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SMART GROWTH CAUSED THE BUBBLE



By Evelyn Pyburn

The housing bubble was not caused by artificially low interest rates, by the Community Reinvestment Act, or by poor risk-assessments, claims Randal O'Toole, a policy analyst of the Cato Institute. If those things were the cause, the impacts would have been felt equally, nationwide; there would not have been the broad variables from state to state, which were so evident during the recent housing crisis.



Local factors had to be at play, and the primary factor is land use regulations, said O'Toole in speaking to more than 225 attendees of a property rights forum in Bozeman, last month. The day-long event was sponsored by the Montana Policy Institute (MPI) and the Property and Environment Research Center (PERC).

Over the past decade federal and local governments have escalated the imposition of land use regulations known as "growth management," or often referred to as "Smart Growth,"

O'Toole, author of the recently released book "Gridlock," pointed out that there is a strong correlation between states which have instituted growth management, with states that experienced the worst of the housing crisis.

California and Florida experienced bubbles, while Georgia and Texas did not. California and Florida have some of the most restrictive regulatory controls – controls which generate an "inelastic" housing market, explained O'Toole. Georgia and Texas had no bubbles, and they have considerably less regulation, which allows builders to keep pace with growth.

Montana is marginal, said O'Toole. While the state does not impose "growth management," statewide, there are communities in the state which have embraced it to varying degrees. He believes that the greater degree to which Montana counties have restrictive growth policies, the greater they have suffered from housing bubbles.

Montana is among a handful of states which saw increases of more than 50 percent in housing prices, but saw those prices decline only about four percent. In Montana, "larger declines are likely, before the market bottoms out," according to O'Toole. He pointed out that prices, in unregulated Casper, Wyoming or Midland, Texas, grew by around 70 percent and have "hardly declined."

In Montana, O'Toole compared Missoula and Gallatin Counties, which have experienced sharp declines, to Cascade and Yellowstone Counties, whose housing markets remained rather stable. O'Toole said he believes that that reflects the "stronger land use planning regulations in Missoula and Gallatin Counties" more so than urban growth.

It's not about the rate of growth, but the degree to which developers are allowed to respond to growth. O'Toole pointed out that Atlanta, Dallas–Ft. Worth, and Houston have been among the fastest-growing urban areas, each growing by more than 120,000 people per year.

Developers in Houston are not burdened with the costs of Smart Growth restraints and despite the area's very rapid growth, they have kept pace with demand, because of the availability of ample, unrestricted land for development. O'Toole said that developers assemble large tracts, subdivided into complete communities with homes, schools, shops, etc., as well as all the needed infrastructure of roads, sewer and water. Homeowners repay their share of the costs over 30 years, through the purchase of homes that begin at a "very affordable \$160,000."

O'Toole explained the advent of "growth management." Cities with populations of 50,000 or more (in Montana that includes Billings, Great Falls, and Missoula) are required by the Federal Transportation Administration, in order to qualify for federal transportation funds, to have a Metropolitan Planning Organization (MPO), through which to implement land use planning.

Ray LaHood, Federal Transportation Secretary, has ordered MPOs to implement planning strategies which will make cities more compact, with the idea that people will have to drive less. The goal of federal planners is to build “walkable communities” or “livable communities,” in which modes of transportation are focused on mass transit, walking and biking. The aim is for each person to have a smaller carbon footprint. LaHood has stated that the goal is to “coerce people out of their cars.”

“I don’t think,” said O’Toole, “people are moving to Montana because they want to live in high density neighborhoods.”

Making housing unaffordable is not the unintended consequence of a well meaning idea, said O’Toole, it is actually an “intended consequence.” The regulations which are imposed on communities are aimed at making the single-family home uneconomical so people will be forced into high rise apartments.

“Smart-growth planners believe that Americans live the wrong way, and they use land-use regulation to impose on others what they believe is the right way to live,” said O’Toole – even though surveys consistently show that about 80 percent of Americans want to live in single-family homes. Planners want most Americans to live in high-density apartments and are using transportation dollars to leverage their agenda.

Advocates of growth management believe that it will help preserve open space and reduce the amount of driving by people. “Yet the share of U.S. land that would be protected from urbanization through denser housing is miniscule—probably less than 1 percent—and the effects of density on driving are also small,” said O’Toole. But, the negative effects of growth management on housing prices and on the cost of doing business, on congestion, and on personal liberty are far greater than the benefits, he said.

How are they getting away with it given the parameters of property rights?

“Urban planners don’t believe in property rights,” said O’Toole. They usually subscribe to a philosophy that says no one can do what they want on their property “until everyone else wants to do it, too.” Increasingly, the courts are backing up that philosophical position, pointed out O’Toole, as he reviewed a number of recent cases.

Implementation of MPOs have only given the federal government control over urban areas, and often citizens attempt to escape the controls by moving into rural areas. Because of that, the federal government is considering mandating that states impose the concept statewide in rural, as well as urban areas, so that there is no escape. Some states have already done so.

According to O’Toole, the Obama Administration is endorsing this idea. This will make housing less affordable and roads more congested. “It’s not going to get people on transit all that much,” said O’Toole.

“It’s going to increase the cost of living, the cost of housing, the cost of transportation and all of our costs,” contended O’Toole.

“It turns out,” he said, “that livability means immobility.”

O’Toole urged states to instead, “Let people do what they want. Then cities will have incentive to make development as low cost as possible.” It’s, also, a good idea to let neighborhoods opt out of zoning, if they put in protective covenants to protect the value of properties.”

“We should be supporting affordable housing, home ownership and we should be supporting mobility,” said O’Toole, “We need to oppose the ideas of Smart Growth and support instead the American Dream.”

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