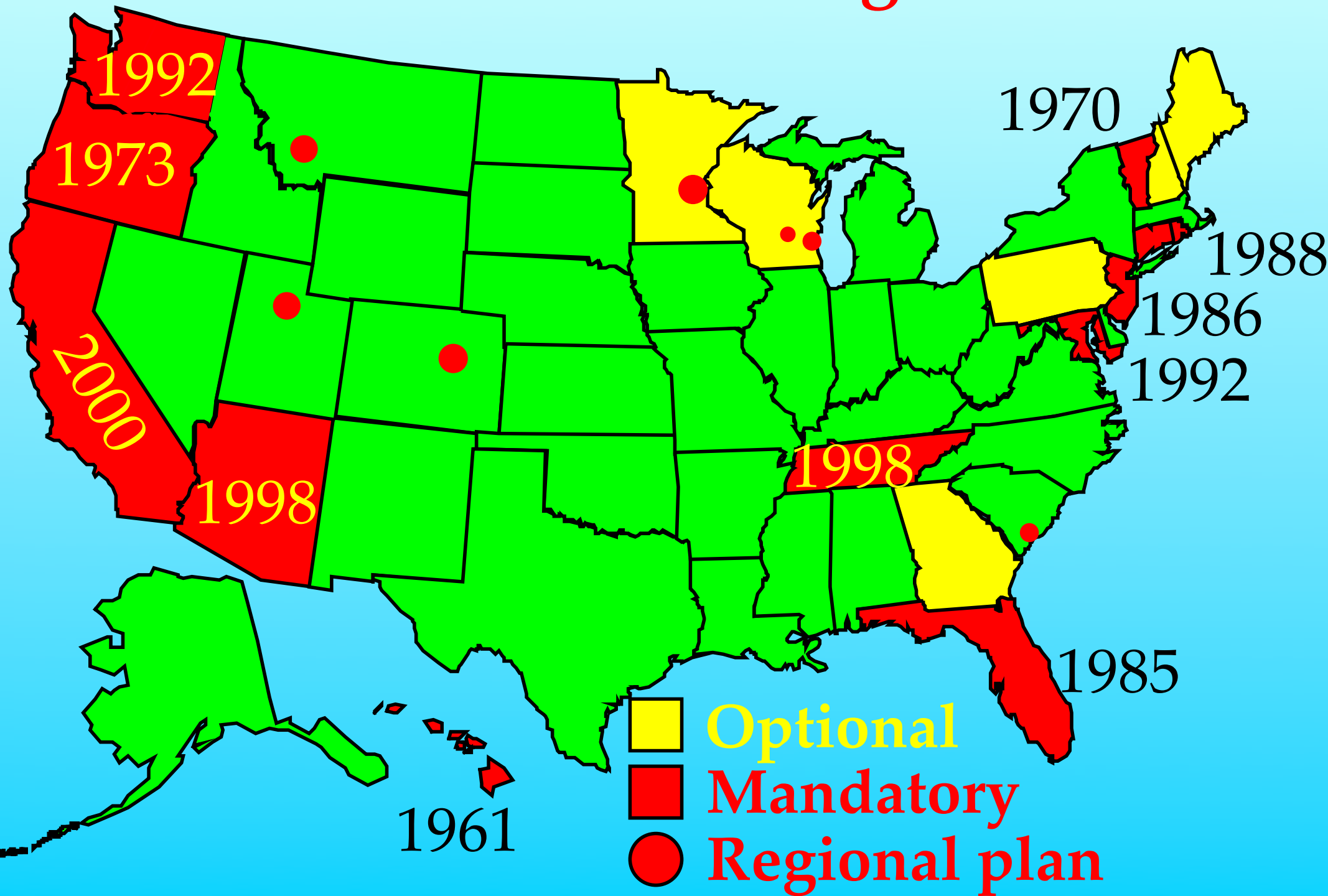


**Rule: Housing becomes  
expensive when  
developers no longer  
have access to vacant,  
unregulated land  
outside of city limits**

All these case studies show that housing can remain affordable only if developers can escape city regulation. The fact that they can escape leads cities to minimize their regulation so as not to lose new developments, and the taxes they bring in, to other municipalities.

