

BOB DAY

# HOUSTON ... WE HAVE A PROBLEM

WHEN ASTRONAUT Jack Swigert uttered the words, "Houston ... we have a problem," he could not have comprehended either the gravity of the situation on board his spacecraft, nor the way in which those words, later immortalised by Tom Hanks in the film *Apollo 13*, would come into common usage as a cry for help in stressful circumstances.

Although the circumstances may be quite different, young Australians are experiencing unprecedented stress brought about by a collapse in housing affordability. There has been a transfer of wealth from the twenty and thirty-year-olds of Australia to their parents, of unparalleled proportions, and with extremely serious consequences for Australia.

In 1973 the cost of building a 135 square metre (15 square) house in Adelaide was about \$12,000. In today's money that is equivalent to \$78,000. To build the same size house today, in Adelaide, would cost about \$90,000, a real increase of 15 per cent. Today's house and the houses of 1973 are rather different products, but the differences do not affect our argument. The real cost of land, however, has increased more than 1000 per cent. In 1973 a 700 square metre house allotment in Adelaide cost \$2000 (\$13,000 in 2003 dollars). It costs \$140,000 today. A new house in the outer suburbs of Adelaide in 1973 cost about \$95,000 in 2003 dollars. Today it costs \$250,000. The median wage in Adelaide is about \$40,000—a ratio of 6.2:1. In 1973 the median wage was about \$5500. The ratio between median house price and median wage was then 2.5:1. These ratios are important, as we shall see later. This phenomenon has been replicated in Melbourne, Sydney, Perth, Brisbane and even in Hobart and Launceston, although not to the same extent.

When asked about Sydney house prices and their impact on the economy the Prime Minister, John Howard, has said that he has never been accosted by angry citizens complaining that the value of their house

has dramatically increased. That may be true. But the Treasurer, Peter Costello, has been drawing our attention to the low birth rate, famously advising Australians to have one baby for each parent, and then to have one for Australia.

The fact that a couple on the median wage cannot contemplate buying a house, which is now nearly nine times their before-tax income, and thus provide a home of their own in which to bring up the three children

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which the Treasurer would like them to have, seems to have escaped the attention of our political leaders and those economists in the Treasury and the Productivity Commission who ascribe the rise in metropolitan house prices to demand stimulators such as Capital Gains Tax exemptions, negative gearing and new home buyer grants. The Productivity Commission's claim, that "constraints on land release were not a major contributor in the house price boom" is at complete odds with international evidence and basic supply/demand economics. Housing affordability—or first home ownership—is about "entry level", and entry level housing happens on the urban fringe. If you restrict supply at the entry point, up goes the price and down goes the affordability.

This housing price phenomenon is not unique to Australia. In parts of the UK (particularly in London), house prices have increased more than ten-fold in the last twenty years, and home ownership for teachers, tradesmen and nurses, for example, is out of the question. People with families are known to commute daily by rail to London from as far afield as Yorkshire, catching a train at 6 a.m. and returning at 7.30 p.m., because that is the only way they can afford to buy a home. Other cities are similarly placed.

We can now compare housing affordability in different cities around the world using the Housing Affordability Index (HAI), developed by St Louis-based urban geographer Wendell Cox (see his website, [www.demographia.com](http://www.demographia.com)). Like all extremely useful

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things, his index is easy to use—simply divide the median house price in the city under investigation by the median household income in that city.

Using this technique, Cox has determined that Sydney's HAI score is 8.8; Melbourne's 6.9; Adelaide's 6.2 and Perth's 5.4. In the USA, Orange County (on the southern border of Los Angeles) has an HAI of 10.2; Dallas and Atlanta 2.6, Houston 2.7 and Tucson 4.2. Dallas, Houston and Atlanta are growing rapidly, so the affordability of housing in those cities is not caused by economic decline and consequent emigration.

I went to Houston in late June 2005 to seek out the answer to the question: Why does Houston have affordable housing and the cities of Australia do not?

