

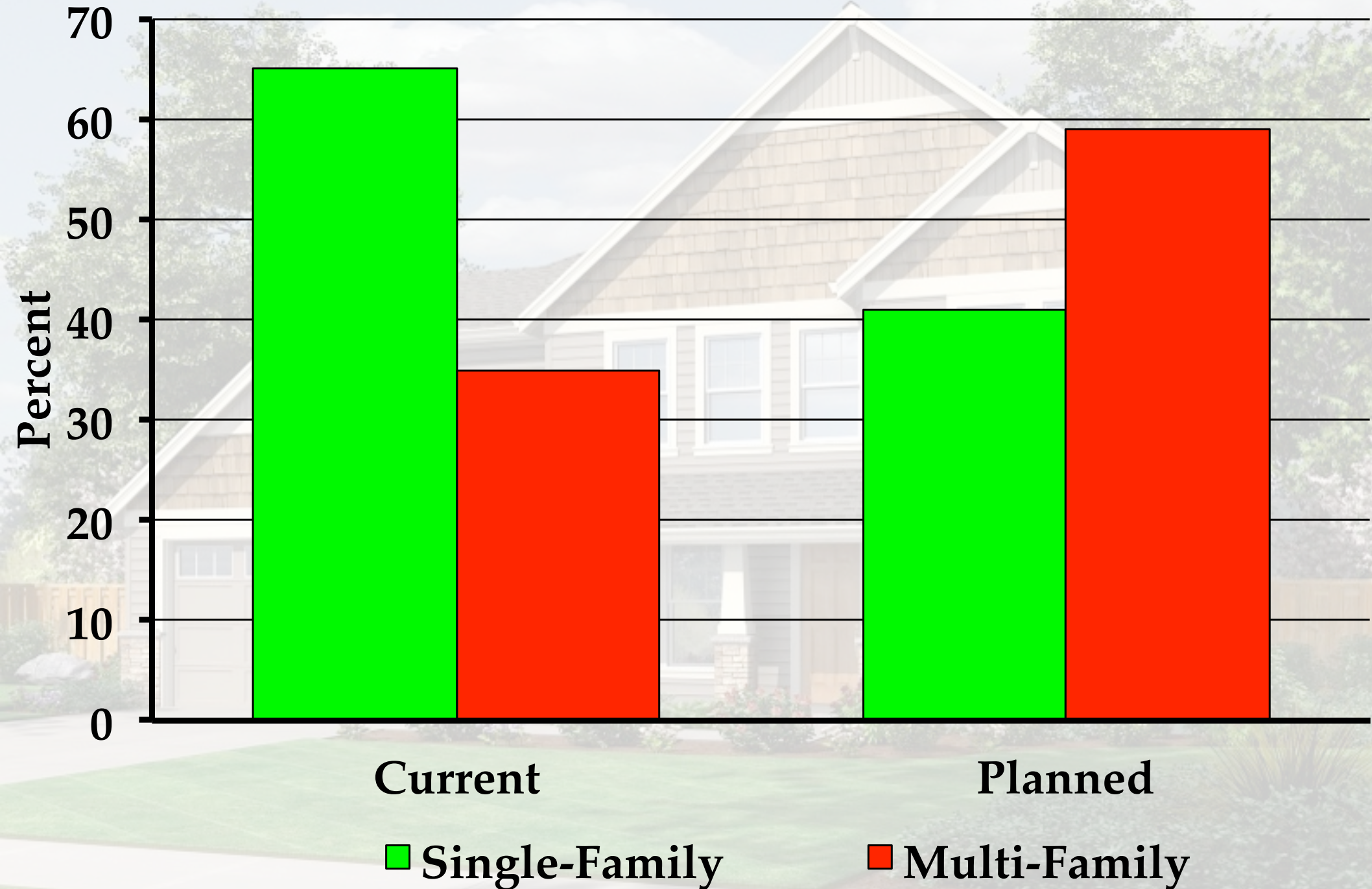


There is a war on single-family housing.



Urban planners and others believe fewer Americans should live in single-family homes.

Portland-Area Housing Mix

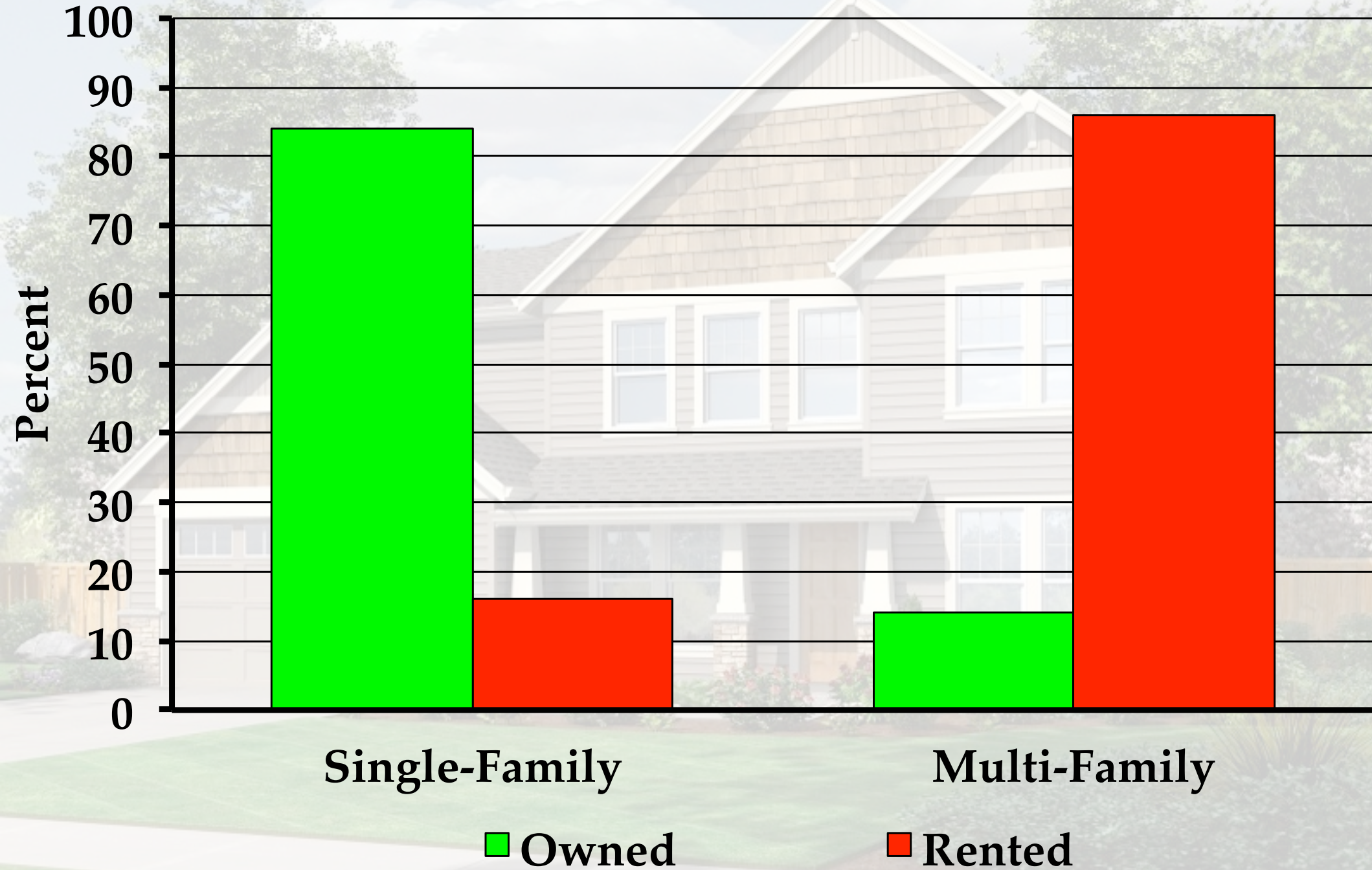


Planners in Portland, Oregon, for example, have set a target of reducing the number of the region's households living in single-family homes from 65 percent to 41 percent.



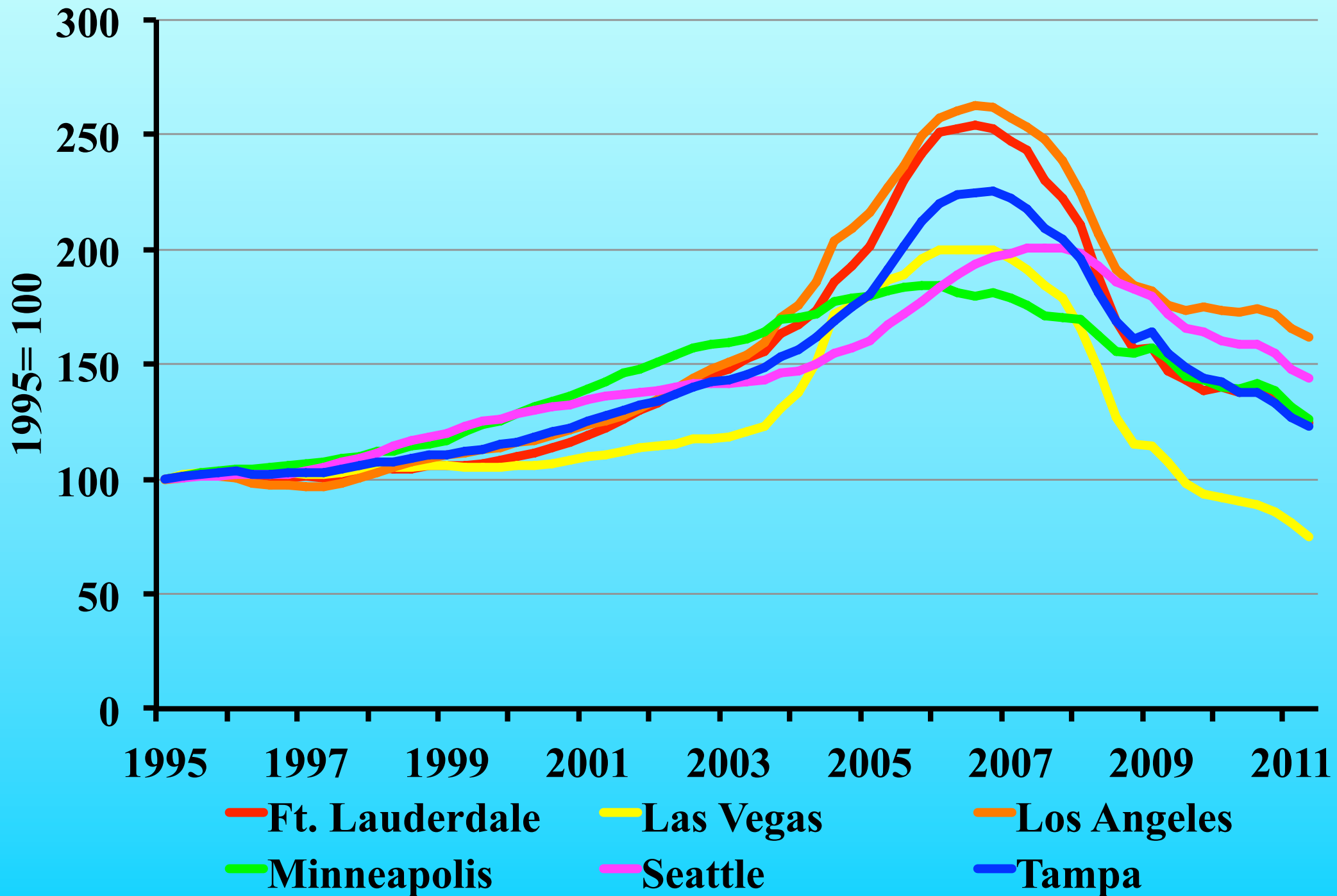
That's less than in Tokyo, the largest and one of the densest metropolitan areas in the world, where 45 percent of households live in single-family homes.

