



How Houston “Got It Right”

The World Takes Notice



LETTER FROM THE PRESIDENT

This compilation of news reports and research reflects the work of Houstonians for Responsible Growth over recent months to lay out some of the facts underlying Houston's success as a major urban center.

These articles, news reports and studies reflect the reality that the healthy growth of Houston has been made possible because our elected representatives have allowed market forces to determine the highest and best use of non deed restricted land over the past century.

This information illustrates that Houston's consumer driven policies have fostered a healthy economy, robust job growth, affordable real estate and a very strong local tax base. Despite these facts, some voices have recently arisen calling for restrictive land use measures that would abandon the very policies that have served our city so well. Houston's historic land use policies have avoided many of the misfortunes occurring in cities across the country where restrictive land use policies and centralized planning have misallocated literally billions of dollars.

Every fifteen to twenty years, beginning 1929, there have been efforts by some to move away from market driven land use policies to a heavily regulated—or even zoned—city. Each time, by City Council or public vote, heavy-handed land use restrictions have been rejected. Consequently, Houston remains the largest un-zoned city in the United States. Many national and international experts now hail Houston as the city that “got it right”. While other major cities across the globe are struggling to undo the damage that centralized land use controls have produced, Houston enjoys among the very best real estate values in the country.

Houstonians for Responsible Growth strongly supports comprehensive planning for public infrastructure and transportation improvements and simultaneously supports local control of private property through deed restrictions. But there is a major distinction between public planning for public infrastructure and public planning to restrict a private property owner's use of his own land. The materials included herewith illustrate the benefits that have accrued to Houston from our historical public policy choices allowing the free market to respond to the market place.

We are grateful for your time in reviewing the enclosed material.



Kendall Miller
HRG President

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BEST CITIES TO LIVE, WORK AND PLAY

These ten great places will only get better.

From Kiplinger's Personal Finance magazine – July 2008

Our approach this year to picking the ten best cities in which to live and work was simple: Look for places with strong economies and abundant jobs, then demand reasonable living costs and plenty of fun things to do. When we ran the numbers, some of the names that popped up made us do a double take at first. So we hit the road to meet movers, shakers and regular folks, experience the ambience and take in the sights.

We discovered that our numbers guru, Kevin Stolarick, hadn't steered us wrong. Stolarick, research director at the Martin Prosperity Institute, a think tank that studies economic prosperity, says: "Our formula highlights cities not just with strong past performance, but also with all the ingredients for future success." One key to a bright future is a healthy shot of people in the creative class. People in creative fields — scientists, engineers, architects, educators, writers, artists and entertainers — are catalysts of vitality and livability in a city.

The cities that made our list also represent larger surrounding areas. And because we understand that city living isn't for everyone, we've highlighted some great suburbs, too. Pack a bag and join us on a tour of the Best Cities for 2008 and prepare for some surprises.

No. 1: Houston, Texas

By Jane Bennett Clark, Senior Associate Editor, Kiplinger's Personal Finance
July 2008

COMEBACK KID

Population: 5,542,048

Population Growth Since 2000: 14.9%

Percentage of Workforce in Creative Class: 31.3%

Cost-of-Living Index: 88.1 (100 being national average)

Median Household Income: \$50,250

Income Growth Since 2000: 13.1%

It's the city of big plans and no rules, beat-the-heat tunnels and loop-the-loop highways, world-class museums and wiry cowboys, humidity that demands an ice-cold martini and the biggest damn liquor store on the planet. How could you not love Houston?

You can hardly afford not to. Back with a roar after the oil bust of the 1980s, Houston has reclaimed its title as energy capital of the U.S. and added aerospace, technology and medical companies to the mix, generating more than 100,000 jobs in 2007. Not only does the Houston metro area lead the nation in job growth, but also its cost of living stands well below the national average. Housing prices run half those of other metro areas its size.

Houston's comeback didn't happen by accident. "Before the energy business returned, the city made the wise decision to invest in its downtown," says Guy Hagstette, who directs Discovery Green, a new 12-acre park in central Houston. Upgrades include an expanded convention center, a new stadium, a spiffed-up Main Street and a light-rail system.

Those improvements attracted couples and empty nesters, as well as Fortune 500 companies. Laura Van Ness, business director of Central Houston Inc., exchanged her 4,400-square-foot suburban house a few years ago for a condo within shouting distance of Houston's museums, theaters, sports venues and restaurants (and Spec's, the world's largest liquor store). She walks to work — ducking into the pedestrian tunnels on steamy days — and comes home to a building with a rooftop pool and spectacular views of the skyline. She could cook, but she doesn't. "When I have a party, I take my platter to the Four Seasons Hotel and have them put appetizers on it."

If dinner on a skewer isn't your style, you could settle in Sugar Land, a fast-growing, family-friendly suburb 20 miles southwest of the city. Sugar Land's penchant for planning borders on the prissy compared with Houston's chaotic energy. But for many, that's the appeal. Attractions include solid schools, a strong local economy and an affluent population (average household income is \$133,354, more than twice the national average).

As for housing, Sugar Land defines itself by its master-planned communities, each of which mixes homes, retail and recreation. Houses are affordable: \$350,000 will buy you a four-bedroom, two-bath home in the attractive Commonwealth development. Socializing revolves around each community's tennis courts, golf course, pool and clubhouse. "Sugar Land is exactly as it sounds," says Theresa Worsham, who lives in the Sugar Creek community with her husband and two sons. "It's a sweet lifestyle."

"Not only does the Houston metro area lead the nation in job growth, but also its cost of living stands well below the national average."

HOUSTON, NEW YORK HAS A PROBLEM

The Southern city welcomes the middle class; heavily regulated and expensive Gotham drives it away.

By Edward Glaeser – July 16, 2008

New Yorkers are rightly proud of their city's renaissance over the last two decades, but when it comes to growth, Gotham pales beside Houston. Between 2000 and 2007, the New York region grew by just 2.7%, while greater Houston — the country's sixth-largest metropolitan area — grew by 19.4%, expanding to 5.6 million people from 4.7 million.

To East Coast urbanites, Houston's appeal must be mysterious: The city isn't all that economically productive — earnings per employee in Manhattan are almost double those in Houston — and its climate is unpleasant, with stultifying humidity and more days with temperatures exceeding 90 degrees than any other large American city. Since these two major factors in urban growth don't explain Houston's success, what does?

Houston's great advantage, it turns out, is its ability to provide affordable living for middle-income Americans, something that is increasingly hard to achieve in the Big Apple. That Houston is a middle-class city is mirrored in the nature of its economy. Both greater Houston and Manhattan have about 2 million employees.

In Manhattan, almost 600,000 of them work in the idea-intensive sectors of finance, insurance, and professional services; only 2% are in manufacturing, and fewer than that in construction. Finance increasingly drives New York City's economy as a whole. By contrast, Houston is a manufacturing powerhouse that makes machinery, food products, and electronics, with a retail sector twice the size of Manhattan's and lots of middle-class jobs.

Housing prices are the most important part of Houston's recipe for middle-class affordability. In Gotham, the extraordinarily high housing costs aren't a problem for the hyper-rich. With enough money, you can live in a spacious aerie overlooking Central Park, shop at Barney's, eat at Le Bernardin, and send your children to Brearley or Dalton.

The abundance of poorer immigrant New Yorkers, in turn, tells us that for people simply seeking a lifestyle that beats rural Brazil, the city's many entry level service-sector jobs, wide array of social services, and extensive public transportation can offset high apartment prices.

But what if, like most Americans, you are neither a partner at Goldman Sachs nor a penniless immigrant? Consider an average American family with skills that put them in the middle of the U.S. income distribution — nurses, sales representatives, retail managers — and aspirations to a middle-class lifestyle. What kind of life will such people lead in Houston and New York City, respectively?

For starters, they'll probably earn less in Houston, though not as much less as you might think. In the 2000 U.S. Census, the typical registered nurse made \$50,000 in New York and \$40,000 in Houston. A retail manager earned \$28,000 in New York and \$27,800 in Houston. Let's be generous to New York and assume that our middle-income family would earn \$70,000 there but just \$60,000 in Houston.

If our Houston family's income is lower, however, its housing costs are much lower. In 2006, residents of Harris County, the 4-million-person area that includes Houston, told the census that the average owner-occupied housing unit was worth \$126,000. Residents valued about 80% of the homes in the county at less than \$200,000. The National Association of Realtors gives \$150,000 as the median price of recent Houston home sales; though NAR figures don't always accurately reflect average home prices, they do capture the prices of newer, often higher-quality, housing.

In Houston, you'll find a lot of nice places listing for \$175,000, and they'll probably sell for about 10% less, or \$160,000. These are relatively new houses, often with four or more bedrooms. Some have more than 3,000 square feet of living space, swimming pools, and plenty of mahogany and leaded glass. Almost all seem to be in pleasant neighborhoods — a few are even in gated communities. The lots tend to be modest, about one-fifth of an acre, but that still leaves plenty of room for the kids to play. For a family that has about \$35,000 available for a down payment, basic housing costs — that is, mortgage payments — would be about \$9,200 a year.

The average home price in New York City is dramatically higher. In 2006, the census put it at \$496,000, and \$787,900 in Manhattan — way out of reach for a family earning \$70,000 a year. There are cheaper options: a perfectly pleasant Staten Island home with three bedrooms and two baths for \$340,000, for instance. These houses don't have the amenities you would find in new Houston houses, but they offer 2,000 square feet of living space. Alternatively, the family might purchase a condominium, with two or three bedrooms, in Queens — say, in Howard Beach or Far Rockaway. Even for the Staten Island option, a family making the same \$35,000 down payment would face basic housing costs of about \$24,000 a year.

You thus get much more house in Houston and pay a lot less for it. Small wonder Houston looks so good to middle-class Americans.

It looks even better once you take taxes into account. Federal taxes are roughly equal for the two families: about \$7,000 per year. But under the Texas constitution, to enact a state income tax requires approval by statewide referendum — and two-thirds of the revenues generated by such a tax, if passed, must go toward reducing other taxes. As a result, Texas doesn't have any state income taxes. Nor, for that matter, does it have any city income taxes.

Houston residents do have to pay property taxes, which come to about \$4,800 for a \$160,000 home. In New York City, not only would a middle-class family have to pay local property taxes, probably about \$3,400; they would also have to pay state and city income taxes — adding another \$4,000 or so to their tax burden, depending on deductions and other factors. State and local levies thus add about \$2,600 to the cost of living in New York.

Ah, but doesn't it cost a lot more to get around sprawling Houston? The Houstonians must have two cars: the poor public-transit system leaves them no other choice. American families earning \$60,000 typically spend about \$8,500 a year on transportation — and sure enough, in Houston, that's sufficient (barely) to cover gas, insurance, and payments on two relatively inexpensive cars.

The New Yorkers could save a lot by giving up on cars altogether and relying solely on Gotham's extensive network of buses and subways, but on Staten Island or in outer Queens, that would mean a significant lifestyle cost. Family members would have to walk to the grocery store and rely on taxis for other trips. A more reasonable approach would be to have one car for local trips and use public transit to get to work. With a public-transit bill of \$80 per month, a fair guess is that the New York family will end up spending about \$3,000 less per year than the Houstonians on getting around.

Just as with housing, however, there's a significant difference in the quality of transportation in Houston and New York. In Houston, the middle-class breadwinner likely will drive an air-conditioned car from an air-conditioned home to an air-conditioned workplace, and take 27.4 minutes to do it, on average. Commuting via New York public transit is more complicated. If you live in Queens, the average commute to midtown Manhattan (if that's where you work) is 42 minutes, and longer if you're coming from Far Rockaway.

From Staten Island, the average commute is 44 minutes — and often something of a triathlon, with bus, ferry, and subway stages. Our middle-class New York commuter thus spends at least 120 more hours in transit per year than does his Houston counterpart. And except perhaps for the ones spent on the ferry, none of those hours is as agreeable as sitting in an air-conditioned car listening to the radio.

Will rising oil prices eat away Houston's cost advantages? While there's no question that more expensive crude favors dense New York, the impact of paying more at the pump is likely to be modest. If the Houston residents buy 500 more gallons of gas per year than the New Yorkers, and if the price of gas jumps by \$3 a gallon, then the price of Houston living will increase by \$1,500. This is a real cost, but it doesn't come close to evening the playing field.

