STOP ASHBY HIGH RISE

A JOINT EFFORT BETWEEN
BOULEVARD OAKS CIVIC ASSOCIATION
AND SOUTHAMPTON CIVIC CLUB TO
PRESERVE HOUSTON NEIGHBORHOODS

Attention: Mayor White and City Council

From: Concerned citizens abutting proposed Ashby High Rise

Date: January 30, 2008

Subject: A Professional Response to "Houstonians for Responsible Growth"

The attached comments reflect a challenge to the statistics and logic used by Mr. Wendell Cox in his recent article regarding housing cost and regulatory climate published in the Houston Business Journal. Mr. Cox has been retained by "Houstonians for Responsible Growth" in their efforts to defeat the high density ordinance currently pending before the Houston City Council. The purpose of this response is to alert the Mayor and Council to Mr. Cox's indefensible claims and sloppy methodology used throughout the article and in arguments advanced by the development community.

The decision to distribute this document was made after reading the Houston Chronicle article of Saturday, January 26th, attached, which seemed to beg further research into the correct profile of our city purportedly illustrated by Mr. Cox's claims. Our comments are in red, while Mr. Cox's article is presented verbatim in black. The entirety of our statistics was provided by the 2000 Decennial Census and the 2006 American Community Survey (inter-decennial census surveys) of the United States Bureau of the Census.

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Executive Summary

We begin with a direct challenge to the very name of "Houstonians for Responsible Growth". All Houstonians, not just the developers and real estate communities, want responsible growth. We respectfully assert that what the development community wants is irresponsible, unfettered growth with the fewest possible controls in order to maximize their profits. What is sacrificed in this poor basis for public policy is neighborhood protection, the very thing every poll and future visioning study tells us Houstonians most want. In that regard, this document represents a direct challenge to the truth of the developer's PAC's claims regarding the effects of reasonable regulation being pleaded for by sensible citizens and neighborhoods all over the City of Houston.

Contained in this document is evidence collected and analyzed by concerned citizens with MBAs, MPAs, accounting, municipal finance and legal backgrounds. We are highly educated, community-minded, unpaid volunteers unwilling to let flagrant falsehoods go unchallenged.

Three major points about Mr. Cox's assertions are patently false, and our rebuttal, contained in the attached, addresses this line by line.

Use of regional figures creates gross deception

Mr. Cox, representing "Houstonians for Responsible Growth", claims his figures demonstrate that any modest regulation will hurt our home prices and economy. His figures are deceptive and misleading because he relies on a mixture of jurisdictional data (well beyond the City of Houston) to present whatever picture he chooses to support his claims. They are gleaned from unreliable and undocumented sources and, although he does not describe his methods, we guess he uses regional statistics which are grossly different than City of Houston statistics from consistent, reliable sources.

False premise that our low cost of housing is a result of little regulation

It is indisputable that Houston's housing costs and housing affordability are NOT lower than in other major Texas cities, all of which have zoning. Mr. Cox and the development community attempt to create a false connection between low home prices and our existing regulatory "free-for-all-developers". Their claims are unsubstantiated and their figures fail to explain the role of many complex factors that are causal in nature.

False premise that a lack of zoning provides value

Anyone who knows Houston knows that the tighter the deed restrictions are, the higher the property values stay. Mr. Cox attempts to confuse value and quality. Our numbers prove our cost of living is not actually considerably lower than in other cities. If our housing prices are somewhat lower, perhaps the unpredictability of land use city-wide depresses our values. In the attached we have presented sound U.S. Census data addressing the cost of living relative to housing across five Texas cities, and in some cases corrections to Mr. Cox's assertions relative to some California cities.

Friday, January 18, 2008

Houston land policy fosters homeownership

Houston Business Journal* - by Wendell Cox Special to Houston Business Journal

Houston remains a city of opportunity. Happily, we begin with common ground.

I say "remains," because other cities around the country have embraced land-use restrictions that have produced significant barriers to opportunity. Virtually every major city in the United States has zoning. To suggest that Houston is the only city with opportunity is disingenuous.