U.S. Owner/Renter Mix in 2010



Since 17 out of 20 single-family homes are owner-occupied and 17 out of 20 multi-family homes are rented, a war on single-family homes is a war on homeownership.

Metro Area Home Price Indices in 2011 Dollars



Planners have waged this war by implementing policies that make housing both more expensive and more volatile than ever before.



After the recent financial crisis, many began to wonder whether homeownership was really worthwhile.

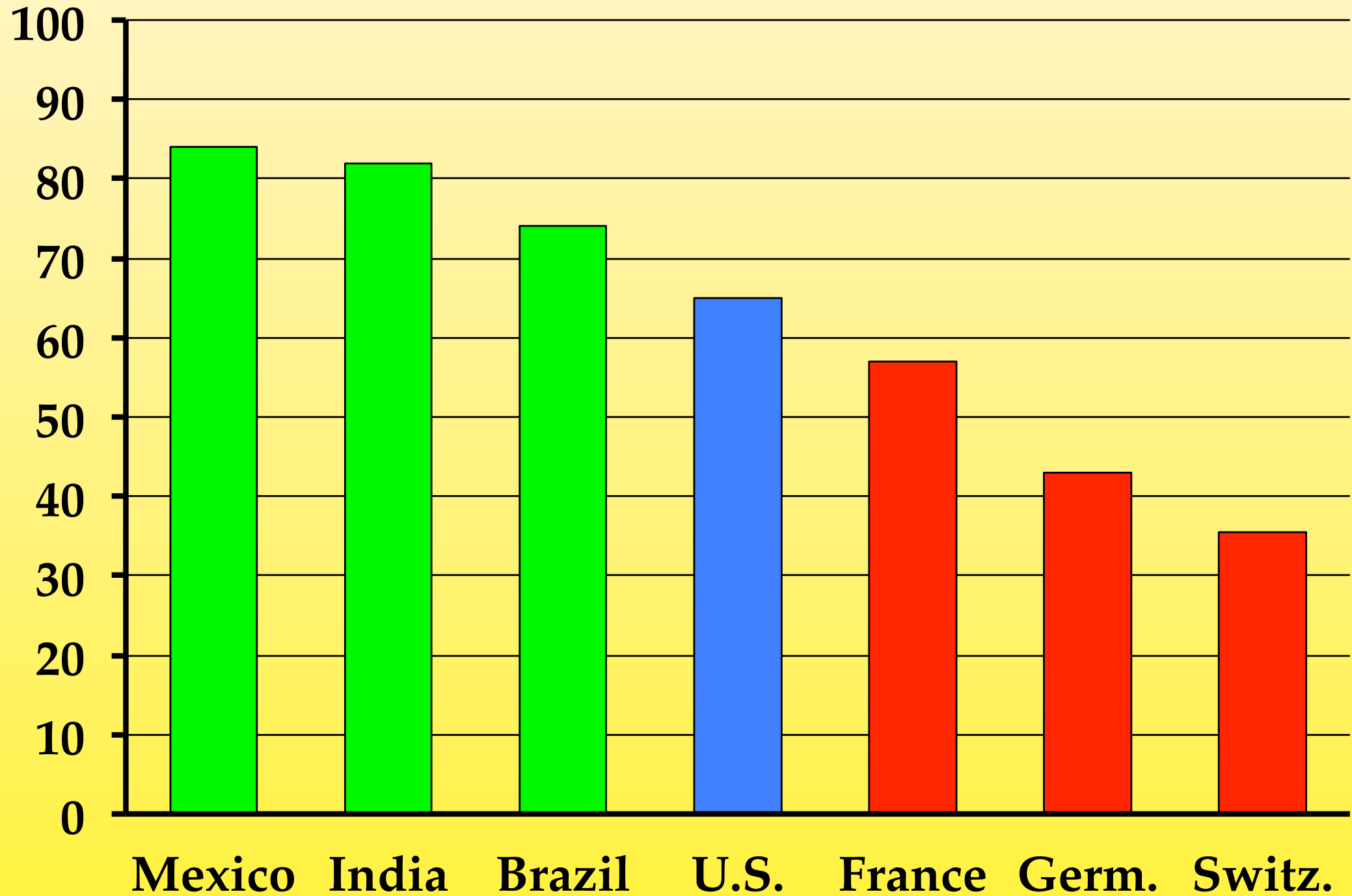
“Homeownership has let us down”
—*Time magazine*

“The poor are better off renting”
—*Wall Street Journal*

“The American Dream is dead”
—**Suze Orman**

Effectively, they fell into the trap set by urban planners. By making home prices volatile, they reduced the value of homeownership. This led me to write *American Nightmare* to defend people's right to own their homes.

Homeownership Rates



Some think that homeownership rates are a function of a society's income. But in fact many low-income countries have much higher homeownership than many high-income countries. The main difference is government policies that create barriers to homeownership.



In late 19th-century U.S. cities, working-class families were much more likely to own their own homes than middle-class families, despite the latter's higher incomes.



The working class saw homeownership as a source of income, such as these duplexes which were typically half occupied by the owner and the other half rented.



People could also raise vegetables and livestock in their yards.



Or take in borders. The 1890 census found homes such as a 1-1/2 story house occupied by 29 people in five families.



They also had in-home businesses.

THE WORKING MAN'S REWARD.

**WHERE ALL WAS DARKNESS,
NOW IS LIGHT.**

S.E. GROSS'

**ASHLAND AVE
AND
47TH STREET
SUBDIVISION**

BRANCH
OFFICE COR. **ASHLAND AVE & 47TH ST.**

Some builders, such as Chicago's Samuel Gross, built affordable homes mainly for the working class.



Many of these homes can still be seen today. Initially, they cost as little as \$500, or \$1,000 with sewer and water hookups.



Meanwhile, middle-class families chose to rent so they could move if something undesirable--such as a working-class family--moved in next door.



At around the same time, a social scientist named Jacob Riis documented terrible living conditions in New York City tenements. Such tenements were very rare outside of New York.



Typically they were five- and six-story buildings with small shafts down the middle for light and air. They often might house several families on each floor, only a few of whom had windows facing anywhere but the air shaft.



Such crowded conditions were needed because Manhattan factories, such as the Triangle Shirtwaist Factory shown here, employed as many as 4,000 people on a single city block. Employees couldn't afford to take streetcars so they had to live within walking distance of the factories.



So, at the turn of the twentieth century, housing reformers had two questions: How do we find better housing for the working class?



And how can we make sure they don't move next door to us? Not surprisingly, the second question was answered first.

Scene in Country
Club District,
Kansas City, Mo.



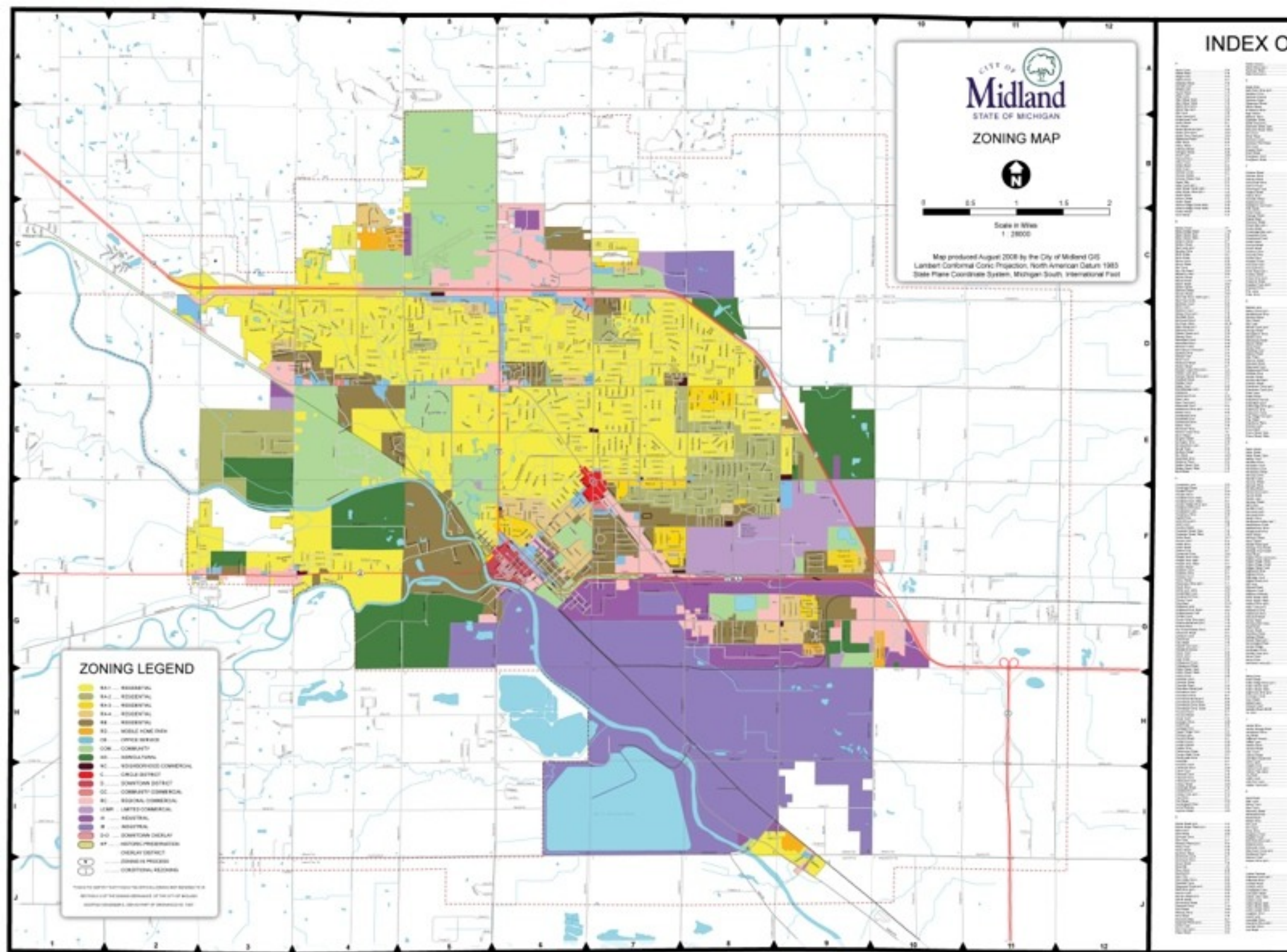
The first answer was to build middle-class neighborhoods with protective covenants. The Country Club district in Kansas City had a rule that anyone buying a lot had to build a \$5,000 house on it. This made housing prohibitively expensive for the working class.