Further, the Houston family could always drive a 50-miles-to-the-gallon hybrid, which would let them buy only 400 gallons of gas to drive 20,000 miles. Big-city boosters may like to think that rising gas prices will end suburban sprawl, but a far more likely response to expensive oil is a large switch to more fuel-efficient cars.

After housing, taxes, and transportation, the New Yorkers have \$26,000 left. The Houston family has \$30,500, and those dollars go a lot further than they would in New York. The American Chamber of Commerce produces local price indexes for various areas, including Houston and Queens (though not Staten Island). The overall price index for Queens is 150, which means that it costs 50% more to live there than it does in the average American locale. The price index for Houston is 88.

If we exclude the areas that our two families have already paid for (housing and transportation) and average the remaining categories in the index (food, utilities, health, and miscellaneous), Queens is 24% more expensive than the average American area and Houston is 6% less expensive. Thus — again, after housing, taxes, and transportation — the Queens residents' real remainder is a little less than \$21,000; the Houston family's is \$32,200. The Houston family is effectively 53% richer and solidly in the middle class, with plenty of money for going out to dinner at Applebee's or taking vacations to San Antonio. The family on Staten Island or in Queens is straining constantly to make ends meet.

If the key factor making Houston a middle-class magnet is its plentiful and inexpensive housing, that raises the question: why is it so cheap? The low cost of homes reflects the low cost of supplying homes in Texas. Building an "economy" 2,000-square-foot house in Houston costs about \$120,000, and a slightly larger "standard" one about \$150,000.

Why is it so much more expensive in New York? For one, supplying housing in New York City costs much, much more — for a 1,500-square-foot apartment, the construction cost alone is more than \$500,000. Also, part of the reason is geographic: an old port on a narrow island can't grow outward, as Houston has, and the costs of building up — New York's fate, especially in Manhattan — will always be higher than those of building out. And the unavoidable fact is that New York makes it harder to build housing than Chicago does — and a lot harder than Houston does.

The permitting process in Manhattan is an arduous, unpredictable, multiyear odyssey involving a dizzying array of regulations, environmental, and other hosts of agencies. A further obstacle: rent control. When other municipalities

dropped rent control after World War II, New York clung to it, despite the fact that artificially reduced rents discourage people from building new housing.

Houston, by contrast, has always been gung ho about development. Houston's builders have managed — better than in any other American city — to make the case to the public that restrictions on development will make the city less affordable to the less successful.

Of course, Houston's development isn't costless. Like most growing places, it must struggle with water issues, sanitation, and congestion. For environmentalists who worry about carbon dioxide emissions and global warming, Houston's rapid growth is particularly worrisome, since Houstonians are among the biggest carbon emitters in the country — all those humid 90-degree days mean a lot of electricity to cool off, and all that driving gobbles plenty of gas.

But Houston's success shows that a relatively deregulated free-market city, with a powerful urban growth machine, can do a much better job of taking care of middle-income Americans than the more "progressive" big governments of the Northeast and the West Coast.

The right response to Houston's growth is not to stymie it through regulation that would make the city less affordable. It's for other areas, New York included, to cut construction costs and start beating the Sunbelt at its own game.

Mr. Glaeser, a professor of economics at Harvard University, is a senior fellow at the Manhattan Institute. This article is adapted from the forthcoming issue of City Journal.

"You thus get much more house in Houston and pay a lot less for it. Small wonder Houston looks so good to middle-class Americans."

H O U S T O N , W E H A V E N O P R O B L E M S

Houston has become a sort of Silicon Valley for the global energy industry. Urban cowboy? Think suburban geek.

By Daniel Gross – June 30, 2008

To find a hot spot where soaring oil and commodity prices, and the booming economies of the developing world, are keeping cash registers ringing and construction crews fully employed, you don't have to trek to Dubai or Moscow. You need travel only as far as Houston. In May, the unemployment rate in the nation's sixth largest metropolitan area was a measly 3.8 percent. In the past year, Houston-based companies, which include 26 Fortune 500 firms, added 71,000 jobs to their payrolls. The local United Way closed out its fiscal year with a record \$76.1 million in donations. At the Galleria, a high-end shopping oasis, Bridgette Bottone, manager of the De Beers store, notes, "We're still selling the big guys": three-carat-plus diamonds that retail for more than \$50,000. Pessimists are as rare as Birkenstock sandals, or OBAMA '08 stickers in ExxonMobil's parking garage.

Houston's good fortune is largely a function of the current oil boom. But this isn't the type of gusher that led to busts in 1981 and 1986. Instead, Houston is experiencing a 21st-century boom fueled by a weak dollar and global growth. "Three things affect Houston's economy," says Patrick Jankowski, vice president of research at the Greater Houston Partnership: "the price of energy, the value of the dollar and the strength of the U.S. economy at large." As Meat Loaf said, two out of three ain't bad.

Houston's economy doesn't run on oil alone. "We're really diversified," says Mike Ballases, chairman of the Houston region for JPMorgan Chase, tongue partially in cheek. "We're only 50 percent dependent on energy." (The city's biggest employer: the Texas Medical Center, the nonprofit megaplex that runs two medical schools and 14 hospitals.) At Houston's port, the second busiest in America, cranes are loading ships with industrial equipment. Exports rose 25 percent in 2007, to \$72 billion.

Exports are rising because Houston has become a sort of Silicon Valley for the global energy industry. "There's hardly any oil and gas production in a 40-mile radius of Houston," says Mayor Bill White, a former energy executive, as he held court in the city's charming art deco city hall. (Think of a much smaller Rockefeller Center, but without the tourists.) "It's the knowledge that has concentrated here that is driving things." In 1981, the oil and gas industry was a domestic, blue-collar one. Today it's an international, white-collar one. Oil companies, wind-energy start-ups, consulting geologists and software developers compose what John Hofmeister, who is retiring in July as president of Shell Oil Co., calls "this mass aggregation of people who know what they're doing in the energy world." Urban cowboy? Think suburban geek. Houston has 70,000 engineers and architects (a concentration 60 percent higher than is typical for the United States). The oil boom and weak dollar are boosting demand for their services, and engineering and construction firms like KBR and Fluor are applying their expertise to power plants and sewage facilities around the world.

In midtown New York eateries, suddenly strapped investment bankers are limiting themselves to prix fixe lunches. But at noon last week, the 130 seats at The Grove, an expense-account jewel box that overlooks Discovery Green—a downtown parking lot made into a 13-acre park—were filled with jovial diners. As we tucked into our skirt steaks (so big they should have been dress steaks) and a side of French fries smothered in shredded short ribs and cheese, UBS executive Stephen Trauber ticked off a series of recent deals his team worked on that would make his New York counterparts weep: a \$3.5 billion oilfield-services acquisition, a giant initial public offering of a Brazilian oil company, several stock offerings.

With the mercury hitting 95 in the morning, the people in Houston might be overheating (climate change here means cranking up the air conditioning), but the real-estate market never did. The excess office space disgorged onto the market after Enron's bust was quickly absorbed. Chevron took over both Enron's old headquarters and the new building it was constructing. The residential market, which avoided a bubbly run-up—thanks to endless supplies of land and a lack of zoning laws—has remained buoyant. Development is rampant, from \$200,000 single-family homes in suburban planned communities to \$1.4 million town houses that have replaced student apartment buildings near Rice University. In 2001, when Enron imploded, 100 of the 1,600 homes in River Oaks, a tree-lined haven where old and new money coexist, were on the market, says Tim Surratt, a broker with Greenwood King. Today there are only 30 brick mansions for sale in River Oaks. In May, the number of homes sold in Houston fell 15.3 percent from May 2007, but the median price (\$155,000, about what a parking space in a new Brooklyn condo development goes for) was unchanged.

Houstonian boosters (a redundancy, I know) think there's more of the same to come. "One million people are coming here in this next decade," says Jeff Moseley, chairman of the Greater Houston Partnership. "That's the entire population of San Antonio."

Such projections of endless growth are characteristic of bubbles that are about to pop. But they're also characteristic of an area that finds itself uniquely situated to capitalize on the longstanding megatrends that are transforming the global economy. For now, Houston does not have a problem.

"The residential market, which avoided a bubbly run-up—thanks to endless supplies of land and a lack of zoning laws—has remained buoyant."

LACK OF ZONING HAS PAID OFF FOR HOUSTON

By Loren Steffy – May 27, 2008

During the past year, I've made several appearances on television news programs to talk about the housing crisis. My role was that of the straight man.

Typically, the shows would have three journalists from different regions of the country — one from the Northeast, one from the West Coast and me.

After the doom-and-gloom pronouncements from the coasts, I would come on and say, "Things aren't so bad here in Houston."

Houston has remained on the sidelines of the latest national financial crisis. Our housing prices haven't plunged, just as they didn't soar as the national housing bubble inflated. Our prices remained modest, if you believe the conventional wisdom, because we have a secret ingredient: plenty of land.

An abundance of open space by itself, though, may not be what protected us. Texas, after all, experienced an ugly real estate implosion in the late 1980s.

In a report issued by the Federal Reserve Bank of Dallas' Houston branch, senior economist Bill Gilmer found another reason Houston has been shielded from the country's real estate crisis: the lack of zoning.

Gilmer's findings are worth considering as the zoning debate rages anew. From an economic perspective, zoning laws work as a constriction of supply, which played a role in rising housing prices in other parts of the country.

"It raises the price of new-home construction," Gilmer said. "Those supply restrictions began the process of price increases."

Speculators finish the job, inflating the housing bubble with demand for mortgage securities that encourage ever-riskier lending practices.

As housing demand has increased, cities with tight zoning laws saw a steep rise in prices because of limited supply.

Rising prices ultimately extinguish demand, as we're now seeing with the collapse of the mortgage market.

In Houston, however, demand was met with new construction rather than rising prices. As a result, when the real estate bubble burst, the effects on Houston were less severe than elsewhere.

As of January, about 4 percent of Texas homes backed by subprime loans were in foreclosure, according to the Fed. That compares with 11.5 percent for California and 14.4 percent for Florida.

That's not to say we've been immune. For the first four months of the year, foreclosures in the Houston area were almost 17 percent higher than a year earlier, according to Foreclosure Information and Listing Service.

Houston's combination of available, unrestricted land and municipal utility districts to fund infrastructure have allowed it to grow at a lower cost than other metropolitan areas, Gilmer said.

"A lot of cities want to force you into particular patterns of development," he said.

The higher prices that come with zoning essentially close some of the most desirable neighborhoods to all but the wealthiest homeowners.

Shock, disbelief

Gilmer said he's often surprised by the reaction of colleagues in other cities when he discusses Houston's housing prices.

"They do not believe housing could be that cheap," he said. "It's a tremendous draw for people who are locked out of communities in San Francisco, where they have to commute two or three hours each way."

Of course, Houston's lack of zoning is something that outsiders view as, well, crazy for a city our size. I must admit that before I moved here, I was among them.

After all, who wants to see their property values fall because a neighbor opens a nightclub or an auto repair shop in a residential neighborhood?

Many neighborhoods, though, already have deed restrictions or homeowners associations that address such concerns, Gilmer said.

Zoning, by comparison, is designed to regulate development on a broader scale, which is why it can become exclusionary, he said.

As homeowners, many of us don't mind the higher prices that come with building restrictions. We like to see the value of our real estate investment rise.

The question for Houston becomes whether the cost of zoning is worth the benefit.

Gilmer's study, released earlier this year, is a reminder that the real secret ingredient in Houston's economic recipe is affordable housing, not just abundant land.

Not only do our housing prices make Houston attractive for relocations, it means that residents spend less of their income on housing, so they have more to spend on other things.

"It's a big driver of our growth," Gilmer said. "There aren't a whole lot of places that can offer a big city life and affordable housing."

That's something I never get to talk about on TV.

As the straight man, I don't get to deliver the punch line.

"There aren't a whole lot of places that can offer a big city life and affordable housing."



DON'T HOBBLE HOUSTON WITH LAND PLANNING

By Randal O'Toole – January 19, 2008

Houston is the freest major city in America, with no zoning and only moderate government intrusions into how property owners use their land. This freedom has made Houston the most affordable major city in America, with housing costs that are less than half of most other major urban areas. This freedom has also created an innovative and growth-friendly environment that is creating tens of thousands of new jobs each year.

Despite these benefits, the recent controversy over the Bissonnet/Ashby high rise has inspired local planning advocates to call for an increased amount of government planning of land in Houston.

