WHAT CALIFORNIA CAN LEARN ABOUT OPPORTUNITY URBANISM FROM HOUSTON

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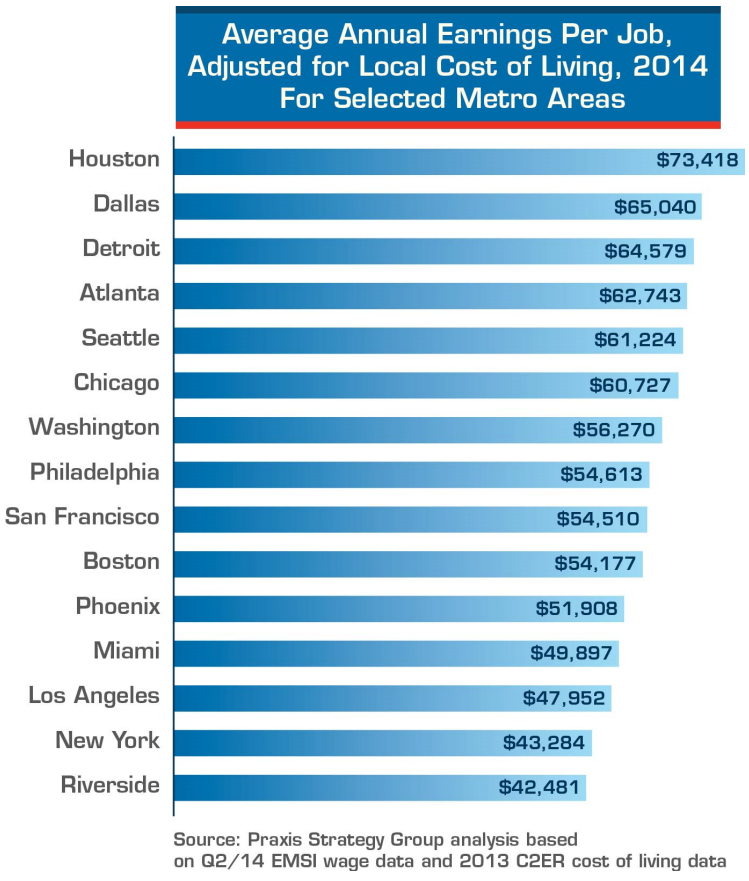
Across not just California, but all of America and much of the developed world, we face a well-reported crisis of income stagnation, rising inequality, a declining middle class, and a general lack of broad prosperity. Yet contemporary urban planning seems disconnected from this crisis, focusing instead on pedestrian aesthetics, environmentalism, and appealing to the supposed preferences of the wealthy and the "creative class." This approach increasingly dominates urban thinking, expressed often as New Urbanism or Smart Growth. In this perspective, dense and usually older cities like New York, Portland, and San Francisco have been held up as models. For the most part, planners see their world through the perspective of an architect—an architect of the physical form of cities. But what if they tried the perspective of an economist—an architect of opportunities for people to have a better life? Houston is an exemplar of this approach, and California could learn some lessons from it.

AFFORDABLE PROXIMITY AND MAXIMIZING THE OPPORTUNITY ZONE

The core challenge—and one planners have so far epically failed to address – can be summed up as "**affordable proximity**." How can large numbers of people live and interact economically with each other while keeping the cost of living—and especially housing—affordable? Figure 1 brings this out starkly, showing the wide range of living standards across major American cities, as measured by cost-of-living adjusted average wages. Traditional economics focuses simply on increasing nominal incomes, but the global marketplace and technology dictate incomes for a given education and skill level, which make it a very difficult lever to increase. What really matters is a achieving a high standard of living, the measure of which is cost-of-living adjusted incomes. Most people intuitively understand that the same income that feels adequate in Middle America can feel like poverty in some expensive coastal cities. Incomes



may be dictated by global economic forces, but costs-of-living are strongly driven by local factors that can be controlled.

So what framework can a planner use to increase opportunity and upward social mobility? Let's start with the fundamentals: how can cities better empower citizens to accomplish these four enablers for upward social mobility?

