

Can Government Prevent the Next Bust? The Rationale for Needs-Based Permitting



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Why Should A Local Gov't Care About Adopting Needs-Based Permitting?

- **Historically, housing bubbles deliver dilapidation, abandonment, foreclosures, and unpaid property taxes**
- **Economic analyses of recent housing bubbles also suggest that rapid rise in real estate prices alters the steady flow of migrants that fuel city growth**

Past is Prologue: The Call to Action

- During the recent bubble, local gov'ts were not [as a rule] asking whether there was a need for more new housing in their cities
- In Florida, circa 2006, you were not likely to hear staff or elected officials asking informed questions about market demand for more townhomes, condos or single-family homes
- Then-extant city land development code concerns dominated deliberations: e.g., tree replacement, traffic congestion, project design, and density

Empirical Underpinning for Needs-Based Permitting

- Past bubbles were caused by failure to restrict supply (through growth management) and a resulting glut in vacant properties.
 - Consider Houston's real estate bubble and crash of the 1980s (See Smith & Tesarek)
 - Between 1982 and 1984 Houston added 164k units (16%) to the stock of housing
 - That number was 50% more than could have been absorbed, even if Houston economy had maintained its high growth rate

Empirical Underpinning for Needs-Based Permitting (cont'd.)

- Post mortems on the 2004-07 housing bubble conclude that limiting housing supply would ***not*** have eliminated the housing bubble in every market
- ***However***, economists including Edward Glaeser suggest strong correlation between those cities and regions victimized by the latest housing bubble and a rapid increase in housing supply

Empirical Underpinning for Needs-Based Permitting (cont'd.)

- Note: We are **not** arguing the bubble's root cause was unchecked approvals for housing developments handed out by local gov'ts:
 - Economists agree the recent bubble's rapid rise and fall of housing prices is very hard to explain “with a purely rational model”
 - Also true that cities with no new housing development suffered terribly in the last bubble; these cities were the “killing fields” of the subprime mortgage lending crisis
 - Indeed, some call the convergence of forces witnessed in the last bubble a perfect storm of the worst possible conditions coming together at approximately the same time in basically the same place

Empirical Underpinning for Needs-Based Permitting (cont'd.)

- Note (cont'd.): **Not** arguing that housing bubble's root cause was unchecked approvals for housing developments:
 - Improvident local gov't real estate decisions were just one part of the problem and probably a problem only in certain jurisdictions.
 - **But** because short-sighted land use decision-making wasn't the bubble's central cause doesn't mean we shouldn't suggest tools local gov'ts can use to help avoid the next housing crunch.

Toward Better Vetting of Local Development

- **Market Analysis Gives Local Governments Another Tool to ‘Kick the Tires’ on Proposed Residential Development by:**
 - (1) Recognizing that the most recent housing bubble proved [again] that local gov'ts can no longer afford to evaluate development proposals based largely on density, design, and traffic
 - (2) Helping confirm that proposed development isn't a ‘Trojan Horse’ posing a potential threat to city's public health, safety, and welfare

Toward Better Vetting (cont'd.)

- **Market Analysis Gives Local Governments Another Tool to 'Kick the Tires' by:**

(3) Appreciating fully that local gov't is a stakeholder in significant private real estate development deals, responsible for providing essential services and maintaining essential infrastructure to support residential development

(4) Providing additional assurance(s) that proposed residential development is appropriate for the city

Toward Better Vetting (cont'd.)

- **Market Analysis Gives Local Governments Another Tool to 'Kick the Tires' by:**

(5) supplying relevant information for determination of impact fees, for jurisdictions relying on impact fees to pay for construction of essential infrastructure

(6) Promoting data-driven decision making in local gov't development approval process through use of generally available statistics on residential supply and demand

Potential Procedural Templates for Needs-Based Permitting Requirement

- **Developer procures needs-based analysis:**
 - Developer required to procure market analysis and submit as part of its application for land use or zoning approvals
 - Local government employs or retains professional to review market studies

Potential Procedural Templates for Needs-Based Permitting Requirement

Local government procures needs-based analysis:

- Needs-based market analysis ordinance could require local gov't to commission an independent, citywide, residential market analysis each year (updated more frequently if market conditions warrant)
- City's market analysis could be accorded a rebuttable presumption of accuracy
- Applicants for land use and zoning approvals who wish to develop 'jurisdictionally significant' projects aimed at markets considered 'soft' [according to the city's market study] could submit their own market analysis to rebut the city's analysis

Potential Procedural Templates for Needs-Base Permitting Requirement

Local government procures needs-based analysis (cont'd.):

- Local gov't would retain firm to complete yearly residential market analysis
- Applicant would explain how and why their development proposal addresses the local market's demand or, alternatively, the local market's oversupply