Proposals have ranged from a “general plan” for the entire city “based on citizen vision, values and goals” to a variety of ordinances that appear to be aimed at limiting dense developments.

Though planners may have the best of intentions, such planning is likely to lead to higher living costs, more traffic congestion and dramatically reduced job growth.

We can see this by looking at other cities with zoning and planning.

In a sense, American cities have engaged in a controlled experiment with planning, with Houston and a few other cities doing very little, many other cities doing some planning and some cities doing highly restrictive planning.

Advocates of planning say that it will make cities more livable, but the results of many experiments across the country show just the opposite.

Cities with strong planning authority, such as Portland, Ore., and San Jose, Calif., almost invariably have the least affordable housing, the fastest growing traffic congestion and growing taxes and/or declining urban services. In the long run, these problems tend to suppress urban growth and job creation.

The national real estate firm Coldwell Banker reports that, in 2007, a Houston family could buy a four-bedroom, two-and-one-half bath, 2,200-square foot home for \$170,000. The same house would cost more than twice that much in Portland and more than eight times as much in San Jose.

Such huge variations in the cost of housing from city to city did not exist 50 years ago. Today, they are mainly due to artificial housing shortages created by heavy regulations and land-use planning.

Planning also imposes huge costs on businesses. The same land shortages that drive up housing costs also increase the costs of retail, commercial and industrial developments. Congestion increases the costs of delivering freight and other

goods to and from businesses. Higher taxes and more government regulation also make heavily planned cities less growth-friendly.

The result is that growth once attracted to places like California and Massachusetts is now attracted to less heavily planned states like Georgia and Texas. Between 2000 and 2006, California's population grew by 7 percent — mostly foreign immigration — while Georgia and Texas populations grew by 12 to 14 percent.

As Harvard economist Edward Glaeser observes, “places with rapid [housing] price increases over one five-year period are more likely to have income and employment declines over the next five-year period” because the rules that drive up housing prices also drive away employers.

Government planning spins out of control when it attempts to be comprehensive, prescriptive and long term. Comprehensive planning attempts to account for all of the impacts of any government action. Prescriptive planning attempts to control how private landowners use their land. Long-term planning attempts to look decades into the future. No one can really predict the future, so such plans do far more harm than good.

Instead of comprehensive, prescriptive, long-range planning, government agencies should limit themselves to the short-term plans needed to carry out their missions. Houston comes closer to this ideal than any other major American city.

Houston's lack of zoning and heavy regulation have led to an evolving system of private covenants and deed restrictions that respond to changes in tastes and demand for housing. The Harris County Toll Road Authority builds roads in response to transportation needs as expressed by people's willingness to pay tolls.

Houston should not attempt to write a comprehensive land-use plan or try to control or limit land uses in a misguided effort to improve livability by controlling where or how residents live. To preserve Houston's livability, affordability and growth-friendly environment, Houston should focus on maintaining a responsive government that provides the services people need, not one that is merely carrying out the latest planning fads.

“Houston's lack of zoning and heavy regulation have led to an evolving system of private covenants and deed restrictions that respond to changes in taste and demand for housing.”

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C L O S E D C A S E F O R ' O P E N ' C I T I E S :

Urban planning should create “open” cities rather than New Urbanist ones.

By Steven Greenhut, Sr. editorial writer and columnist for the Orange County Register – May 25, 2008

Former Houston Mayor Bob Lanier, an old-school Democrat who ran the nation's fourth-largest city between 1992 and 1998, told those of us who attended the American Dream Coalition (ADC) conference in his city last week that he moved there, from a poor, industrial city in East Texas because Houston was “an open city.” A person's race or economic background didn't much matter even when he got there decades ago, and it still doesn't matter much in Houston today. Anyone who works hard, he said, can make it in Houston – a city that sophisticates decry as insufficiently planned (it still lacks zoning), too tacky (money is still what matters there) and too “boom-to-bust.” Houston remains a place where fortunes soar and fall, and where brashness and bigness aren't frowned upon.

Unfortunately, instead of trying to create cities with grand opportunities, government officials are trying to create compact, expensive, trendy places that appeal to wealthy elites – neat places to go out to eat and attend a concert, but bad places to raise a family and start a business.

Granted, Houston's not everyone's cup of tea, but it's a nice city with an impressive skyline, lush tree-lined neighborhoods, upscale shopping, great restaurants, endless economic opportunities and amazingly low home prices. During one session, Houston city councilman Peter Brown decried the growing lack of affordability in some parts of the city, where a person needs \$220,000 to buy a nice house! The room broke out in laughter as those of us from California, Washington and Oregon guffawed spontaneously. As I rode to George Bush airport, I spotted a billboard for a new development boasting prices from the \$80s to the \$120s. The median home price in the metropolitan area is \$148,000, according to the National Association of Realtors, and anyone with 500 grand – about the median home price in Orange County – can afford a mini palace.

There's more to life than cheap houses, but you can certainly have a better life if you don't have to work three jobs to meet the \$3,000 a month mortgage payment.

One obvious reason for the relatively low prices is Houston's location, in a swampy plain with few physical restrictions to stunt the region's growth. But the prices are mostly a reflection of the pro-growth, low-regulation attitude that is dominant in the Lone Star State. Regulations are slimmer than in most places, and that allows builders to respond to market demand. One of the key reasons for the current housing crisis is that when demand shot up, the market couldn't respond in tightly regulated, authoritarian places such as California and Oregon, explained Wendell Cox, a housing expert and Heritage Foundation fellow.

The lead time for putting up new houses was too severe around here – not because of the time needed to build the houses, but because of the months and even years necessary for West Coast builders to negotiate all the political hurdles. So prices shot upon inadequate supply and the bidding war got started, driving homes to inordinate price points. In places such as Houston, the market reacted to the credit boom by building more homes quickly to meet demand. Prices stayed low, so after the bust, there was no precipitous fall.

Low home prices are one indicator of an “open city” – a place where any person can make his mark if he works hard enough. In an open city, where regulations are low and prices are reasonable, it's easy for anyone to get a business permit and open a store or provide a service. That's the American Dream. That's the key to helping recent immigrants make it into the mainstream. It's a lot more cost-effective and kind-hearted than building a massive wall.

Yet as conference presentations explained, the dominant ideas found in city planning offices and among regional planners are Smart Growth and New Urbanism – efforts to set aside open land as permanent open space, to force builders to provide dense housing on small lots, and to replace highway construction with mass transit. The goal is to recreate

old-fashioned city living and, supposedly, to enhance the sense of “community” we experience as we live cheek-by-jowl with our neighbors.

As a result, today's planners – and as ADC's outgoing director Randal O'Toole noted, government long-term plans are guaranteed to be wrong – are imposing one new restriction after another on what we do with our own private property. They push for more rules, more control, bigger regional planning bodies, less individual choice. Decisions, one speaker noted, are made either by free people or in the political process. Those are the only choices. In a free society, individuals can decide what to build and how to live – provided they follow some simple, easily understood rules. In un-free places, such as California, one must lobby councils, win over neighbors, pay consultants to twist arms, make promises to city governments. Approvals are based on the whims of the officials; there's no certainty or well-defined rights. Call a society that functions that way what you please, but don't pretend it's free or open.

The modern urban planning profession is, as author Joel Kotkin argued in a recent booklet called “Opportunity Urbanism,” about enhancing an “area's ability to attract the wealthiest individuals, the people with the highest skills, and those who can perform the most rarefied economic functions. The resulting ‘superstar cities’ cater largely to the upper classes and to those who serve them; generally, those cities are becoming too expensive for middle income individuals or families.” Hence, urban gurus such as Richard Florida entice cities to embrace policies that attract what he calls the “creative class.” But it's perverse, really, for governments to use their power and energy to build cities for wealthy Yuppies, while ignoring – beyond lip service about affordable/subsidized housing – the needs of the middle class and poor.

A New York Times article in 2005 explained the result of such policies in the trendiest cities: “San Francisco, where the median house price is now about \$700,000, had the lowest percentage of people under 18 of any large city in the nation Seattle, where there are more dogs than children, was a close second. Boston, Honolulu, Portland, Miami, Denver, Minneapolis, Austin and Atlanta, all considered, healthy, vibrant urban areas, were not far behind. . . . Officials say that the very things that attract people who revitalize a city – dense vertical housing, fashionable restaurants and shops and mass transit that makes a car unnecessary – are driving out children by making the neighborhoods too expensive for young families.”

Those cities also lack an entrepreneurial culture. Southern California, for instance, is a fun place to live, but if you want to start a business, you'd be best advised to head for Nevada or Arizona. That's what the activists at the American Dream Coalition are about – reminding the public that when planners take over, our freedom, and our opportunity suffers. I spoke about the city of Santa Ana's Renaissance Plan, which is the effort to drive out long-standing businesses and settled neighborhoods and replace them with high-rise condos and fancy clubs to appeal to this upscale demographic sought-after by planners.

Instead of pitching an aesthetic vision of recreating an old-time city, city planners ought to promote the ideas expressed by Lanier, of an open city where the future is as endless as the Texas prairie. It's not a bad thing for politicians to remember also: Lanier won resounding victories among every political and ethnic demographic in Houston – a testament, he said, to the enduring political appeal of opportunity.

“Low home prices are one indicator of an “open city” - a place where any person can make his mark if he works hard enough.”

HOUSTON LAND POLICY FOSTERS HOMEOWNERSHIP

By Wendell Cox Special to Houston Business Journal – January 18, 2008

Houston remains a city of opportunity.

I say “remains,” because other cities around the country have embraced land-use restrictions that have produced significant barriers to opportunity.

The issue is housing affordability.

The median house price in Houston is still in the area of \$150,000.

That is well within the historic “median multiple” bound of 3.0 — where median house costs are three times or less median household incomes.

In the decades since World War II, this has been the standard in the United States and the result has been unprecedented opportunity — a virtual democratization of prosperity.

In 1940, only 40 percent of households in the United States owned their own homes. Then, following World War II, the nation set about providing better housing.

This was accomplished by allowing relatively free suburban development.

The lack of unreasonable restrictions made it possible for new houses to remain far less expensive than before.

The results speak for themselves. Today, homeownership is near 70 percent. If the comparatively free development of the suburbs had not been permitted, it is likely that most households would still live in cramped rental units in crowded city cores.

In recent years, however, some urban areas have lost sight of the importance of broad prosperity and have, instead, started placing significant regulation on land for residential and commercial development.

The results speak for themselves. The problem was evident first in California, where a series of court decisions and land-use regulations seriously raised the cost of housing in that state.

Today, in the coastal metropolitan areas of Los Angeles, San Francisco, San Jose and San Diego, house prices average 10 times household incomes — more than three times the ration in Houston.

The problem is illustrated by comparing Houston to San Diego.

Both Houston and San Diego have been post-war growth dynamos. Between 1950 and 2000, the Houston area has grown by more than three times, while the San Diego area grew approximately four times.

Since 2000, things have changed markedly. While Houston has continued to grow, San Diego’s growth has virtually stopped.

The reason is restrictive planning policies that have destroyed housing affordability and made San Diego so uncompetitive that it is losing residents to other parts of the nation at a greater rate than the “Rust Belt” metropolitan areas of Pittsburgh or Buffalo.

In just six years — 2000-2006 — the cost of purchasing and financing the median-priced house in San Diego has risen by more than \$700,000.

Over the same period of time, the cost of purchasing and financing the median-priced house in Houston has risen less than \$25,000.

The difference is that Houston allows development to happen, while San Diego has adopted all manner of regulations and planning requirements that make building so expensive that it has slowed to a standstill.

Last year, Houston built 12 times as many houses as San Diego, despite having less than twice the population.

This rapid increase in housing costs is creating serious budgeting problems for households.

Things were bad enough in 2000, when 33 percent of a median household income was required to pay the mortgage on a median-priced house in San Diego. Now the figure has risen to 71 percent.

It is even worse for minorities. Today, the mortgage payment on the median-priced house in San Diego would take between 90 percent and 100 percent of the median Hispanic or African-American household income. Needless to say, middle income households and especially minorities have been priced out of homeownership by San Diego’s planning policies.

Meanwhile, in Houston, the median house mortgage takes less than 20 percent of the median household income. The median Hispanic or African-American household would pay less than 40 percent of their income on the median-priced house. That needs to be less and it never will be if we allow San Diego-style policies to make homeownership even more elusive.

At the same time, while some large American cities are pleading for higher-density residential developments, the market often fails to provide them without taxpayer subsidies. This is because the planners want to say where they go, rather than letting the market decide.