**H**OUSTON IS MUCH HATED in town-planning circles throughout the Western world, as it has repeatedly rejected, at six referenda held over the last century, proposals to introduce zoning. As a result, the purchaser of a block of land, or a house which is ready for demolition, within the City of Houston, can not only build a house on the property, but can also build a repair workshop, or a convenience store, or even a dry cleaning establishment, provided health and safety regulations are met. These regulations enable the city authorities to block developments such as the building of motels really intended for prostitution in areas close to schools or churches.

This no-zoning regime has the effect of permitting the use of a piece of land for a very wide range of activities, and decisions made by entrepreneurs about investment in real estate are driven by market forces rather than bureaucratic discretion. This freedom promotes investment decisions which satisfy market demands and this in turn contributes greatly to overall prosperity. For example, strip shopping, the bane of town planners, has grown up along the service roads adjacent to the freeways because that is where customers are most easily satisfied. The cost of entry into the retail sector is thus very low, and this competition ensures that consumer retail prices are highly competitive.

Although zoning by town planners has been repeatedly rejected by the citizens of Houston, the use of private covenants, or deed restrictions as they are called in the USA, is commonplace. Often these covenants are far more onerous than any zoning regulation might be. But there is competition in the real estate market on these covenants, and so if a buyer believes that the covenant on the estate in which the

buyer is interested is too restrictive, the buyer can go elsewhere.

The zoning/no zoning debate is of great interest, but as the comparison between Houston and Dallas (which does have zoning regulations) shows, it does not necessarily impinge upon housing affordability. Both Dallas and Houston are fast-growing cities, with virtually equal HAI indices (2.6 and 2.7). The explanation for Houston's housing affordability does not lie in the absence of zoning regulations.

Technical explanations based on the number of competing jurisdictions within the extended Houston area are discussed below, but underneath these explanations is the vigorously democratic culture of America in general, and Texas in particular. The vigilant energy with which Texans assert their rights as citizens, and their strong belief in their rights to be free of bureaucratic control, are exhilarating. When the citizens of Houston elect their mayor (who enjoys only a two-year term) they elect a person who has real executive authority. The mayor can hire and fire, and is expected by those who elected him or her to office to fire those bureaucrats who have set their face against the wishes of the people to exercise their lawful right to use their

property as they desire. So the mayor must deliver or lose office, and power is therefore in the hands of elected representatives and not, as in Australia, in the hands of faceless, but all-powerful, bureaucrats and planners.

In Australia today, more than \$50 billion worth of projects annually has to run the gauntlet of thousands of local and state government town planners who have little understanding of how the real world works. They insist that all projects conform to their particular view of how people should live, right down to what colour the gutters on the building should be painted. The degree to which these planners impede and stifle development is frightening. The magnitude of the lost incomes, taxes

and services these developments could have generated should be a matter of concern to us all.

In Houston, growth is in, controls are out. Its citizens are proud of their city and its growing significance in state and national politics. Although thirty kilometres from the Gulf of Mexico, Houston has, by virtue of a large shipping channel, the busiest port in the USA. It is also a city where civic philanthropy has provided an opera house, an opera company and a ballet company all of world class. Religion is a powerful force in Houston. The outward and visible sign of the vigour of religious life is that Baptists, Episcopalians, Pente-

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costalists and others are building large and expensive churches or meeting places in order to keep up with demand. The Pentecostals, for example, recently bought a former baseball stadium for \$18 million and are spending another \$30 million refurbishing it as a church which will seat 20,000 people.

Houston is also home to an internationally renowned medical precinct comprising a dozen or so large hospitals, together with specialist and university-based research institutes, to which people come from all over the world for specialist treatment. Houston does not rely solely on oil for its wealth.

One of the more technical reasons why housing development is so simple and cost-effective in the greater Houston area is that there are competing municipal jurisdictions. The boundaries of the City of Houston are now well inside the greater Houston area and there are a number of small cities on the outskirts, which have full local government powers with respect to development within their domain. These cities compete with each other for growth and development, and so developers who find one city too difficult to deal with can go to another city which is friendlier.

