MARKET DEMAND-BASED PLANNING AND PERMITTING

Preventing Excessive Development from Undermining the Economy while Protecting the Property Rights of Existing Development

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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/
Unemployment Cycles
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.
Housing Starts and Economic Cycles

Housing Starts During Recessions
1959 - 2010
There are always business cycles
There will always be recessions
A key objective of economic policy is to minimize recessions and prevent depressions
Two of the past three recessions fueled by over-construction
1990-91
2008-09 (*Great Recession*)
The Savings & Loan Collapse

- New tax treatments caused the tax-based investment house of cards to collapse
- Resolution Trust Corporation formed to bail out failed S&Ls
- $180B+ in federal bailout ($2014)
- $400B+ in total economic losses ($2014)
- Triggered recession of 1990-91
Maldistribution of Pain

- 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*
Irrational Exuberance of the 2000s

Loose money
- Subprime loans
- Aggressive ARMs
- Preapprovals for pets

+ Loose regulation of financial institutions
  - Glass Steagall repeal (e.g. Citibank-Solomon merger)
  - Greenspan’s blind faith in individual self-interest as a protector against Moral Hazard
  - Bush Administration lax enforcement

= Excessive permitting
→ Great Recession
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 2000s were 1.8M in excess of state projections, equal to 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 again tanked Florida’s economy.

- Florida permitted **350k** more units than its own projections showed were needed → **250k** foreclosures between 2006-2011.
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 Needs-Based Permitting

- Prevent premature development of facilities that can tank local government with debt and O&M costs
- Soften downtowns → make state and local fiscal bases more resilient
- Protect home owner and investor equity
- Stabilize neighborhoods and local economies