J.C. Nichols developed the Country Club District and in doing so pioneered homeowners associations and protective covenants as we know them today.



He advertised that his neighborhoods were “exclusive” not because they explicitly forbade some people from living there (at least initially) but because they were too expensive.



But what about neighborhoods that had been developed before the use of covenants? For these neighborhoods, middle-class planners proposed the use of zoning, which covered entire cities.



Zoning typically forbade duplexes;



forbade backyard livestock;



forbade taking in borders;



and forbade in-home businesses, thereby eliminating most of the things that made homeownership attractive to the working class.



Fortunately, new technologies kept housing affordable for the working class. Most importantly, Henry Ford's moving assembly line made cars so cheap that working-class families could afford to buy them.



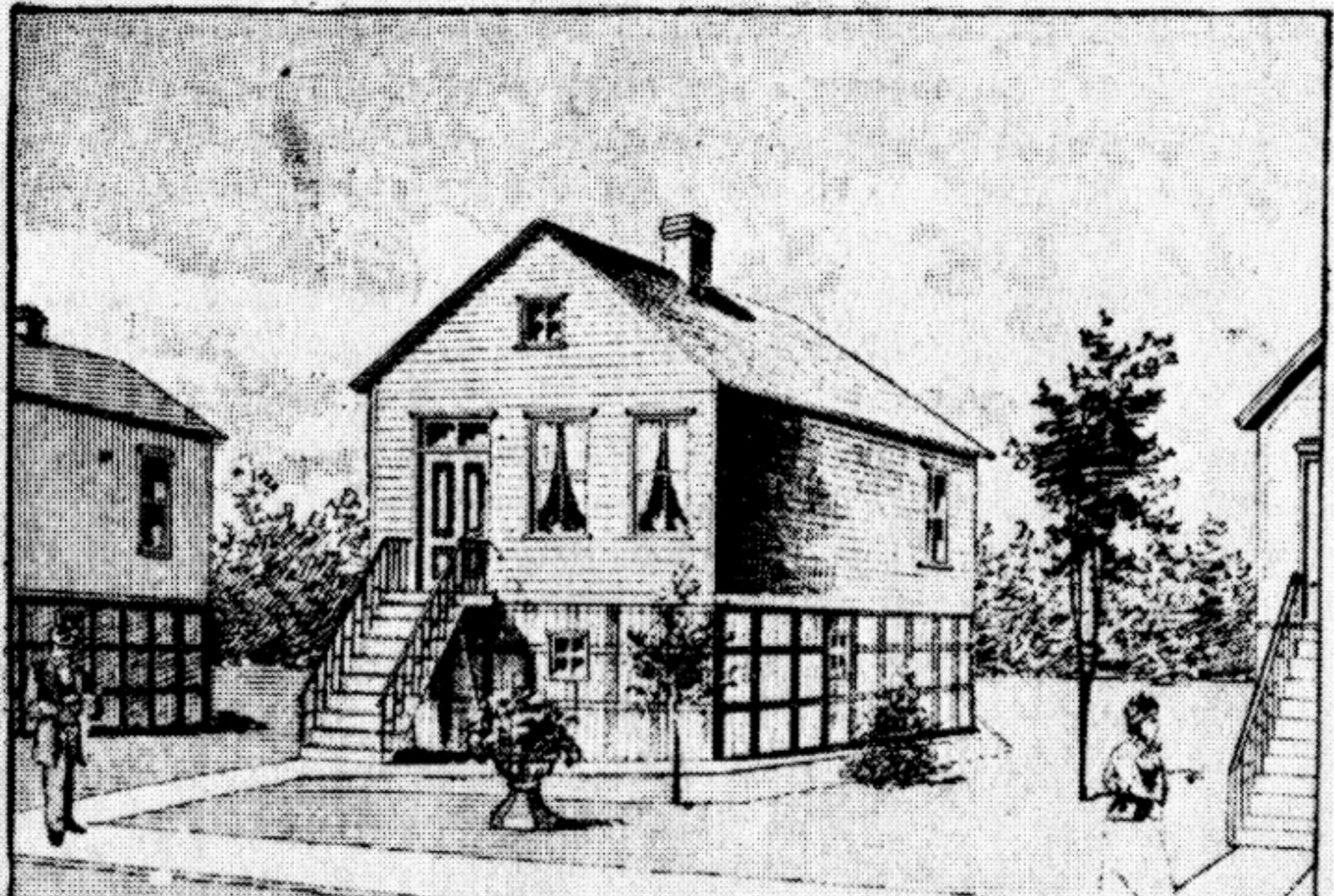
Moving assembly lines were land intensive, so as other industries adopted moving assembly lines, they built factories in the suburbs. We often think of cities with jobs in the middle and people in the suburbs, but actually jobs moved to the suburbs at the same time if not before the people.



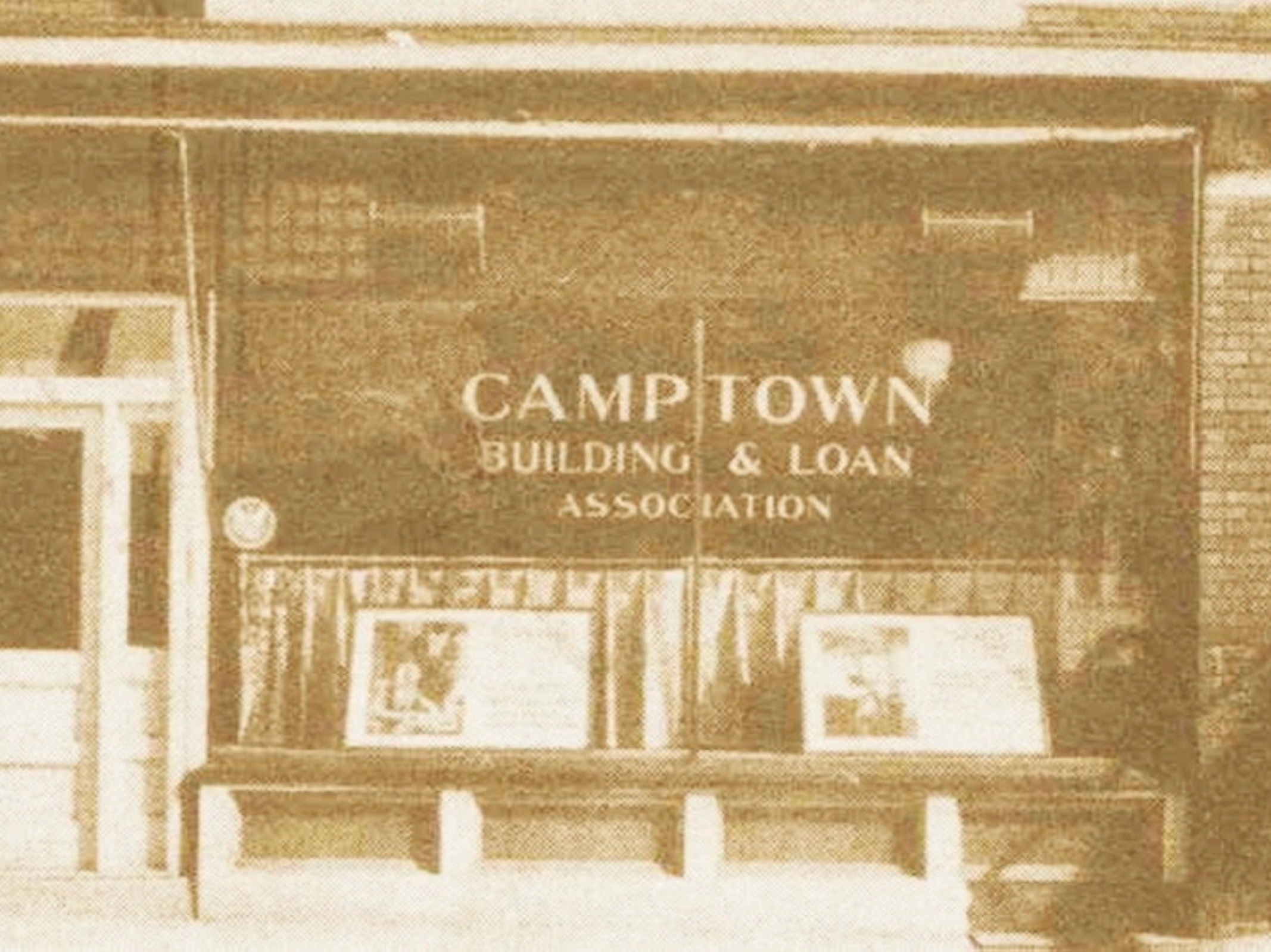
Working-class families could buy lots in unzoned suburbs and built homes from which they could drive to their jobs.

A HOME FOR \$100

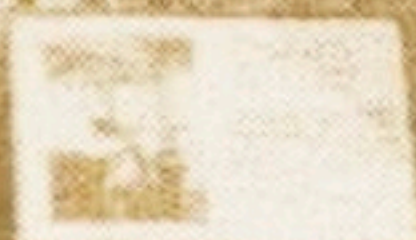
In my Ashland Avenue and 47th Street Subdivision.



Another change that kept housing affordable was new financial tools. Before 1889, anyone buying a house had to pay most of the cost up front. It was only in 1889 that a realtor conceived of a "contract for deed," in which the seller kept the deed until the house was paid off. This allowed developers to sell homes with minimal down payments. In this Samuel Gross ad, \$100 is the down payment on a \$500 to \$1,000 home.



