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May 8, 2009 6:12 PM

Why The Housing Bubble Didn't Mess With Texas

Posted by [Declan McCullagh](#) | [Comment On This Post](#)



(AP Photo/David Zalubowski)

Over at the *Wall Street Journal*, Nick Timiraos [asks](#): "Why Didn't the Housing Bubble Mess With Texas?"

One possibility, the *Journal* suggests, is Texas' ban on prepayment penalties. But then again, some bubblicious states had them too.

Another suggestion is that homes in Texas cost more every year: a \$150,000 home in Texas would cost \$5,300 in taxes and insurance, compared with \$2,050 in California.

The problem is that you can't get \$150,000 homes in most areas of California. A 3br/2ba home that could be purchased for \$150,000 in the Lone Star State might **cost** a staggering \$1.6 million in Burlingame, Calif., about 20 miles south of San Francisco. Taxes and insurance on that property would cost you over \$20,000 a year -- and adding insult to injury, California has a steep income tax, while Texas has none.

In other words, we're back to the beginning. Why do S&P Case-Shiller data going back [show](#) no huge rise and fall in Dallas-area housing costs starting in 2000? House prices increased by about 25 percent, and then fell only slightly.

By comparison, San Francisco metro area prices increased by almost two-and-a-half times, and then fell steeply. New York and Washington, D.C. experienced a similar, stomach-wrenching up-and-down ride.

In all of those areas, prices outstripped the fundamentals. What that means, as I've written [before](#), is that prices rose not because salaries increased or rents increased or population increased, but because of speculation. This is the greater fool theory: people bought a house hoping to offload it to someone else at a profit. It works until there are no more fools to be found.

So why did coastal areas attract more speculators?

The best explanation I've heard comes from [Randal O'Toole](#), a senior fellow at the free-market [Cato Institute](#) in Washington who specializes in the study of urban land use issues. I met O'Toole at a [political conference](#) in Las Vegas last year, and since then I've read some of his work on the topic.

Here's [an excerpt](#) from what O'Toole wrote in 2007: "The housing bubble really only affected a dozen states. In the remaining states, increases in housing prices were relatively modest. While housing prices grew by more than 130 percent in California and Florida from 2000 to 2006, prices in Texas grew by only 30 percent. With few exceptions, the states that saw the biggest bubbles were ones that had passed growth-management planning laws. And with one exception, every state that has passed such a law also saw a housing bubble." (The full study is [here](#).)

If you think of supply and demand, this makes sense. If homes are more difficult (or impossible) to build because of the local government's growth-management rules, all else being equal, prices go up.

O'Toole estimates that these policies imposed a \$250 billion tax on homeowners in 2006. If he's right, these rules also encouraged Americans to borrow much more than they could reasonably afford -- and arguably played a role in today's economic malaise.

Comments [+ Post Your Own]

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"And Texas, like probably the majority of states in the country, simply didn't have a huge influx of people to push up housing prices."

Are you out of your mind? Have you ever been to Texas? We are migration central...not just from the south, India, east Asia, etc....this place is like a state sized international airport

Posted by **texasbeta** at 2:13 PM : May 10, 2009
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besides, I wouldn't want to retire after 5 years of blood, sweat and injury which is what the average worker has before facing the desert.
 There you can be fired for anything, just before your (if they offer it) pension is vested. They don't offer many of the services (they call social programs) other states do.
 Great state for cutthroats though, as that's how it was really founded.
 Posted by netjunkie1

You are right about the right to work. Companies here can fire you for anything...on a whim actually. I am surprised that it isn't like that in other states...I as not aware of that. I am as liberal as they come, and live in Dallas, but in other states like you describe...can they not fire you for whatever they want? Don't they just come up with something anyways? In Texas you work to get money...lots of jobs...if you need more, you get more jobs. How does it work in other places?

Posted by **texasbeta** at 2:11 PM : May 10, 2009
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"what the average worker has before facing the desert."

Desert? What desert? If you worked in a desert in Texas you must have been mighty lonely -- way out there in the southwest part of state (mostly unpopulated).

