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The Housing Crash and Smart Growth

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Most experts agree that relaxed lending practices, which allowed people to buy homes they could not afford, led to the creation of a housing-price bubble prior to 2007. The 2008 financial crisis deepened when home values stopped rising, causing a subsequent rise in defaults that burst the bubble, with home prices falling by an average of 18 percent nationwide.

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The U.S. housing bubble, however, was not a monolithic event and varied substantially by geography, land-use expert Wendell Cox argues. In fact, those areas with restrictive land use regulations suffered the most after the home-price bubble burst. These restrictions include growth boundaries, limits on new development locations, minimum lot sizes and minimum square footage for hew houses. Some of these regulation apply to specific metropolitan areas, but some are statewide. Most of these burdensome land-use regulations remain.

The Artificial Increase in Demand. Cox explains that the housing supply in locales with land use restrictions could not respond to the increased demand for homeownership caused by the greater availability of mortgage credit. The inevitable result was higher prices, which encouraged speculation and increased house prices even more, causing the price-bubble to balloon.

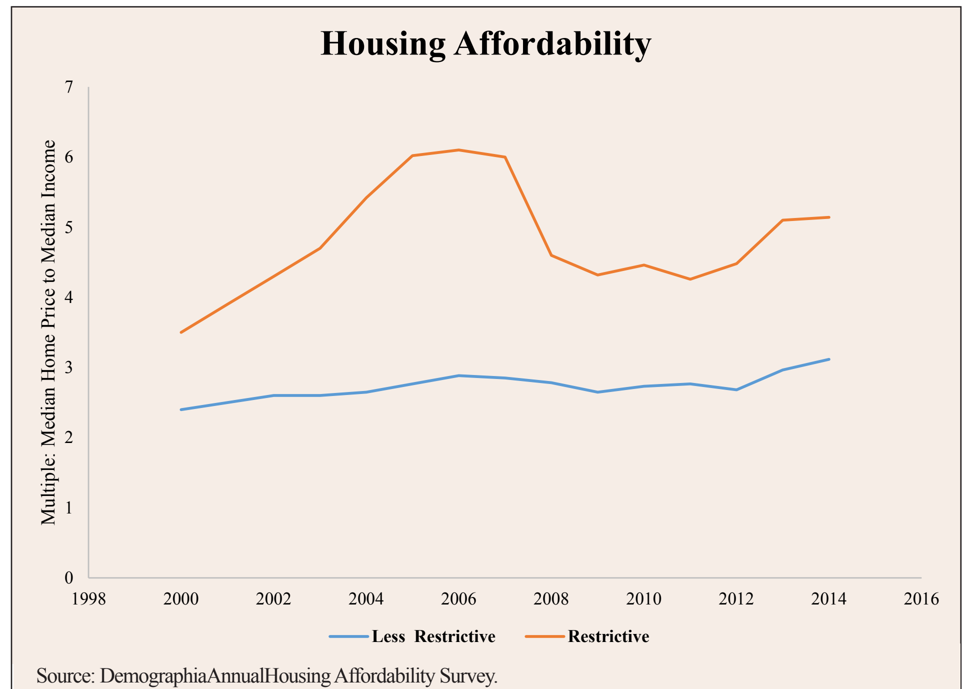
Nationwide, as demand increased, the market value of the existing stock of houses more than doubled from $10.4 trillion in 1999 to $22.7 trillion by 2006. However, 89 percent of the increase in value was concentrated in markets with restrictive land-use regulations. This sharp rise in price led to an equally sharp contraction in price following a peak in the fourth quarter of 2006. Cox calculates that:

- Some 94 percent of the cumulative losses from the sudden decrease in gross national home values were in restrictively-regulated land markets.
- The remaining 6 percent of losses originated in less-restrictive markets.
- The average reduction in home values in highly-regulated areas of the country was $97,000, versus an average loss of $12,000 in value per house in less-regulated places.

Cox points out that local governments in Hawaii, California, Oregon, Vermont, Florida and Washington, which adopted some type of restrictive land-use policy over the last 30 years, all experienced some of the largest losses, in terms of home affordability, measured by the median home price divided by median income. By contrast, less-regulated markets, like Atlanta, Dallas-Fort Worth, Houston, Indianapolis, Raleigh-Durham

and St. Louis, experienced much smaller falls.

Studies show that had regulated markets experienced losses comparable to the less-regulated markets, the total value lost on home prices from the peak of the housing bubble to the start of the financial crisis would have been $620 billion, instead of the actual $2.4 trillion. The average loss per home would have been $17,000 instead of $67,000. A smaller housing bubble might have allowed for the U.S. economy to avoid the financial crisis, or at least experience a less destructive one.



Response to the Crash. As of 2015, Florida was the only restrictive land-use state that significantly changed its growth management policies. In 2011, Florida lawmakers reversed regulations originally enacted to curb urban sprawl by loosening restrictions on construction and transferring most of the state's growth management authority to city and county officials.

The Republican-held assembly in Wisconsin also passed similar measures intended to modify existing restrictive land-use policies in 2011, but the bill failed in the state senate. As of July 2015, a comparable bill awaits an assembly vote. The latest bill comes at a moment when experts are again debating the possibility of another housing bubble.

A New Housing Bubble? Data from the National Association of Realtors show that housing prices rose steadily for 41 straight months through July 2015. During this period, median home prices rose 35 percent and home sales jumped nearly 30 percent. As the figure shows, as a multiple of the local median income, housing prices in restrictive areas have risen significantly compared to home prices in less restrictive markets.

Some experts consider these positive numbers to be a simple case of supply and demand. Part of the increase in home prices is due to lingering effects of the 2008 crisis. Builders are slow to build, lenders are more cautious, and many current homeowners are not selling. Increased interest in homeownership amid this climate naturally drives up prices. Home prices have risen in restrictive land-use areas, like San Francisco and Seattle, but also in nonrestrictive areas, such as Dallas. Americans' desire for homeownership is simply outpacing the available inventory.

Others, however, worry these numbers reflect the creation of another housing bubble. The low-interest-rate environment has encouraged demand and artificially driven up home prices, especially in localities with restrictive land-use policies. Meanwhile, income growth remains stagnant, making homeownership unaffordable for more people.

Conclusion. Less land-use regulation in those restrictive regulated markets would have likely blunted the effects of the housing bubble and the following financial crisis of 2008. Although experts remain divided over whether a new bubble is forming, most land-use laws remain in place. If another bubble emerges, are those restrictive states prepared for another bust?

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