CAMP TOWN BUILDING & LOAN ASSOCIATION

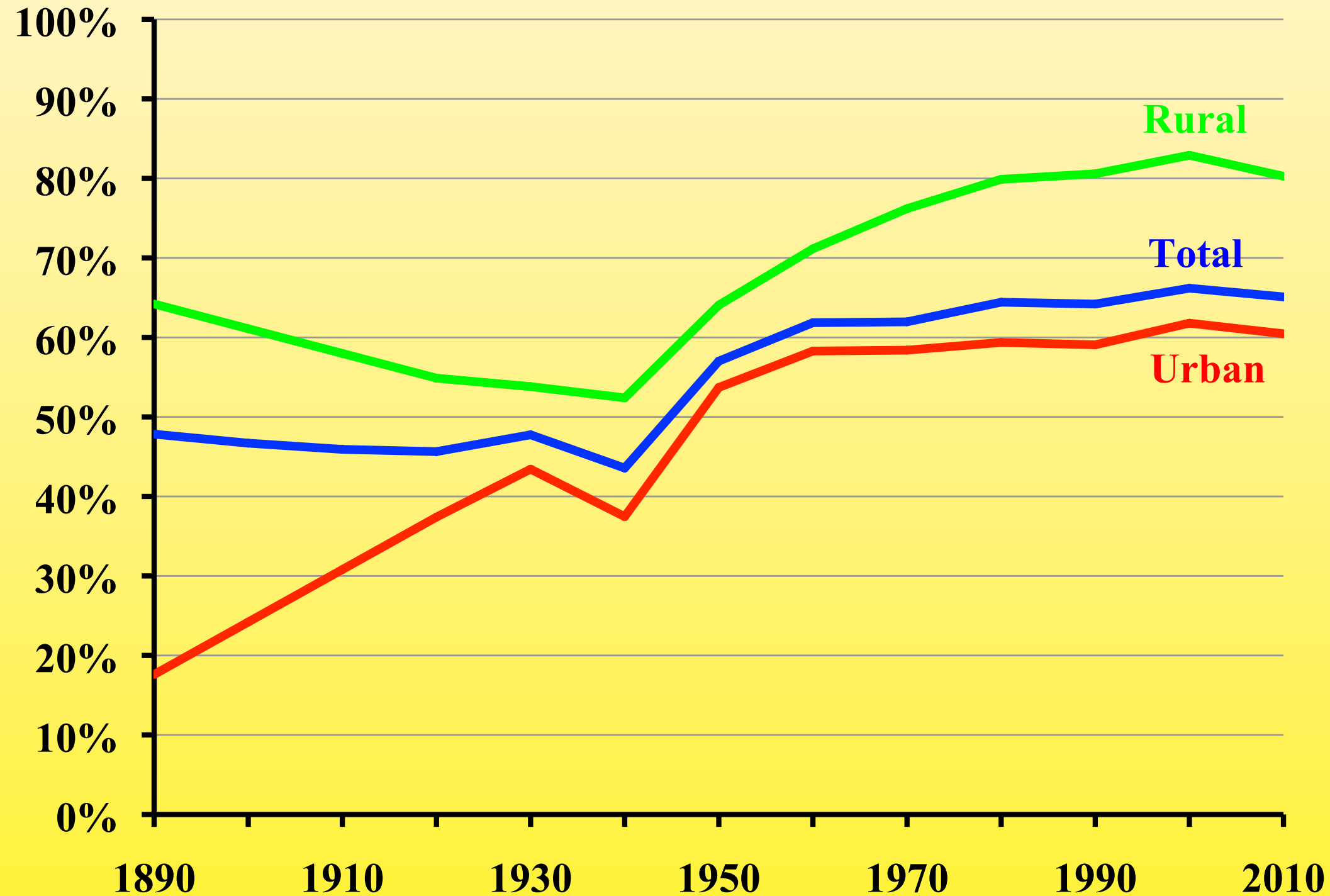


Another financial innovation was the amortizing mortgage, which today we consider to be a conventional mortgage. Nineteenth century banks made loans and expected borrowers to pay back the interest only, then after 5 or 10 years have a balloon payment equal to the entire principle. Building & Loan societies, however, allowed people to pay some of the principle each month, so the entire mortgage could be paid off in 10 to 15 years.



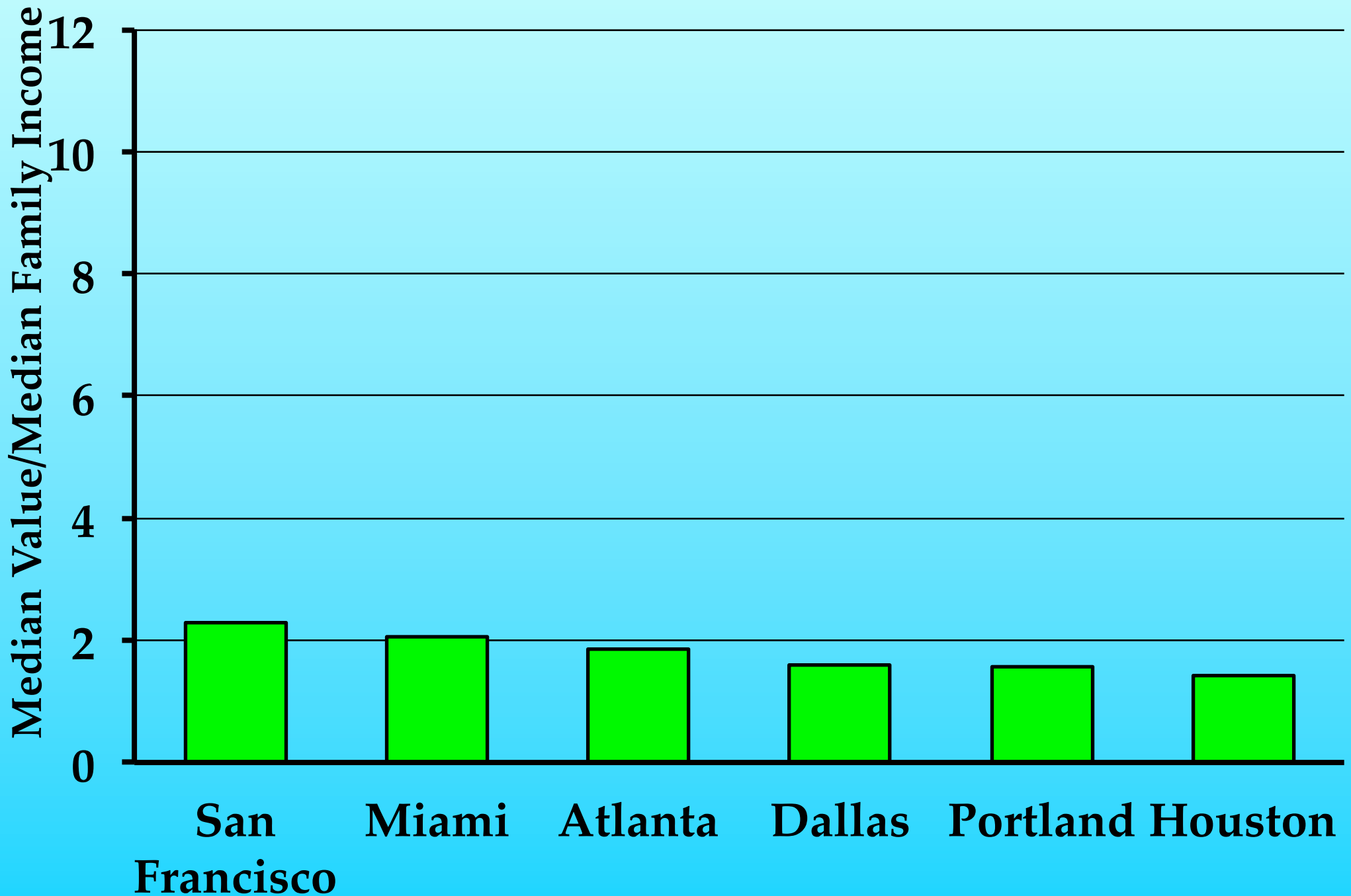
Homebuilders also used assembly line techniques to build houses. The Levitts, for example, had different crew for the foundation, frame, plumbing, electricity, walls, painting, and yardwork. They even had separate crews painting blue, yellow, and other colors.

U.S. Homeownership Rates



As a result of all of these changes, homeownership rates rapidly grew after the Depression from about 40 percent to more than 60 percent of American households.

1969 Housing Affordability

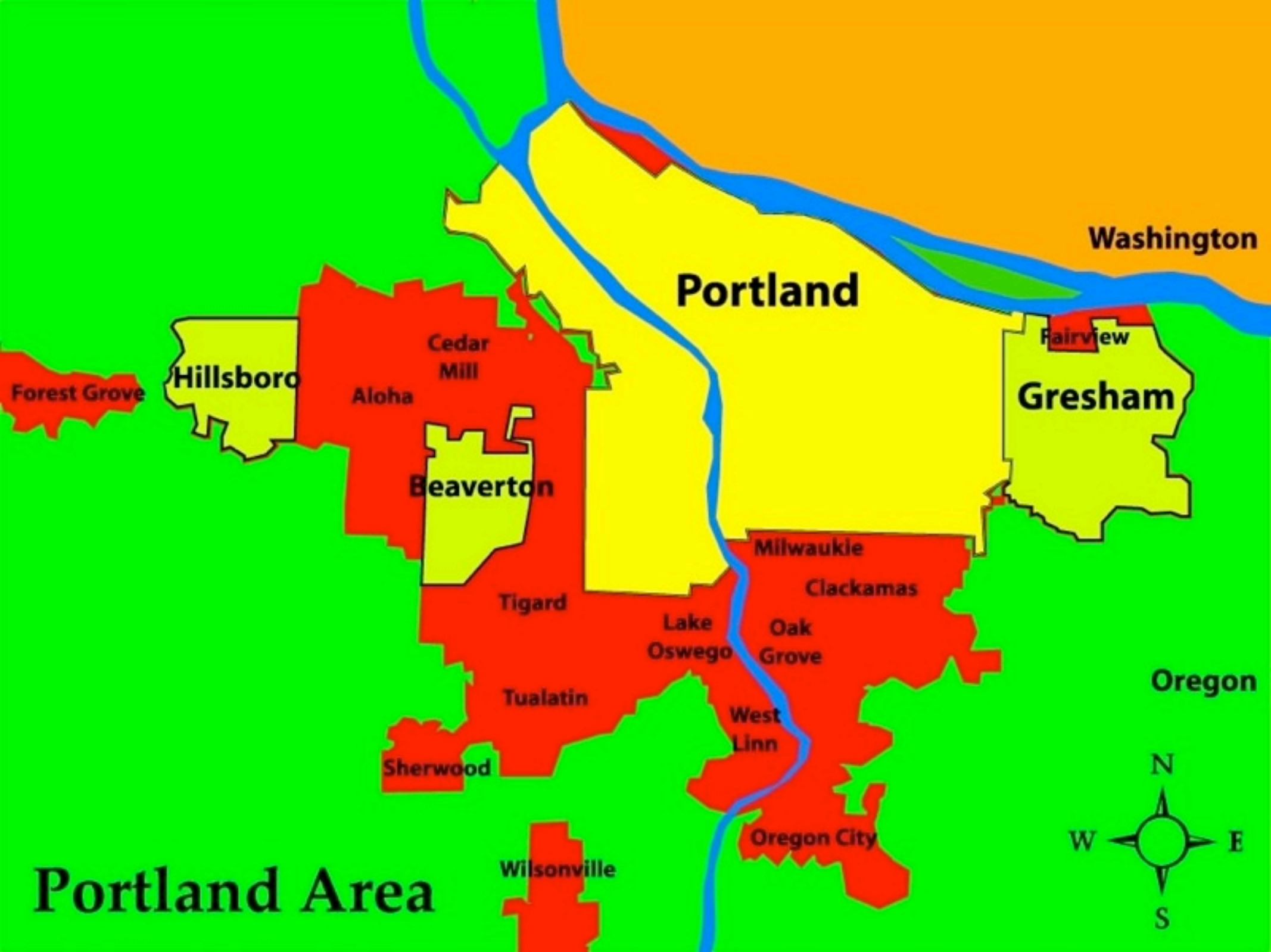


Source: Census Bureau

As late as 1969, housing was about equally affordable--measured by dividing median home prices by median family incomes--everywhere.



