

Smart Growth's Role in the "Panic of 2008"

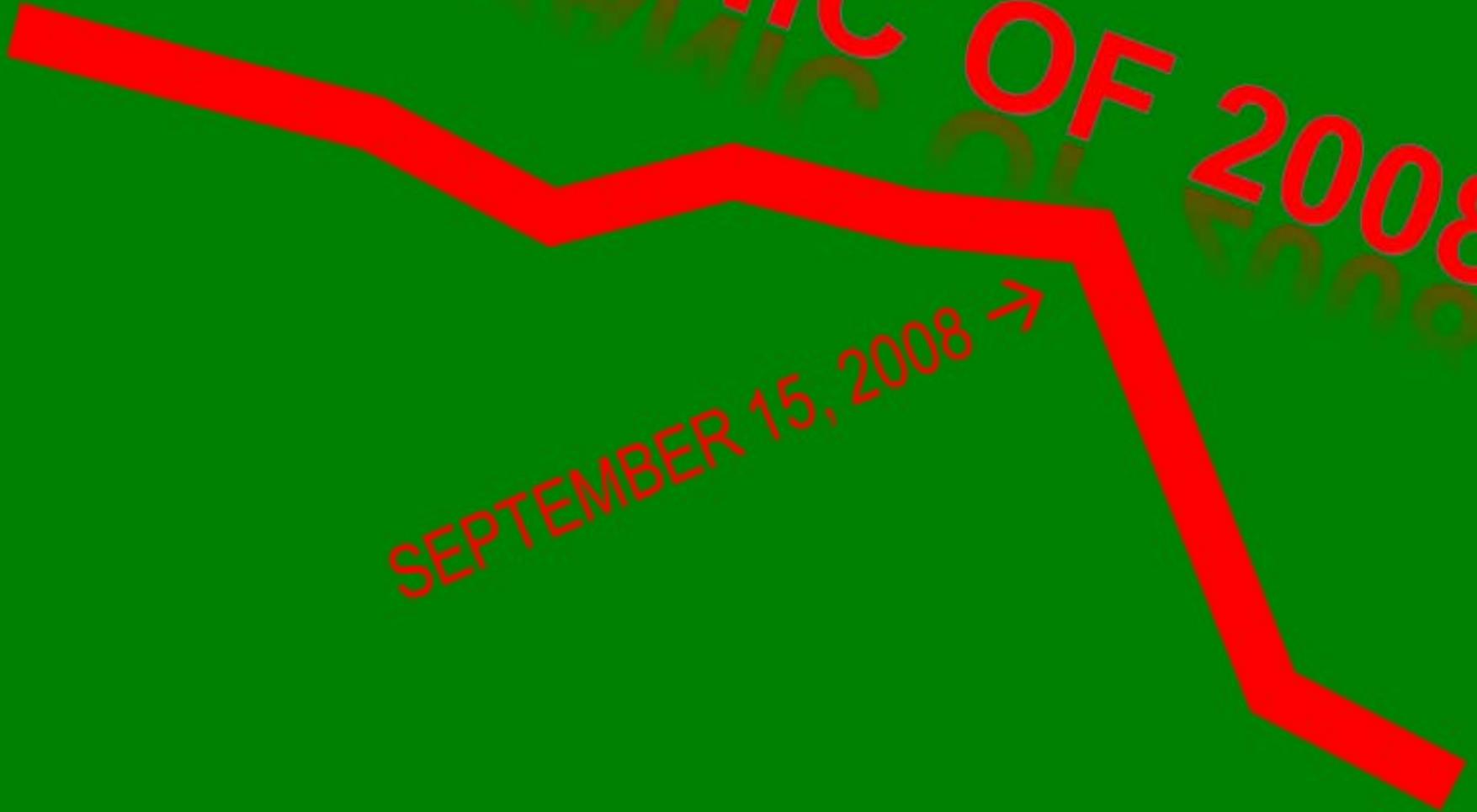
American Dream Conference • Wendell Cox
Seattle • 17 April 2009

DEMOGRAPHIA



THE PANIC OF 2008

SEPTEMBER 15, 2008 →



Smart Growth & House Prices

*2007:
4,600 SF
\$525,000
Houston*

DEMOGRAPHIA



Smart Growth Strategies

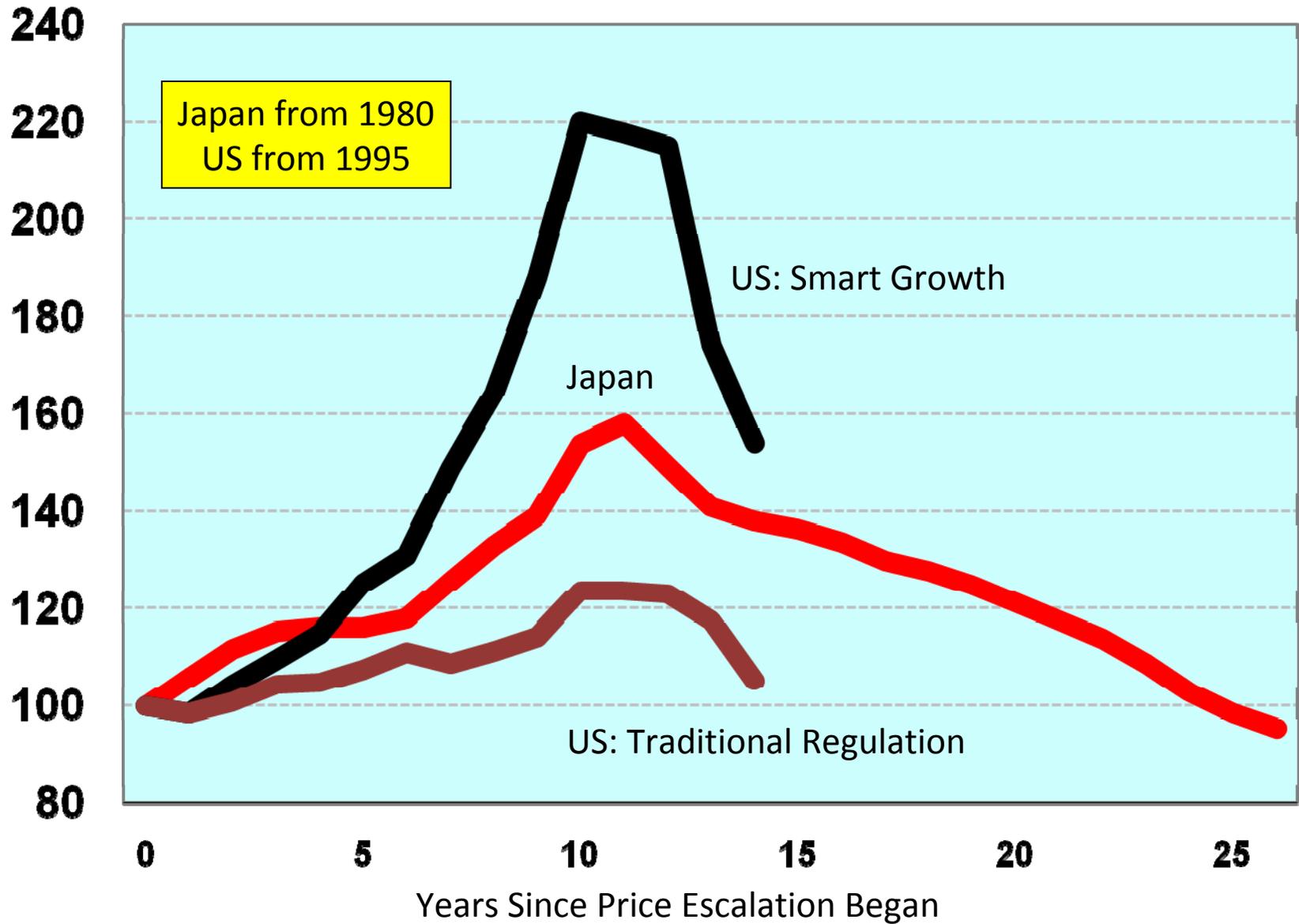
OVERVIEW

- Urban growth boundaries
- Infill requirements
- Development charges
- Build public transport, not highways
- Mandatory New Urbanism
- Mandatory expensive amenities