The issue is housing affordability. Per the Houston Chronicle article, attached, Mr. Cox argues very badly, as illustrated below.

The median house price in Houston is still in the area of $150,000. That is a regional figure encompassing multiple jurisdictions, skewing the value of the statistic. The actual figure, according to the United States Census for 2006 (the most recent year available) is $119,000 for homes within the city limits of Houston. Mr. Cox is making it appear that Houston is more prosperous, by implication because of lack of zoning, than, in fact, it is.

That is well within the historic "median multiple" bound of 3.0 -- where median house costs are three times or less median household incomes. This figure, to be accurate for the city of Houston must begin with the accurate median home value of $119,000. That figure is then divided by the accurate (2006 U.S. Census estimate) City of Houston Household Income ($39,682) which produces a multiple of 2.998. His claim that Houston is well within the "median multiple" of 3.0 is statistically indefensible when the margin is a very narrow 0.002, or two one-thousandths of a percent. Statistically, we are right at the multiple, not well within it. By comparison, Austin's median multiple is 3.7, Dallas's is 3.4, Fort Worth's is 2.5, and San Antonio's is 2.4. Houston is right in the middle of the pack.

In the decades since World War II, this has been the standard in the United States and the result has been unprecedented opportunity -- a virtual democratization of prosperity.

In 1940, only 40 percent of households in the United States owned their own homes. Then, following World War II, the nation set about providing better housing.

This was accomplished by allowing relatively free suburban development. The lack of definition of "relatively free suburban development" leaves this statement in question. In many states, counties have ordinance making authority that applies to suburbs, and in most incorporated suburbs, zoning is a given, and has been since before the 1960s.

The lack of unreasonable restrictions made it possible for new houses to remain far less expensive than before. This claim is unsubstantiated with data. In fact, by this logic, the existence of reasonable regulation made lower priced suburban houses possible.

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The results speak for themselves. Today, homeownership is near 70 percent. If the comparatively free development of the suburbs had not been permitted, it is likely that most households would still live in cramped rental units in crowded city cores. Indeed, in the City of Houston most of us do live in rental units. According to the U.S. Census for 2006, more than half (54%) of City of Houston residents rent apartments, while just 46% of us are homeowners. That compares to a national average of only 33% renters and 67% homeownership.. Mr. Cox has helpfully illustrated one of our problems in the city. Both Fort Worth and San Antonio have achieved 60% owner occupancy. Dallas' ownership rate is 47% and Austin's is 48%.

In recent years, however, some urban areas have lost sight of the importance of broad prosperity and have, instead, started placing significant regulation on land for residential and commercial development. Mr. Cox's argument is perplexing since many jurisdictions in Harris County, such as West University and Hedwig Village, employ zoning. " Urban areas" do not place regulations on land use: only government bodies do, and in Texas for practical purposes, only cities do. Texas counties (unlike in most states), with a few public health exceptions, cannot regulate land use. Areas do not "lose sight of prosperity" when they are made up of different and often competing government bodies. Furthermore, virtually all of the "comparatively free development" of the suburbs has deployed private zoning through deed restrictions which means that future development in those areas will not be free.

The results speak for themselves. They actually don't in the way Mr. Cox would like us to believe, as shown below. The problem was evident first in California, where a series of court decisions and land-use regulations seriously raised the cost of housing in that state. Housing costs are high in California for a number of reasons: the proximity of coastal and mountainous terrain to the major cities, constraining land supply; agricultural easements in developable areas that further constrain land supply; earthquake related building codes add to housing cost. Also, California has initiative and referendum in which citizen-sponsored legislation has resulted (by popular demand) in land use controls. Court decisions are minor in the big picture of the situation in California.