But the middle class fought back by declaring a war on sprawl. Sprawl wasn't a problem when the wealthy or middle-class moved to the suburbs. It only became an issue when the working class moved to the suburbs, and early complaints about urban sprawl are often class based; that the people moving to the suburbs don't appreciate the right architecture, music, recreation, and other aesthetics.



To fight sprawl, middle-class urban planners drew urban-growth boundaries around cities and urban areas.



Outside of Portland's boundary, people can build homes on their own land only if they own 80 acres, actually farm it, and actually earn (depending on soil productivity) \$40,000 to \$80,000 a year farming it.



Inside the boundaries, Portland-area planners have rezoned dozens of neighborhoods of single-family homes for apartments. This is minimum-density zoning, so if someone's house burns down, they are required to replace it with an apartment. This leads to rapid densification of the neighborhood.



Portland planners are proud that they have made land so expensive that developers will buy existing homes on quarter acre lots



tear them down



And replace them with four “skinny houses,” houses just 15 feet wide on 25-foot-wide lots.



Some Portlanders are building “tiny homes”—houses of just 300 to 600 square feet—in vacant space that was once someone else’s yard.



Portland is also strongly promoting so-called transit-oriented developments. Here is a typical transit-oriented development -- sorry, this isn't in Portland but in the former East Germany.



Here's the one in Portland.



The difference is that this building is scheduled for demolition because, as soon as the east Germans got their freedom, they moved into

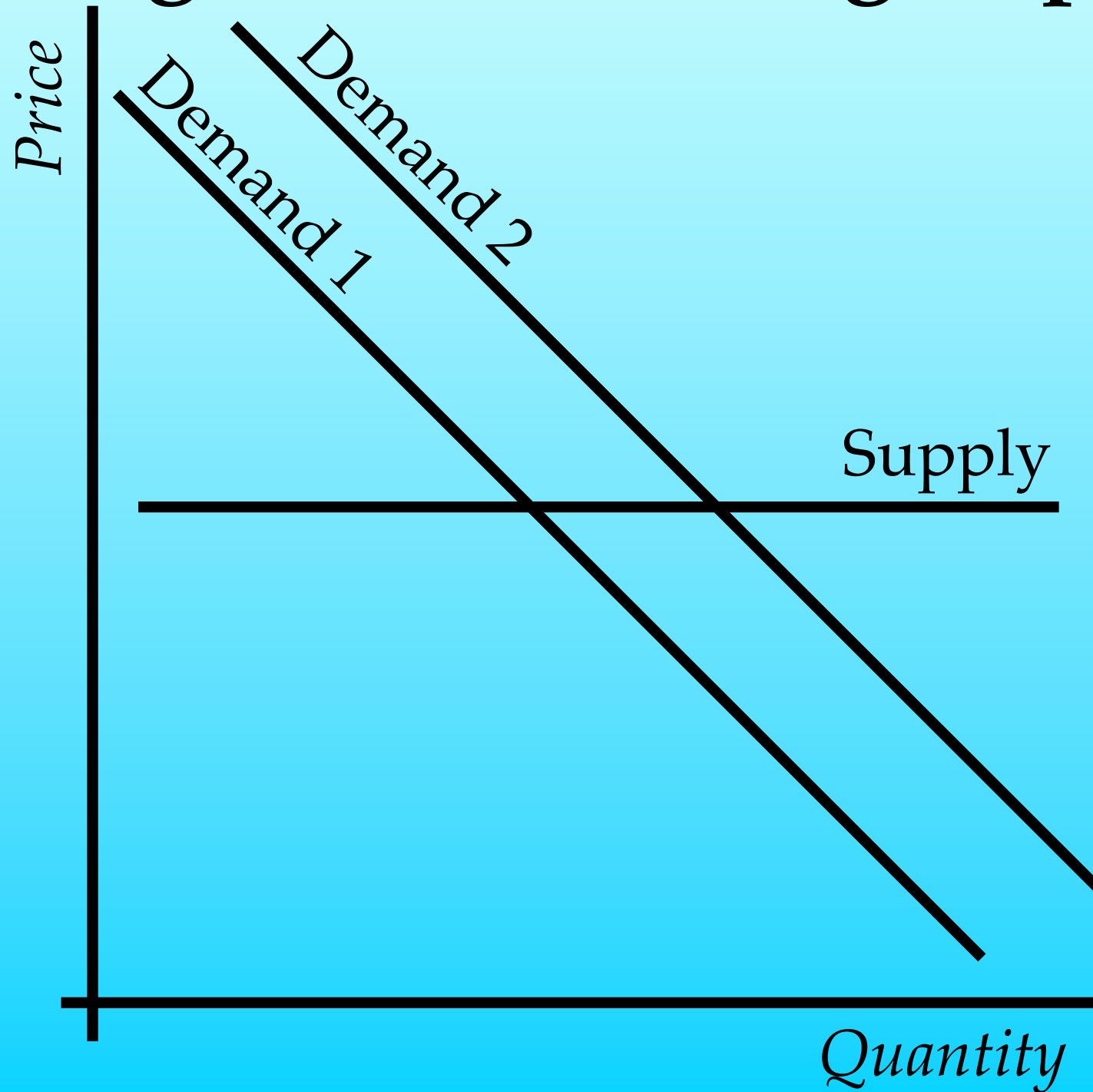


single-family homes in suburbs such as this one.



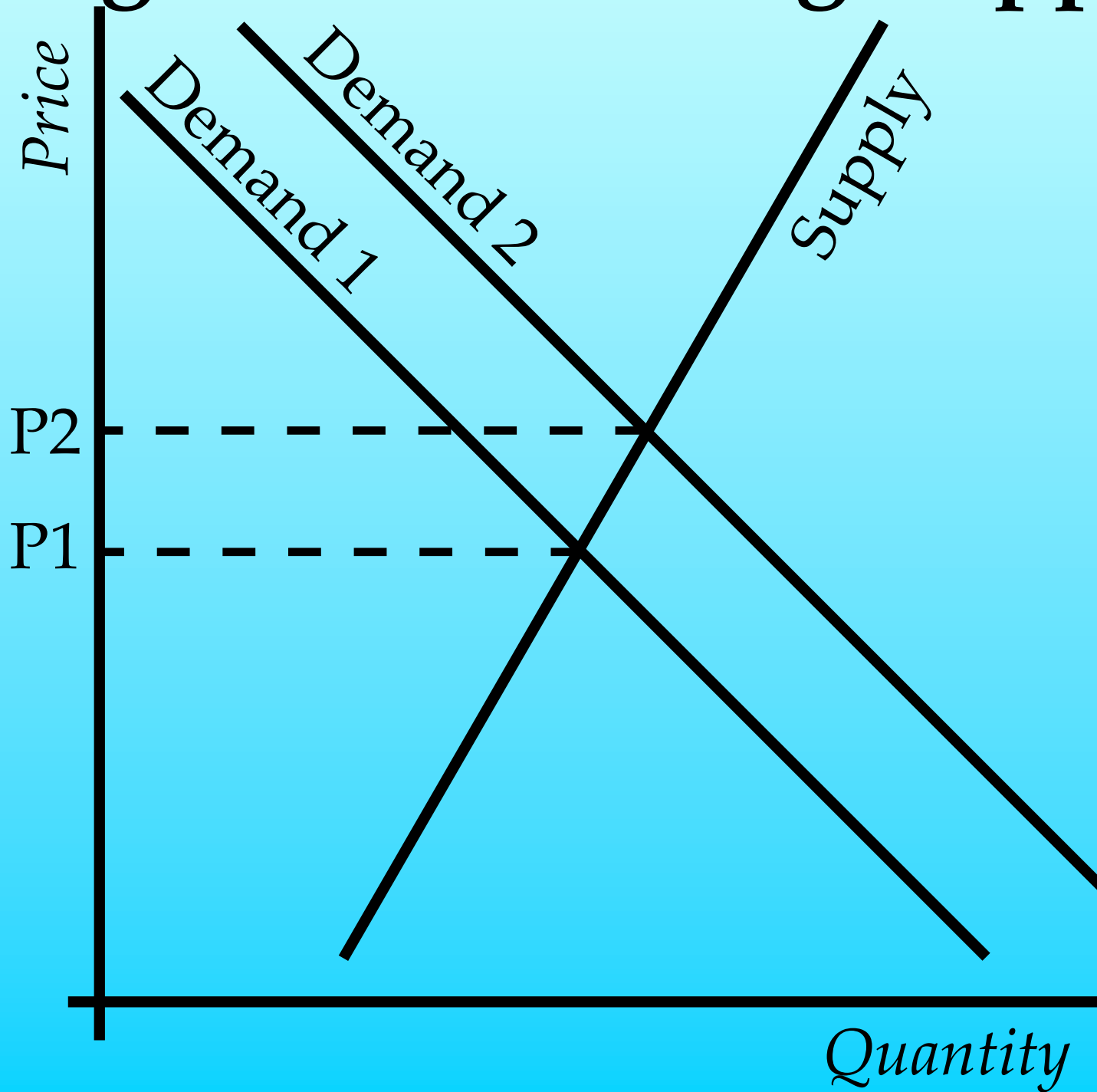
When Portlanders lost their freedom to live in affordable single-family housing, many were forced to move into places like this one. This development has less than 2/3rd of a parking space per housing unit.