Toronto

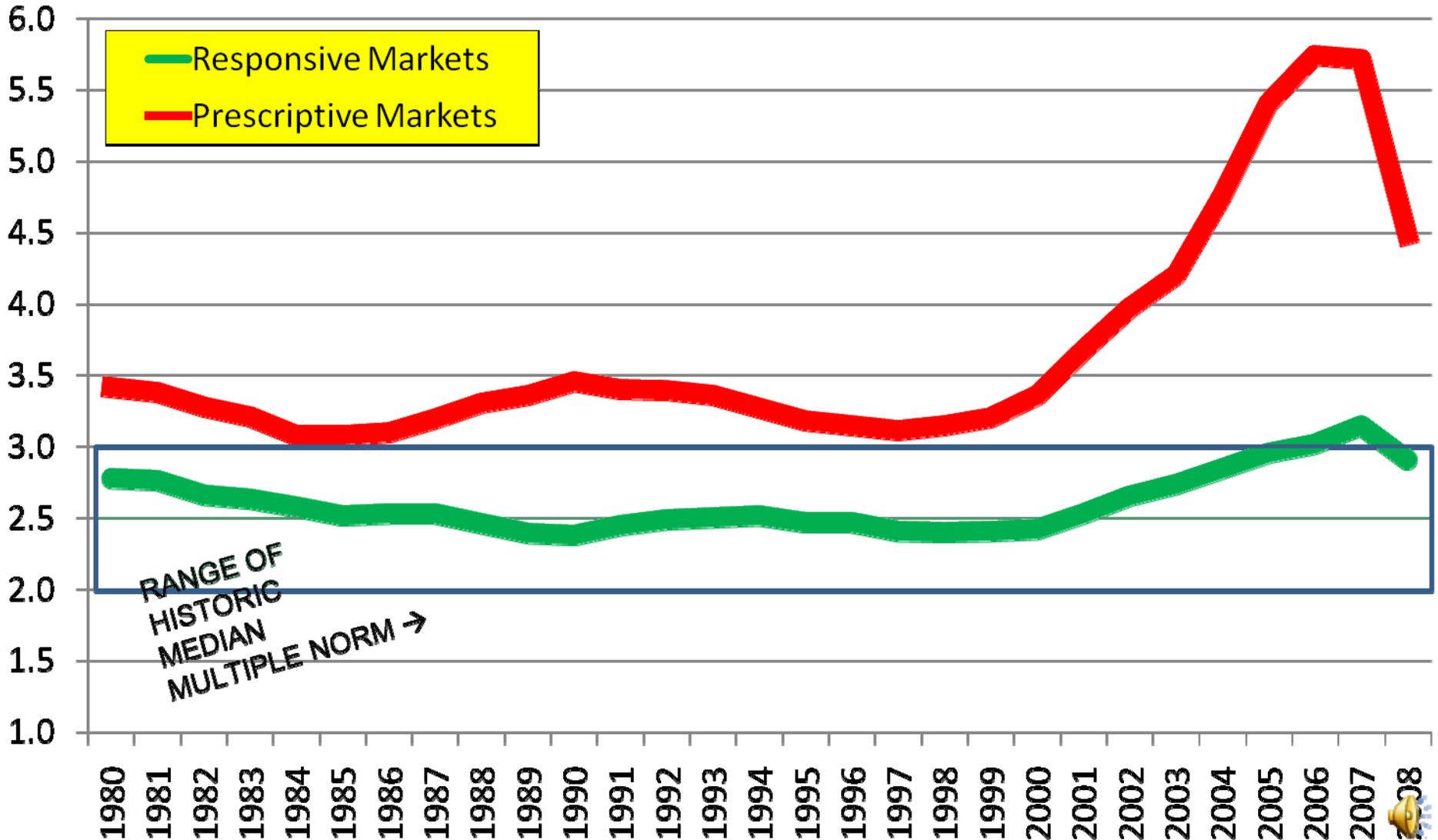
Japan & US House Price Bubbles

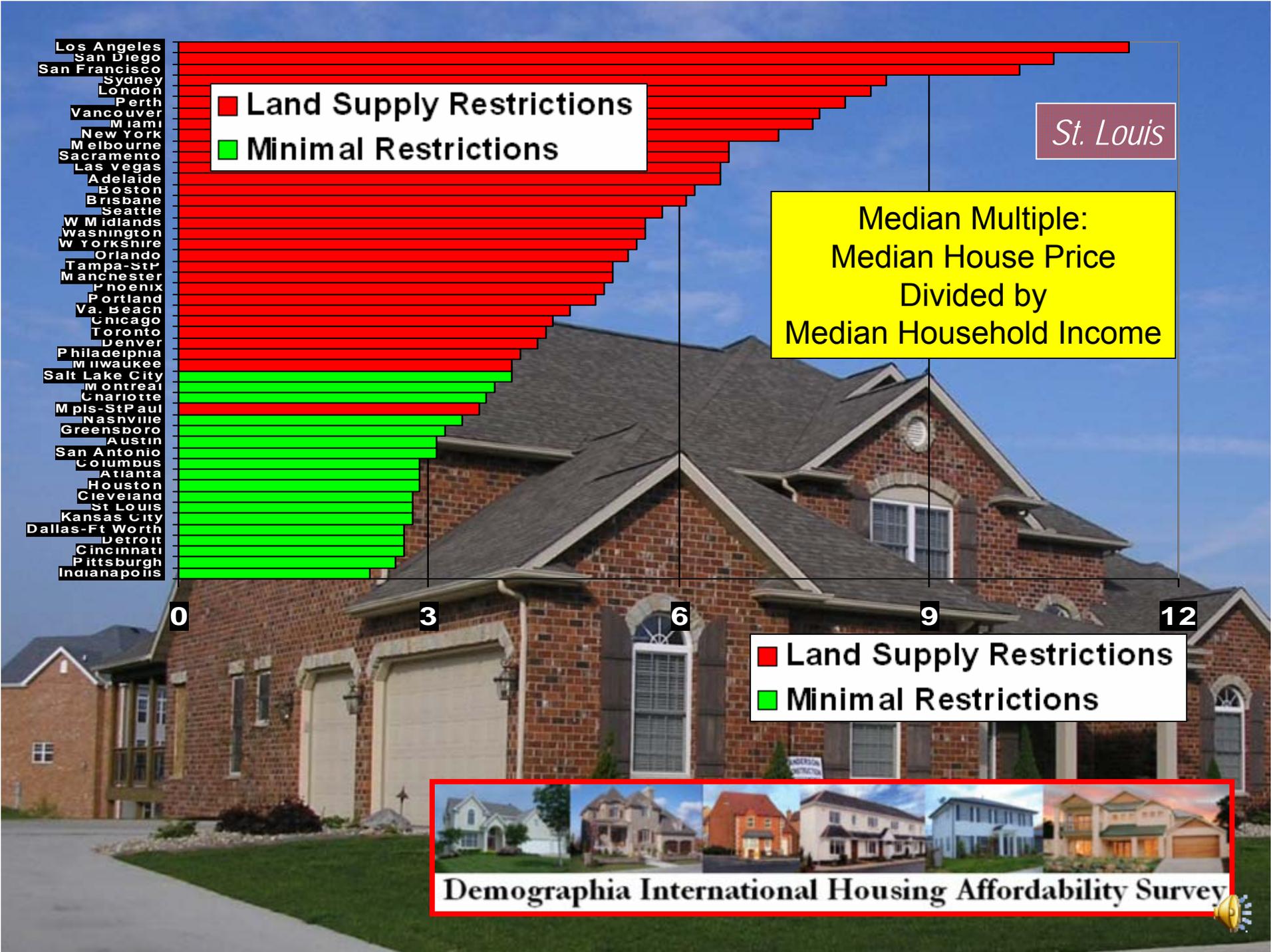
FROM BEGINNING OF "HOUSING BUBBLES"



