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

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Real GDP and Recession

Investment Contributions to Percent Change in Real GDP, Rolling 4 Quarters

- Recessions
- Nonresidential Structures
- Equipment and software
- Residential

http://www.calculatedriskblog.com/

RMLUI: Land Use for a Lifetime
The Bubble Problem

• Housing bubbles become visible when housing prices diverge significantly from rents
• From 2011 through the third quarter of 2013, housing prices grew by 5.83 percent. Rental costs grew by just 2 percent
• Regional real estate markets across the country continue to recover from the bubble of 2004 – 2007
  – Is another bubble on the horizon?
The Solution – Market Analysis as a Prerequisite for Development Permits

Read more:

Should We Require a Market Analysis?
Median Sales Price of Existing Homes

Median Sales Price of Existing Homes (HOSMEDUSM052N)
Source: National Association of Realtors

Shaded areas indicate US recessions.
2014 research.stlouisfed.org

RMLUI: Land Use for a Lifetime
Unemployment Rate During Recession

- Housing bubbles are not the only, or even the first symptom of a recession
- However, housing rates do mirror other factors

Source: U.S. Bureau of Labor Statistics

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Consider Housing Starts During Recession

• The housing industry accounts for about 27% of investment spending and 5% of the overall economy.

• “Housing starts” are important because sustained declines in *housing starts* slow the economy and can push it into a recession.

• Likewise, increases in housing activity triggers economic growth.
Consider Housing Starts During Recession
A direct comparison of Home Price Index to Rent Index neglects to consider owner-equivalent rent, interest rates, and population preferences for rental versus ownership.
Traditional Indicators are Impacted by Demographic Changes

- Multi-family housing starts have returned to more than 70 percent of their pre-recession peak, while single-family housing starts have only recovered a small amount from their recession low.
- Moreover, multi-family housing has grown in most major metropolitan areas over the last few years, not just a few large cities.

Economic Foundations

• Growth Management programs are based on assumptions about future growth
  – Include estimates of the place and type of growth that will occur
• In this way infrastructure costs can be equitably passed to new developments without lowering the level of service for existing ones
• But if you have no growth > no revenue > bonds are not repaid
• Further, post recession the decline in median sales prices of existing home and anti-tax sentiment has resulted in declines in revenue for many state and local governments
• How do we reign in excessive exuberance without stopping recovery?
Trends of Economic Valuation

**Financial analysis**

**DEVELOPMENT COSTS**

- Land: $1,200,000
- Site development: $1,905,000
- Design and engineering: $290,000
- Permits, fees, other: $530,000
- Financing costs: $26,000
- **TOTAL COSTS**: $3,951,000

**SOUSCES OF FUNDS**

- Land development loan: $1,214,000
- Purchase-money note: $900,000
- Investor equity: $1,195,000
- Developer equity: $642,000
- **TOTAL SOURCES**: $3,951,000
- Revenues from lot sales: $4,720,000
Bank/Market Lack of Foresight

- Market Analysis is not currently required by regulatory authorities
- Relying on a static model of cost calculation and funding resources refuses to acknowledge the now real possibility that housing demand will not continue to increase
Appropriate Allocation of Resources

- Statistics
  - Housing
  - Census Numbers
  - Trends in Development
Constitutional Basis - Police Power

• The question arises what the “need” in needs based permitting is
  – Health?
  – Safety?
  – Welfare?

• Protect home and business owners whose properties lose value or become foreclosed

• Protect citizens from decreases in quantity and quality of public services as local government revenue decreases
Legal Concerns

- Baseline in Code?
- Without a firm standard for market study analysis and methodology, a lawsuit could arise
- Standards for market studies must be developed
Legal Concerns

• *Regulatory Taking* – a situation in which a government regulates a property to such a degree that the regulation effectively amounts to an exercise of the government's eminent domain power without actually divesting the property's owner of title to the property

• Does requiring a market analysis rise to this level?
Legal/Political Concerns

- Economic Development Takings after *Kelo*
- Public use as public purpose could extend to withholding development permits without a taking challenge, but at what cost?
- May cause further politicization of development permitting process
- Variability in adhering to economic strategies and comprehensive plans will raise questions of due process and fairness
Land Use Regulation – Evolution of Police Power

- Zoning - Use as prerequisite of development
- Growth Management - Time as prerequisite of development
- Smart Growth - Design as prerequisite of development
- Needs Based - Market demand as prerequisite of development