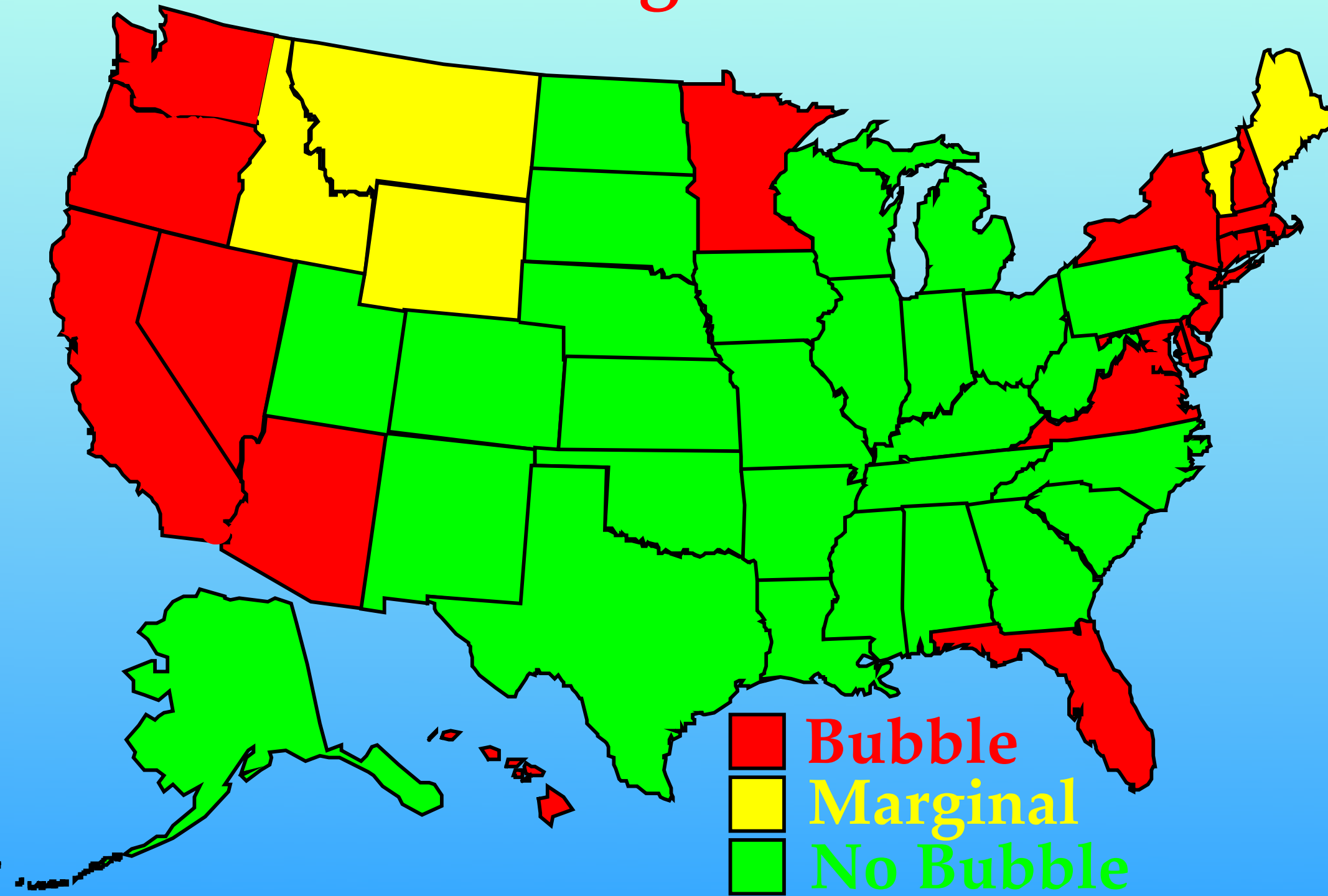


# States with Growth-Management Laws



A comparison of states with growth-managements laws shows a strong correlation with

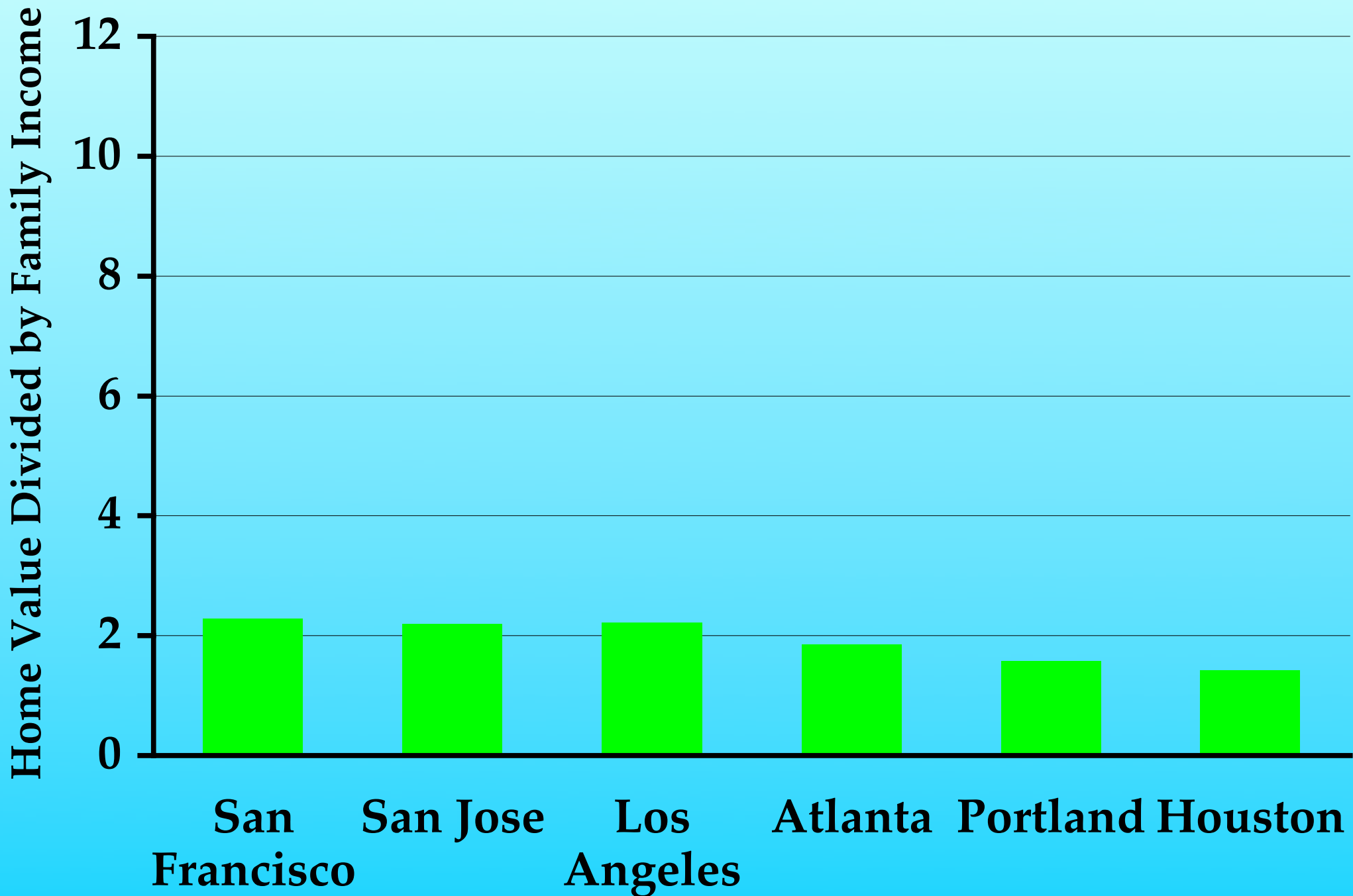
# Housing Bubbles



states that had housing bubbles. The main exception is Tennessee, because its cities drew urban-growth boundaries large enough to accommodate demand in the recent boom. However, Tennessee may experience a bubble in the next economic recovery.



