

Houston and Deregulation

Can a Truly Free Market City Succeed?



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As cities across America struggle with volatile real estate markets that devastate the middle class, one city, Houston, has managed to avoid both the recent shortages of affordable housing and the crash of the housing market. Since the 1990s, housing prices in the California, Arizona, Florida, and Nevada have skyrocketed. In the Bay Area, Los Angeles, and San Diego, economic growth considerably outpaced housing growth, whereas in Phoenix, Miami, and Las Vegas, massive speculation caused housing growth to dramatically outpace economic growth. In both cases, housing prices soared, and the result of these incongruencies is the current housing crash. However, other fast growing regions such as Atlanta, Dallas, and Houston managed to escape the housing bubble and burst by maintaining an ample supply of housing that mirrored their booming economic development. These stable and affordable housing markets owe their success to one common factor: their loose zoning and growth regulations. The cheapest and most stable market of the three, Houston, serves as a stark contrast to the high-priced Bay Area markets. In the past half-century, while Bay Area governments strengthened their control on growth and land use, Houston has been the leader in free market development by abolishing zoning laws altogether. As a result of its thriving economy and affordable housing market, Houston boasts one of the strongest and fastest-growing middle classes in the nation. Nonetheless, Houston's successes have also brought problems, as traffic, pollution, and public health concerns continue to grow. While some urban planners view Houston as the epitome of automobile-dependent urban sprawl, deregulation in Houston has created an unparalleled dynamic urban environment that readily adapts to the needs of its population and ensures its position as a highly influential city for decades to come.

With no zoning laws or growth restrictions, developers in Houston can readily meet housing demand with an ample supply of new homes and apartments, keeping prices low and

affordable for the middle class. Nearly every city in America has zoning laws designating specific land use (i.e. residential, commercial, or industrial) for a site. The most common practice, Euclidian zoning, seeks to separate and control land uses, often to slow change and limit congestion. In addition, several metro areas, such as the Bay Area, have growth boundaries to protect open space and limit sprawl. However, in their essay *The Impact of Zoning on Affordability*, Harvard professors Edward Glaeser and Joseph Gyourko prove that “measures of zoning strictness are highly correlated with high prices,”ⁱ meaning that zoning and growth restrictions directly contribute to inflated housing prices (shown through the Bay Area’s self-proclaimed affordable housing crisis). On the other hand, apart from individual deed restrictions, Houston has rejected zoning laws and growth restrictions altogether, opening up nearly all the land in Houston (outlying and infill) as potential sites for development. So, when housing demand increases, it is met with increased construction rather than increased prices, creating a truly adaptive housing market. Therefore, housing in Houston is among the cheapest in the nation, since the price reflects only the cost of construction and is not inflated by demand caused by a shortage of housing or delays from planning review meetings and environmental impact studies.

While other markets recently bubbled and crashed, Houston’s free market land use policies and steady economic growth kept prices stable and modest. In places like Silicon Valley, the past thirty years have seen enormous economic development, but strict land use laws in the Bay Area (coupled with geographic barriers) effectively prevented housing supply to keep up with demand. Similarly, rapid development in places like Las Vegas created a glut of housing that outpaced economic growth. In both situations, as prices rose beyond affordability, home ownership fell out of reach of middle class families, so demand and thus sales decreased, causing

the current crash. However, in Houston, prices remained stable because its housing growth kept pace with economic development and no imbalance occurred. A comparison between the Houston metro and Bay Area housing prices and their relationship to median family income can be seen below:

Median Home Prices: October 2007-October 2008

2007

2008

| Market | Median Family Income ¹ | Median Price (October 2007) | Price to Income Ratio | Median Family Income ² | Median Price (October 2008) | Price to Income Ratio | % Change (Price) |
|------------------------------|-----------------------------------|-----------------------------|-----------------------|-----------------------------------|-----------------------------|-----------------------|------------------|
| Bay Area | 90,700 | 631,000 | 6.96 | 93,800 | 375,000 | 4.00 | -40.60% |
| San Francisco | 72,900 | 795,000 | 10.91 | 74,400 | 699,000 | 9.40 | -12.10% |
| Silicon Valley ³ | 100,800 | 683,000 | 6.78 | 103,600 | 477,000 | 4.60 | -30.20% |
| Houston ⁴ (Metro) | 60,000 | 146,000 | 2.43 | 61,100 | 142,000 ⁵ | 2.32 | -2.7% |