Unregulated Housing Supply



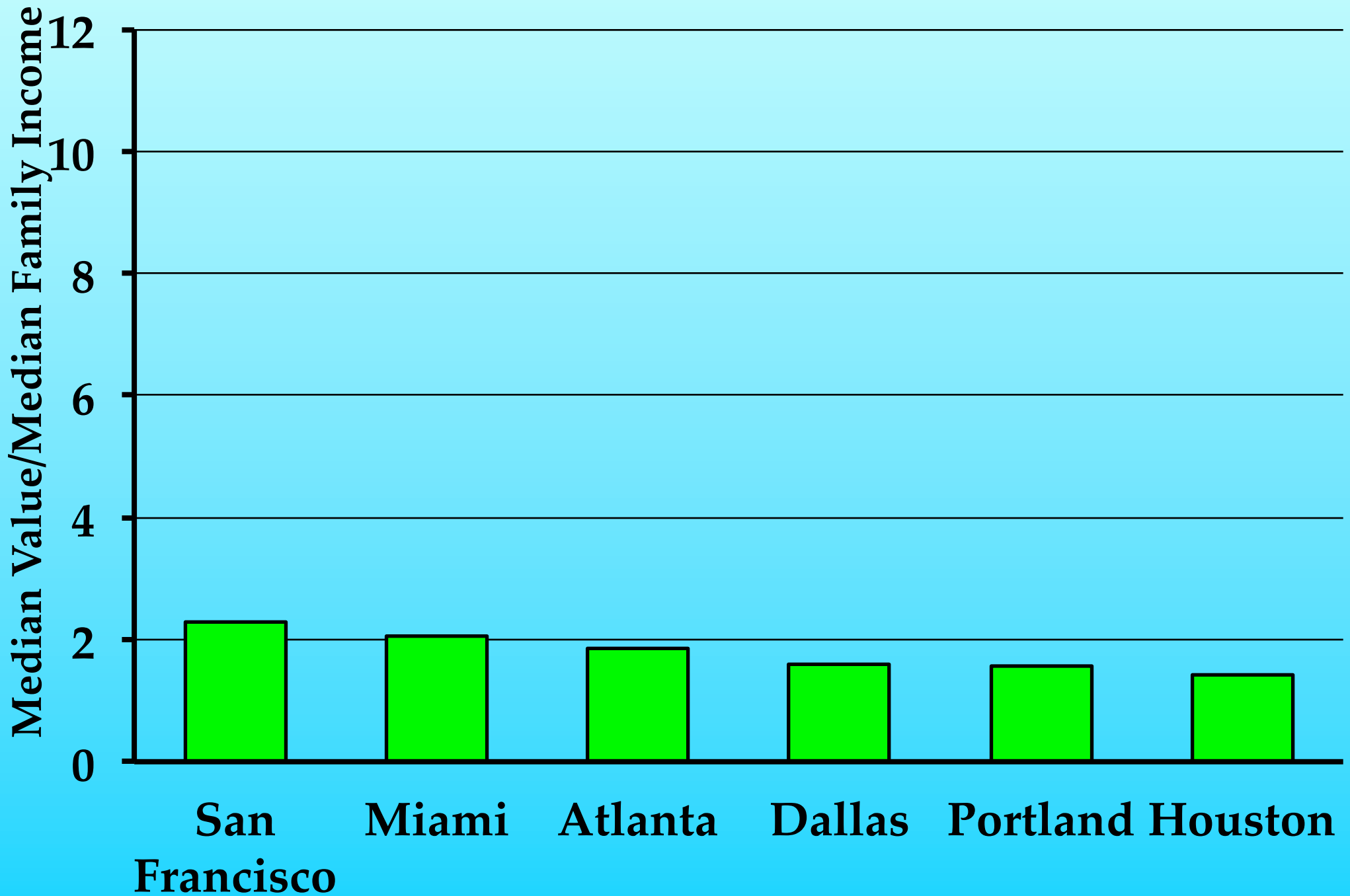
When there are no government constraints on housing, housing supply is what economists call “elastic,” meaning large changes in demand result in minimal changes in price. This is because builders can meet the demand by building on cheap land in the region.

Regulated Housing Supply



Land-use regulation makes housing supply “inelastic,” meaning small changes in demand can result in large changes in price.

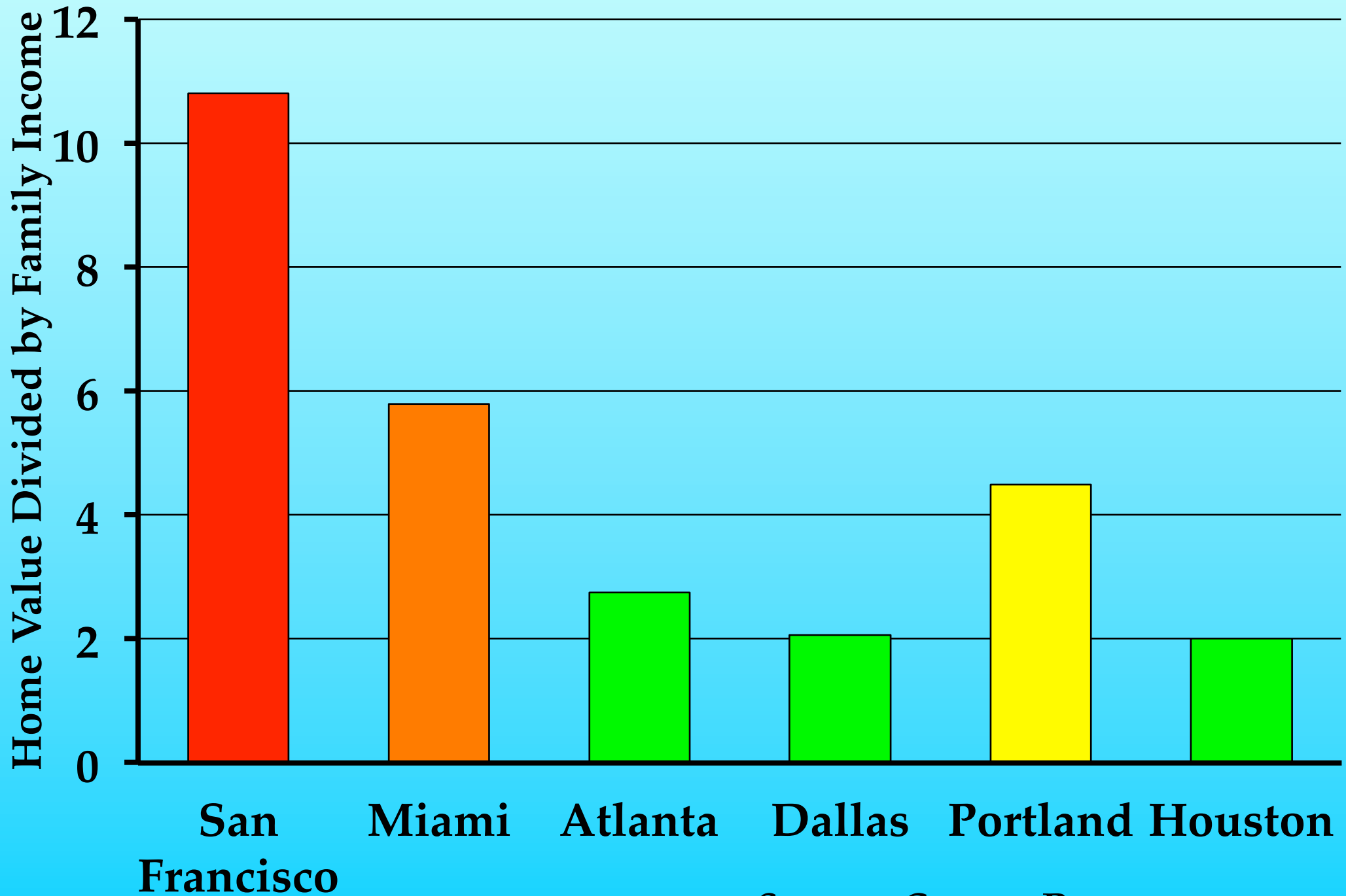
1969 Housing Affordability



Source: Census Bureau

The first thing that happens is that housing becomes less affordable. Compare affordability in 1969