Today, in the coastal metropolitan areas of Los Angeles, San Francisco, San Jose and San Diego, house prices average 10 times household incomes -- more than three times the ratio in Houston. The problem is illustrated by comparing Houston to San Diego. The exact multiples are as follows: Los Angeles, 13.8; San Francisco, 12.3; San Jose, 9.3 and San Diego 9.8. All of these cities are hemmed in by an ocean, the mountains, extensive and dense suburbs and protected agricultural areas. California cities are also governed by different state laws than Texas cities, so cross-state comparisons are seriously flawed from a statistical perspective. For this reason, municipal analysts do not compare cities across state lines for the purpose of reaching statistical conclusions, or for that matter, for rating municipal bonds.

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Both Houston and San Diego have been post-war growth dynamos. Between 1950 and 2000, the Houston area has grown by more than three times, while the San Diego area grew approximately four times.

Since 2000, things have changed markedly. While Houston has continued to grow, San Diego's growth has virtually stopped. Predominantly for the geographic reasons cited above.

The reason is restrictive planning policies that have destroyed housing affordability and made San Diego so uncompetitive that it is losing residents to other parts of the nation at a greater rate than the "Rust Belt" metropolitan areas of Pittsburgh or Buffalo. There is no data in his comment backing up Mr. Cox's claim that "restrictive planning policies have destroyed housing affordability", therefore it is impossible to evaluate this statement without considerable further research. Other factors mentioned above have certainly had considerable bearing on housing costs. The decline of rust belt cities involves an entirely different set of analyses; to link the two, even by implication, is intellectually dishonest and an abuse of meaningful metrics.

In just six years -- 2000-2006 -- the cost of purchasing and financing the median-priced house in San Diego has risen by more than $700,000. The United States Census shows that the median cost of a house in The City of San Diego in 2000 was $257,037 and in 2006 it was $579,000. That is a change of 125% and a net increase of about $334,000. Mr Cox may have been using a regional or multi-county number, a measurement vastly different than what took place in the city proper.

Over the same period of time, the cost of purchasing and financing the median-priced house in Houston has risen less than $25,000. According to the United States Census, the same figures for the City of Houston were $85,066 in 2000 and $119,400 in 2006. That is a raw dollar change of about $34,000, and a percentage change of a comparatively modest 40.4% over that six year time frame. The national average change over that six year period, 47.2%, was modestly higher than Houston's rate of price increase. Therefore, home values inside the city grew slower than the national average by about 7 percentage points over that period.

The difference is that Houston allows development to happen, while San Diego has adopted all manner of regulations and planning requirements that make building so expensive that it has slowed to a standstill. Again, Mr. Cox fails to explain what these regulations and requirements are, and how, exactly, they make building expensive. For example, certain building codes for earthquake standards would be expected to make housing costs somewhat higher. We simply don't know what factors are reflected in his claim and he doesn't tell us. Furthermore, higher housing costs in San Diego undoubtedly reflect high demand; it is a beautiful, vital and exciting city with geographic constraints.

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Last year, Houston built 12 times as many houses as San Diego, despite having less than twice the population. There are several problems with this assertion. First, the census data is not available for 2007, and Mr. Cox does not cite his sources. The census for 2006 shows that owner occupied units in the city of Houston rose by 21.9% between 2000 and 2006. In San Diego that percentage was 30% for the same time frame. In terms of real numbers, San Diego added almost 54,000 new owner occupied residences and Houston added 62,507 owner occupied residences. These numbers do not reflect unsold, vacant or rental units. Mr. Cox's figure would be dramatically inflated by unleased rental and unsold single family homes if he included just building permits issued. He does not substantiate his claim, so it is impossible to evaluate it. The census figures would suggest, however, that his claim is grossly exaggerated. In addition, San Diego's population in 2006, according to the United States Census Bureau, was 30% lower than Houston's, not less than half as Mr. Cox indicates.

This rapid increase in housing costs is creating serious budgeting problems for households. This is true nationwide, as indicated by the fact that the median cost of a home nationally is up 47.2% from 2000 to 2006, an average annual increase of 7.9%. In that same time frame, median household incomes nationally have risen just over 11% over those six years. In Texas household incomes have grown even more slowly.