Median Multiple Trend: 1980-2008

MAJOR RESPONSIVE & PRESCRIPTIVE MARKETS: USA





St. Louis

Median Multiple:
 Median House Price
 Divided by
 Median Household Income

Legend:
■ Land Supply Restrictions
■ Minimal Restrictions

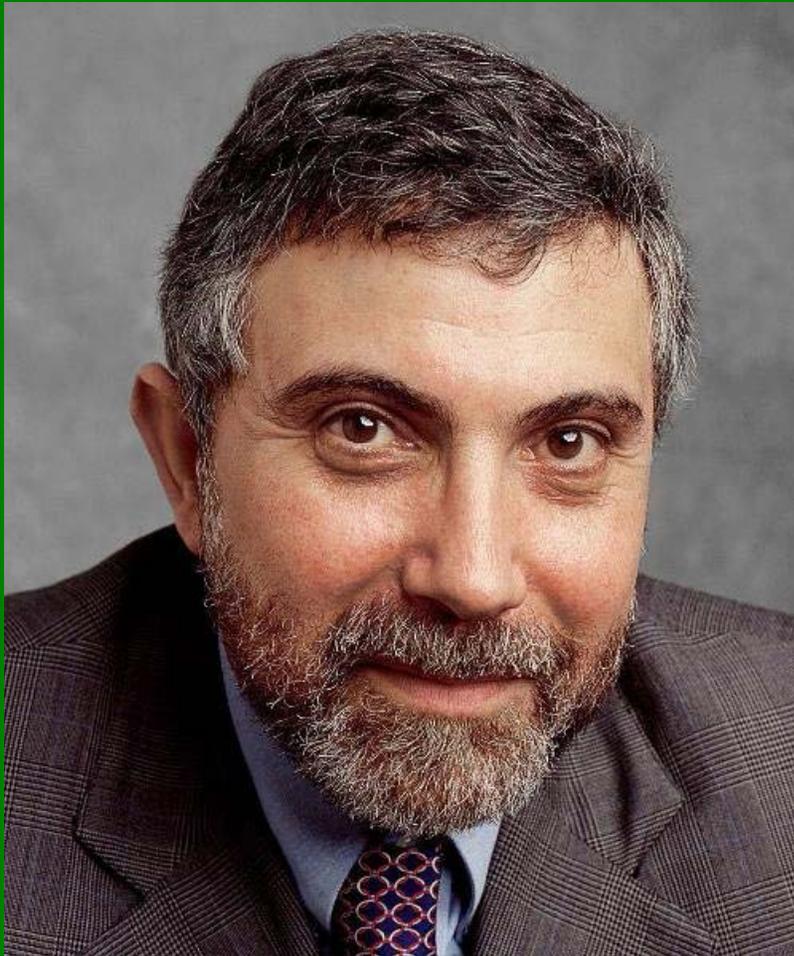


Demographia International Housing Affordability Survey



Land Rationing Increases Prices

ECONOMICS: SCARCITY INCREASES PRICES



Housing bubble
where restricted land
use, not where less
restrictions

No bubble where
more suburbanization

Paul Krugman,
Princeton University
2008 Nobel Prize in Economics 

UK: Barker Reports

SMART GROWTH FAULTED FOR HOUSE PRICE RISES

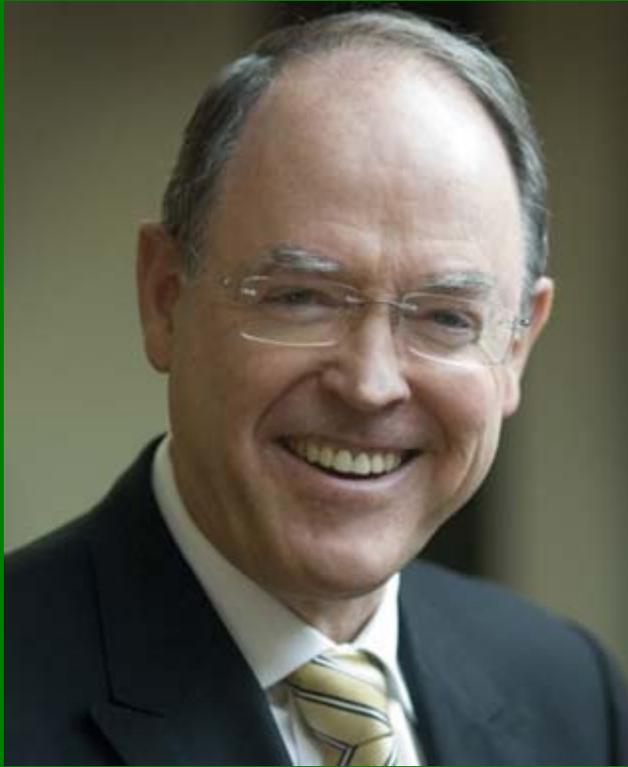


Kate Barker, Member,
Monetary Policy Committee,
Bank of England

London

Land Rationing is the Issue

DESTROYS HOUSING AFFORDABILITY



... 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.

Donald Brash, Governor,
Reserve Bank of New Zealand
1988-2002
Introduction to



Demographia International Housing Affordability Survey

4th Annual Demographia International Housing Affordability Survey 🎤

Strict Restrictions Increase Volatility

INCREASED POTENTIAL FOR BUBBLES



Edward Glaeser
JFK School
Harvard University



Joseph Gyourko
Wharton School
University of Pennsylvania

...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.