1. Additional education for self or children
2. Getting a better job (superior skills match, improved productivity and pay)
3. Starting a business
4. Affordable home ownership

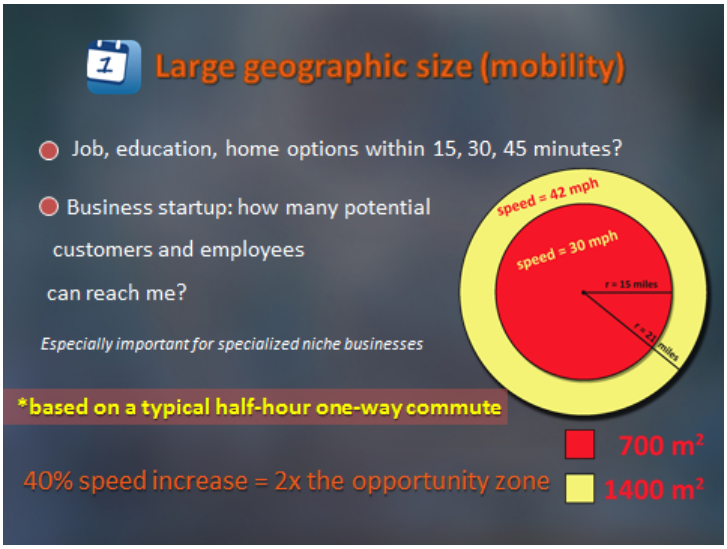
The core question is "how can a city make more of these events happen for more people?" The prescription revolves around the theme of maximizing their "**opportunity zone**." What represents a rich environment for these four events? The more education, job, startup, or affordable home options people have within their personal travel-time/cost tolerance, the more likely they are to take advantage of them. That's their opportunity zone.

There are four elements to maximizing opportunity zones:

1. **Geographic Size**, through transportation mobility
2. **Population and Jobs**, including reasonable density/infill
3. **Economic Fuel**, by maximizing discretionary income through economic development (i.e. high-paying jobs) combined with a low cost of living
4. **Dynamic Vibrancy**, by cutting restrictive zoning, land use, and red tape in the permitting process.

GEOGRAPHIC SIZE

The most obvious driver for expanding the opportunity zone is transportation mobility, whether by car or transit. What parts of the city can they access in 10, 20, 30 or more minutes? This defines the geographic scope of where they can access education, job, and home ownership opportunities, as well the potential customer and employee base if they decide to start a business. The longer the travel time, the less likely they are to take advantage of any given option. Most critically, mobility determines access to affordable housing within a reasonable commute. Key drivers of mobility are the transit network, the freeway/arterial network, and traffic congestion.



When mobility increases, the number of potential job options also increases. In fact, a Harvard study has found that commuting times have a bigger impact on

social mobility than several factors including crime, elementary-school test scores, and the percentage of two-parent families in a community[i]. Even small increases in mobility can radically increase the number of available job opportunities in larger metros because the area of the opportunity zone is related to the square of distance covered in a period of time (i.e. the radius of the circle, area $A = \pi r^2$). For example, a half-hour commute at an average speed of 30 mph can access about 700 sq. miles. Increase the average trip speed only 40% to 42 mph, and the opportunity zone nearly doubles to almost 1,400 sq. miles. [Figure 2]

When people have access to more job options, they're more likely to find a new job that's a better fit for their skills[ii]. That means they're more productive, which means they can be paid more. That not only boosts their own income and upward mobility, but also feeds income back into the local economy, creating a multiplier effect.

Mobility also supports more small business entrepreneurship and diverse retail and commercial offerings. Good mobility, whether in cities or suburbs, means those businesses can draw on a larger potential customer base, which means they can fill a small niche (like, for instance, obscure ethnic cuisine restaurants that tend to locate in suburban strip malls) and still have enough customers to stay in business because they can draw from such a large area.
The power of transportation to improve upward social mobility is well-illustrated in these findings from the Reason Foundation report, "Why Mobility Matters"[iii]:

- Low-income residents with cars have access to 59 times as many jobs as their neighbors that rely on public transit.
- Increased auto ownership could cut the black-white unemployment gap nearly in half.
- A 10 percent increase in average travel speeds was associated with a 15 percent expansion of the labor market and a 3 percent increase in productivity. Jobseekers were able to find better jobs, and employers had access to more workers and more customers.