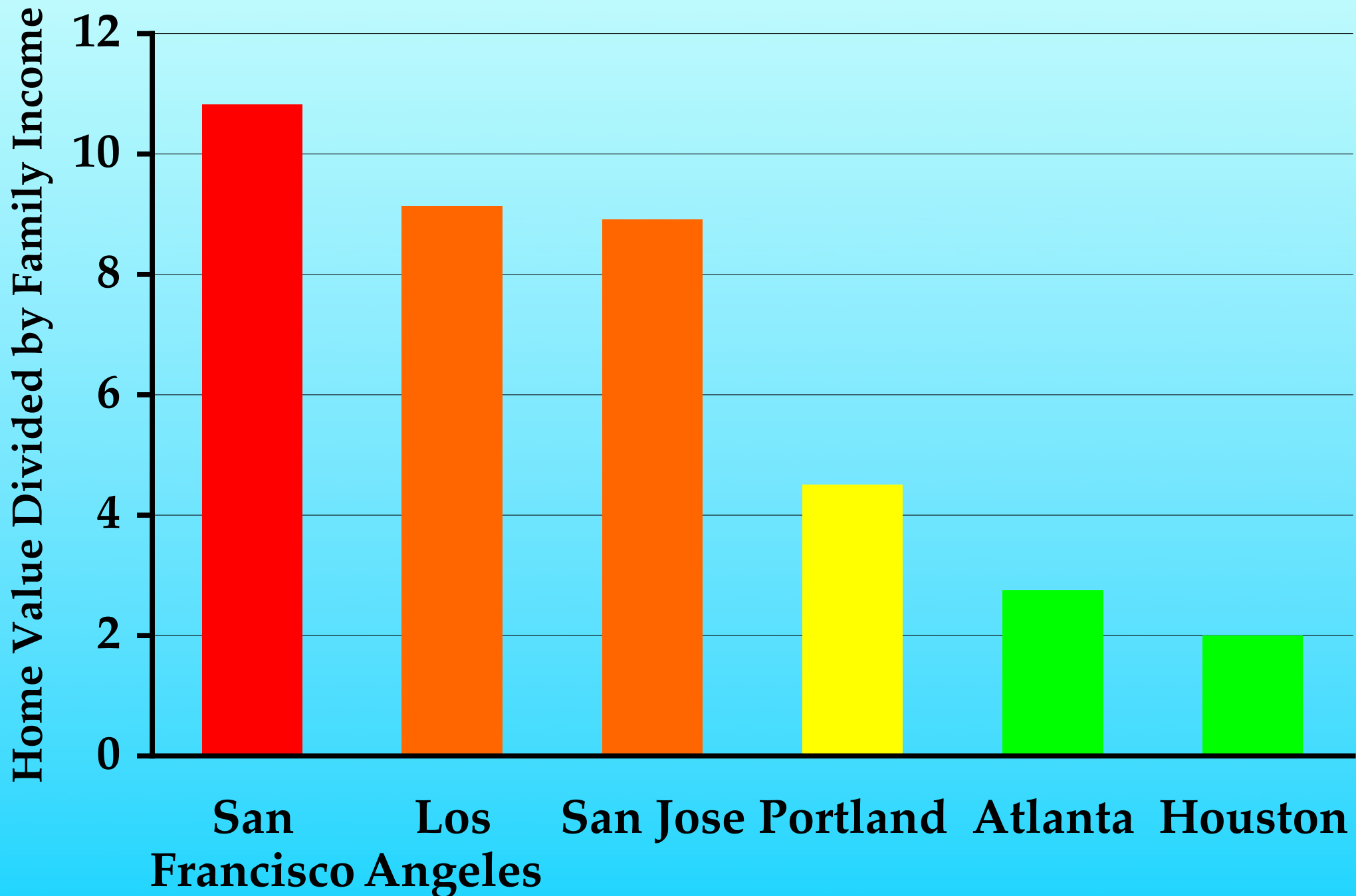
# 1969 Home Value to Income Ratios



*Source: Census Bureau*

One way to measure housing affordability is to compare median home prices with median family incomes. In the absence of government regulation, prices are roughly twice incomes, which means a family can easily pay off a mortgage in less than 15 years.

# 2006 Home Value to Income Ratios

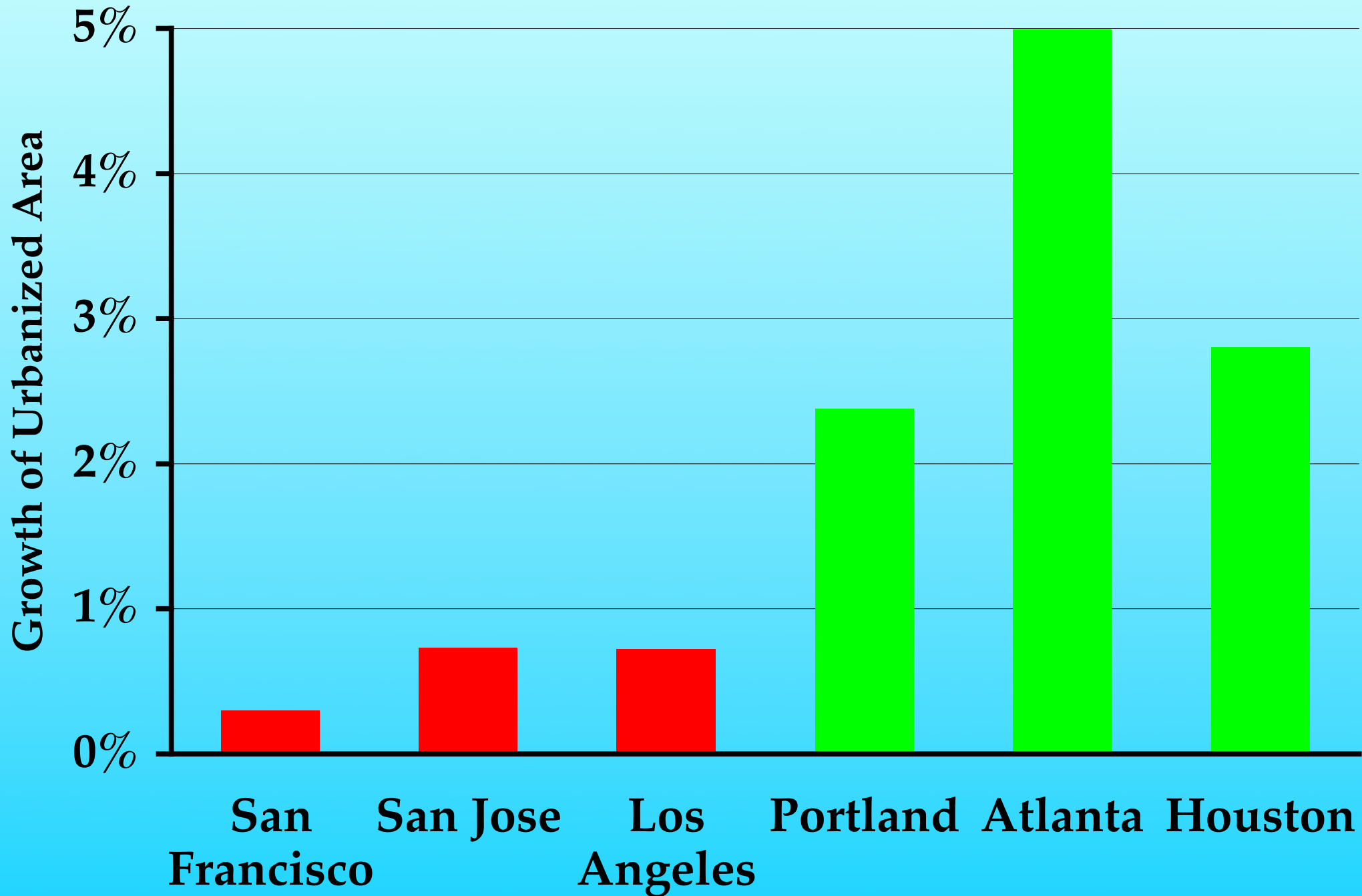


*Source: Census Bureau, HUD*

When government starts to regulate housing, prices can reach 4 to 10 times incomes, which makes it very difficult to impossible for families to afford homes.



# Annual Population Growth 1990-2006



*Source: Census Bureau*

Perhaps not surprisingly, regions with the most affordable housing have grown the fastest in recent years.