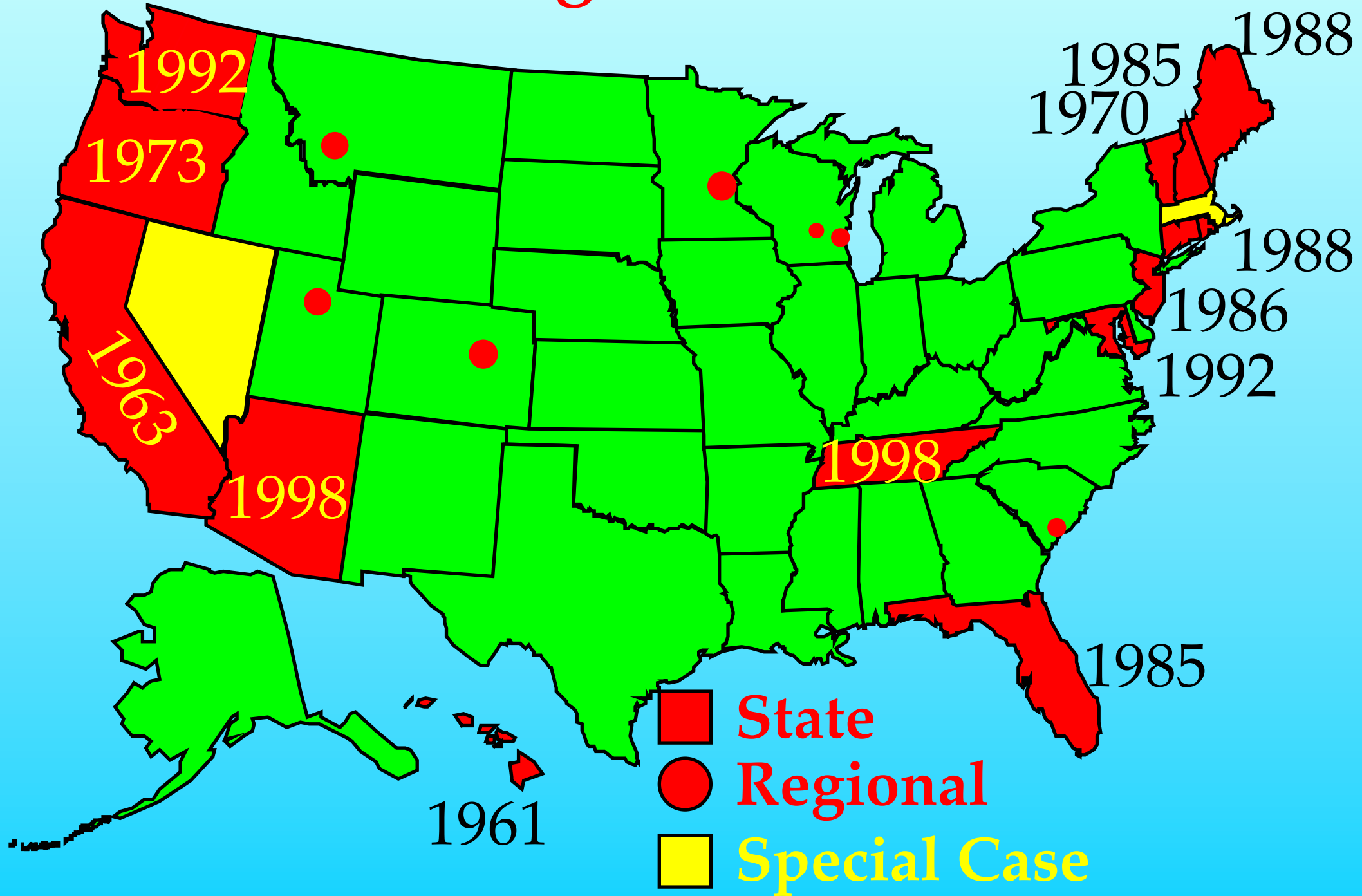
2006 Housing Affordability



Source: Census Bureau

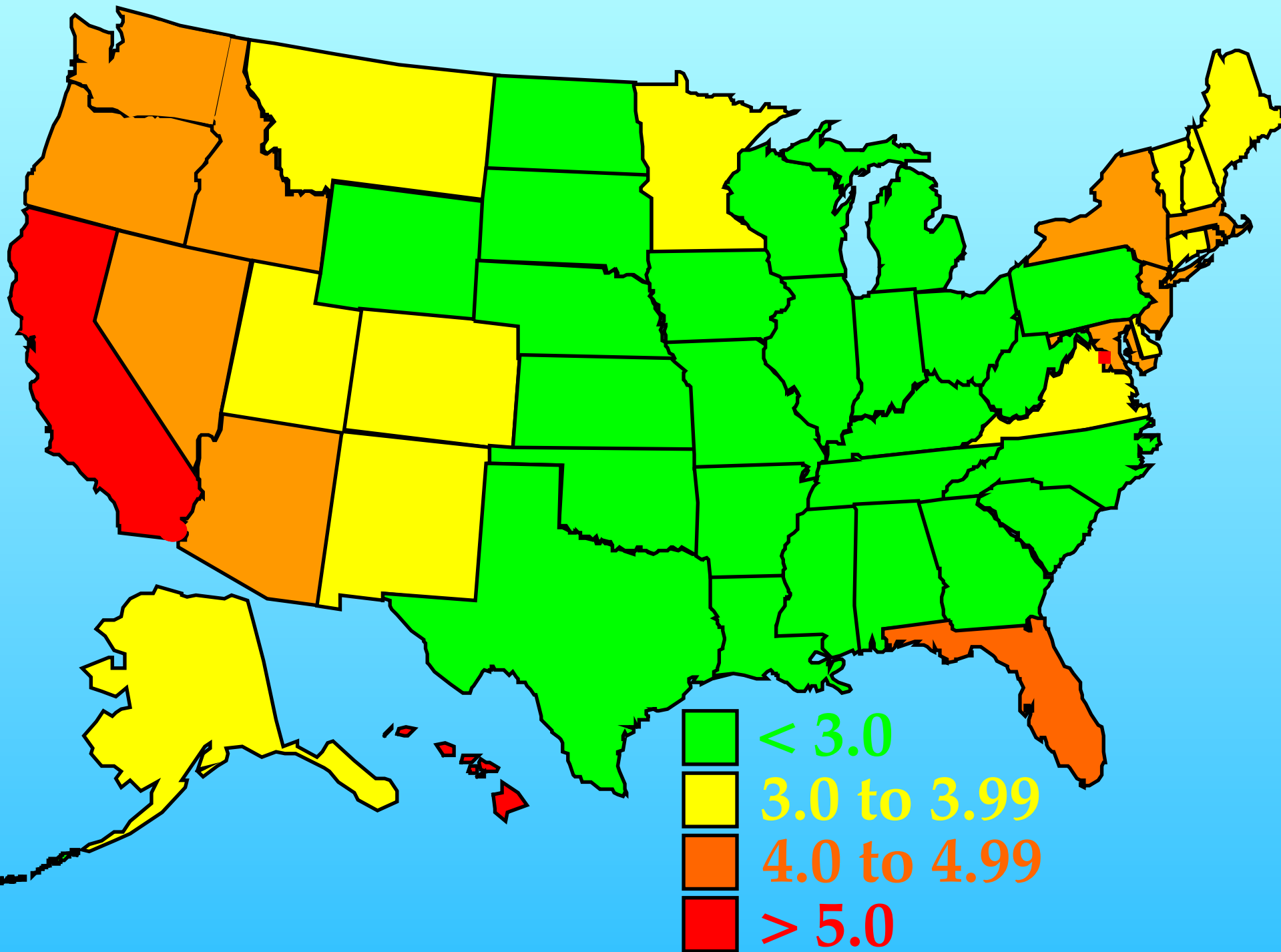
with affordability in 2006. Relatively unregulated regions such as Atlanta, Dallas, and Houston remained affordable, but regulated ones in California, Florida, and Oregon became unaffordable.

Growth-Management Laws & Plans



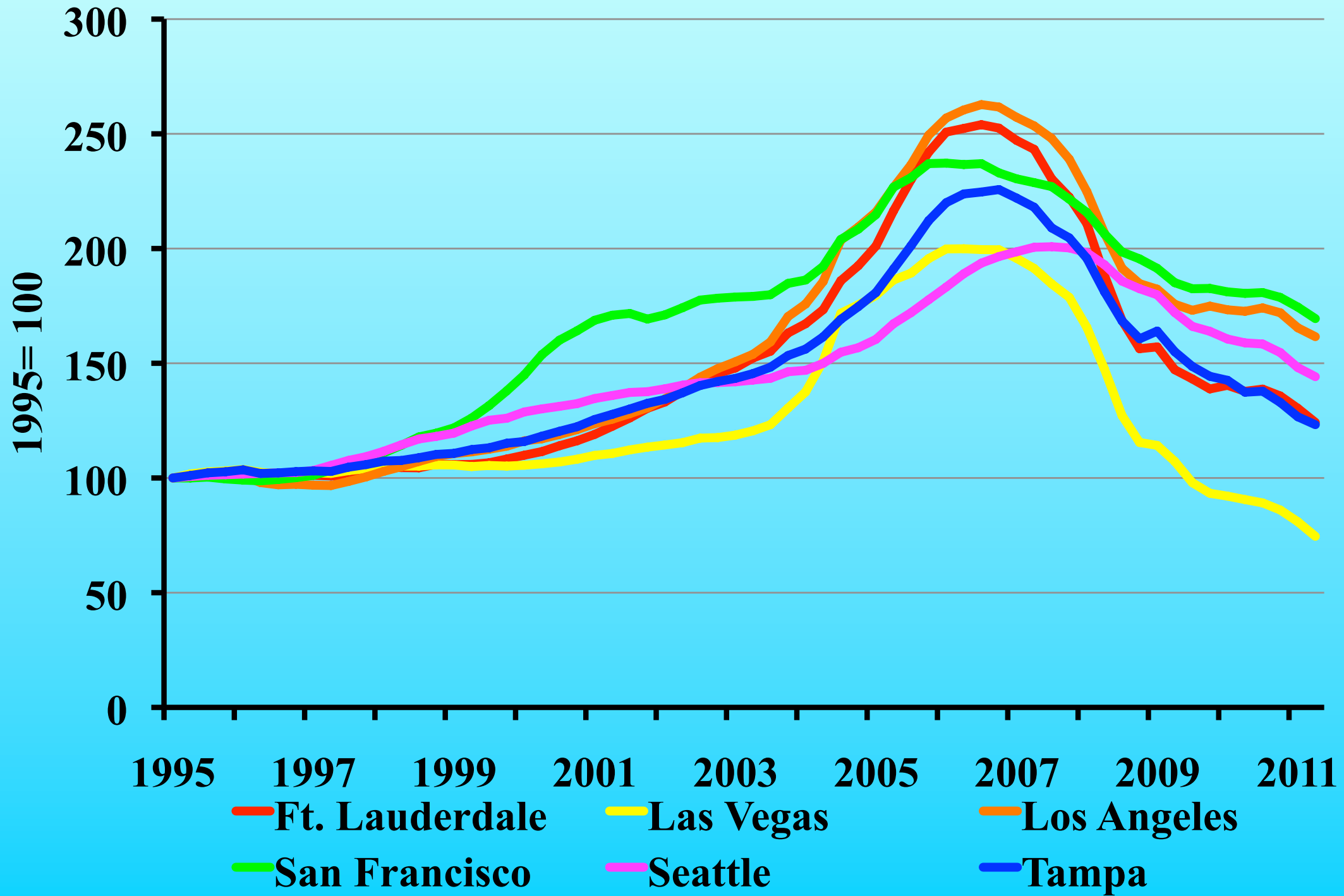
Nationwide, about 16 states and several metropolitan areas outside of those states passed “growth-management laws” or wrote growth-management plans.

2006 Home Price-to-Income Ratios



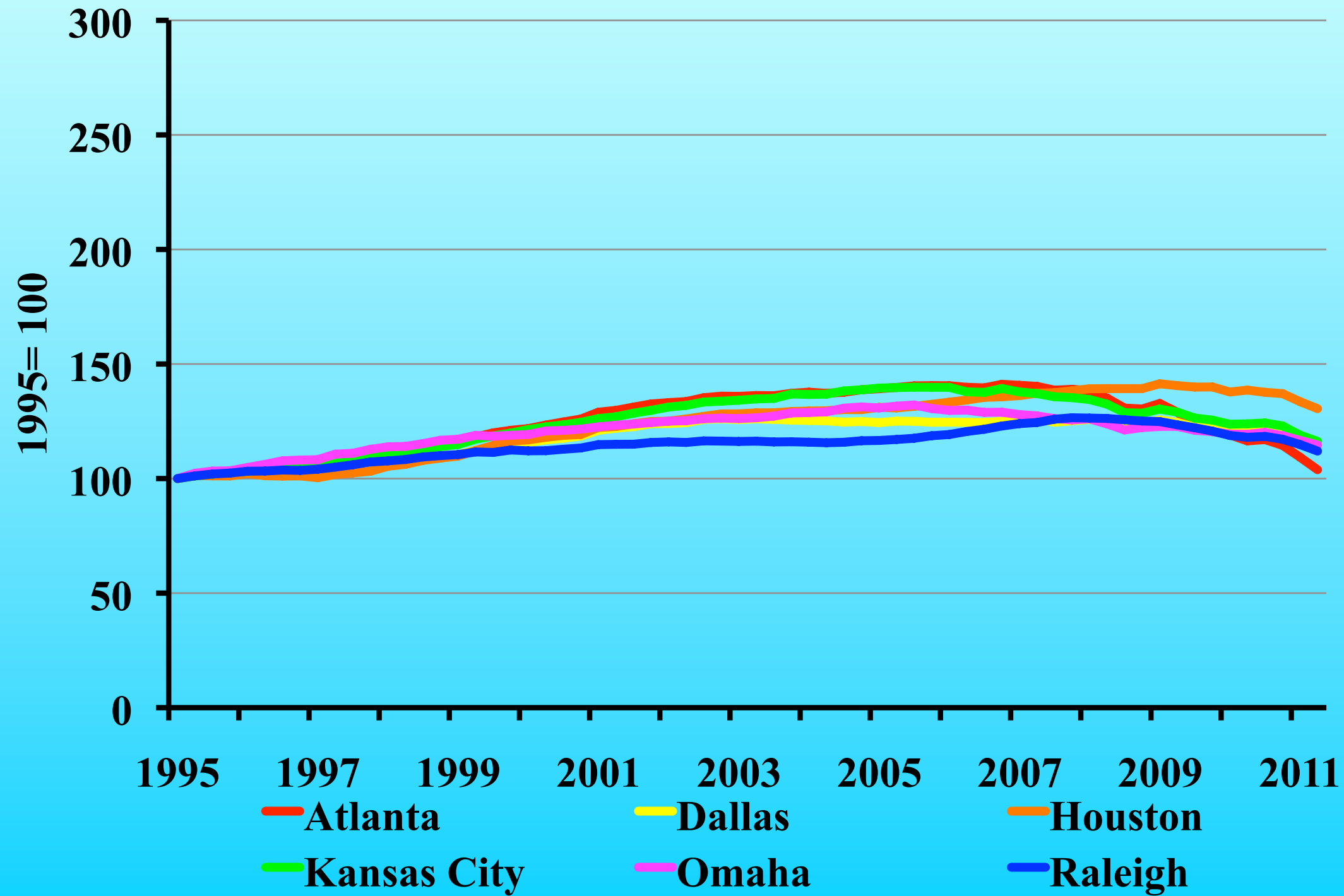
These states tend to be the ones that have the least affordable housing. Unfortunately, these 16 or so states have about 45 percent of U.S. housing.

Metro Area Home Price Indices in 2011 Dollars



The second thing that happened was that prices became more volatile as small decreases in demand resulted in prices falling just as small increases had led to high prices.