“Smart Growth” Planning Tools

EVEN PROPONENTS AGREE ON HOUSING COSTS

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	
9	Transferable Development Rights	
10	Adequacy of Facilities Requirements	

From Table 15.4, “Costs of Sprawl---2000”



Smart Growth: Consequences



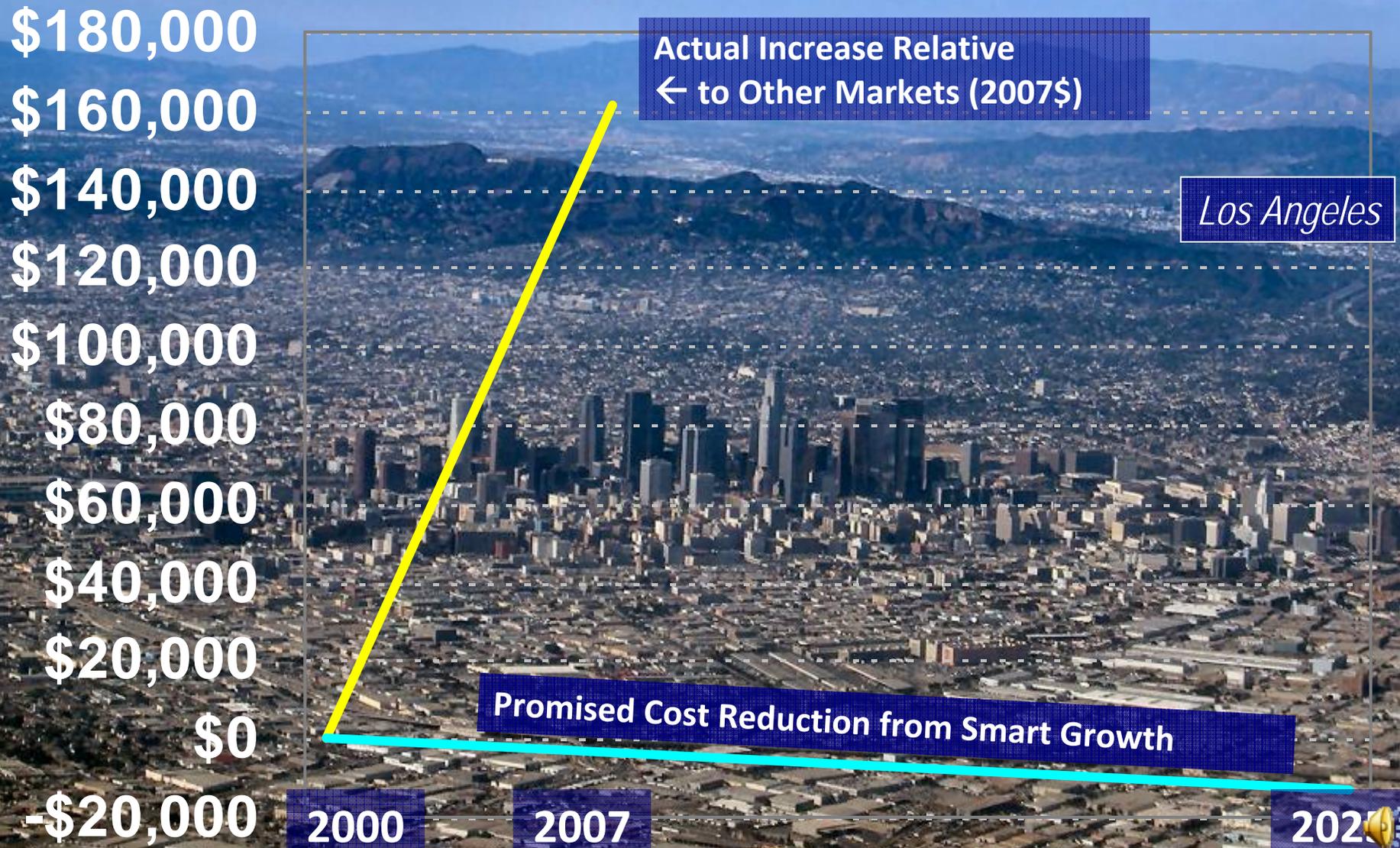
*2007:
1,700 SF
\$575,000
Los Angeles*

DEMOGRAPHIA



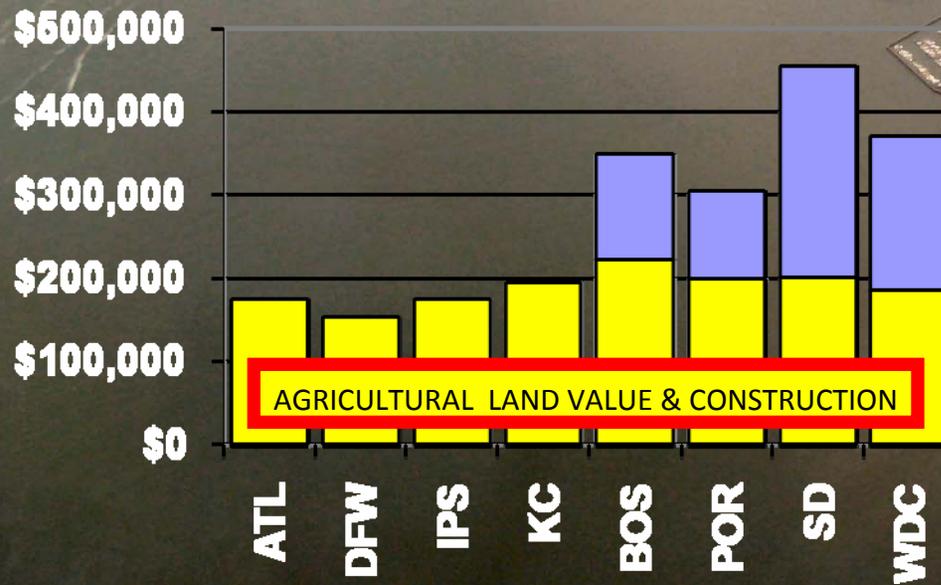
“Costs of Sprawl-2000”: House Prices

REALITY V. PROJECTION: 2000-2025: PER UNIT



Comparison of New House Prices