# HIER

Harvard Institute of Economic Research

Discussion Paper Number 1948

## *The Impact of Zoning on Housing Affordability*

*by*

Edward L. Glaeser and Joseph Gyourko

March 2002

Harvard University  
Cambridge, Massachusetts

“Government  
regulation is  
responsible for  
high housing  
costs where  
they exist.”

*Edward Glaeser & Joseph Gyourko*

I'm not the only economist who thinks this. Edward Glaeser, widely considered the nation's leading urban economist, agrees that land-use regulation is the cause of housing unaffordability.



## **The Economic Impact of Restricting Housing Supply**

*By Edward L. Glaeser, Rappaport Institute for Greater Boston, Harvard University*

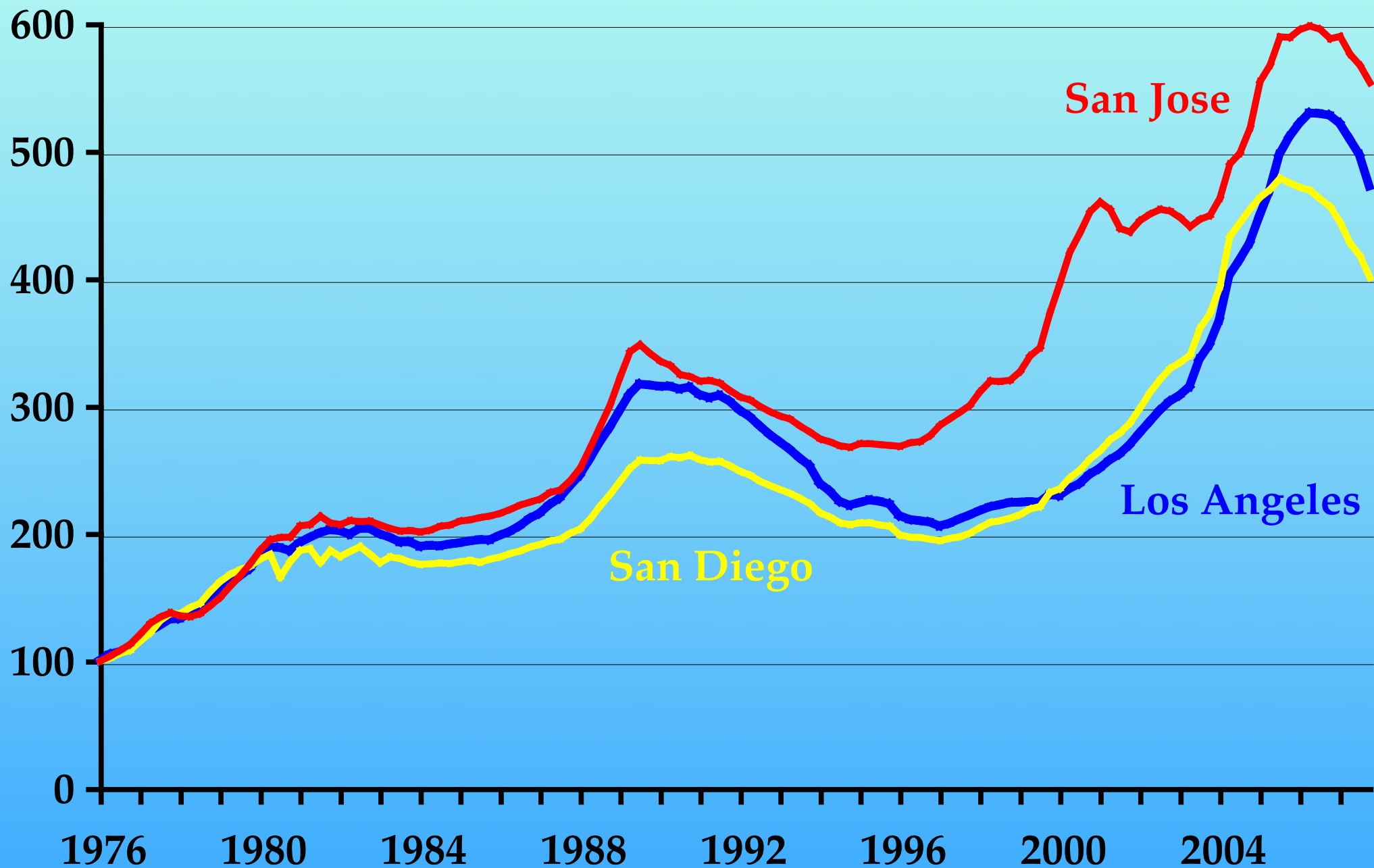
**“Restricting housing supply  
leads to greater volatility in  
housing prices.”**

**—Edward Glaeser**

He also notes that regulation not only pushes housing prices higher, it makes them more volatile, meaning more likely to have bubbles and crashes.