Source: DataQuick Information Systemsⁱⁱ, Houston Association of Realtorsⁱⁱⁱ, Bay Area Census^{iv}, U.S. Department of Housing and Development^v

Before the crash, families in the Bay Area would pay an average of nearly seven years of income on a house (or as much as eleven in San Francisco), whereas families in Houston would only pay two and a half. As a result, subprime mortgages were increasingly used in the Bay Area as affordable housing loans to help middle class families pay the high cost of housing (California's rate of foreclosure for homes backed by subprime loans has been three times that of Texas^{vi}). The crash of the housing market in California has corrected this price inflation to some extent, but Bay Area housing still remains relatively unaffordable since the average family still pays

¹ Extrapolations based on individual growth rates, 2000-2006

² Extrapolations based on individual growth rates, 2000-2006

³ Note: Defined as Santa Clara County

⁴ The difference in price between the Houston metro area and city proper is negligible

⁵ Note: The median price of October 2008 may be affected by Hurricane Ike, which temporarily stalled the real estate market in Houston

twice what a Houston family pays in relation to income. The effect of the disparity in the price-to-income ratio is that housing ownership is accessible to a much larger segment of the population in Houston, decreasing the burden on home-buyers and giving them more money to spend on other goods. Furthermore, this comparison clearly displays the relationship between zoning and housing bubbles. While some might point to the Bay Area's booming economy as the reason for higher prices, Houston's GDP grew about 40% faster than the Bay Area's between 2004 and 2006, but Bay Area housing prices inflated while Houston's remained steady.^{vii} Thus, Houston avoided the housing bubble by allowing housing to keep pace with job growth, so its market was not flooded with speculators and price inflation.

Houston's free market housing policies also allowed it to seamlessly absorb over 150,000 refugees from Hurricane Katrina, a feat that few other cities nationwide could achieve.

Hurricane Katrina created the greatest mass migration in American history as hundreds of thousands of refugees left New Orleans. The greatest number of refugees settled in Houston. For most cities, especially the Bay Area, a sudden influx of 150,000 people would wreak havoc on the region's housing market, but Houston managed to integrate these refugees into the region without causing any major shortages or spikes in housing prices. In the Bay Area, it would be physically impossible to add 150,000 people in a span of six months, simply because the market cannot respond quickly enough. Planning and environmental reviews add months or even years to developments in outlying areas, and infill developments can take even longer. In contrast, Houston already had a constant and growing supply of housing, so any temporary strain placed on the market was relieved by the development of more homes and apartments. So, despite the fact that some blame Katrina refugees for increased crime and placing stress on public institutions, the migration has had little effect on Houston's housing market.

While deregulation of land use positively affected Houston's housing market, sprawling development has caused Houston to become one of the nation's most auto-dependent and polluted cities. One of the benefits of growth restrictions is that, to some extent, they reign in urban sprawl and encourage denser, transit-oriented neighborhoods. The best example of this effect is Portland, which is consistently ranked as one of America's most sustainable cities because of its investment in public transportation and bicycle infrastructure and the success of its urban growth boundary in controlling sprawl. In contrast, Houston's current path is seen as unsustainable and irresponsible. Houston's metro area is geographically as large as the state of New Jersey, and it spends nearly all of its transportation funds on highway expansion to connect the region. Nevertheless, even though Houston doubled its highway mileage between 1982 and 2002,^{viii} spent an additional five billion on highways in the last five years,^{ix} and has 66% more highways miles than the average urban area,^x it is still one of the most congested cities in the nation and consequently ranks as one of the most polluted. Sprawling Houston ranks among the worst cities in the country in the following categories: highest daily vehicle passenger mileage (1st)^{xi}, highest individual transportation cost (1st),^{xii} lowest public transportation ridership (1st)^{xiii}, worst traffic (7th), worst ozone pollution (4th)^{xiv}, worst smog (2nd),^{xv} most traffic fatalities (1st)^{xvi}, most pedestrian fatalities (5th)^{xvii}, and greatest rate of obesity (1st)^{xviii}. Houston's car-culture and growth policies directly harm public health; because of its dangerous streets, terrible air quality, and lack of open space, Rice sociology professor Stephen Klineberg explains "no one walks here,"^{xix} helping Houston achieve the title of "America's Fattest City." Hence, the obesity crisis in Houston is a direct consequence of Houston's lack of zoning and growth management. Houston's free market growth policy is one of the most wasteful, unhealthy, and dangerous in the nation, but some suggest the solution is not in more government regulation, but less.

