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U.S. report slams city growth planning

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What better day than Halloween to bring to your attention a report from the Cato Institute, written by Randal O'Toole, a former city planner, about the bursting of the U.S. housing bubble.

It's called How Urban Planners Caused the Housing Bubble and it's frightening.

O'Toole writes the worldwide economic meltdown started with the air going out of the bubble, which depending who you speak with, was caused by low interest rates, unscrupulous lending practices and Wall Street.

All these things applied on a national basis, but not every city in the U.S. suffered from housing bubbles, writes O'Toole, adding prices in California and Florida more than doubled between 2000 and the peak and have since fallen from 20% to 30%.

Meanwhile, prices in Georgia and Texas grew by only 20% to 25% and haven't declined significantly and "not 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."

The difference is California and Florida impose greater regulations on landowners and developers, commonly called growth management, than do Georgia or Texas.

"In short," writes O'Toole, "restrictive growth management was a necessary condition for the housing bubble."

Growth management comes in several forms: Growth control, which limits a city's growth to a specific annual rate, and smart growth, which favours higher-density developments in already developed areas at the expense of new, single-family homes in the suburbs, both of which drives up housing costs by restricting the supply of land.

Comparing housing in all 50 states, O'Toole identifies 29 where house prices did not experience a bubble/burst cycle, only one of which has a growth-management law.

Meanwhile, of the six states where prices rose the highest during the boom and fell the furthest during the bust, five have growth-management laws.

In his conclusion, O'Toole writes, "Housing bubbles triggered the financial meltdown of 2008. Those bubbles did not result from low interest rates, changes in mortgage requirements, or other factors influencing demand. Instead, a necessary condition for their formation was supply shortages, most of which resulted from urban planners engaged in what they considered to be state-of-the-art growth-management planning. The U.S. is fortunate that they were able to practise these policies in only about 16 states, else the costs of the financial crisis would be even greater."

The City of Calgary recently approved a new growth-management plan with council members and city planners saying Plan It will be flexible.

Its policies are starting to be put to the test and if they prove to be unable to respond to market forces and other realities the viability and affordability of Calgary's housing market will be in jeopardy.

And that is frightening.

(Read O'Toole's report at www.cato.org/pubs/pas/pa646.pdf)

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