# Home Price Indices

*(2nd Quarter 1976 = 100, adjusted for inflation)*

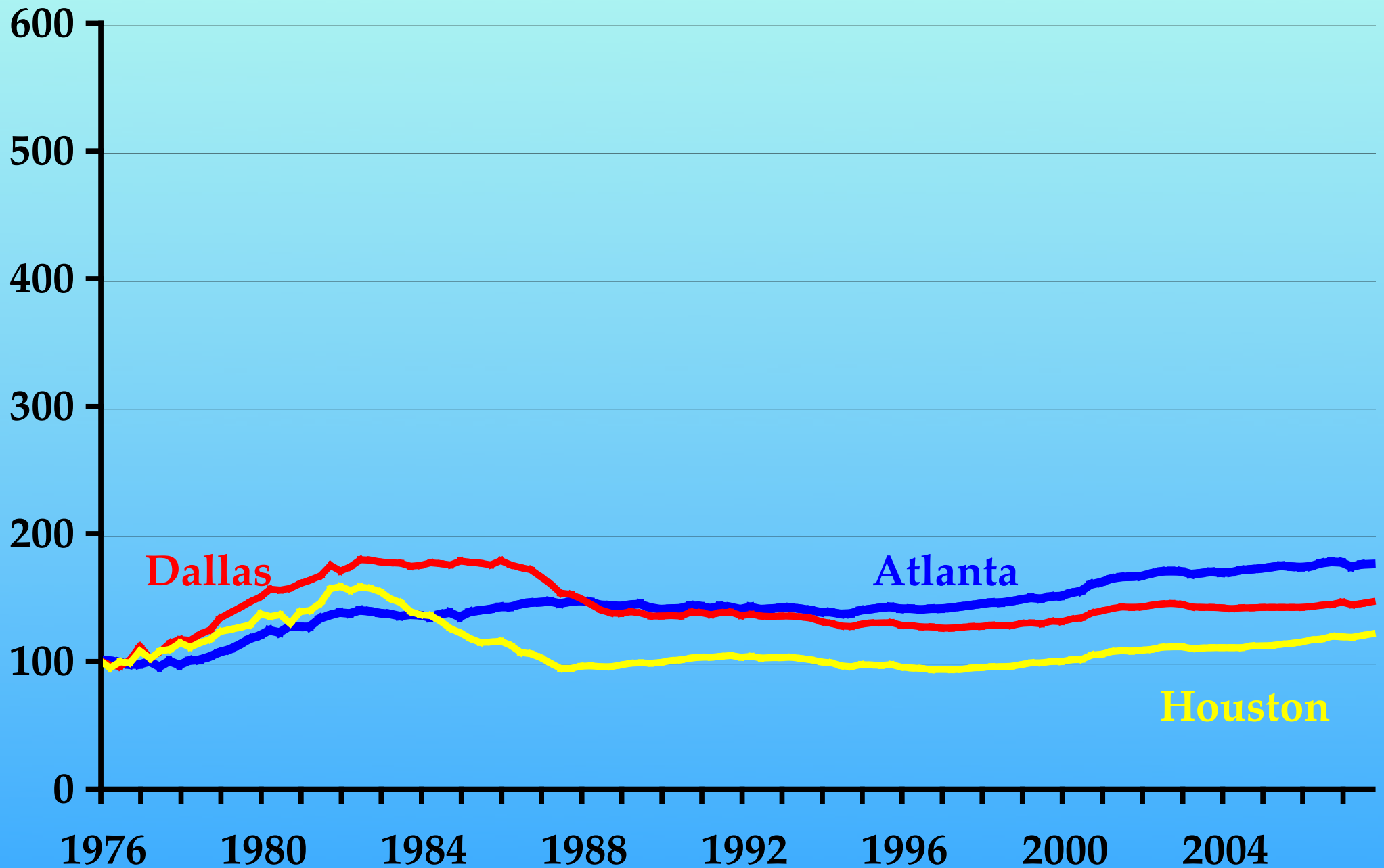


*Source: Office of Federal Housing Enterprise Oversight*



# Home Price Indices

*(2nd Quarter 1976 = 100, adjusted for inflation)*



*Source: Office of Federal Housing Enterprise Oversight*

# The Economic Impact of Restricting Housing Supply

*By Edward L. Glaeser, Rappaport Institute for Greater Boston, Harvard University*

- Higher unemployment rates
- Ensures that only affluent people can afford to live in a region
- “Boutique cities catering only to an elite”



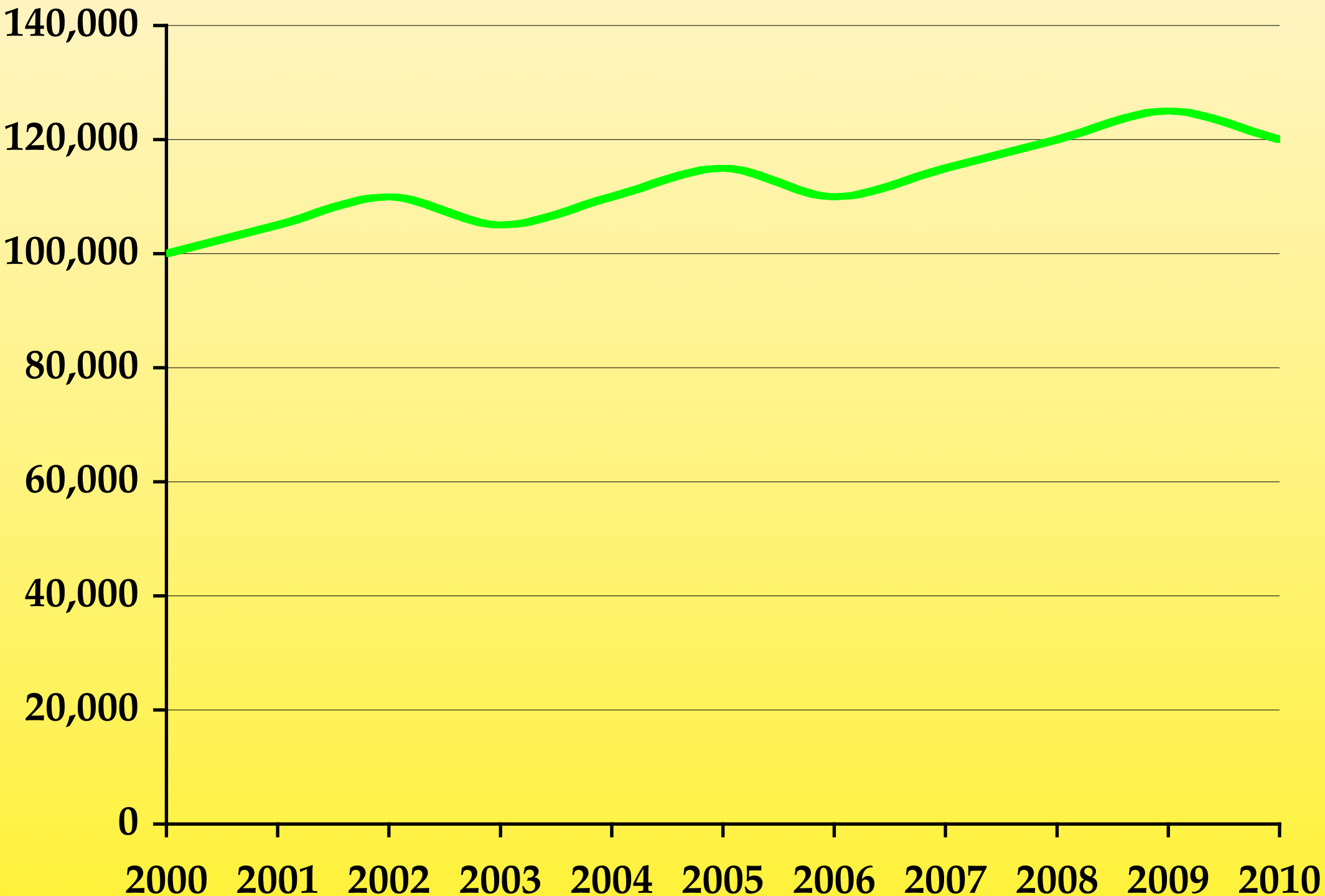
# 2006 Family Income Distribution



*Source: Census Bureau*

High housing prices can also push low- and even middle-income families out. Regions that use growth-management planning often say they are trying to attract the wealthy so-called “creative class.” But the numbers show that really what they do is force less affluent people to leave.