Things were bad enough in 2000, when 33 percent of a median household income was required to pay the mortgage on a median-priced house in San Diego. Now the figure has risen to 71 percent.

It is even worse for minorities. Today, the mortgage payment on the median-priced house in San Diego would take between 90 percent and 100 percent of the median Hispanic or African-American household income. Needless to say, middle income households and especially minorities have been priced out of homeownership by San Diego's planning policies. This is similarly true all over the country where housing prices have increased dramatically.

Meanwhile, in Houston, the median house mortgage takes less than 20 percent of the median household income. No. In the City of Houston, the median annual mortgage payment is $16,212 (in 2006, the latest year the statistic is available from the Census Bureau) and the median household income was $39,682 in the same year. This is almost 41% across all ethnic groups. The median Hispanic or African-American household would pay less than 40 percent of their income on the median-priced house. That needs to be less and it never will be if we allow San Diego-style policies to make homeownership even more elusive. In San Diego that same measurement was 46% across all ethnic groups for the City of San Diego alone. That is just a 5% spread between the two measurements, which are fair representation of the cost of living as far as housing relative to income is concerned.

At the same time, while some large American cities are pleading for higher-density residential developments, the market often fails to provide them without taxpayer subsidies. This is because the planners want to say where they go, rather than letting the market decide. In Houston the "market" has decided in favor of high density rental units, in fact, too much so. See comments below.

But in Houston, developers are providing higher-density developments without subsidies. They do so because they are able to site facilities where people will buy them. And they are doing so in numbers that far exceed building rates elsewhere. The census data do not bear that out. See statistics above.

For example, in the Houston area, multiple-unit residential construction rates are among the highest in the nation and above those of highly regulated San Diego, Los Angeles, San Francisco and even Portland, Ore. Most economists, police chiefs and elected officials argue that a community that encourages and supports home ownership is healthier economically, safer and more stable. We have a disproportionate distribution of rental housing in Houston, at 54%. Fort Worth and San Antonio have only about 40% rental housing. Many urban economists believe a 60/40 owner/renter ratio should be a goal, affording a majority of citizens participation in the great American dream.

The key to Houston's success is that the market is allowed to operate to serve people's preferences rather than those of the planners. Many things contribute to Houston's success: ample and affordable land; ample and affordable labor supply (legal and otherwise); right to work laws across Texas; no geographic or topographical constraints on land acquisition; favorable statewide income tax climate and low housing costs relative to some other places, but not lower than San Antonio or Fort Worth. They both have zoning and comprehensive planning.

Of course, necessary environmental standards are applied; otherwise Houston would not be such a nice place to live.

All metropolitan areas have limits. In the highly regulated areas, the limits are on building, housing affordability and opportunity, the natural outgrowth of overly prescriptive regulation. This simplistic statement excludes all of the geographic, demographic and public policy differentials cited previously.

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In Houston, the limits are applied to government, which is not allowed to interfere with the lifestyles and opportunities that people seek. In California, limits are applied by both mother nature and human policy preferences. In San Diego, San Francisco, San Jose and Los Angeles, the Pacific Ocean, numerous and proximate mountain ranges, dense and contiguous suburbs and agricultural easements, as well as the vast overlay of California state laws and the political dynamic of initiative and referendum are all limits that dramatically affect the cost of living, and therefore the opportunities that people seek. Blaming California's city zoning ordinances is a feeble and simplistic argument. Particularly from a man who described as the principal of a "demographic research firm".

It is one of the reasons that Houston continues to grow so strongly, while so many other formerly fast-growing metropolitan areas are falling into stagnation or even declination. Perhaps Mr. Cox's next article will explain why so many highly regulated cities in the sunbelt and elsewhere are booming. We await that analysis and would like to nominate for his analysis the five Texas cities cited in the Houston Chronicle article attached.

Wendell Cox is principal of Demographia in St. Louis. Demographia studies the effects of transportation and growth policies on populations defined by income, age and other factors.