Posted by **I_LOVE_Texas** at 1:37 PM : May 10, 2009
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Anyone moving to Texas, I feel for you.....God that state sucks.
 Its even worse than that...Burning hot temperatures,flash floods, hurricanes, tornadoes, incredible rain storms with lightning that could power the continent, along with the conservative pulpit preaching politics, and as a right to work state they don't even have to train the workers they employ to do many of the hazardous jobs considered to be skilled labor.
 I wouldn't move there if the last jobs in the planet were found there.....besides, I wouldn't want to retire after 5 years of blood, sweat and injury which is what the average worker has before facing the desert.
 There you can be fired for anything, just before your (if they offer it) pension is vested. They don't offer many of the services (they call social programs) other states do.
 Great state for cutthroats though, as that's how it was really founded.

Posted by **netjunkie1** at 11:46 AM : May 10, 2009
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"And as for corporate headquarters, that's another load of BS. Texas is overrepresented by company headquarters because of it's time zone."

To use your terminology: what a load of BS. Do you actually think companies move because of a TIME ZONE?? We are a business friendly state -- that's why our economy is one of the best in the nation. Time zone? Nope. That's not why businesses make those kinds of decisions.

Posted by **I_LOVE_Texas** at 10:02 AM : May 10, 2009
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"And Texas, like probably the majority of states in the country, simply didn't have a huge influx of people to push up housing prices. "

Sorry, you're wrong again (where do you get this stuff?) Texas was 2nd only to Florida in "domestic migration" in the last decade. The state of Oregon had less than one third the "influx" of people than Texas (and that's not including our huge numbers of illegal immigrants).

Try again....yawn....

Posted by **I_LOVE_Texas** at 9:50 AM : May 10, 2009
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"If your a national company with offices on both East and West Coast, you need your headquarters to be in Central timezone. That's also why Denver has a lot of company headquarters."

Well, you made me laugh again! LOL! Denver is NOT in the Central time zone.

Posted by **I_LOVE_Texas** at 9:43 AM : May 10, 2009
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Also, I always liked "All My Ex's Live In Texas" until it happened to me. She is somewhere in the Huntsville area.

Posted by **honestabe8** at 8:19 AM : May 10, 2009
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I have only been to Texas twice. Once for business (Sealy) and the net for fun (Fentress (near San Marcos)). More desert than my Michigan upbringing is used to. Still, the people seemed friendly, although many of them seemed persistent to tell me that GW Bush didn't represent Texas

Posted by **honestabe8** at 8:17 AM : May 10, 2009
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"...I laughed out loud when I read this totally moronic remark!..."---Posted by I_LOVE_Texas

Good, I was hoping to get a laugh when I posted that. I'm Texas-born myself, although I don't live there. The point I made and I'll make it again is that there's only one thing that drives up housing prices - and that is demand. You cannot have demand unless you have a lot of people who want to live there. And Texas, like probably the majority of states in the country, simply didn't have a huge influx of people to push up housing prices.

Portland OR did - we had tons of Californians who cashed out their equity, moved north, and wrote out checks for their homes with cash left over. That's why we had a bubble - but it wasn't a bubble that really popped. The fact is that this "bubble" only helped homeowners in Portland who left the state and sold out. Otherwise it's been very destructive. What it's done is made it impossible for young families with kids to buy housing here, so we have communities all over the metro area that have fewer and fewer kids, and more and more empty nesters. Trust me, you don't really want to live in a community like this because most of the empty nesters don't give a damn about the local community. Why should they? They have no kids around. Count yourself lucky if you live in a community in Texas that has inventory of affordable housing.

As for the land-use planning nonsense, the fact is that Dallas instituted a land-use planning bureau a few years ago. I had a friend who moved there to take a job with it. That was done as a result of the destructive side-effects of unrestricted growth.

And as for corporate headquarters, that's another load of BS. Texas is overrepresented by company headquarters because of it's time zone. If your a national company with offices on both East and West Coast, you need your headquarters to be in Central timezone. That's also why Denver has a lot of company headquarters.

Posted by **tmittelstaed** at 1:25 AM : May 10, 2009
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