But in Houston, developers are providing higher-density developments without subsidies. They do so because they are able to site facilities where people will buy them. And they are doing so in numbers that far exceed building rates elsewhere.

For example, in the Houston area, multiple-unit residential construction rates are among the highest in the nation and above those of highly regulated San Diego, Los Angeles, San Francisco and even Portland, Ore.

The key to Houston’s success is that the market is allowed to operate to serve people’s preferences rather than those of the planners.

Of course, necessary environmental standards are applied; otherwise Houston would not be such a nice place to live.

All metropolitan areas have limits. In the highly regulated areas, the limits are on building, housing affordability and opportunity, the natural outgrowth of overly prescriptive regulation.

In Houston, the limits are applied to government, which is not allowed to interfere with the lifestyles and opportunities that people seek.

It is one of the reasons that Houston continues to grow so strongly, while so many other formerly fast-growing metropolitan areas are falling into stagnation or even declination.

Wendell Cox is principal of Demographia in St. Louis. Demographia studies the effects of transportation and growth policies on populations defined by income, age and other factors.

“The key to Houston’s success is that the market is allowed to operate to serve people’s preferences rather than those of the planners.”

STRANGULATION BY DECREE: THE COMEBACK OF “PLANNING”

By William Murchison – May 27, 2008

Plenty of us smart-aleck Dallasites, if we try, can work up a crush on hustling Houston, where the air—leave aside the suffocating humidity—has the tang of freedom.

Houston’s historic refusal to direct growth patterns through regulation of private property rights isn’t the only factor in the city’s rise to eminence and success. It hasn’t exactly retarded that rise, either.

Zoning-less Houston leaves it mostly to the marketplace—a/k/a people, doing what people do—to figure out local needs and ways of meeting said needs. Everybody, under the First Amendment to the U. S. Constitution, has voice in the matter. Yet no central authority, squinting down from Mount Olympus, compels and enforces.

You’re right probably to wonder how much longer the nation’s fourth most populous city can get away with such a generally sensible approach to development.

The state as a whole, and Houston in particular, confront calls to limit or narrow property rights in the interest, supposedly, of the larger good. That a larger good may exist, metaphysically speaking, isn’t the issue here. It’s whether private property rights aren’t part of that “good”—and whether, consequently, they don’t deserve the most scrupulous protection available in a democracy.

At the Legislature, a House committee, responsive to an interim charge from the Speaker, is examining the “effectiveness” of a 1995 law meant to protect property rights but weakened since then by judicial decisions (and too-general language).

Not that Houston voters have had a conversion experience. Yet various political and business leaders are plugging a plan that would let local government—without seeking voter confirmation, as mandated by the city charter—impose development restrictions that could be accused of first cousinship to zoning.

A University of Houston study last March suggested that nearly two thirds of Harris Countians think land-use planning could be a good idea, whereas more than half favor outright zoning. “This is just a city out of control,” says one resident who frets, as do other neighbors, about plans for building a twin-towered, 23-story luxury condominium near comparatively bucolic Rice University.

Well, let’s think. Far be it for a Dallas smart aleck—whose city, heaven knows, has its own problems – to advise non-Dallasites how they should live and move and have their being. Assuming they’d listen in the first place. A set of

considerations emerges nonetheless from the intellectual murk. Foremost is the consideration that freedom works better than constraint and all-knowing supervision. I didn’t say, works perfectly. I said, works better, and—yes—for the broader interest. How so?

Consider other states and cities that have gone into the planning business. By the estimate of a University of Washington economics professor the state’s Growth Management Act, which regulates home-building sites, has driven Seattle house prices \$200,000 higher than they otherwise would have been. Thanks, folks.

Try heavily regulated San Francisco, where home prices in February, subprime mortgage crisis or not, were 75 percent above the levels of 2000. Try rent-controlled New York City, where a 600-square-foot apartment can sell for half a million big ones. Try New Orleans, whose tentative comeback, as Nicole Gelinas shows us in *City Journal*, is due to private initiative that didn’t wait for desk bound bureaucrats to make their minds up as to what needed doing—and, of course, how to get it done.

One sees Texas getting to this point...never. (If Texans were as dumb as some of their fellow Americans allege, they’d live in New York, not Houston or Dallas.) Time, nevertheless, to put out some warning flags. Hurricanes swell up from squalls, earthquakes from growls in the earth.

Provided we get the basic principle right—which is that private judgment in economic matters affords flexibility, creativity, and a kind of backyard wisdom generally unavailable to government planners, and that less planning gets the job done faster and better than strangulation by decree—we’ll be all right. Not exactly for the first time in Texas history.

*“The state as a whole,
and Houston in
particular, confront
calls to limit or
narrow property
rights in the interest,
supposedly, of the
greater good.”*



HOUSTON GETS HIGH MARKS ON HOUSING AFFORDABILITY STUDY

By Casey Wooten – March 28, 2008

Houston has the eighth-most affordable housing out of the Top 50 major metropolitan areas in the U.S. and is second in Texas behind San Antonio, according to a new study by Bizjournals.

Bizjournals, a division of Houston Business Journal parent company American City Business Journals Inc., ranked the cities based on the percentage of monthly income that was spent on total housing costs, including property tax.

Houstonians spend approximately 22 percent of their monthly income on housing, according to the study. The median household income in Houston was \$4,188 per month, while the median total housing payment totaled just over \$900.

Oklahoma City has the most affordable housing, with 19 percent of monthly income being spent on housing. San Antonio; Birmingham Ala.; Indianapolis Ind.; and Pittsburgh rounded out the Top 5.

Elsewhere in Texas, Dallas/Fort Worth was No. 15, with the average mortgage payment consuming 23.5 percent of the median household income. And Austin ranked 23rd, with 26.8 of the average resident's income going toward housing.

"Texas has always been a very affordable state," says Jim Gaines, research economist for the Real Estate Center at Texas A&M University. "We don't have a supply-constraining type of market or heavy regulation and land-usage control."

Gaines says low labor costs for building new homes and inexpensive and plentiful land are keeping home prices down in Houston.

Michael Levitin, chairman of the Houston Association of Realtors, agrees, saying the wide-open spaces surrounding Houston offer ample room for development.

"I think that by Houston being so large area-wise, your land costs are low, relatively speaking," Levitin says. "So consequently, home prices are very favorable. You get more home for your dollar here."

One often-overlooked factor affecting home prices is Texas' reputation for being light on regulation, Gaines says. Because of the open nature of the housing market, he says, builders are able to construct homes more quickly and for less money compared to pricey and regulation-burdened areas such as California and New England.

"As long as we maintain a lack of overly trying to control growth, we will still keep a good level of affordability," Gaines says.

Home Sweet Home

Gaines predicts a dramatic increase in Houston's population by 2030, largely because Texas is still adding jobs and attracting employers based on the low cost of living. Gaines believes the affordable lifestyle will continue to attract residents from more expensive parts of the country.

"A good many of them will come from California and New England," Gaines says. "Mainly, they will come for the economy and employment."

Gaines' predictions are backed by the bizjournals.com survey. Due to California's notoriously sky-high housing costs, cities in the Golden State occupy the bottom four positions — the most expensive — on the list.

With 75 percent of monthly income going to pay for housing, Los Angeles holds the worst spot on the list. Median income in LA is a relatively high \$4,626 per month, but that can't make up for the astronomical \$3,491 median housing payment per month.

San Francisco-Oakland, San Diego and San Jose make up California's other entries at the undesirable bottom of the list. At 46, New York City is also in the bottom five, with 59 percent of total income spent on housing.

Changing tides?

Despite Houston's competitive spot in terms of housing affordability, the trend of cheap land and inexpensive homes may be slowing down. According to a March 18 report by the Houston Association of Realtors, property sales dropped for the sixth consecutive month in February. Sales volume was 13 percent lower last month than in February 2007. In addition, the average single-family home price rose 5.6 percent compared to the previous February.

Demand for homes in the \$500,000 and up price range remains high, according to Levitin, who points out that average prices in that range have continued to increase. In the \$80,000-to-\$175,000 range, however, recent tightening by lenders in response to the subprime mortgage crisis has led to a drop in sales. Buyers are having a harder time securing financing in that segment of the market, Levitin says.

“Now the pendulum is swinging back, and mortgage companies are tightening up,” he says.

But despite the recent drop in home sales and the rise in prices, Levitin believes Houston’s market will remain attractive for years to come.

“The cost for developing will go up, but not dramatically,” he says. “And on top of that, we still have strong and steady job growth. Couple that with good interest rates and plenty of competition, and I think we are going to be OK.”

Affordable housing methodology

Bizjournals rated the affordability of housing in 50 major American markets. Here are the details:

- **Goal:** The study’s objective was to identify those markets that offered the most affordable housing. It gave the highest marks to communities where only a small share of household income was required to meet monthly payments for mortgages and property taxes.
- **Areas:** The study covered the 50 largest metropolitan areas as of mid-2006. They ranged from New York City, with a metropolitan population of 18.82 million, to New Orleans, with 1.02 million.
- **Source:** All raw data used in the study came from the American Community Survey, which was conducted in 2006 and released in late 2007 by the U.S. Census Bureau.
- **Factors:** Bizjournals followed a five-step process to gauge the affordability of housing in each metropolitan area:

1. It began with the median value of all owner-occupied housing units within the given market.
2. It then calculated the monthly mortgage payment for a house at the market’s median value, based on a 10 percent down payment and a 6 percent, 30-year mortgage to cover the balance.
3. It converted the market’s median annual property-tax load to a monthly figure.
4. It then added the median monthly mortgage and property-tax payments, resulting in the typical monthly housing payment for the specified market.
5. That housing payment was then compared to the market’s median household income, which had already been converted to a monthly figure. All 50 markets were ranked according to the percentage of median monthly income that was required to meet the typical housing payment.

cawooten@bizjournals.com 713-395-9637; G. Scott Thomas, research director for American City Business Journals, contributed to this report.

“As long as we maintain a lack of overly trying to control growth, we will still keep a good level of affordability.”

BUILT ON A FIRM FOUNDATION

By Brian Binash, Houston Chronicle – June 28, 2008

Houston's housing market is strong, and so is our homebuilding industry's commitment to high standards.

Some homeowners might not have a clear picture of the stringent building codes in effect in Texas, but this state has a statewide residential building code that includes provisions for windstorm protection in the coastal areas. Here are the facts:

In 2001, the Texas Legislature passed landmark legislation making the International Residential Code, or IRC, the municipal residential building code in the state. In 2003, legislation was enacted mandating that all homes in the state, including those in the unincorporated areas, be built to IRC standards. Last session, legislation was passed requiring that all homes in the unincorporated areas, as well as areas without municipal inspections, must be inspected for code compliance beginning in September of this year.

Many builders voluntarily undergo code inspections in these areas and have done so for years through a time-proven system used by several of the larger municipalities in this state. The IRC is a consensus code that is nationally reviewed by all stakeholders in the industry including building code officials, structural engineers, manufacturers and universities. It is a very well-respected, state-of-the-art code used by most of the country and includes stringent windstorm provisions.

- Prior to 2000 there existed three model building codes from which to choose for residential and commercial construction. At that time, the state of Texas allowed municipal building departments to adopt the code of their choice. Due to a lack of uniformity, in the early 1990s the Texas Legislature commissioned a study of Texas coastal building practices, and from this study the Texas Department of Insurance Windstorm Engineering Department developed a windstorm code.

As noted above, in 2001 Texas adopted the IRC, which is revised every 18 months with new editions published for adoption every three years. The IRC contains specific wind provisions in all areas of the country, including wind speeds specific to coastal areas in Texas, Louisiana, Florida, etc. Texas, in fact, has been ahead of the windstorm curve for many years, and our Legislature has historically made numerous efforts to protect the residents of this state. These codes are mandatory, not "quasi-mandatory," as the Chronicle recently reported.

- A TWIA study released in January 2007, entitled "Building Codes Work During Texas Hurricanes, Study Reveals," shows that there were far fewer claims for homes built to the windstorm code, and the average paid loss for those homes was 40-50 percent less than those homes not built to code. In a press release on the study, which included the counties most affected by Hurricane Rita, TWIA emphatically states that, "It is clear that the building codes work."

