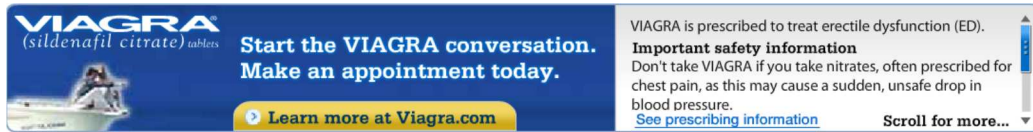




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CAPITAL COMMERCE

Did Urban Planners Cause The Housing Crisis?

By [MATTHEW BANDYK](#)
Posted: October 2, 2009

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Cato Institute scholar Randal O'Toole has a [new paper](#) with the provocative title, "How Urban Planners Caused The Housing Bubble." The paper sets out to explain a quandary: California and Florida, on the one hand, and Georgia and Texas, on the other, each experienced massive run-ups in prices as the housing bubble inflated. But when the market tanked, the crash wasn't felt nearly as hard in Georgia and Texas, but obviously California and Florida have become notorious. This is strange--especially when you consider that many cities in Georgia and Texas are some of the country's fastest-growing.

O'Toole's explanation for the difference is that California and Florida had strict land regulations that curtailed growth, while Georgia and Texas had mostly laissez-faire land policies. Focusing on two cities--San Francisco, with its notoriously expensive housing, and Houston, notoriously cheap--O'Toole explains the connection between regulations and large swings in prices. It all has to do with how inflexible the housing market is in San Francisco, relative to Houston:

Given that both demand and supply in regulated regions are inelastic, small changes in either one can result in large changes in price. If lower interest rates increase demand for housing, Houston-area homebuilders respond by building more homes; San Francisco-area builders respond by filing more applications, which may wait several years for approval. If government purchase of a large block of land for a park or open space restricts supply, Houston-area builders can simply go somewhere else nearby; in the San Francisco area, the nearest alternative building location is more than 50 miles away.

Notice that inelastic supply not only makes housing prices rapidly increase with small increases in demand; it also makes housing prices rapidly fall with small decreases in demand. This is exacerbated by lengthy permitting periods that can put homebuilders out of phase with the market. Thus, land-use restrictions create conditions ripe for housing bubbles.

I have three thoughts that immediately come to mind:

1. It's beyond the scope of the paper, but discussion of more states than just these main four would have illuminated the subject more. O'Toole mentions Oregon a few times and its very restrictive growth management policies, but why did the housing bubble not hit Oregon as hard as California or Florida, if growth management is the main culprit? Nevada is another state where the crash did a lot of damage, but the only mention in the paper of its land policies is that "Nevada growth management is regulated at the federal level," because the federal government owns so much land in that state. That seems different, however, then the policies in San Francisco that made it explicitly hard to build homes.
2. As Tyler Cowen has [blogged about](#) recently, Houston is not a place with "minimal government regulation," as O'Toole puts it, when it comes to land use. Yes, the city has no zoning, and it might not engage in growth management. But the local government forces the housing market to conform to its standards, mainly through minimum lot-size requirements that essentially ensure that "suburban sprawl" is the only form the city can take. None of this means O'Toole's thesis is wrong. But I'd be curious to know if he thinks



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U.S. News business reporter **Matthew Bandyk** examines the issues, people, and debates that shape the nexus of political and economic life in the

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that these sprawl-inducing policies actually helped Houston avoid the worst of the housing crisis. The headline "sprawl solves housing crisis" would be truly counterintuitive!

3. This is one area where I actually agree with [Barney Frank](#)--one factor can be hugely important, but not look so in isolation. That is to say, these housing policies probably did exert a large influence, but it is almost impossible to isolate them and really say they were *the* cause. You can keep guessing--what if the Fed had not kept interest rates so low? Then would these housing policies have been so relevant?

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