This competition has resulted in developers being able to put onto the market quarter-acre blocks with sewerage, water and roads for US\$30,000. The power, gas and communication connections are put in by the utility providers with the capital costs amortised from future revenue streams. Because there are no restrictions on development, the price of land for grazing or agriculture is the price which a developer will pay before constructing the roads and water and sewerage infrastructure required for housing.

It is this fact which provides Houston with affordable housing, a fact replicated in cities such as Dallas and Atlanta which have no barriers to urban growth or "urban sprawl", that pejorative term used by planners to condemn the desire which most families have for a modest home on a quarter-acre block.

Antipathy to urban growth is deeply entrenched in the town planning community, a community which, throughout the English-speaking world, shares common values and ideals, the most pervasive being the notion that the countryside must be kept free of urban contamination. In the UK this purist antipathy to "sprawl" is articulated with the phrase "concreting over the fields of England". In Melbourne, the 2030 plan requires living space for an extra million people but with no expansion of the urban boundaries.

As well as detesting urban growth, town planners throughout the English-speaking world regard automobiles and freeways as abominations. Trains and "light rail" are in, freeways are out.

Houston is blessed with a spider-web array of freeways, with radial spokes emanating from the CBD,

intersecting with two (soon to be three) circular ring-road freeways. The interchanges where these radials and circumferentials intersect are civil engineering marvels. The problem for visitors is that if you find yourself in the wrong lane, travelling at 60 mph, it is going to be a long time before you will be able to relocate yourself in the right freeway, travelling in the right direction!

Because the city authorities took time off during the 1990s in building new freeway capacity, Houston is now going through the pains of catch-up. Major construction works at the interchanges now give rise to congestion at peak hours. The answer to the financing problem of new freeway construction is the building of new toll lanes on existing freeways, as well as new toll roads. Drivers have a choice during congestion. They can move to a toll lane and pay for the privilege of speedy access to their destination, or they can stay in the free lane and wait a little longer to get to work. The rates charged on the toll lanes vary with time of day and congestion.

Houston also has a large fleet of buses which use the freeways effectively and provide economical transport for people who either cannot or do not wish to drive.

**T**HE CONTRAST between Houston and the metropolitan cities of Australia is simple and stark. In Australia the urban planners have set their face against "sprawl" and, through regulation, have squeezed the supply of land for new urban development. The price ratio of land zoned for development and land zoned for rural activities is a measure of the severity of the squeeze and the severity of the Housing Affordability Index. In Houston the ratio is effectively 1:1. In the major Australian cities the ratio is typically 10:1. In Sydney the former Premier, Bob Carr, took upon himself the role of town planner-in-chief, and his last decrees on the new suburbs which he would allow are models of current town planning wisdom. Energy efficiency, water recycling, smaller houses, walking trails to shops, no cul-de-sacs—every progressive nostrum is to be found in his pronouncements, together with a new railway to the Sydney CBD.

Railways and trams and bicycles have always been much beloved of the town planning community. The love of railways parallels the hatred of cars and buses. Railways seem to be of particular fascination for politicians. Where this fascination comes from is a mystery. At least it has to be said that railways are an improvement on canals—at least in terms of speed and costs. But just as canals became obsolete with the advent of rail, the age of railways came to an end with motor cars and motor buses, except in cities with very high urban population densities such as Tokyo, Hong Kong and London. Few railways in Australia pay their way—and

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they transport iron ore or coal, not people.

The significance of home ownership for a democracy was described by Robert Menzies in his famous "forgotten people" speeches:

The material home represents the concrete expression of the habits of frugality and saving "for a home of our own". Your advanced socialist may rage against private property even whilst he acquires it; but one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours, to which we can withdraw, in which we can be among our friends, into which no stranger may come against our will.

I do not believe that the real life of this nation is to be found either in the great luxury hotels and petty gossip of so-called fashionable suburbs, or in the officialdom of organised masses. It is to be found in the homes of people who are nameless and unadvertised, and who, whatever their individual religious conviction, see in their children their greatest contribution to the immortality of their race. The home is the foundation of sanity and sobriety; it is the indispensable condition of continuity; its health determines the health of society as a whole.

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