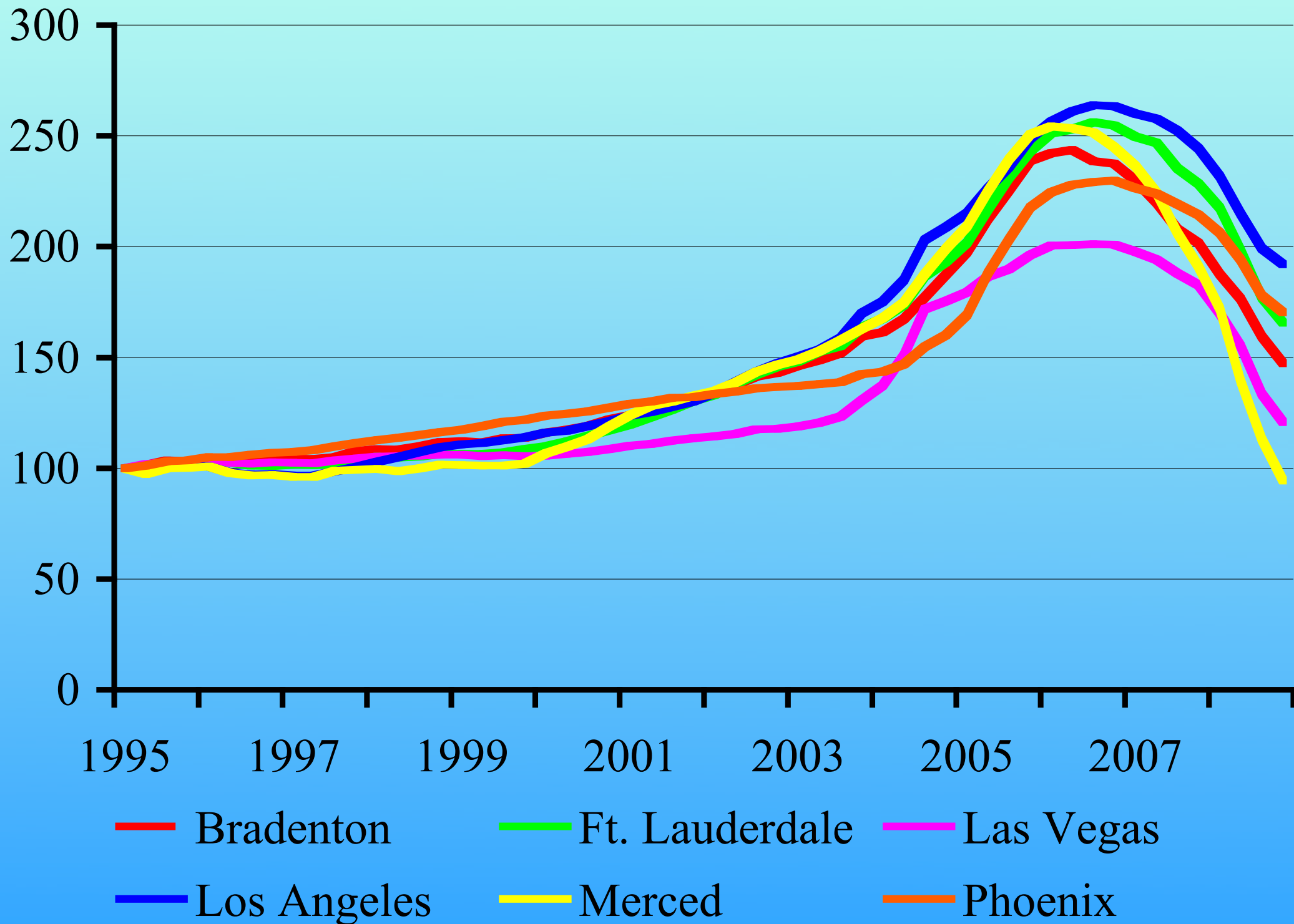
# Home Prices



In an unregulated housing market, prices will fluctuate in response to changes in local incomes. For this reason, lenders normally require homebuyers to put 10 or 20 percent down so that, if prices drop, they will still have equity in their homes.

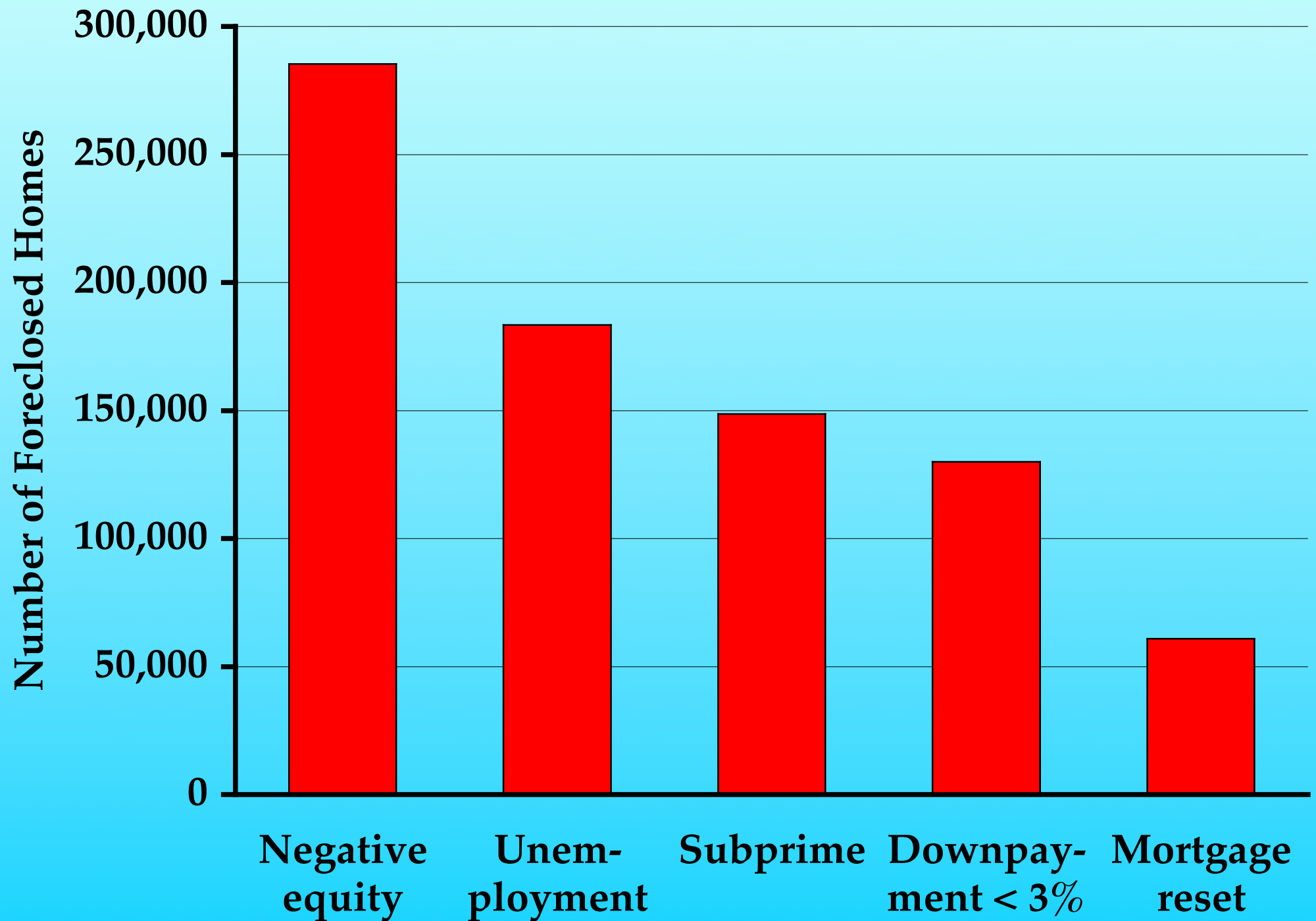


# Metro-Area Home Price Indices



When growth-management led housing to become less affordable, Congress pressured Fannie Mae and Freddie Mac to relax the down-payment requirement. But this was exactly the wrong thing to do when land-use policies led housing prices to be far more volatile.