- As mentioned above, there is now a means to inspect for IRC compliance in all unincorporated areas of the state effective Sept. 1, 2008. These inspections will include foundation, structural and mechanical inspections including verification that the structures are designed and built to meet the wind speeds required in specific areas as mandated by the IRC.
- Windstorm codes require the use of hurricane clips and straps, along with numerous other items in our homes. The idea that builders would rather include granite counter tops and surround sound in our homes is completely off base.

While no industry is perfect, Texas homebuilders have consistently and progressively produced high quality affordable homes for Texas families.

The various legislative measures mandating building code requirements create a system of oversight and accountability that was fully supported by homebuilders because it is our sincere desire to raise the bar and create a principled industry that protects consumers while ensuring that homebuilding and homeownership remain viable and productive drivers of the economy. Remember, we live in our homes and play in your neighborhoods too. Your community is our community.

Binash is president of Wilshire Homes and the Greater Houston Builders Association, which has more than 2,200 member companies in seven counties.

"While no industry is perfect, Texas homebuilders have consistently and progressively produced high quality affordable homes for Texas families."

HOUSTON BUSINESS

A Perspective on the Houston Economy

January 2008 – Federal Reserve Bank of Dallas – Houston Branch

Neither Boom nor Bust: How Houston’s Housing Market Differs from Nation’s

The ongoing housing downturn has served as a significant headwind for the U.S. economy, subtracting nearly a percentage point from the country’s gross domestic product growth in each of the past six quarters. However, this downturn has not been uniform across the country. Houston is an example of a metropolitan area that was seemingly immune to the trend until its housing market began slowing significantly in mid-2007.

Houston did not share in the rapid price appreciation seen by some large metros in the early 2000s or the sharp downturn of late 2006 and early 2007. But the tightening of credit standards since August has affected Houston disproportionately. Mortgage and housing markets have seen wide variations in performance as a result of the downturn, and this is Houston’s story in the context of the national housing market turmoil.

U.S. Housing Rise and Fall

Fundamentally, employment and population growth are primary drivers of long-term housing market demand. As the U.S. economy emerged from a relatively short and shallow 2001 recession, improving job growth boosted housing demand and, ultimately, home prices.

In this period, though, an additional boost came from low mortgage interest rates. After peaking at 8.52 percent in May 2000, the average interest rate for a fixed 30-year mortgage fell to 5.45 percent in March 2004, a 25-year low.[1]

It remained less than 6.5 percent through first quarter 2006, opening the door to many potential homeowners. Augmenting this increase in demand, financial institutions developed new mortgage products that further broadened the number of potential buyers.

We observe this higher demand in an accelerating rate of new-home construction and in price appreciation for existing homes (Figure 1).

Phase I: Demand and Price Increases

In the first phase of the U.S. housing market boom and bust, many large cities (primarily on the East and West coasts) saw a prolonged run-up in prices. Demand for housing, driven by low interest rates and a growing economy, combined with supply restrictions—such as zoning laws, high permitting costs and “not in my backyard” regulations—to contribute to rapid price appreciation. Figure 2 shows how low levels of construction in the face of strong demand contributed to significant price appreciation in most of the 12 largest U.S. metros.[2] These price increases then fed off themselves. Rising prices—whether for gold, corn or houses—often foster a bubble mentality, contributing to speculative demand.

Without a commensurate increase in income, home-price appreciation cannot last forever since higher prices inevitably reduce the pool of potential buyers. This result is illustrated in Table 1, showing the percentage of houses in these 12 metros that are affordable, based on prevailing interest rates for conventional 30-year mortgages, for a family earning the area’s median income. In 2001, at least a third of houses were affordable for a median income family in all but one of these areas, but affordability has declined rapidly in the six years since. In Atlanta, Dallas and Houston, affordability has fallen but remains at sustainable levels.

As shown in Figure 2, these markets have weathered increased demand largely with new construction rather than price appreciation because of the ease of building new homes.[3] While some are dismissive of this developer-friendly attitude that allows such rapid construction, the approach clearly carries significant benefits for the homebuyer, both in selection and in price. We will return to this subject at length in a subsequent section.

Phase II: Tightened Credit Standards

Price appreciation is now turning to price decline in many cities that saw the most rapid increases. And for many homeowners who counted on price appreciation rather than a down payment to build equity in their homes or who are now stretching to afford their homes as mortgage rates adjust, these price declines have contributed to the second phase of the downturn: mortgage defaults and tightened credit.

In August 2007, when mortgage-related financial instruments began to see substantial losses, banks engaged in a flight to quality, lending only to the least risky customers. As a result, subprime, Alt-A, low documentation and other unconventional loans fell out of favor. Sales of new and existing homes in high-priced markets already were stressed by the lack of affordability and the collapse of speculative buying; now they are being hurt by the limited use of new mortgage products.

Originally, subprime lending was intended to fit a narrow niche of primarily young or minority homebuyers, allowing them to qualify for mortgages sooner than otherwise possible. In recent years, however, lenders misused these mortgages in a significant departure from normal lending standards. Indeed, along with job growth and low interest rates, the subprime market became an important factor in driving demand for homeownership.



Figure 1

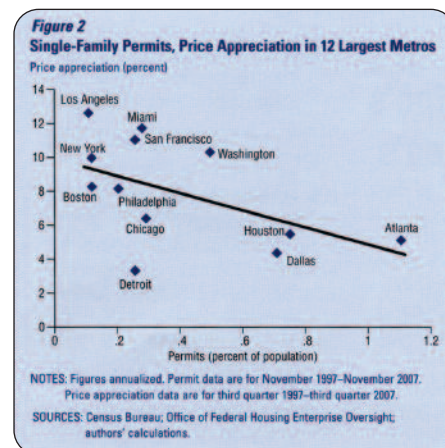


Figure 2

Housing Opportunity Index
(Percent of homes affordable based on areas median household income)

City	Q3'01	Q3'07
Atlanta	71.2	63.7
Boston	41.8	26.6
Chicago	56.1	40.3
Dallas	67.0	53.7
Detroit	65.1	83.9
Houston	64.4	47.4
Los Angeles	35.6	3.7
Miami	55.1	10.6
New York City	54.8	7.1
Philadelphia	60.6	38.5
San Francisco	7.8	7.0
Washington, D.C.	75.4	35.0

Table 1

Just how widespread these subprime and other nonconforming lending practices became is indicated in Table 2, which shows the percentage of 2006 mortgage originations that were “high cost,” or at least 3 percentage points higher than prevailing rates or Treasury securities of equivalent duration. By 2006, most of the largest U.S. cities depended on these high-cost mortgages for a significant portion of home sales, ranging from 18 to 45 percent in the 12 largest metros.

Atlanta	24.4
Boston	17.7
Chicago	27.2
Dallas	29.4
Detroit	37.2
Houston	33.9
Los Angeles	32.3
Miami	45.1
New York City	22.4
Philadelphia	18.4
San Francisco	22.4
Washington, D.C.	22.7

SOURCES: Home Mortgage Disclosure Act data from fllec.com; authors calculations.

Table 2

	Population	Jobs
Atlanta	3.19	1.82
Boston	.39	.31
Chicago	.78	.31
Dallas	2.59	1.69
Detroit	.07	.83
Houston	2.52	1.86
Los Angeles	.93	.92
Miami	1.60	1.85
New York City	.60	.78
Philadelphia	.41	.74
San Francisco	.53	.40
Washington, D.C.	1.66	2.32

*Boston metropolitan statistical area data exclude New Hampshire.

Table 3

	Q3 '01
Atlanta	\$175,300
Boston	\$414,700
Chicago	\$286,400
Dallas	\$146,800
Detroit	\$142,900
Houston	\$155,800
Los Angeles	\$588,400
Miami	\$346,800
New York City	\$476,100
Philadelphia	\$243,000
San Francisco	\$825,400
Washington, D.C.	\$438,000
Average of 12 largest metros	\$353,300
National median	\$220,800

*Boston data exclude New Hampshire.
SOURCE: National Association of Realtors.

Table 3

The first phase of the current housing crisis was the bursting of the price bubble in a few large U.S. metros. But the second phase—the August 2007 withdrawal of the subprime stimulus—affected a much wider range of cities, including high-construction markets like Houston.

The Houston Example

Phase I: Construction, Not Price Increases

Houston saw tremendous job and population growth over the last decade, ranking it high among the 12 largest U.S. metropolitan areas in both metrics (Table 3). Projections from the Texas Office of the State Demographer indicate that this population expansion will continue, with Harris County predicted to grow an annualized 1.5 percent over the next five years. [4]

Given that Houstonians had access to the same new types of mortgages as the rest of the country and that Houston has had greater population growth than other large metros, we might expect price appreciation to be stronger in Houston than elsewhere. However, the opposite has been true.

Houston’s large supply of land means that demand growth primarily results in more construction, not higher prices. Construction levels are limited by the availability of two kinds of developable land: the previously undeveloped, generally found on a metro’s outskirts, and the redeveloping, usually in a city’s interior. In both cases, Houston’s policies are relatively permissive, making the metro friendly toward development.

The most fundamental difference between Houston and other cities lies in how they provide (or in Houston’s case, do not provide) water, sewer and drainage to developments on the urban fringe. In Houston, developers can create a municipal utility district, or MUD, to provide these services on their properties and can finance these with tax-free bonds. Houston requires developers to build MUDs in such a way that they eventually could be connected to the city’s corresponding infrastructure, but they begin as self-sufficient enterprises.

In other cities, developments must be connected to the city’s water and sewer lines, confining new projects to nearby or adjacent land since the cost of building lengthy lines is prohibitive. In metro Houston, by contrast, virtually any large parcel of land can become a new suburb, especially given the metro’s expansive highway system. Experience bears out this conceptual framework, with significant Houston suburbs like Katy and Spring developing and prospering before many closer-in areas.

But Houston does not just have a larger supply of available land on its outskirts. Unlike all other large U.S. cities, Houston lacks zoning laws restricting industrial, commercial and residential construction to specific neighborhoods. Many inner-city Houston neighborhoods protect property values through deed restrictions diligently enforced by private neighborhood associations, and the large, planned suburban communities operate similarly.[5] But much of the land in metro Houston is not assigned a specific use.

So much land is available in Houston that the cost of each incremental unit rises slowly and keeps the average cost below that of more restrictive metros. Even in the face of significant population growth, this large supply keeps land prices in Houston stable, which over time contributes to lower home prices. (See box titled “Land Supply, Construction and Home Prices” for a simple illustration of the relevant supply– demand framework.)

Indeed, Houston and other metros such as Dallas and Atlanta that have relatively more permissive development policies have lower housing prices than more restrictive places do.

At \$155,800, Houston’s median house price is the third lowest among the 12 largest U.S. metropolitan areas and is less than half the average for these cities (Table 4). Houston’s median price is lower than even the national average, which includes inexpensive rural areas.

By comparison, the median house price in metropolitan San Francisco, where zoning laws and building codes are very strict, is \$825,400.

This result—more zoning bringing higher prices—is a robust one. Economists Edward Glaeser and Joseph Gyourko find that house prices across the country are positively related to the degree of zoning and regulation.[6] Even in Houston, there is evidence that houses in deed-restricted neighborhoods or in zoned cities within the metro area are more expensive than comparable ones outside these areas.[7] But with plenty of unzoned neighborhoods remaining, Houston house prices, on the whole, are restrained near construction costs.[8]

In summary, Houston’s low-and-slow home prices have made real estate a relatively accessible and safe investment for the area’s residents even as other cities’ markets have become expensive and volatile. The early phases of the current housing downturn—the boom and bust in prices—were barely felt in Houston.[9]

Phase II: The Subprime Problem

Rather, Houston began to feel the housing pinch in the second phase of the downturn: diminished credit availability and the sudden narrowing of the market due to the loss of high-cost mortgages.

The withdrawal of subprime lending likely will deepen the decline of markets like Washington, D.C., Boston and Los Angeles, which already are in a tailspin from falling home prices. In high-construction markets like Houston, Dallas and Atlanta, the reduced pool of potential homebuyers since August 2007 marks the beginning of a serious slowdown.

This connection between financial conditions and the local housing market is evident in Houston's existing-home sales, which declined substantially in September (Figure 3), immediately after credit standards tightened. This decline persisted throughout the fall, with existing-home sales down 23.5 percent year-over-year in December. Further, the decline began at the low end of the market, exactly where local consumers had relied most heavily on subprime and Alt-A loans. [10] Luckily for Houston, the nationwide price correction that began earlier this year caused many national homebuilders to abandon projects across the country, including in Houston, where the market was still strong. The result is that inventories are likely lower than they would have been if not for this exogenous effect.



