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Free markets and foreclosures: An examination of contradictions in neoliberal urbanization in Houston, Texas

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ABSTRACT

Houston, Texas did not experience significant housing price increases during the national bubble in the early 2000s and its foreclosure rate remained comparatively low when the bubble burst in 2006. Free market advocates have proclaimed Houston a paragon of the "free enterprise" city and point to economic success and a relatively stable housing market as validation of a laissez-faire approach to local development. But this study relocates local practice within the contradictory and uneven processes of neoliberal restructuring in recent decades through examination of broader factors in Houston's development outcomes which problematize free market rhetoric. Despite neoliberal repudiation of state intervention, for example, "free market" Houston has been heavily reliant on the federally subsidized oil industry and on the local state for protection from market externalities, like housing price instability and foreclosures. This study, thus, assesses the role of the state and other factors in neoliberal urbanization operating beyond and intersecting with idiosyncratic local practice.

Introduction

In the first quarter of 2006, a national housing bubble, historically unprecedented in scope, generated a peak of $13.5 trillion in U.S. household owners' equity in real estate (Federal Reserve Bank of St. Louis, 2013). Extending roughly from 2000 to 2006, the bubble years were heady times for mortgage investors but by early 2007 widespread mortgage defaults, initially concentrated among sub-prime borrowers with adjustable rate mortgages (ARMs), precipitated seismic vibrations through the global financial industry which was heavily invested in the U.S. housing market. A recession was declared in the U.S. in December 2007 and by the time it was reported officially over in June 2009 more than $7 trillion of housing equity had evaporated (Federal Reserve Bank of St. Louis, 2013). While there is evidence that the economic crisis persists for many in the U.S. and elsewhere, in 2010 the number of U.S. properties which either received a default notice or were in some stage of foreclosure reached its peak at nearly three million (RealtyTrac, 2011a).

In aggregate, regionally concentrated defaults and plummeting housing values in the U.S. precipitated bank failures, monumental stock market losses, and massive global business decline, highlighting, as Harvey (2012a, 2012b) observes, the longstanding "urban roots of financial crisis." The impact, however, has been uneven. First, low-income black and Latino families in the U.S. have lost their homes at a rate almost three times that of whites since the crisis began (Bocian, Li, Reid, & Quercia, 2011; Kochhar, Fry, & Taylor, 2011). Second, at the height of the crisis in 2010, more than half of the national total of foreclosure activity was concentrated in metropolitan areas in California, Florida, Arizona, Illinois, and Michigan (RealtyTrac, 2011a). A RealtyTrac (2011b) report indicated that while foreclosure rates increased in 72% of major metropolitan areas in 2010, Las Vegas, Miami, Phoenix, and other cities located in California and Florida still featured the top ten highest metro foreclosure rates. Home values declined by as much as 50% from their peak in 2006 in rapid growth metropolitan areas like Las Vegas, Miami, and Riverside-San Bernardino, increasing the risk of default from underwater mortgages (Sauter & McIntyre, 2011). In other major markets foreclosures were less generalized, particularly where the housing bubble was not as pronounced. Among these Houston, Texas is especially notable as it shared with its metropolitan neighbors in the south and southwest rapid economic and population growth during the bubble period, yet regional prices remained relatively stable and through 2010 the area featured a foreclosure rate below the national average (Foreclosure-Response.org, 2013).

Researchers are beginning to identify factors in uneven foreclosure concentrations. Anacker and Crossney (2013), Hernandez (2012), Li (2011), and Newman (2012), for example, indicate that high foreclosure rates resulted from concentrated originations of subprime mortgages which targeted low-income minority borrowers during the bubble period. High subprime originations were a

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factor, for example, in high foreclosure rates in minority neighborhoods in areas like Cleveland and parts of Miami before and after the market collapse. High origination of non-traditional loans to middle-income borrowers was a factor in rapid growth speculative markets in the Sunbelt (Ashton, 2009). These studies largely attribute a spike in subprime lending to federal deregulation of the financial industry and concomitant expansion of risky mortgage investment products, which intersected with the race and class structure of local housing markets. This pattern is well documented, but again Houston appears anomalous as it contains one of the largest concentrations of African American home owners in the U.S. and featured a high percentage of subprime loan originations during the bubble period. From 2004 to 2006 roughly 31% of the total mortgage loans in Houston were "high cost" loans, compared, for example, to 29% in Miami and 22% in Las Vegas (Foreclosure-Response.org, 2012). In many major metropolitan areas, population growth and high origination of subprime loans generated speculative pressure on regional housing markets, yet Houston remained comparatively less affected by the crisis.