Despite having the fewest land use laws in the nation, Florida Coastal School of Law professor Michael Lewyn argues that the Houston government is the biggest cause of sprawl, and by eliminating street and lot size restrictions, the free market would contain sprawl and build more walkable communities. Until 1998, with the intent to limit density and congestion, Houston required unusually large minimum lot sizes of 5000 square feet for homes and 2250 square feet for townhomes, making it nearly impossible to construct affordable townhomes (in contrast, the requirement in Dallas for townhomes was 647 square feet). Though its outer-lying districts and other suburbs in the region maintain similar restrictions today, Houston reduced the minimum inside the I-610 loop to 3500 and 1400 square feet, respectively. These requirements, then and now, pose a significant obstacle to building medium density, walkable neighborhoods by effectively forcing developers to build sprawling detached homes rather than responding to the market's demand for more compact neighborhoods. This tendency toward low density restrictions is further exemplified through Houston's street and parking regulations. Developers generally shy away from building high density apartment buildings because of the outrageous parking requirements placed on them. For every apartment bedroom, the city requires 1.33 parking spaces, so a 100 unit apartment building could seemingly end up requiring 250 parking spaces, which likely cost between 10,000 and 15,000 per space. Government parking requirements are ubiquitous throughout the city, since every business is required to provide free off-street parking (even bars are required to provide 10 spaces for every 1000 square feet of floor area). Parking is placed in front of businesses, Lewyn demonstrates, because Houston's city building code requires 25 foot setbacks on major thoroughfares. This design, along with the limitations on intersection frequency and street width requirements that make Houston streets three times wider than average, all create an environment that, as Stephen Klineberg remarks,

“was built by, for, and on behalf of the automobile,”^{xx} rendering medium and high density developments scarce in a city as big as Houston. Lewyn explains that if these far-fetched requirements were removed, developers would have an easier time building higher density neighborhoods and could better adapt to the market’s desire for compact, walkable, people-oriented developments. Lewyn believes that these measures, and the diversion of highway funds to public transit, would solve Houston’s urban sprawl and the energy, environmental, and health issues that result from auto-dependence.

Houston’s free market land use policies have made it the most dynamic and affordable housing market in the country; however, this affordability has come at a significant expense to the environmental and public health. Nevertheless, the success of Houston lies in its laissez-faire approach to zoning, so any sort of introduction of urban planning would prove disastrous. The solution for Houston in the 21st century appears to be more deregulation, and Houston’s recent investment in light rail proves that as the market demand for dense, “green,” walkable, transit-oriented development increases, Houston’s housing market will adapt and readily produce a large supply to meet the demand. Having already surmounted the challenges of 150,000 Katrina refugees as well as the biggest housing crash in decades, Houston will likely step up and meet the challenge of sustainability just as it has done before. However, Houston is truly a unique city, thus its deregulation would not work well in all places such as the Bay Area. Nonetheless, much can be learned from Houston. Low housing prices, combined with low taxes and a low cost of living, make Houston one of the most desirable cities for middle class families. Housing bubbles and affordable housing shortages across the nation will not be solved by a small number of government-subsidized developments. Rather, Houston’s successes demonstrate that the

development process must be reformed, so that cities and developers can better adapt to the needs of the people.

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- ^v “FY 2008 Income Limits Documentation System.” Peter B. Kahn. U.S. Department of Housing and Development. http://www.huduser.org/datasets/il/il2008/2008MedCalc.odn?inputname=Houston-Baytown-Sugar%20Land,%20TX%20HUD%20Metro%20FMR%20Area&area_id=METRO26420M26420&type=hmfa&year=2008&yy=08&statefp=99&ACS_Survey=Yes&State_Count=1.0&areaname=Houston-Baytown-Sugar%20Land,%20TX%20HUD%20Metro%20FMR%20Area
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