



Building a More Affordable Texas

Excessive land-use restrictions unnecessarily inflate housing costs and put Texas' reputation for affordability at risk

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Key Points

- The number of Texans struggling to meeting their housing expenses has noticeably increased over the last few years.
- Excessive land-use regulations have contributed significantly to the decline in housing affordability, representing anywhere from 25 to 50 percent of the final sales price.
- In order to expand housing access to low-income residents, Texas cities should peel back unnecessary restrictions on the use of private property.

Few images are as iconic to the American Dream as a modest house surrounded by a white picket fence. The house, of course, is in part symbolic. Apartments, townhouses, and condominiums have become nearly as important to a community's housing mix as the traditional single-family abode. What remains constant is the desire for a place to call one's own.

Here in Texas, the onus of securing that slice of Americana is a little easier. The Real Estate Center at Texas A&M observes that the state's housing market is historically among the most affordable in the nation. In second quarter 2015, the state's median income was 1.71 times higher than the income required to qualify for a mortgage on a median-priced home. Adequate housing is within the reach of most Texans.

Research conducted by the Texas Public Policy Foundation, however, shows that excessive land-use regulations, on top of adding delay and compliance costs, have amplified the scarcity of land, labor, and materials needed for new housing projects. Residents have seen prices climb significantly faster than gains in income as a result. Additionally, developers have shifted toward more upscale units in order to recoup their investment, leading to a shortage of low-priced options in some areas.

An Historic Reputation for Affordability

Texans traditionally have had minimal trouble securing a home. The state's commitment to low taxes and minimal regulations has created a dynamic economy, where residents have ready access to quality jobs and decent salaries. Texans now take home more in real private pay than the

average American, and more jobs have been created in Texas since the start of Great Recession than the remaining states combined. Housing affordability refers to relationship between the price of accommodations and income level. Having an economy that engenders opportunity helps ensure that Texans have the resources they need to enter the housing market under their own power.

Indeed, the state's free-market policies are but one reason why Texas has a comparatively low homelessness rate—only 10.8 residents per 10,000. California, in contrast, had a rate of 29.7 per 10,000, and New York had a rate of 41.0 per 10,000, according to the Homeless Research Institute. Texas has a low cost of living compared to other states. That lower cost gives struggling households extra flexibility, so that a slowdown in their finances does not inexorably bring about an eviction. A competitive economy is not a full cure for homelessness, but it certainly moves Texas in the right direction.

Texas' Growing Affordability Gap

The challenge facing Texans today lies in the second half of the affordability equation: housing prices. Despite respectable gains in income, the cost of homeownership and rentership in Texas has climbed at a remarkably fast rate. The median home sales price rose from \$147,000 in 2010 to \$184,400 in 2014, an increase of 24.9 percent. Median rent, however, swelled from \$647 per month to \$735 per month in the same time period. That is an increase of 13.6 percent in just four years. To put these numbers in context, statewide median income only rose by 9.1 percent. In other

words, housing costs have come to occupy a greater portion of a family's annual budget, leaving less money for other expenses and eroding the family's financial cushion in the event of a rough patch.

Conditions look more worrisome once the analysis descends from a bird's eye view and isolates the low-income side of the market. Industry experts advise that households only commit 30 percent of their income toward securing and maintaining a home. According to the U.S. Census, 19 percent of Texas homeowners in 2000 passed that threshold. By 2012, it jumped to 27 percent. Likewise, the portion of renters deemed "cost burdened" grew 11 points in that period, from 37 percent to 48 percent. The industry recommends 30 percent because it is believed that anything above that amount will sap a household's ability to access other goods and services as well as adapt to changes. That so many Texans had to exceed the recommended waterline suggests that Texas' housing market has for some reason become less apt at supplying residents with their need for economical options.

Regulatory Fat Means Tightened Budgets

Rapid population growth provides one obvious factor contributing to Texas' stiffer housing market. Between 2010 and 2014, the state witnessed its population surge by 1.8 million people. Larger populaces mean fiercer demand over the resources that go into constructing a new home. Another factor is the continued low-interest rate environment caused by Federal Reserve policy. It is not unreasonable to dismiss the increased costs of Texas housing as a reaction—natural or otherwise—to the law of supply and demand. However, such a conclusion misses the way that excessive land use regulations amplify existing vulnerabilities in the market.

Land use regulations add an extra layer of scarcity to the housing supply. Not only do they cause delay and uncertainty indirectly, but they also shift the cost of housing upwards by forcing builders to forego more efficient business practices in favor of the officious preferences of select community members. The National Association of Homebuilders (NAHB) surveyed hundreds of single-family home builders nationwide. It found that government regulations represented 25 percent of unit's final sales price. Two academic studies scrutinizing the California and New York markets corroborated NAHB's

conclusions. They discovered that stringent restrictions inflated the entry point by as much as 50 percent.

In addition, research shows that stringent regulations can discourage developers from producing new units. Every project has a profit margin between the project's anticipated costs and the final sales price. Added regulatory expenses can erode that buffer until the risks involved overtake the project's potential to make money. At that moment, developers will either seek to raise the sales price, focus their energies towards upscale ventures, or not build anything at all. The two aforementioned academic studies both connected the degree of regulation to responsiveness of the housing stock. The California study calculated that each local ordinance slowed down inventory growth by 0.3 percentage points. Business models centered on inexpensive housing options have already been strained by natural increases in the cost of land, labor, and materials as well as by federal policies. Local land use regulations can push these costs just that much further so as to make the completion of low-priced projects impracticable.

Conclusion

Although land use regulations are used on occasion to advance public safety, many are driven by ancillary policy concerns, if not the desire to lock in high property values. Texas cities should reassess their current building codes to identify which restrictions are truly essential and which place idiosyncratic preferences above the public's basic need for safe and adequate accommodations. Excessive restrictions have contributed significantly to the decline in housing affordability. Texas' housing markets will be slow to respond until cities reembrace the fundamental importance property rights and their inviolability under the law.

Texas cities should peel back their restrictions on basic property rights to ensure that the inventory of affordable housing does not continue to stagnate. Otherwise residents will have to make difficult choices in order to obtain what is essentially a basic component to a decent standard of living.

*For more information about statistics cited above, please consult The Texas Public Policy Foundation's forthcoming study on affordability, *Bringing Down the Housing Regulations*. ★