Free market defenders claim that federal housing policy in the U.S. drove the push for homeownership to riskier low-income borrowers and interfered with the "natural" equilibrium of regional supply and demand (Calabria, 2011; Paybarah, 2011; Wallison, 2010; White, 2009a, 2009b). They then reframe predatory lending as "benevolent, risk-based pricing" in response to federally stimulated demand (Wyly, Moos, Hammel, & Kabahizi, 2009: 332). To explain geographic variability in foreclosures, free market advocates focus heavily on evidence of the link between regional housing bubbles and elasticity of supply. Guidry, Shilling, and Sirmans (1999), for example, determined that both land-use controls and natural restrictions constrain supply and lead to increases in urban residential land prices while Glaeser and Gyourko (2003), Malpezzi (1996), and Quigley, Raphael, and Rosenthal (2009) specifically documented the tendency of land-use regulation to cause increased housing prices. Others including Henry and Goldstein (2010), Mills (2009), and Rauterkus, Thrall, and Hangen (2010) have implied a link between strict land regulation and foreclosures. So, for example, stringent land regulation in cities throughout California and physical limits on available land for development in places like Las Vegas restricted supply leading to housing bubbles, a decline in affordability, and higher foreclosure rates when prices collapsed. By contrast, Houston was presumably better situated to meet increased demand during the bubble period because it has neither physical barriers nor government zoning restrictions, keeping prices comparatively stable and affordable (Anari, 2013; McCullagh & Gilmer, 2008; Siegan, 2009).

Armed with these findings free market advocates proclaim Houston a paragon of the "free enterprise" city. Local press and researchers from free market think tanks have actively highlighted Houston's affordability and less severe effects from the national housing market collapse as evidence of the efficacy of the free market model for urban development (Cox, 2011; Loyola, 2011a, 2011b; O'Toole, 2009; Staley, 2009). Houstonians For Responsible Growth (2012:1), a local organization which formed specifically to resist land-use restrictions, attributes Houston's affordability and economic success to "elected representatives [who] have allowed market forces to determine the highest and best use of non deed restricted land over the past century." Boosters insert Houston into a triumphalist narrative in which government intervention is proclaimed inimical to the efficient operation of "self-regulating" markets that more effectively allocate resources like housing. However, these claims are misleading, at best, particularly in debates about urban planning. And they also serve political actors in legitimating an economic model which is crisis prone, wrought with social costs, and encountering growing political resistance. This is done largely by obfuscating the complex reality of Houston's development history. The following study challenges the efficacy of the free market model and the role of laissez-faire development policy in local outcomes by revealing contradictions in assertions about Houston's fortune.

The Houston housing market has been shaped by a confluence of factors which can obfuscate the impact of local policy. For example, Houston's dependence on the oil industry means that regional development is largely shaped by global oil demand, creating a measure of detachment from both local policy and wider urbanization trends. Implementation of a free market model in Houston also evinces the contradictory and uneven process characteristic of broader neoliberal restructuring in recent decades. Neoliberal ideology repudiates state intervention, but actual neoliberal practice has entailed the aggressive expansion of the state role in protecting and enhancing capital accumulation at the global and local level (Brenner, 2004; Brenner & Theodore, 2003; Harvey, 2005). The oil industry, for example, is heavily reliant on local and federal state support. Further, concomitant retrenchment of Keynesian-welfarist policies in this era has been uneven, as protectionist policies which may both ease and obfuscate market externalities have been variably dismantled and reconstituted according to political-economic conditions and social pressure. Both forms of state intervention – policies which enhance accumulation and policies which provide protection from market externalities (like housing bubbles) – appear to have played a significant role in development outcomes in Houston.

By locating the examination of the Houston housing market within the context of neoliberal restructuring this study provides an opportunity to assess the role of the state and other factors in neoliberal urbanization operating beyond and intersecting with idiosyncratic local practice. Relying on secondary data, I begin unraveling the global–local interlock at play in housing markets first by examining the role of neoliberal restructuring in the recent U.S. boom and bust. Then I examine factors which have uniquely impacted speculative pressure, and thus affordability, in Houston's housing market, beginning with a brief comparison of the role of real estate development in Houston and other "business-friendly" metropolitan areas which experienced housing booms. This is followed by an analysis of the impact of the oil glut spurred recession in the 1980s and then of local state policies, including Texas' anti-predatory lending laws, on Houston's foreclosure landscape. In combination, these factors reveal a complex contradictory neoliberal urbanization process not easily reconciled with free market rhetoric. Finally, I examine the link between uneven development (one cost of a free market approach) in Houston and those local foreclosures which did emerge before and after the national housing collapse.

Neoliberalization, housing bubbles, and crisis

The "urban crisis" of recent decades has societal roots in the increasing adoption of market-based state policies and laissez-faire governance. These are key components of the global shift to the free market oriented political-economic order called neoliberalism. Partially in response to economic crisis in the 1970s, Keynesian-era protections put in place in developed nations have been rolled back, first at the national and then at the local state and metropolitan level. This has included reduction of labor protections, deregulation of industry, liberalization of international trade, privatization of industry and services, and massive cuts to social programs, all key policy provisions of neoliberalism (Harvey, 2005; Steger & Roy, 2010). Neoliberal ideology contains a faith in the ability of free market capitalism to generate economic growth and to best provide for social needs like housing. In the 1980s Ronald Reagan ushered in the era by initiating deregulation of the financial industry (among others)