# Factors Affecting Foreclosures in 2008



*Source: Stan Liebowitz, Univ. of Texas*

The data show that the most significant cause of foreclosures was homebuyers whose homes were worth less than their mortgages due to the fall in housing prices. In a very real sense, urban planners are responsible for the housing bubbles that led to the current recession.



An orange silhouette of the state of California is positioned on the left side of the image, partially overlapping the text.

S.B. 375 mandates  
further  
densification to  
reduce  
greenhouse  
gas  
emissions

Unfortunately, rather than relax its land-use regulation, California is making it even stricter in the name of reducing greenhouse gas emissions. Yet studies show that making communities denser has a minimal effect on emissions.

To prevent an even worse bubble in the next economic cycle, we must repeal growth-management laws and plans.

But the Obama administration wants to mandate such plans in all major metropolitan areas.

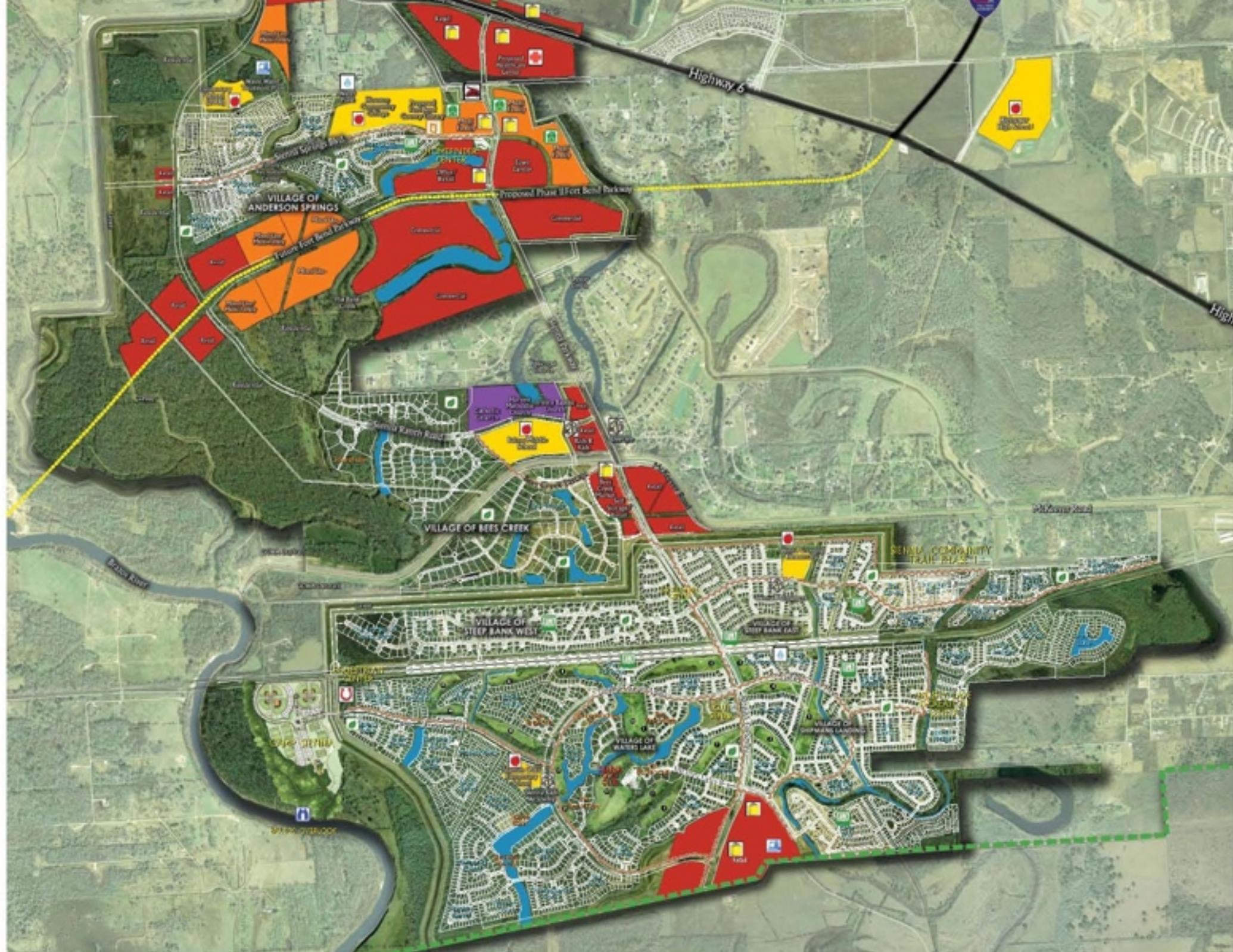
To make matters worse, the secretaries of Transportation and Housing & Urban Development want to require that all metropolitan areas write smart-growth plans. This means the next housing bubble will be even worse.





What should places like Anchorage do? Rather than imposing stricter zoning, they should allow neighborhoods to opt out of zoning, effectively taking control of their own futures using homeowner agreements and protective covenants.





