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MON OCT 12, 2009

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Local Urban Planning Policies Caused Housing Bubbles, Economist Says

BY: DARRELL DELAMAIDE

10/09/2009

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Restrictive growth management policies by urban planners were the main cause of the housing bubble that led to our current financial crisis, a conservative economist claims.



Randal O'Toole, a senior fellow at the conservative Cato Institute, says in a **new study** that local restrictions, not national, policies, led to housing bubbles in states like California and Florida. Other states, such as Georgia and Texas, which did not have such restrictive policies, did not experience a bubble and have not been subjected to the deflation that followed, he said.

"In short, restrictive growth management was a necessary condition for the housing bubble," O'Toole concluded. "States that use some form of growth management should repeal laws that mandate or allow such planning, and other states and urban areas should avoid passing such laws or implementing such plans."

O'Toole said that the causes normally cited for the crisis – easy credit from the Federal Reserve, the Community Reinvestment Act, or Wall Street's enthusiasm for subprime mortgages – applied equally nationwide, while a

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close look reveals that only some communities suffered from housing bubbles.

Inflation-adjusted housing prices in California and Florida more than doubled from 2000 to the height of the bubble, and since have fallen by 20 to 30 percent. In contrast, housing prices in Georgia and Texas grew by only about 20 to 25 percent in the boom period, and have not significantly declined.

The most important factor that distinguishes states like California and Florida from states like Georgia and Texas is the amount of regulation imposed on landowners and developers, O'Toole said, particularly the regulatory system known as growth management.

In his study, O'Toole contrasts Houston with San Francisco. Houston and surrounding areas, he says, have no zoning, so developers face minimal regulation when building on vacant land.

Developers may subsequently add deed restrictions to assure buyers that the neighborhood will maintain a positive character, but these deed restrictions do not impede further growth in surrounding regions that have no such restrictions.

By contrast, in regions like the San Francisco Bay area, land-use regulations steepen the supply curve, making supply as well as demand inelastic.

These policies can entail limiting development to homes on lots as large as 80 acres; a lengthy and uncertain permitting process; high impact fees; and frequent passage of new regulations that make subdivision and construction increasingly costly and difficult.

The eight counties in the San Francisco Bay Area, for example, have collectively drawn urban-growth boundaries that exclude 63 percent of the region from development, O'Toole notes.

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