8 METROPOLITAN MARKETS: 2007

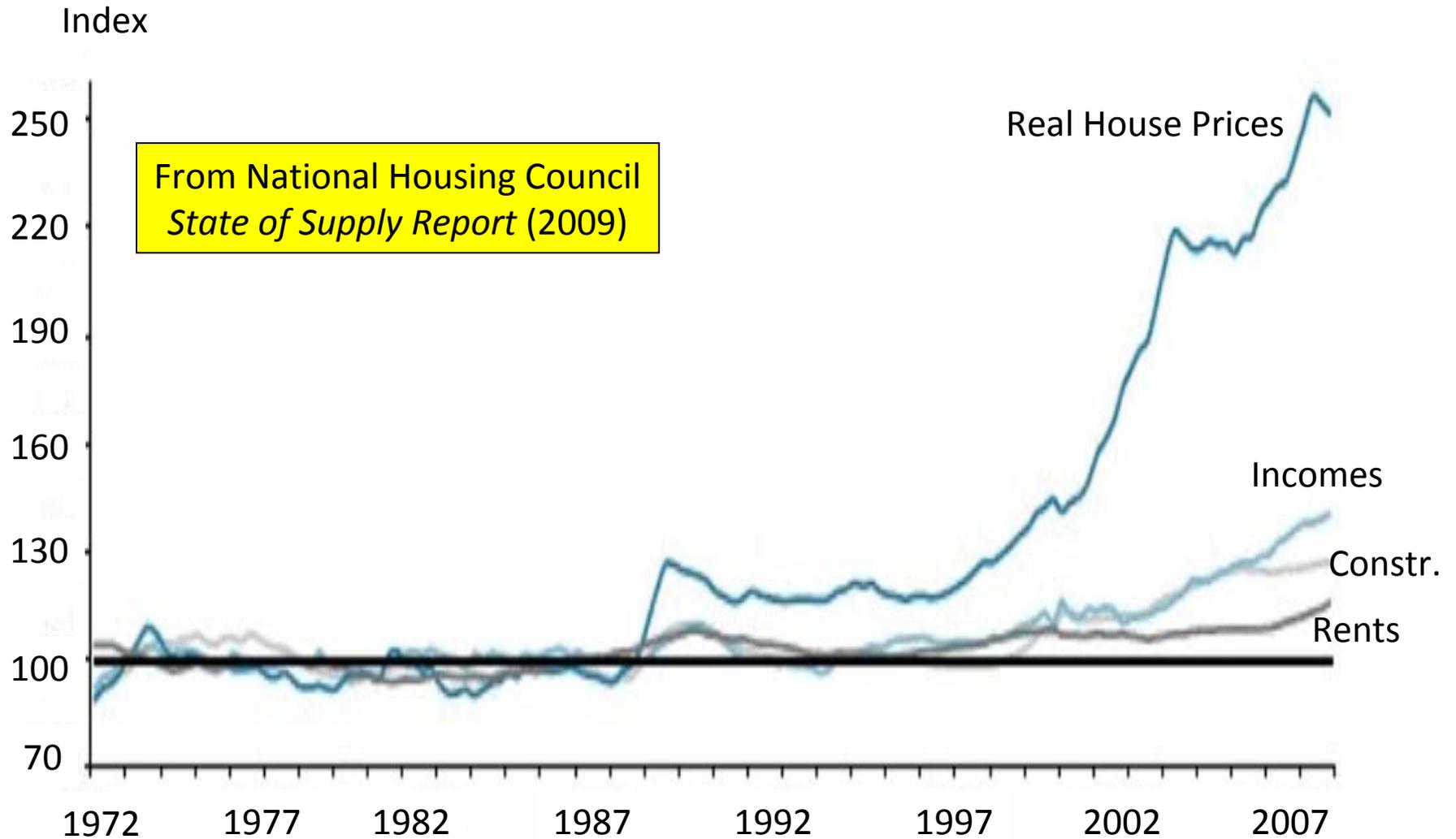


San Francisco

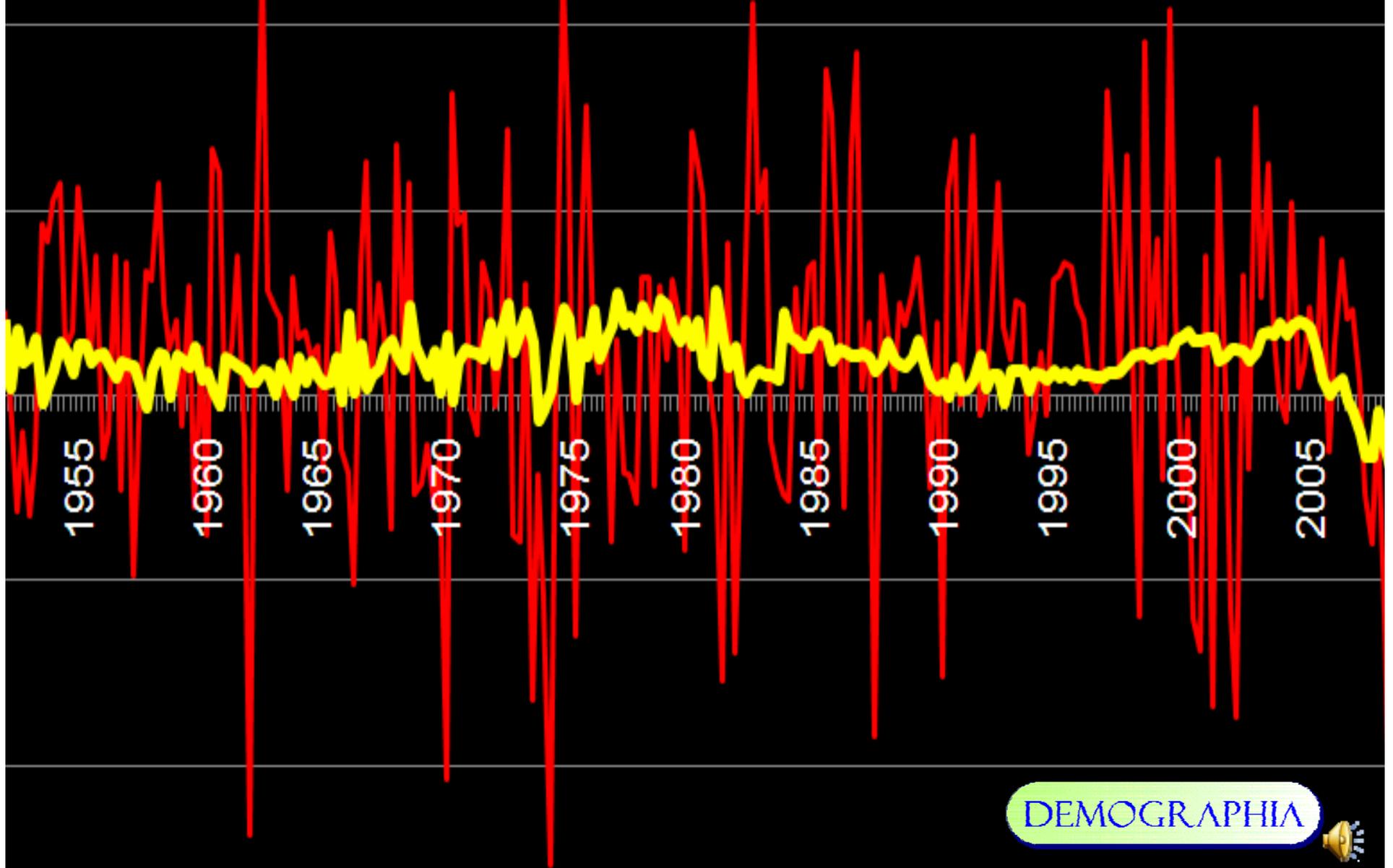


The Case of Australia: 1972-2007

SMART GROWTH DRIVES HUGE PRICE INCREASES



Smart Growth & the Panic of 2008



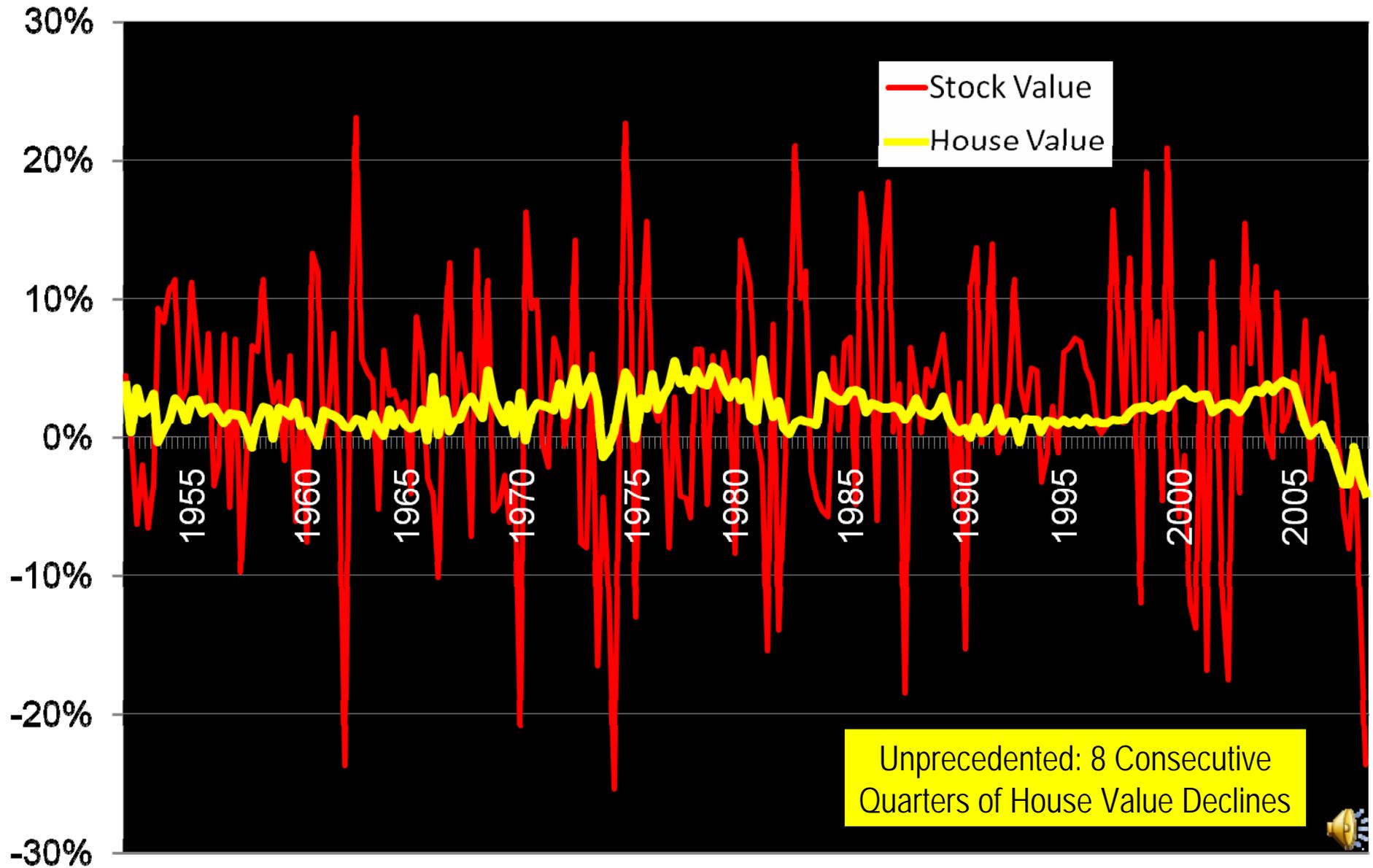
2 Necessary but Not Sufficient Conditions IN COMBINATION BECOME SUFFICIENT

- Profligate mortgage lending: Necessary to increase housing demand.
- Smart Growth: Necessary to create huge price increases & intense losses
- Together triggered **THE PANIC OF 2008**