Figure 3

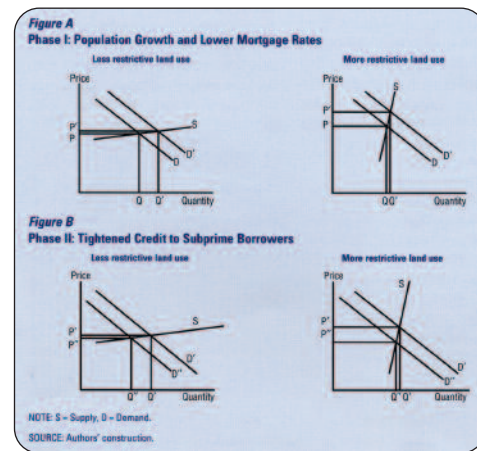


Figure 4

As the housing downturn unfolds, Houston is in a relatively strong position. The metro will not escape without significant correction, but forces are at work to limit the damage. In 2006, Houston relied more heavily on high-cost lending than many other large metro areas did. The resulting correction, however, takes place in the context of prices that are squarely in line with local construction costs and without the painful supply-induced downturn under way in many other markets.

Perhaps the most powerful force working in Houston's favor is that the metro remains a strong beneficiary of the current global commodity boom. As the seat of the U.S. energy industry, Houston is generating large numbers of jobs,[11] and the outlook for job growth remains good.

There are downside risks to oil and other commodity prices, particularly as the U.S. economy decelerates and perhaps slows other economies along with it. However, Houston's surest route to a short and mild correction in the local housing market is through continued strong population, job and income growth. —Amber C. McCullagh and Robert W. Gilmer

Houston Economic Update, January 2008» Land Supply, Construction and Home Prices

The use of municipal utility districts and a lack of zoning in Houston foster a highly elastic supply of land. This is depicted in Figure A, which shows how a strong shift in demand for homes, perhaps through population growth or lower interest rates (Phase I), brings a different response in cities that have an elastic (including Houston) versus inelastic (San Francisco, among others) land supply. The left chart shows that with an elastic supply of land, the shift of the demand curve from D to D' results in greater delivery of homes to the market and a small price increase. In the right chart, depicting cities with a more inelastic supply, we see the shift in the demand curve results in much larger price increases and fewer homes constructed.

Phase II of the correction (Figure B) has meant a shift in demand from D' to D'', and this downturn can be attributed specifically to tightened credit in the high-cost mortgage market, bringing fewer potential homebuyers. Because of Houston's heavy use of these mortgages compared with other cities, the metro has been affected more than cities with a lower concentration of high-cost loans. As with the initial demand shift, the correction will fall heavily on homebuilding rather than home prices in Houston, while it will mean price drops more than a homebuilding downturn in cities with more restrictive land use policies.

In Houston, the process of shifting the demand curve from D'' back to D' will have to be done the old-fashioned way—through population and employment growth. A continuation of the rapid job growth Houston has seen since 2004 would keep the building downturn shallow and shorten the period of malaise.

About the Authors:

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“The early phases of the current housing downturn—the boom and bust in prices—were barely felt in Houston.”

HABITAT FOR HOUSTON

You may have noticed that this area has missed the housing bust. There's a reason why.

By Will Holder, Houston Chronicle – June 28, 2008

Houston has become the subject of controversy for not joining in the national misery-loves-company party. Local and national media alike have chimed in on Houston's failure to slide into the national housing obisabyss. Nationally, the media want to credit oil company dumb luck; locally, some will have you believe that the other shoe here just hasn't dropped yet.

Granted, the Houston economy may slow, but the bottom is not going to fall out from under Houston's housing values.

Houstonians missed out on the boom years of 20 percent annual home value increases seen in some areas of the nation; so now we are missing out on the years of 20 percent annual value decreases.

Houston home values have continued to eke out positive appreciation during the biggest national housing bust in recent history. Why is that?

It is all about supply and demand.

Houston has always frequently been criticized as an out-of-control, unregulated and sprawl-crazed city. But it is exactly that lack of governmental interference which that allowed natural market forces to self-regulate Houston's housing supply to match demand.

With supply and demand in balance, Houston home prices were kept in check during the national boom years. When demand was peaking, the freedom of Houston landowners to develop new communities to match housing demand gave home shoppers lots of good choices. This increased supply prevented home sellers from being able to ratchet up home prices.

Today, housing demand has slowed here, and builders have responded by starting 20,000 fewer homes. This decreased supply has prevented prices from free-falling. Wow, this is capitalism at work and market forces controlling supply and demand.

Today's hardest hit bust markets are, not coincidentally, the same cities with the greatest municipal and county regulation. Those boom cities saw rapid home-price escalation because the city fathers regulated supply to a level far below the city's actual demand. When a city's job growth creates inward migration while municipalities restrict new development, then that city naturally ends up with a housing shortage. The law of supply and demand sends home prices up. With demand exceeding supply, "investors," actually speculators, enter the market and further the frenzy. This is what happened in the big boom cities of the early 2000s.

You may ask: What about the subprime thing? Well, it is all one and the same. What allowed mortgages to be made to unqualified buyers with no down payment in the first place was the perception that home prices would continue to go up and therefore the mortgages would be safe.

Absent local governments artificially constricting supply, home prices nationally would have appreciated only modestly and speculators and poorly qualified buyers would have stayed on the sidelines.

Houston's supply-rich environment has made it one of the nation's few "cost-plus" new home markets. What that means is that Houston homebuilders price their homes based on current cost of construction, not from a "what-the-market-will-bear" strategy.

During the boom years, builders in the "hot" markets paid little attention to construction costs when pricing their homes because localized home sales prices were rising far faster than the cost to build. Home pricing was based on evaluating the locally constrained supply against locally increasing demand.

And guess what? People who needed homes had to pay the sellers' asking price, or even place a bid above the asking price and hope they were the "lucky" winners of the home. When the above-asking-price bids started coming in, so started the boom. When they stopped, that was the first day of the bust.

So what is the moral to this story?

First, Houston and surrounding municipalities and counties have done us all a big favor by doing what they do best — delivering high quality governmental services and not trying to be the local OPEC of housing.

Second, Houstonians have always and continue to get the most home for their money based on old-fashioned competition.

Today, Houston is indisputably the healthiest housing market in the nation, and it is the result of our being an out-of-control, unregulated and sprawl-crazed city.

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"Houstonians have always and continue to get the most home for their money based on old-fashioned competition."

ONE TRIP AROUND HOUSTON, AND THEY'RE PREACHING TO THE CONVERTED

By Michael Duffy – May 31, 2008

I had come to Houston because, for those of us who dream of concrete, it is the ultimate city. In the 1990s, Houston built its way out of congestion, creating so many freeways the people were happy, their urge for mobility satiated. Houston is also a city without zoning.

As zoning is the major cause of the corruption of the NSW Labor Party, I wanted to see how a big city could thrive without it.

I was not the only person from Sydney in Houston last week. Brian Houston was there, too. The pastor of the Hillsong religious operation (churches at Norwest Business Park in Castle Hill, and in London, Kiev and Cape Town) was appearing at Lakewood, the largest church in America. Located in the former arena of the Houston Rockets basketball team, it sits 18,000 at a service.

Incidentally, Marcos Witt, a Lakewood pastor, will be the guest artist at this year's Hillsong conference at ACER Arena in Sydney. These constant global tours of star Pentecostal preachers, backed up by books, CDs, DVDs, and television and internet broadcasts, are in interesting contrast to the Catholic Church's World Youth Day, also to be held in Sydney in July, and possible only due to an enormous government subsidy.

Pastor Houston was in Houston to inspire the city, but I think he would have been inspired by it, too. It's a city that believes in its ability to solve problems. It is, after all, the place from which humans reached the moon. Its urbanized area contains about the same number of people as greater Sydney, but each year it adds almost as many to its population as all of Australia does. People want to come to Houston, because it offers the chance of a better life.

This includes average housing that costs less than three times the average income. This is quality of life. It is progress. It is the ultimate gift to families.

It is the great failure of Australia's political class that it has failed to do this. In Sydney the average house costs 8.6 times the average household income. That figure represents an enormous toll in stress, and the harming of family life from the many hours, indeed the many years, parents have to labor.

The reason the Prime Minister, Kevin Rudd, talks about working families so much is because, thanks to the failure of our politicians where housing is concerned, all we do is work.

Houston and its surrounding area shows there is another way. Houston believes in sprawl, and as a result this is what you could buy last week for \$US138,000 (\$144,000) in Shady Woods, a pleasant outer suburb - a two-storey house built in a cul-de-sac in 2005 and consisting of 171 square meters plus double garage.

There are three bedrooms and 2 1/2 bathrooms. It's the sort of house maybe half of Sydney's population would be happy to live in, the difference being that here you would be paying two or three times as much.

I spent over a day driving around Houston and its suburbs, and saw only a few foreclosure sale signs. Because the city kept housing costs down, its home owners have been relatively unaffected by the subprime crisis.

There's another difference between Sydney and Houston, which is that Houston has done a much better job than us at decentralizing employment. Because there is no zoning, when land in the original CBD became too expensive, developers built their office towers elsewhere. That means that today Houston has maybe half a dozen large business centers that are widely dispersed. Sydney, in comparison, has only two, city/North Sydney and Parramatta. To live in an outer suburb in Houston does not put you as far away from most jobs as it does in Sydney.

The idea of a city without zoning might imply anarchy. Houston avoids this through protective covenants. All the home owners in a neighborhood can band together and agree that no development can take place without the approval of the community. These covenants cover a large proportion of the city, but they don't cover vacant land, so they don't impede development and growth. In effect, they provide privatized zoning, but at a local level and without the interference of government and all the corruption that brings with it.

Houston's other great achievement has been to connect its pieces together with one of the world's finest road systems. Many people think roads benefit private car travel only, but buses travel on roads, too, so roads are also a public transport issue.

Between 1982 and 1997 Houston increased its freeway lanes by 75 per cent, while the population increased by only 30 per cent. The miles driven increased by 62 per cent. This suggests it isn't true, as some anti-road activists claim, that if you build more roads they will just fill up. You can build your way out of congestion, provided you build enough roads.

Houston doesn't provide all the answers to Sydney's problems. There are some important differences between the two cities, starting with geography: Houston is on a bigger plain than Sydney, and doesn't have the attractions of a coastal fringe that influence many Sydney property prices.

But it still offers some big lessons about how to make a better city. It is the modern city unbound, relatively free of politics and ideology, the closest thing to the way most people want to live now.

“To live in an outer suburb in Houston does not put you as far away from most jobs as it does in Sydney.”

UW STUDY: RULES ADD \$200,000 TO SEATTLE HOUSE PRICE

By Elizabeth Rhodes, Seattle Times business reporter – February 15, 2008

Backed by studies showing that middle-class Seattle residents can no longer afford the city's middle-class homes, consensus is growing that prices are too darned high. But why are they so high?

An intriguing new analysis by a University of Washington economics professor argues that home prices have, perhaps inadvertently, been driven up \$200,000 by good intentions.

Between 1989 and 2006, the median inflation-adjusted price of a Seattle house rose from \$221,000 to \$447,800. Fully \$200,000 of that increase was the result of land-use regulations, says Theo Eicher — twice the financial impact that regulation has had on other major U.S. cities.

“In a nationwide study, it can be shown that Seattle is one of the most regulated cities and a city whose housing prices are profoundly influenced by regulations,” he says.

A key regulation is the state's Growth Management Act, enacted in 1990 in response to widespread public concern that sprawl could destroy the area's unique character. To preserve it, the act promoted restrictions on where housing can be built. The result is artificial density that has driven up home prices by limiting supply, Eicher says.

Long building-permit approval times and municipal land-use restrictions upheld by courts also have played significant roles in increasing Seattle's housing costs, he adds.

(While his data reflect owner-occupied homes within the city of Seattle only, Eicher thinks the same basic findings may apply to surrounding cities.)

Eicher's \$200,000 conclusion doesn't surprise Kriss Sjoblom, staff economist for the Washington Research Council, a nonpartisan organization that examines public-policy issues.

“It's actually pleasing,” Sjoblom says, “that we finally have data that allows us to show things we thought were there all the time.”

A UW professor for 13 years, Eicher is also the founding director of the UW's Economic Policy Research Center. Its goal is to provide analysis that will inform regional policy debates.