Metro Area Home Price Indices in 2011 Dollars



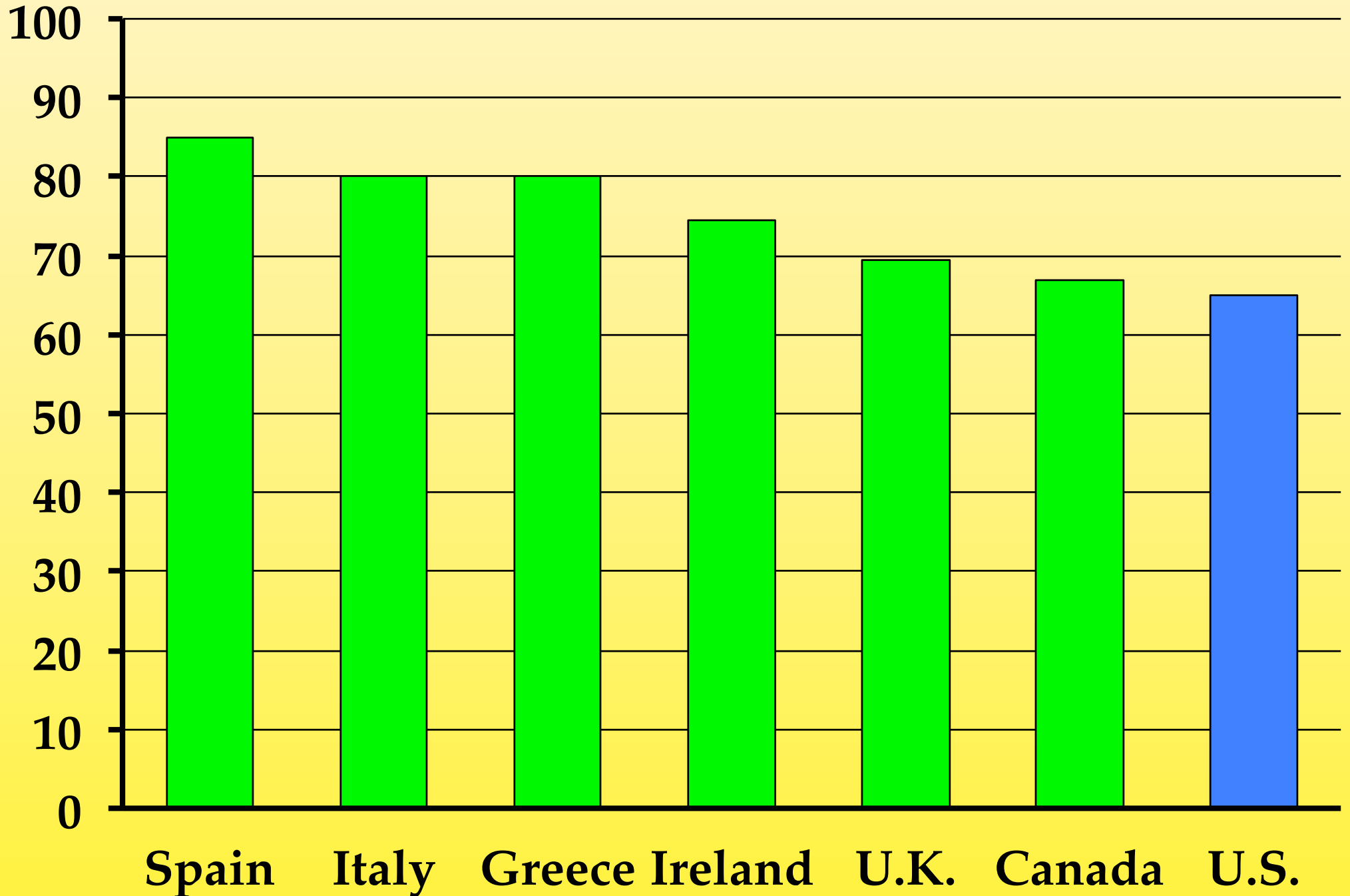
Meanwhile, regions with little land-use regulation saw minimal volatility. Moreover, in regulated areas prices peaked in 2006, then collapsed, leading to the financial crisis. In most unregulated areas, prices did not fall until after the financial crisis.

Perverse Effect of Subsidies

Where supply is restricted, subsidies such as the mortgage-interest deduction and subsidized low interest rates merely increase housing prices and thereby *reduce* homeownership rates.

While many states had declared war on single-family homes, federal policy promoted homeownership. But in states with land-use regulation, federal subsidies merely led to higher housing prices, resulting in lower homeownership rates.

Homeownership Rates



These countries all have higher homeownership rates than the U.S. yet do not have any subsidies to housing. We could eliminate all those subsidies and, if we also eliminated land-use regulation, would end up with much higher homeownership rates--probably around 70 to 75 percent.



\$187,000 in Houston

In Houston, which has no zoning, a 4-bedroom, 2-1/2 bath home today would cost about \$187,000.



\$255,000 in Atlanta

Zoning in Atlanta adds about \$68,000 to the cost of the house.

\$356,000 in Portland



Growth management in Portland adds another \$100,000.

\$644,000 in San Jose



Slow growth in California adds \$300,000 more. These are 2011 prices; in 2006, the San Jose home was estimated to cost \$1.4 million.

\$299,000



I consider Houston to be the model for housing. Here is a brand new, 4-bedroom, 3.5 bath, 3,300 sf, under construction that is selling for less than \$300,000.



\$214,000

Currently under construction, this four bedroom, 2 bath, 2,100 sf, with granite countertops and hardwood cabinets, is on offer for \$214,000



\$199,000

Here is a used home in the same neighborhood, 4br, 2.5 bath, 2,500 sf, plus --

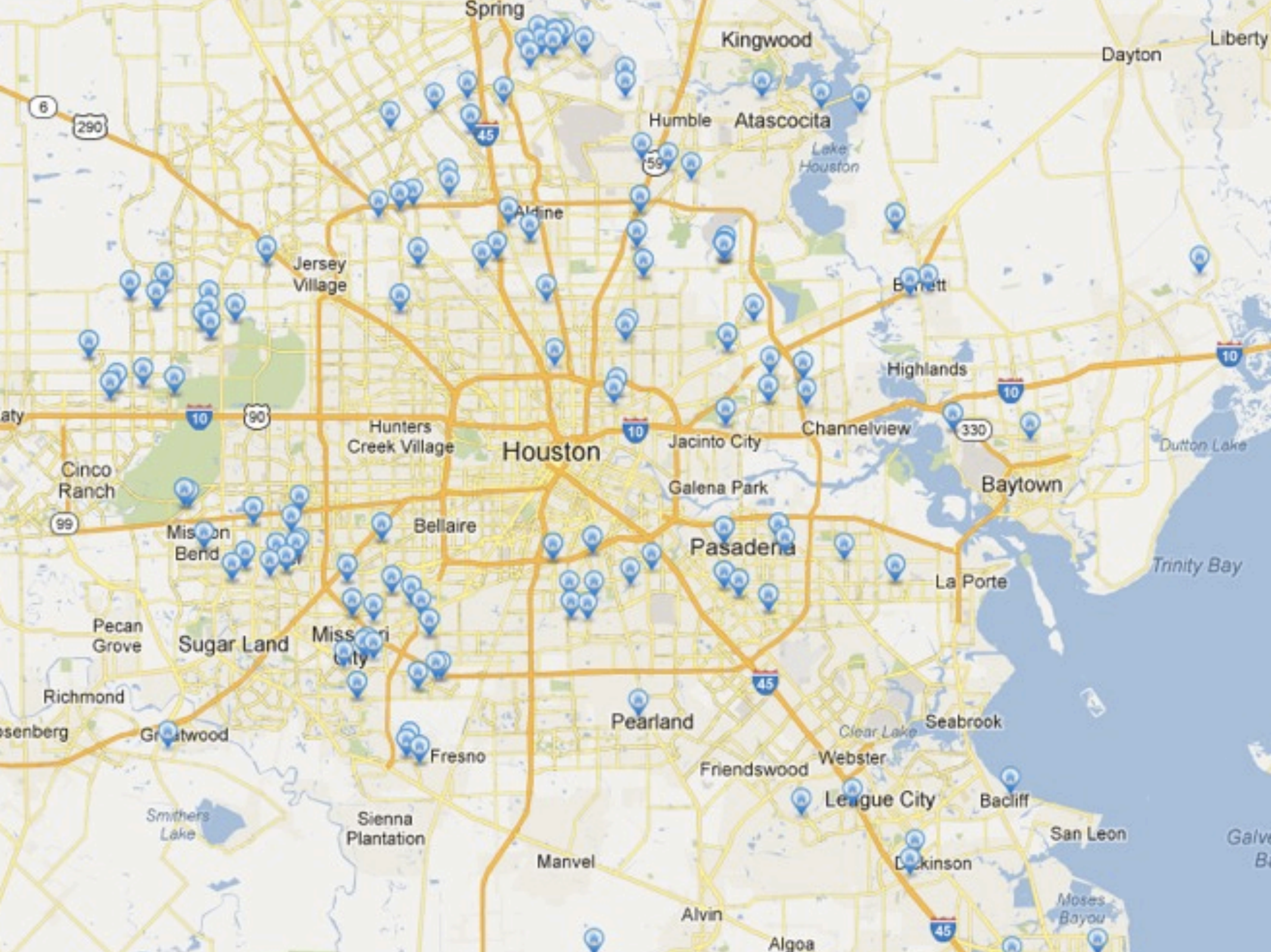


Large yard, all for \$199,000



\$69,000

Here is a used home in an older neighborhood: Four BR, 2 ba, 2,000 sf, \$69,000 -- sorry, just sold.



I asked the Houston multiple-listing service to show me all three-plus-bedroom homes for sale for under \$60,000. The blue dots are the first 100 homes only. Notice they are scattered all over the region and not just in some poor neighborhoods.

\$59,000



Here, for example, is a 3 br, 2 ba, 1,500 sf home on offer for \$59,000. This is what housing should cost, but it doesn't in states that have growth management.

**HOW GOVERNMENT UNDERMINES
THE DREAM OF HOME OWNERSHIP**



AMERICAN NIGHTMARE



RANDAL O'TOOLE

All of these ideas are discussed in detail in my book, *American Nightmare*, available from cato.org, Amazon, and other booksellers.

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-

At cato.org, you can also download several papers I have written on land-use regulation and housing, such as this paper showing how urban planners caused the housing bubble.



Neglecting the Basics

By The Antiplanner | January 14, 2013 | City planning, News commentary

Portland is proud of being a livable city. Sure, its streets are crumbling, city buildings are neglected, and its schools are crappy. But don't worry; it's a livable city.



Recent Posts

- ⇨ [Getting Highway Numbers Right](#)
- ⇨ [Kansas City Spared Light-Rail Vote](#)
- ⇨ [Neglecting the Basics](#)
- ⇨ [Confusing Inputs with Results](#)
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January 2013

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



For even more information, I invite you to Washington DC next October



*Preserving the American
Dream Conference*

Ending Gridlock

October 27–29 2013

Washington, DC

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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