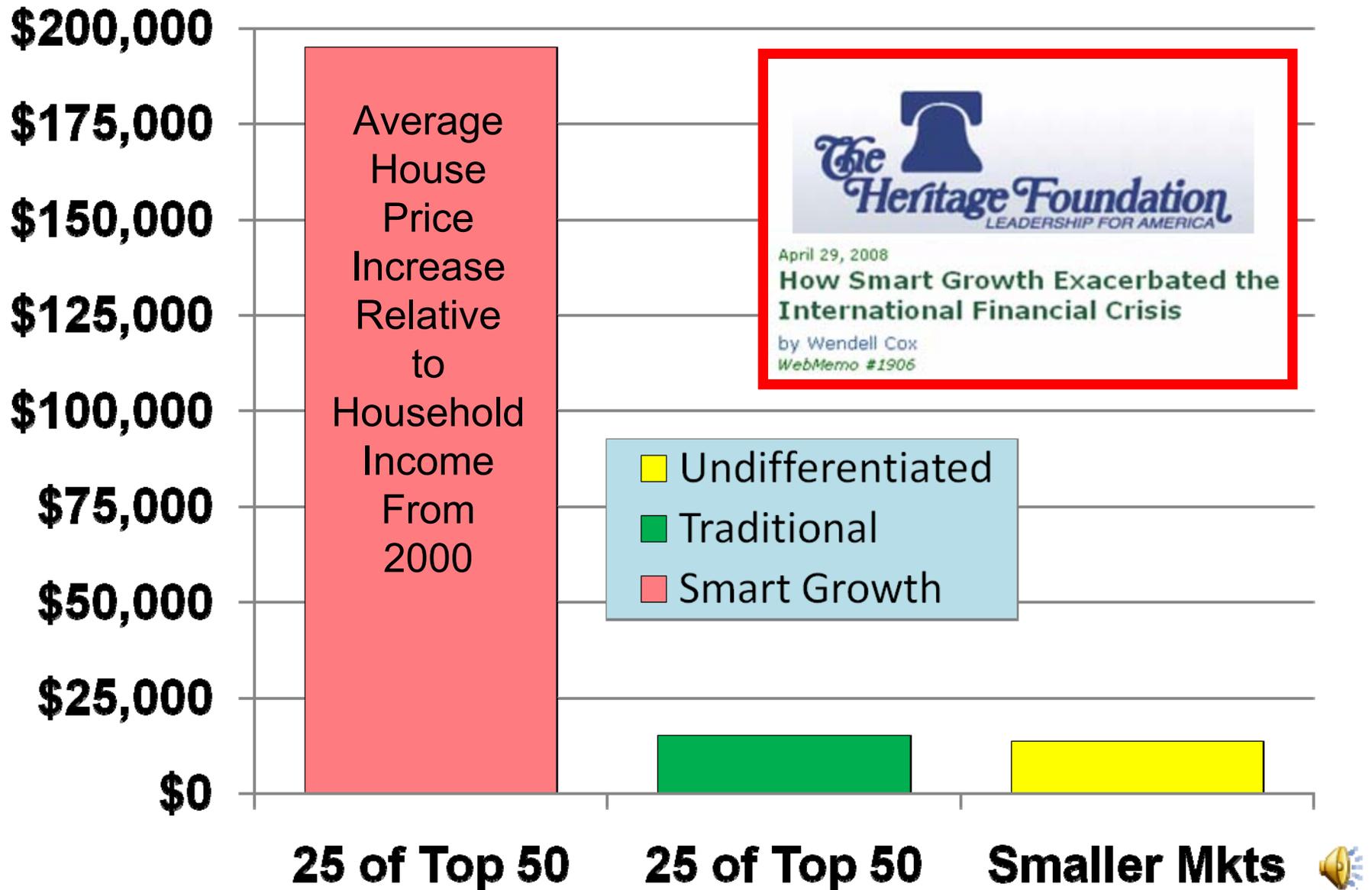
Household Asset Values: 1952-2008

HOUSES, STOCKS & MUTUAL FUNDS: QUARTERLY CHANGE



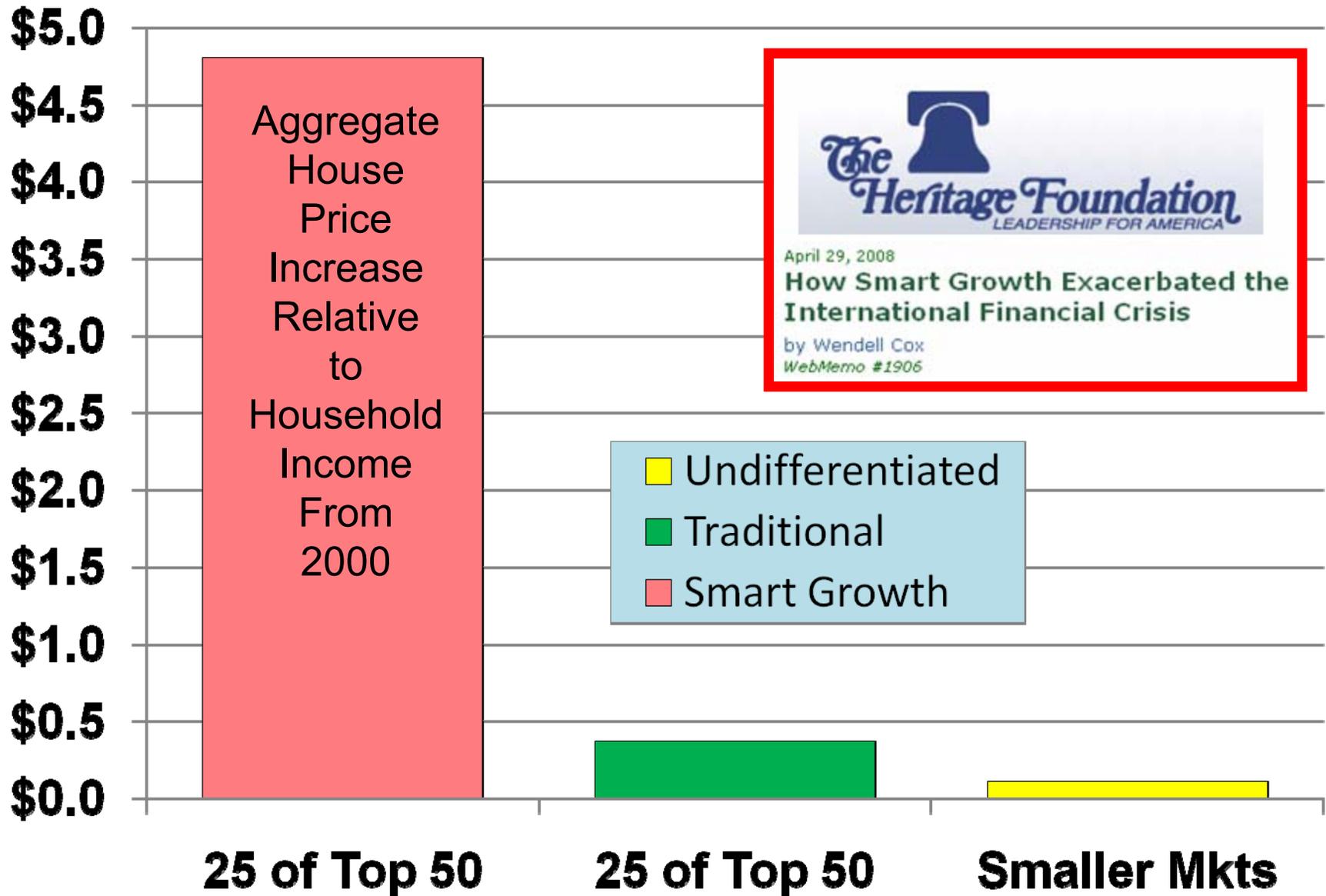
Housing Bubble: Per House

BY MARKET CATEGORY FROM 2000



Housing Bubble: Aggregate

BY MARKET CATEGORY IN TRILLIONS OF \$



Understanding the Issue