Eicher says the research center long wanted to analyze the impact of regulation on housing prices, and found a way when researchers at the University of Pennsylvania developed the Wharton Residential Land Use Regulatory Index. Based on a survey of more than 2,500 U.S. municipalities, it provided the first nationwide analysis and comparison of the effects of land-use regulation.

Eicher requested Seattle's data from the Wharton Index and analyzed it further. That led him to put a price tag on local land-use regulations.

He received no outside funding for the project and stresses he makes no value judgments about whether regulation is good, bad or needs to change.

Rather, Eicher wants the public to “understand the impact of their choices. There's always a cost associated with the cityscape. Who wants to have no parks in the city? Or, a 10-story high-rise in Blue Ridge? But there's a cost to that.”

Compared with 250 major U.S. cities, he says, Seattle:

- Is first in terms of the impact of state political involvement in land issues.
- Is in the top 3 percent for approval delays for new construction.
- Is in the top 10 percent in local political pressure influencing land use.

As an example of how this plays out, Eicher explains that “the statewide growth-management plan gave King County few options but to require that landowners in rural areas that haven't already cleared their land to keep 50 to 65 percent of their property in its ‘natural state.’ This forced greater density in Seattle.”

Then a King County referendum to repeal some of the county's land-use restrictions was judged illegal in 2006 by the state Supreme Court because it violated the state's Growth Management Act.

“The state is intervening to restrict supply. It's not that there's no land at all,” Eicher says.

Economists hold that housing costs are driven by supply and demand, and say those factors have certainly influenced the cost of Seattle's housing.

But Eicher argues that “demand does not need to drive up housing prices.”

Cities such as Houston and Atlanta, which have few growth restrictions, have shown that. They've been able to add enough housing to meet demand, so their home prices have risen more moderately than heavily regulated San Francisco and Boston, which have a harder time increasing housing.

According to the Wharton study, cities such as Seattle that have high median incomes, high home prices and a large percentage of college-educated workers tend to have the most land-use regulations.

Sjoblom says that makes sense: “People with higher incomes want the kind of amenities that regulation provides,” he says. “If you’re a homeowner and growth controls are imposed and housing prices shoot up, you’re grandfathered because you own the place. In theory people will say it’s [rising prices] a bad thing, but in practice it’s not hurting them.”

Sjoblom says that’s why making the changes that would foster affordability are so hard to get past the public, some 68 percent of whom are homeowners. “When you bring up specific things, like allowing multifamily housing in their neighborhood, they have misgivings.”

That frustrates renters, who suspect they’re being priced out. And they’re right, according to a housing-affordability index created by the Washington Center for Real Estate Research at Washington State University.

Last summer, King County’s potential first-time buyers earning the median family income (\$75,143) had just 37 percent of the financial wherewithal to buy the median-priced single-family house (\$477,000) at the prevailing interest rate (6.47 percent).

Five years earlier, when King County’s median-priced house cost \$282,500, median-income, first-time buyers possessed 72 percent of the income needed.

(No breakout statistics are available for Seattle.)

But various government regulations make it challenging to add more affordable housing, notes Sam Anderson. He’s executive officer of the Master Builders Association of King & Snohomish Counties, which has pushed government to rethink some of the regulations.

Anderson estimates that regulatory costs comprise up to 30 percent of the total cost of building a new house (land costs included). The laundry list of fees and requirements can run to 30 or more, depending on where the house is built.

Among them, Anderson says, are transportation, school and park impact fees, stormwater management fees, critical-areas mitigation and monitoring, pavement requirements and rockery permits.

And then there’s the dollar cost of the process itself.

Building in Seattle can be very time-consuming compared with nearby cities, because of Seattle’s neighborhood-based design-review process, says Linda Stalzer, project development director for the Dwelling Company, an Eastside homebuilder.

Design-review committees, composed of citizens interested in architecture and development, are located throughout Seattle; their job is to review commercial and multifamily housing designs before they’re approved.

“Depending on how complicated your project is, it might take you three or four times to get through it,” Stalzer says.

Add together all the various review and comment periods, and it can take 12 to 18 months to get to the point of applying for a building permit, she says.

On a 25-unit Capitol Hill town-house project now under way, Stalzer estimated the various fees (including consulting and mitigation costs, but not building permits or land prices) have totaled about \$650,000.

“I think there’s value in going through the process because we’re building things that have an impact on communities,” Stalzer says. “The difficult part is the process isn’t very efficient.”

In the final analysis, Eicher believes Seattle’s regulatory climate exists because its residents want it. “My sense is land-use restrictions are imposed to generate socially desirable outcomes,” he says. “We all love parks and green spaces. But we must also be informed about the costs. It’s very easy to vote for a park if you think the cost is free.”

“Cities such as Houston and Atlanta, which have few growth restrictions, have... been able to add enough housing to meet demand, so their home prices have risen more moderately than heavily regulated San Francisco and Boston.”

FLOCKING FROM SOCIAL TO HOUSTON

Vietnamese Americans are lured to the Texas city by cheap real estate, a lower cost of living and a burgeoning cultural enclave.

By My-Thuan Tran, Los Angeles Times Staff Writer — December 21, 2007

HOUSTON — Lan Nguyen had dreamed of owning a house since she immigrated to Southern California from Vietnam 11 years ago. But she and her husband could never scrounge up enough money for a down payment, spending most of their paychecks on rent for a cramped Garden Grove apartment.

Now, Nguyen has moved to a suburb of this Gulf Coast city, where the 28-year-old owns a new four-bedroom house with a spacious game room and access to a pool with a water slide — all for \$200,000. Nguyen is one of many Vietnamese Americans from California who have flocked to Houston, lured by cheap real estate, a lower cost of living, bountiful business opportunities and a thriving, growing Vietnamese community.

Houston offers a slice of the American Dream to Vietnamese Americans who couldn't find it in California. In San Jose and Orange County, home to the country's largest Vietnamese enclaves, skyrocketing rents and staggering housing prices — even in a down market — have become too much for some, "At first, we thought California is the best," Nguyen said. "It's sad to move from a place we know so well. But here we own a beautiful house and are very comfortable."

Vietnamese business owners from California have followed, expanding or moving their operations to take advantage of the burgeoning community and the lack of heavy competition that defines the teeming streets of Orange County's Little Saigon. The Vietnamese American migration to Houston is a typical California story, particularly in immigrant communities where residents found their first footing in the Golden State but left for places where the cost of living was lower and the opportunities more abundant.

The exodus of Vietnamese Americans is part of a larger shift in California: As the economy weakens, more people are leaving. An annual study by the state Department of Finance released Wednesday showed that 89,000 more people moved out of California than moved in from elsewhere in the U.S. in fiscal 2007. Houston's Vietnamese community, now the third largest in the nation, numbered about 85,000 in 2006 — up a third in just six years, according to U.S. Census figures.

Community leaders and real estate agents in Houston say they started seeing an upswing in Vietnamese Americans from California five years ago, driven mostly by the city's cheaper housing. Although Hurricane Katrina brought in displaced Vietnamese Americans from Louisiana, residents say the California migration is much larger.

As people have flocked in, Houston businesses have capitalized, reaching out to Vietnamese Americans in California. Real estate agents have advertised houses in California's Vietnamese newspapers. Developers have tried to persuade businesses to expand to Houston. And talk shows on Radio Saigon Houston have spread the word of the booming community in simulcast shows picked up on California stations. Houston is no longer the Vietnamese community's "best-kept secret," said Thuy Thanh Vu, the radio station's co-owner.

Houston's housing tale is remarkable. Real estate agents boast of clients who sell their California homes, pay for new ones in Houston at a third of the price and have enough left to invest. Consider Thien Pham of the Vietnamese American Real Estate Assn., who has a client who he said put his million-dollar California house on the market and bought seven houses in Houston, each for \$170,000 to \$200,000. Or Vincent Ho, 36, who sold his El Monte house for \$600,000 and bought a place three times as large. He paid cash for the \$175,000 home and used the rest to expand his Orange County-based business to Houston. "SAVE \$5,000 when you buy a house GUARANTEED," says a quarter-page advertisement in Nguoi Viet, the largest Vietnamese newspaper in Little Saigon. Clients who call meet Julie Vo of Houston Realty Center Five years ago, Vo was lucky to get more than a few calls from out-of-state buyers. Now they represent half her company's clients. Most are second-generation Vietnamese Americans from California, often-younger families or empty nesters looking for affordable retirement. The flight of young families from places such as Orange County is worrisome to some — underscoring long-running concerns that young families someday will abandon Little Saigon.

The median price for a single-family home in the Houston area is \$145,390, according to the Houston Assn. of Realtors. In contrast, Westminster's median housing price is \$520,000 and Garden Grove's is \$475,000, according to DataQuick Information Services. In San Jose, it's \$640,000. "For what you pay for your mortgage in Houston, you can only afford a rat's hole in California," Vo tells clients. Vo makes sure to put Houston's best face forward. She picks up prospective California clients from the airport and puts them up in

hotels — free of charge — for a few nights. She drives clients around the Vietnamese areas, stopping at restaurants she's sure will impress them. Like thousands of Vietnamese immigrants, Nguyen came to Orange County first, following the refugees who fled Vietnam after the 1975 fall of Saigon, and built a thriving enclave in Westminster, not far from the Camp Pendleton Marine Corps base where many were introduced to the U.S. at the end of the Vietnam War. In contrast, the first Vietnamese in Texas were fishermen and shrimpers who were able to resume the lives they'd left behind in Vietnam. Settled near the Gulf of Mexico, they found manufacturing and retail jobs and humid weather that reminded them of home. Since then, Vietnamese businesses have sprouted in pockets throughout Houston, with most concentrated on a four-mile stretch of Bellaire Boulevard in the city's southwest area. The thoroughfare has striking similarities to Bolsa Avenue, Little Saigon's main drag. There are Vietnamese supermarkets, large Catholic Vietnamese churches, Buddhist temples and restaurants hawking bowls of noodles that to visitors taste as good as those served in Little Saigon's pho houses. There are Vietnamese-speaking doctors, lawyers and real estate agents. Even the hottest Vietnamese pop stars stop in Houston.

Some Vietnamese-owned businesses from California see Houston's thriving enclave as an untapped market and have expanded their businesses. Lee's Sandwiches, a chain of shops based in California, has opened up two stores in southwest Houston in the last two years. Vincent Ho's business, which does 3-D renderings of store interiors, was doing well in Little Saigon. But Ho saw many open fields in Houston, which he believes will one day be home to new stores. Plus, the rent for opening a warehouse in Houston is about a third cheaper than in California. Vietnamese American investors also are pumping millions of dollars into the area, which still has plenty of open space to build shopping complexes and housing subdivisions. Developer Luu Trankiem is planning to open the New Saigon Shopping Plaza next year, a high-end center on 32 acres near Bellaire Boulevard. The plaza's seven high-rise buildings come at a price of about \$300 million. "You cannot afford to build something like this in California," he said, estimating it would cost three times as much in Southern California. Trankiem's home development company, GBI Group LLC, expanded from Irvine to Houston two years ago. The company's other Houston projects include hundreds of homes in the area catering to Vietnamese Americans. The company is building in anticipation of the Vietnamese community's growing — mostly with people relocating from out of state. Trankiem said he saw more opportunities for new businesses in Houston than in Little Saigon, which is congested with thousands of nail salons, restaurants and mom-and-pop shops in fierce competition. "Houston is the last frontier for investment in the Asian community in the United States," Trankiem said.

Beyond Vietnamese-run business, prospective stores for the plaza also include Ann Taylor and Starbucks, mainstream shops that Little Saigon developers would have trouble luring to its worn-out strip malls. Houston's Vietnamese enclave also benefits from its diversity. It's next to a long strip of Chinese businesses. Korean, Latino and Pakistani stores also pepper the area. In contrast, Little Saigon caters mostly to Vietnamese Americans. Trankiem believes Houston's Vietnamese enclave could one day be the bigger, better, higher-end sister to Little Saigon.

Even so, Houston has its challenges. The oppressive humidity forces many to stay indoors during the summer, and some people who have bought homes for investment purposes have had trouble finding renters. But those who have made the move have found the American Dream at near-bargain rates. Nguyen's parents, who still rent in California, plan to move to Houston when they retire. And she's thinking about opening an insurance business. She never thought that was a possibility in Little Saigon, where renting office space is expensive and there are too many competitors, "Over in California, you're just average people," Nguyen said. "But here, you become upper middle class. You have more money than people over here. You can buy houses and do business."