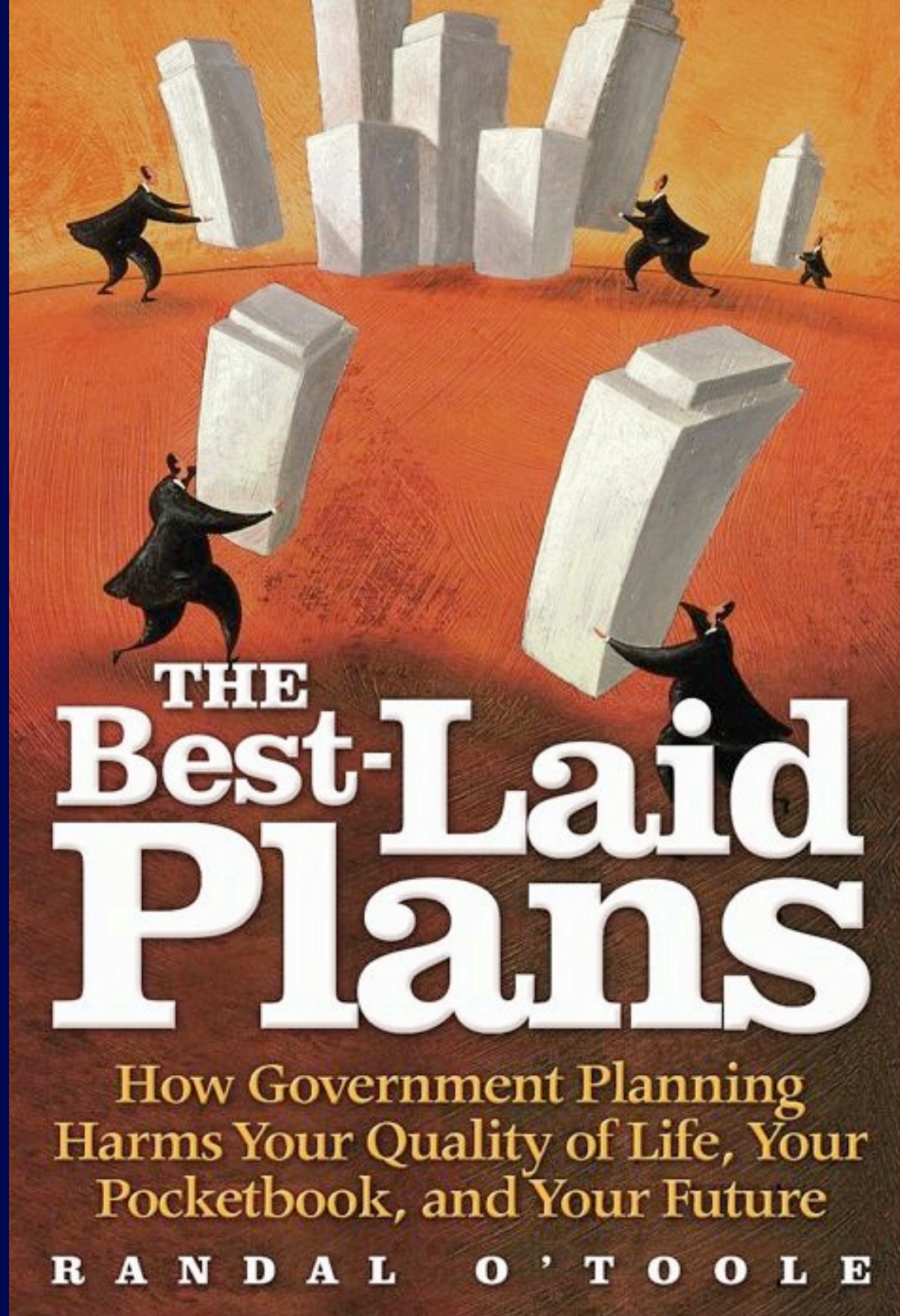
This is how neighborhoods in Houston and surrounding counties preserve their integrity. Houston has no zoning, and homeowners in neighborhoods with no protective covenants. If a majority agree, they can write their own covenants.



# End Government Planning

- Repeal state planning laws
- Minimize city planning
- Forbid county zoning
- Replace planning with:
  - User fees & special districts
  - Deed restrictions, not zoning
  - Mission-specific agencies

Rather than use planning, which often leads to efforts to impose lifestyle preferences on others, cities and counties should rely on minimal regulation and allow their regions to grow in response to market demands.



For more information, see my book on the perils of government planning.



# Policy Analysis

No. 606

December 6, 2007

Routing

## *The Planning Tax The Case against Regional Growth-Management Planning*

by Randal O'Toole

### Executive Summary

Regional growth-management planning makes housing unaffordable and contributes to a business-unfriendly environment that slows economic growth. The high housing prices caused by growth-management planning were an essential element of the housing bubble that has recently shaken our economy: for the most part, this bubble was limited to urban regions with growth-management planning.

growth boundaries, adequate-public-facilities ordinances, and growth limits all drive up the cost of housing by artificially restricting the amount of land available or the number of permits granted for home construction. On average, homebuyers in 2006 had to pay \$130,000 more for every home sold in states with mandatory growth-management planning than they would have had to pay if home price-to-income ratios were less than 3. This is in effect a planning tax that increases the costs of

I also have several papers on this subject that you can download for free from Cato's web site.

# Policy Analysis

No. 606

December 6, 2007

<i>Routing</i>

## *How Urban Planners Caused the Housing Bubble*

by Randal O'Toole

### Executive Summary

Everyone agrees the recent financial crisis started with the deflation of the housing bubble. But what caused the bubble? Answering this question is important both for identifying the best short-term policies and for fixing the credit crisis, as well as developing long-term policies aimed at preventing another crisis in the future.

Some people blame the Federal Reserve for keeping interest rates low; some blame the

In other words, California and Florida housing bubbled, but Georgia and Texas housing did not. This is hardly because people don't want to live in Georgia and Texas: since 2000, Atlanta, Dallas-Ft. Worth, and Houston have been the nation's fastest-growing urban areas, each growing by more than 120,000 people per year.

This suggests that local factors, not national policies, were a necessary condition for the hous-

Including this paper on how urban planners caused the housing bubble.





# The Antiplanner

Welcome to the Antiplanner

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## About the Antiplanner

The antiplanner has more than thirty years experience critiquing plans written by a wide variety of federal, state, and local government agencies.

## Calendar

December 2006						
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					1	2
4	5	6	7	8	9	
11	12	13	14	15	16	
18	19	20	21	22	23	
25	26	27	28	29	<a href="#">30</a>	

## Welcome to the Antiplanner

posted in [Mission, Why Planning Fails](#) | [Edit](#) |

They say someone starts a new blog every second, so let me present one of the first 80,000 blogs of 2007. *The Antiplanner* is the public face of my new mission: to promote the repeal of all federal and state planning laws and the closure of all state and local planning offices.

While people often blame social problems on politicians or lawyers, I have concluded that many of our problems are due to planners and the elected officials who support them. In a nutshell, planners do two things: they create shortages of things that people want and surpluses of things that people don't want.

Of course, everybody plans. We plan our work day, our vacations, our education and careers. But these plans tend to be short term, flexible, and affect mainly ourselves and our families. To distinguish this from the planning I criticize, I prefer to call such activities *organizing*: we organize our time and resources as efficiently as we can based on what we know. If

1st  
January  
2007

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My daily blog also frequently comments on Portland and rail transit. Go to <http://ti.org/antiplanner> or just Google "antiplanner" and I'll be the first thing on the list.





For even more information, I invite you to Orlando this June 10-12





*Preserving the American  
Dream Conference*

# Defending Mobility and Homeownership

*June 10-12, 2010*

*Orlando, Florida*

where the American Dream Coalition will hold its annual meeting on the future of American mobility and homeownership.

*For more information:*

**Web sites:**

**ti.org**

**cato.org**

**americandreamcoalition.org**

**e-mail: rot@ti.org**

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