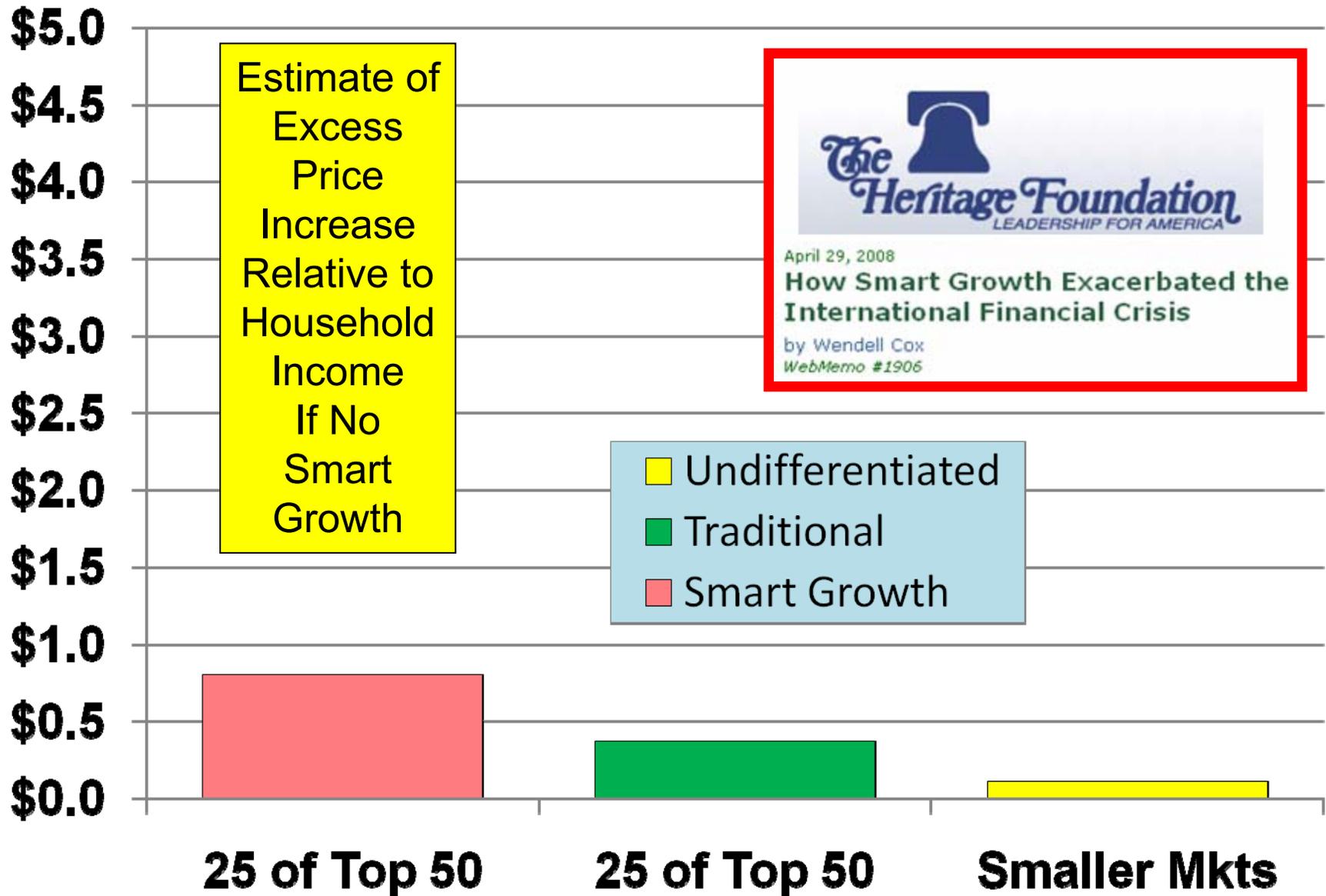
IMPROVE AFFORDABILTY, AVOID FUTURE CRISES

- The issue is not *foreclosure rates*.
- The issue is *intensity of mortgage losses*.
- And that... if the losses had not been made so intense by smart growth, *the financial crisis might have been avoided*.