"For what you pay for your mortgage in Houston, you can only afford a rat's hole in California."

Los Angeles Times

HOUSTON'S PIPELINES OF PROSPERITY

In Oil Industry Hubs, High Energy Costs Bring More Growth Than Pain

By Michael A. Fletcher, Washington Post Staff Writer – June 23, 2008

HOUSTON — Soaring oil and gas prices may be a fiscal drag for much of the nation, but here in the self-styled energy capital of the world they are feeding an economic surge.

In nearby Texas City, dozens of contractors' trailers are lined up outside the gates of massive oil refineries and petrochemical plants, evidence of the billions of dollars in upgrades going on inside. Machine shops have more work than they can handle. And students from the local community college are being snapped up for \$30-an-hour plant operator jobs, sometimes before they complete their two-year training programs, part of an intensifying scramble for qualified workers.

Employment in the Houston area has grown 2.8 percent in the past year, the highest rate among the nation's 39 largest metropolitan areas and more than nine times the national rate. Area building permits are up, along with the amount of cargo moving through local ports. More than 1,800 oil and gas rigs, many of them belonging to the vast energy companies headquartered here, are in operation across the country, the highest number since the mid-1980s.

"Things are hitting just right," said Alan Hutchins, vice president and general manager for A&A Machine and Fabrication, a La Marque, Tex., firm whose business has doubled in each of the past two years, leading executives to advertise as far away as Detroit and Chicago in search of skilled machinists. "With the price of oil where it is, the companies are going to keep these plants running. They are making that money and investing it back in the plants."

All of the activity is leading to strong retail sales, increasing tax revenue and an uptick in housing prices — in short, the opposite of what is happening in most of the country, which is being squeezed by flagging consumer confidence and high gas and oil prices.

Other corners of the country are also thriving because of high energy prices. Coastal areas of Louisiana within reach of the gas and oil rigs in the Gulf of Mexico are prospering. Areas of the Mountain West such as Wyoming have ridden rising prices for their natural gas and coal to several years of robust economic growth.

But few places have flourished like Houston, home to hundreds of oil exploration, engineering and oil service firms, including such giants as Baker Hughes and Halliburton. Although consumers here also struggle with \$4 a gallon gasoline and soaring utility and food bills, the local economy has been buoyed by the huge influx of money into the energy sector, which accounts for nearly half the jobs.

"We know that everybody is talking about a recession in the U.S., but we're not experiencing that here," said Tracye McDaniel, executive vice president of the Greater Houston Partnership, a business development group. "We exist in this bubble, if you will."

The good times are reminiscent of the early 1980s oil boom, which ended suddenly when the price bubble popped. Then, as now, exploration soared as oil prices shot up. People from out of state migrated to Houston to share in the bounty. But when the price of oil tumbled, bottoming out at \$10 a barrel, it took the local economy with it, as home prices plummeted and unemployment skyrocketed.

But economists say this time is different. Although a lack of supply fed the last oil boom, this time energy prices are largely being driven by global demand, which economists say is unlikely to ebb substantially in the near future. And Houston's oil industry has gone global. Many of the jobs here are related to the increasingly high-technology work of pinpointing oil and gas reserves around the world, and designing and making the tools to tap them rather than the dangerous and backbreaking work of manning oil and gas rigs.

"To the extent that Houston is the energy capital of the world, [it] is not because we have a lot of hardhats, but because we have a lot of technology," said Barton A. Smith, director of the Institute for Regional Forecasting.

The Houston economy is far more diverse than it was in the 1980s. Although energy has been the biggest engine in the Houston region's economic surge, it is not the only one. The city is also home to the Texas Medical Center, a collection of 46 hospitals, research centers and medical schools that together employ more than 73,000 people in an industry that is largely immune to ups and downs of the economy. Back in the 1980s, energy accounted for about 70 percent of the jobs here.

In addition, the city never attracted the level of speculation that jacked up home prices elsewhere, so the national real estate shakeout has had little effect. Also, the weak dollar has bolstered exports at the port here, the nation's second busiest.

Some business leaders in the Houston area worry whether energy prices are going too high, bringing unwanted political pressure and scrutiny. "The price of oil is probably getting too high to make things work as well as they could for the

refining and chemical business,” said Matthew T. Doyle, a banker and mayor of Texas City. At some point, the high prices could dampen demand, he worries.

It already has raised the cost of doing business. Anadarko Petroleum of Houston finds itself having to pay signing bonuses to remain competitive in the market for petroleum engineers, geologists and other skilled workers needed to find and extract oil and gas around the world.

“Our company is probably advantaged more by a more modest price environment,” said James T. Hackett, chief executive of Anadarko, which operates in a dozen countries. “One advantage of higher prices is that you can afford to go to more remote areas of the world to find oil and gas. But you don’t need \$130-a-barrel oil to do that.”

Despite the worries, high energy prices seem to be good for business, at least for now. The many exploration and engineering firms headquartered here have seen a surge in business, as high prices make deep-water drilling and other more expensive forms of exploration and extraction economically feasible. Local energy consultants are cutting deals across the globe to sell their expertise in assessing the potential of natural gas and oil reserves. The number of jobs in Houston tied to energy exploration has increased more than 15 percent in the past two years, according to the Institute for Regional Forecasting. Work on alternative energy sources, including wind and solar, also has increased.

Meanwhile, makers of energy-related products — including pipeline parts, specialized boats that service drilling platforms, high-pressure drill bits and seismic instruments — are experiencing an upturn in business that has led to an increase in manufacturing jobs in Houston. A similar surge is evident in other places where the economy is closely linked to the oil and gas industries. Coastal areas of Louisiana, including St. Mary, Lafourche and Terrebonne parishes, are experiencing strong growth in wages and employment, even as the rest of the state feels the effects of the national economic downturn. “Some of this is Katrina rebuilding related,” said Dek Terrell, director of Louisiana State University’s Division of Economic Development. “But most of it is gas and oil.”

In Wyoming, officials expect strong growth to continue for the foreseeable future, or as long as natural gas prices remain high. State revenues are running 15 percent ahead of projections. The biggest problems facing officials are an acute shortage of workers and a surge in home prices, which are propelling a sharp increase in Wyoming’s inflation, now running well ahead of the national average.

“We’re moving ahead full steam,” said Buck McVeigh, administrator of the state’s Economic Analysis Division. “With natural gas prices the way they are now, it is hard to say anything bad about the economy here.”

Jimmy Hayley, chief executive of the Texas City-La Marque Chamber of Commerce, has a similar view. Just three years ago, things hit a major snag as hurricanes Rita and Katrina damaged oil platforms in the Gulf of Mexico. Also, a 2005 explosion at the huge BP refinery in Texas City killed 15 people and injured 180, making it the nation’s worst industrial accident in more than a decade. But since then, oil and gas prices have soared, and the oil and petrochemical companies have spent billions to upgrade their plants and restore their drilling platforms.

That spending is evident in Texas City and La Marque, in newly renovated office space at previously wheezing strip malls and in the new waterfront subdivisions within a few miles of the refineries and petrochemical plants. After rejecting a big bond issue several years ago, voters recently passed a \$122 million issue to build and renovate schools in Texas City.

“The workers inside those gates make good money,” Hayley said, as he pointed toward the huge row of oil refineries on the horizon. “That makes them more willing to spend on other things.”

“We know that everybody is talking about a recession in the U.S., but we’re not experiencing that here.”

HOUSTON DOESN'T HAVE A PROBLEM

With high oil prices, headquarters for energy industry impervious to economic troubles

By Howard Witt – June 23, 2008

Across most of the nation, Americans are wincing at soaring gasoline prices, struggling with rising food costs, worrying over collapsing real estate values and staring into the abyss of a looming recession.

Here in Houston, Maserati sales are up 86 percent so far this year, according to the TexAuto Facts Report.

Chanel and Yves Saint Laurent are expanding their luxury stores at the Galleria shopping mall. New construction permits in the city have jumped by almost 30 percent. The region added more than 100,000 jobs last year. And the mayor just proposed a dream budget for next year featuring more cops and lower property taxes.

The city's rather bland official slogan is "Opportunity Houston: All the world in one region."

Perhaps city leaders should change it to "What, me worry?" Or maybe "America's pain: Houston's gain."

Thanks mostly to skyrocketing prices for Houston's central commodities—oil and natural gas—this sprawling headquarters city for the nation's energy industry is living even larger than usual these days. At nearly \$135 a barrel, the tide of windfall oil profits is not only raising boats in Houston, but selling more too—dealers report that sales of luxury million-dollar yachts are up this year.

"There aren't very many reasons for Houstonians to feel anything but positive about the economic outlook right now," said Mike Inselmann, president of Metrostudy, a Houston housing consulting firm. "Nobody's expecting oil to go back to \$20 a barrel."

Energy city

The energy industry accounts for fully 48 percent of Houston's jobs, and the city is home to 43 of the nation's 144 publicly traded oil and gas exploration and production firms, according to the Greater Houston Partnership, the city's business promotion agency. The newfound prosperity from all those well-paying energy jobs is washing through the rest of the area's economy.

"When you are talking about adding 100,000 jobs per year, it trickles down pretty well," said Bill Gilmer, senior economist and vice president at the Federal Reserve Bank of Houston. "That's like growing a whole new metropolitan area—you not only create those jobs directly, there are all of the secondary benefits in terms of new retail establishments, new car dealerships, everything you need to stock a new metro area inside the Houston area."

Which means, quite simply, that even though Houstonians dislike paying more than \$4 a gallon for gas as much as the rest of the nation, many have much fatter wallets from which to extract the cash.

"Our luxury retailers and higher moderate stores are doing really well and continue to see a great amount of foot traffic," said Nicole Davis, director of marketing at the Galleria. "We just opened a brand-new store, Tory Burch, a couple weeks ago—it's an upper-end clothing store for women. The store manager said a couple of days ago business is off to a big boom."

Houston's newfound energy prosperity comes on top of other economic advantages the nation's fourth-largest city has long possessed. Tax rates are low, as is the cost of living, and the city's political climate is aggressively pro-business—officials steadfastly resist imposing zoning laws, for example, because they could crimp development.

Economic diversity

The local economy, though still largely dependent on the energy industry, is growing more diversified, with the city's health-care sector growing rapidly. And while Houston's home-sales figures have softened and mortgage foreclosures are rising as they are elsewhere in the country, the ever-expanding housing market here never blew up into the kind of speculative real estate bubbles that are now deflating in so many other large American cities. That means houses are taking longer to sell, but they are generally holding their value.

"You do see a decline in existing home sales," said Gilmer. "But if you've got a rapidly growing market, that can quickly cover up a lot of past sins. That's the problem in a lot of the rest of the country, employment has slowed to standstill. Houston is enjoying both strong population and housing growth."

Little wonder that Kiplinger's magazine just rated Houston the best city in America "to live, work and play."

Stephen Klineberg, a sociology professor at Rice University, takes the pulse of Houstonians in an annual survey about their attitudes on a wide range of subjects. This year, Klineberg said, the percentage of respondents expressing optimism about their own financial situation and the city as a whole jumped from 35 percent to 50 percent.

“People say they expect Houston will do even better in the future, but that’s accompanied by deepening pessimism about the prospects for the rest of the country,” Klineberg said. “There’s a perception in Houston that we’re doing pretty well but the country is going to hell in a handbasket.”

No gloating

Yet Houstonians are resisting the temptation to gloat about their good fortune. For one thing, the city’s poorest residents, squeezed hardest by rising food and energy prices, do not read Kiplinger’s magazine and have seen little benefit from the local economy’s good fortunes.

What’s more, longtime Houston residents recall the last oil boom, in the early 1980s. By the end of that decade, after world oil prices collapsed, the city saw a quarter of a million jobs evaporate.

“There’s a lot more balance now,” said Walter Wainwright, president of the Houston Automobile Dealers Association. “It’s not the swaggering days of big money like it used to be. People learned a lesson from the last time oil was headed up and then we got whacked.”

Given rising world demand for oil and natural gas amid diminishing supplies, most experts here anticipate that oil will stay expensive for a very long time.

But some savvy companies are hedging their bets, just in case. At the busy Port of Houston, cargo ships offloading the giant blades of wind-power turbines are now a regular sight.

“There aren’t very many reasons for Houstonians to feel anything but positive about the economic outlook right now.”

Chicago Tribune

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