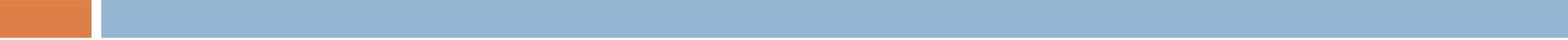


Déjà vu all over again

What we didn't learn from the Savings & Loan bailout

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OUTLINE

Theme:

Unbridled permitting exuberance tanks the economy

- Exhibit 1: The Savings and Loan collapse
- Exhibit 2: The housing bubble-burst
- Exhibit 2: Deactivation of Florida's Growth Management Act
- Use data and observations to outline the problem

Common thread:

- The need for discipline to save the economy and assure prosperity for our children and their children
- Professors Juergensmeyer & Marshall will show how the law can solve it

Seeds of the Savings & Loan Collapse

- 1981 Economic Recovery Act stimulated real estate development with lower capital gains and super-accelerated depreciation
- Savings & Loans authorized to make commercial loans but without federal commercial loan oversight
- You could make money by losing money
- Excessive permitting allowed since it was investors who assumed the risk → ***Moral Hazard***
- By middle 1980s there was in excess of more than a decade of office space

The Savings & Loan Collapse

- Tax Simplification Act of 1986 undid unwise real estate incentives
- New tax treatments caused the tax-based investment house of cards to collapse
- \$180B+ in federal bailout (\$2014)
- \$400B+ in total economic losses (\$2014)

Maldistribution of Pain

- Nelson research published in 1995 (*Urban Lawyer*) and 2000 (*J. Urb Pl. & Dev*)
- Growth management (GM) states had more commercial permitting discipline than non-growth management (non-GM) states
- GM states = ~\$7k/new HH in bailout subsidies
- Non-GM states = ~\$22k/new HH in subsidies
- Taxpayers in GM states transferred \$50B+ in bailout money to non-GM states → Florida subsidized Texas' Moral Hazard

Housing Bubble-Burst

Loose money

- ▣ Subprime loans
- ▣ Aggressive ARMs
- ▣ Preapprovals for pets

+ Loose regulation of financial institutions

- ▣ Repeal of Glass Steagall (*e.g. Citibank-Solomon*)
- ▣ Greenspan's blind faith in individual self-interest as a protector against Moral Hazard
- ▣ Bush Administration lax enforcement

= Loose permitting

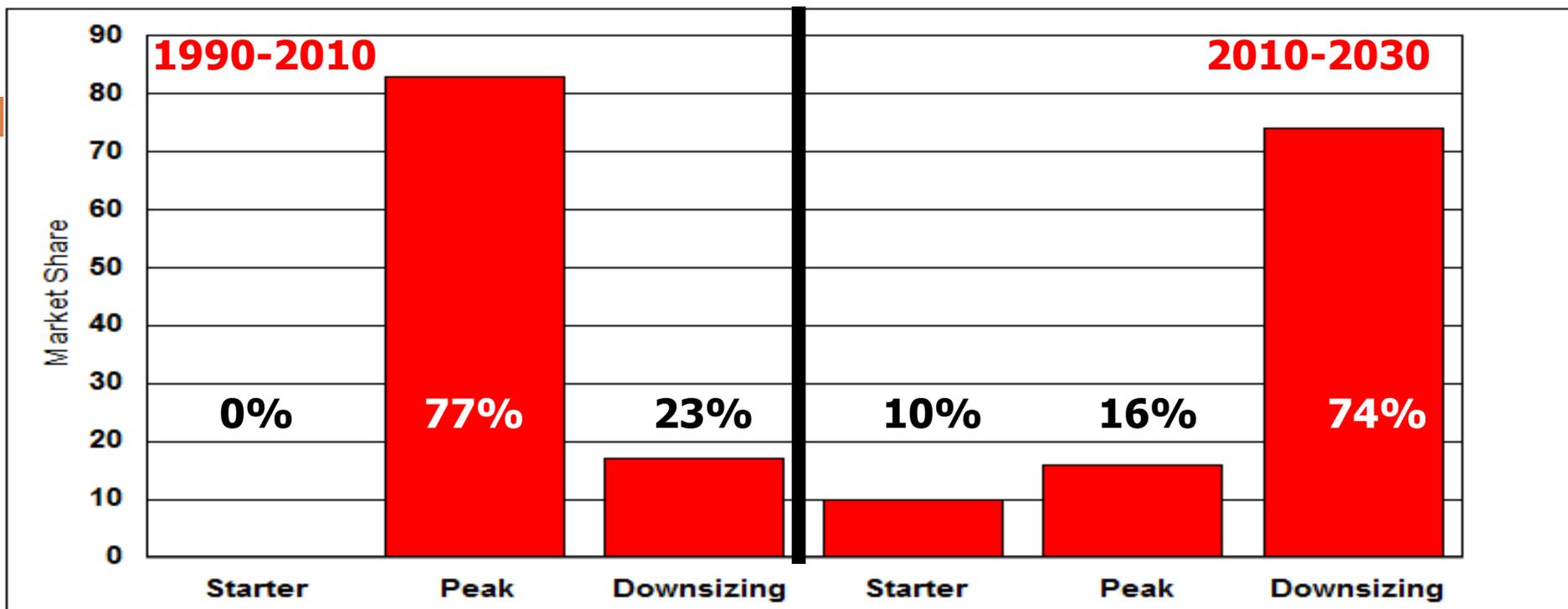
Irrational Permitting Exuberance

- Every state projected population and implicitly housing needs from 2000 to 2010.
- Actual populations in 2010 were within tiny percentage differences of state-level projections certified around 2000.
- Residential units permitted in the 2000s were 1.8M in excess of state projections accounting for 70% of the 2.6M foreclosures between 2006-2011.
- GM states over-permitted by 8% while non-GM states over-permitted by 17% (Florida by 19%).

Deactivation of Florida's GMA

- Florida's "Growth Management Act" (GMA) 1985-86 created state-local partnership to match housing supply with demand to avoid over-production that tanked the state's economy historically.
- In **1990**, before the GMA took hold, the statewide housing **vacancy rate = 15.3%**.
- In **2000**, the full GMA decade, **vacancy rate = 12.8%**.
- The **2000s** saw Republican governors dismantle the state-local partnership allowing local governments to approve developments in excess of demand.
- In **2010**, Florida's **vacancy rate = 17.4%**. Florida led the nation in foreclosures. Over-production of housing once again tanked Florida's economy.
- Florida permitted 350k more units than its own projections showed were needed → 250k foreclosures between 2006-2011.

What a Difference a Generation Makes



Distribution of Residential Units Built, 1989-2009

Type	Volume	Total Share	Detached Share
New Units	24.5		
Detached	20.7	85%	
2500+ square feet	6.6	27%	32%
0.5-10.0 acres	8.7	35%	42%

Source: American Housing Survey

Theory of Permitting

- Development permitting in accordance with the plan → Charles M. Haar, 1955
- Plans should include just enough land to meet projected needs and no more → Marion Clawson, 1971
- Florida urban sprawl rule → Land supply must meet needs but no more.
- Oregon statewide planning: All housing needs must be met but no more.
- Alan Greenspan: The competitive market corrects for self interest → **Not**

Benefits of Right-Size Permitting



- ❑ Prevent premature development of public facilities and utilities that can tank future local government budgets with debt and maintenance costs
- ❑ Soften downtowns and make state and local fiscal bases more resilient
- ❑ Prevent over-building in niche markets that lose their luster (McMansions?)
- ❑ Preserve home owner and investor equity
- ❑ Stabilize neighborhoods and local economies



And now for the legal solutions