Housing Bubble: If No Smart Growth

BY MARKET CATEGORY IN TRILLIONS OF \$



Smart Growth Triggers Financial Crisis

CAUSED OR INTENSIFIED THE PANIC OF 2008

1. More liberal lending practices in the United States

2. Housing demand increases as a result

3(a). PRESCRIPTIVE MARKETS
Huge increases: prices and mortgage exposures

4(a) RESPONSIVE MARKETS
Small increases: prices and mortgage exposures

3(b). Overwhelming share of default losses (85%)

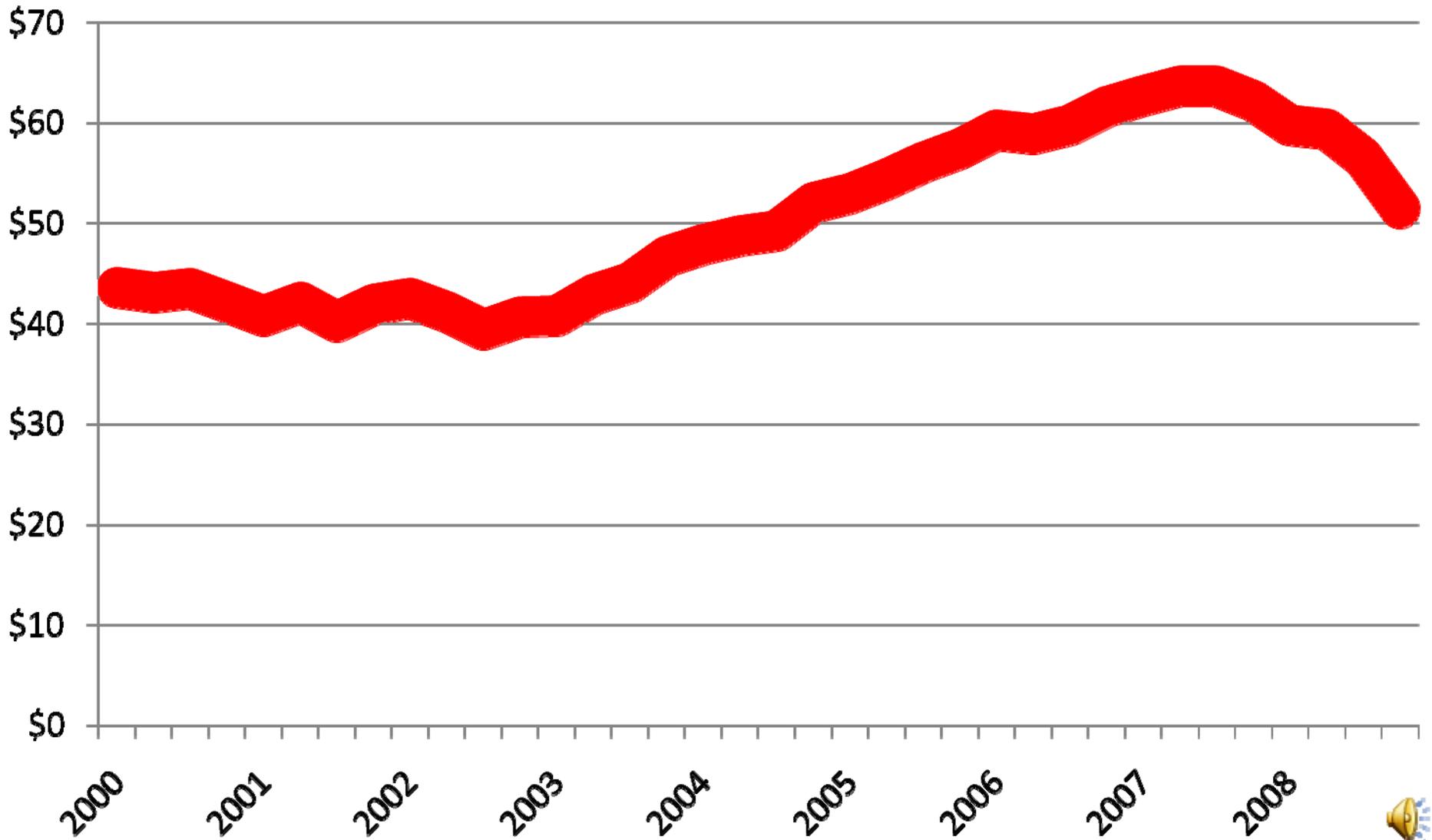
4(b) Small share of default losses (15%)

5. Large defaults losses lead to United States mortgage "meltdown"

6. US mortgage meltdown triggers international financial crisis

Household Wealth: 2000-2008

UNITED STATES IN TRILLIONS



Solutions

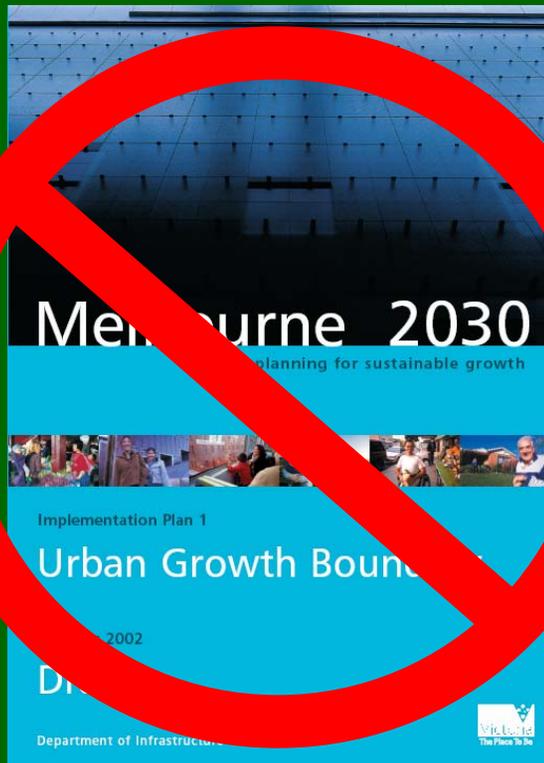
Suburbs of Lisbon

DEMOGRAPHIA



Reversing Smart Growth

MELBOURNE DUMPS SMART GROWTH PLAN



The Public Purpose

Number 86 • March 2005

MELBOURNE 2030: A VISION FAR TOO TIMID
Premier Bracks Swallows L.A. Fish Story



Progress in the United Kingdom (Taylor Review)

Living Working Countryside

The Taylor Review of Rural Economy and Affordable Housing



Problem
(& Solution)
Identified
Two
Decades
Ago

(The
NIMBY
Report)

“Not In My Back Yard”

Removing Barriers to
Affordable Housing

Report to President Bush and Secretary Kemp
by the Advisory Commission on
Regulatory Barriers to Affordable Housing



NIMBY Report Recommendation

EVEN MORE IMPERATIVE IN 2009

Historically, one of the most fundamental responsibilities of the Federal Government has been to prevent State and local administrators from abusing the rights of citizens.

The Commission strongly recommends that the Congress... allow HUD to condition assistance to State and local governments based upon their barrier-removal strategies



The Imperative for Action

IMPROVE AFFORDABILITY, AVOID FUTURE CRISES

- Stuart Butler: "Dump Smart Growth"
- Require repeal as a condition of stimulus funding (Glaeser)
- Dismantle smart growth regulations that increase housing costs