Mobility investments other than public transit have lost popularity in recent years, particularly among planners, usually due to the lament of "induced demand" that any new capacity "will just fill up eventually anyway." The benefits of increased capacity—like more access to more jobs and affordable housing for more people—are not obviously apparent, and therefore are often ignored—while the direct costs in money, neighborhood impacts, and construction hassles are all too visible. Local leaders need to do a much better job articulating the real value of these investments to citizens and voters.

What about increasing fixed transit, like rail? Multiple studies have found the cost-benefit from most recent rail investments outside legacy cities like New York[iv] and a few very high-density routes—like Houston's original Red line connecting downtown to the world's largest medical center—to be dubious at best. Generally speaking, they cost far too much for the number of people moved, and they have failed to materially increase the overall percentage of commuters using transit.[v] Los Angeles has seen overall transit ridership declines despite $9+ billion spent on new rail projects[vi].

Modern post-WW2 cities built around the car have also developed with multiple major job centers spread around their metros rather than concentrated in a single downtown, making

efficient rail connectivity impractical outside the urban core[vii]. Commuters in these cities are far better served by managed freeway lanes with express park-and-ride bus services that can circulate within job centers to get people right to their buildings. Meanwhile, the future is becoming increasingly clear: flexible and affordable commuter bus systems using managed lanes that connect job centers combined with autonomous self-driving vehicles that will revolutionize transportation during the 2020s, including on-demand affordable taxi services. Rather than investing billions in soon-to-be-obsolete fixed rail technologies, most cities would be better served focusing on flexible managed-lane networks filled with buses, vanpools, and carpools today and autonomous vehicles tomorrow (Managed eXpress – or MaX – lanes[viii]).

POPULATION AND JOBS

People have been migrating to cities since the Industrial Revolution for the simple reason that they have offered more opportunity. This larger population can support more education and employment options, and businesses have access to more potential customers and employees[ix].

The implications for policy? Well, for one, ***growth is good***, despite becoming more and more unfashionable in many cities (and especially in California). It creates more options and opportunities for more people—existing residents as well as newcomers. One study[x] found that doubling a city's population increased economic activity per capita 15%—including innovation—and only 85% more resources were needed rather than the 100% doubling that might be expected. Another implication is that reasonable infill and density are also good. Growth, infill, and density increase the people and jobs in a given opportunity zone.

More people and jobs in a given opportunity zone also means more discretionary income in that zone, the economic fuel of opportunity.

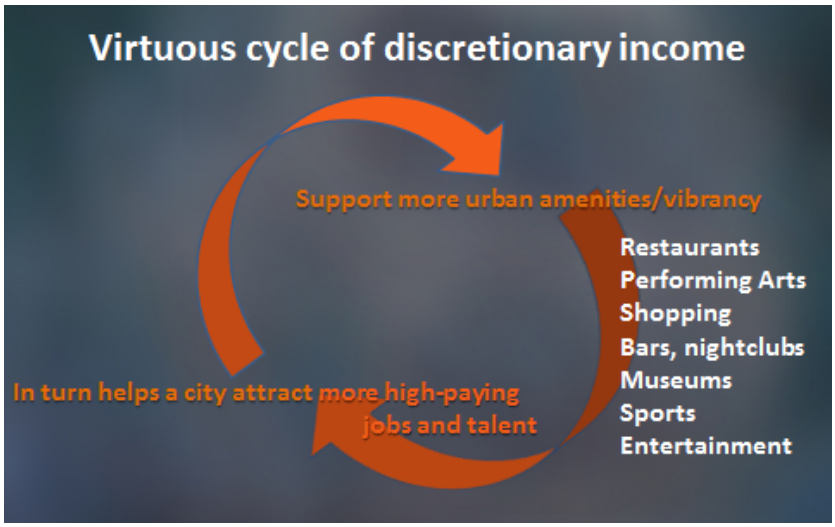
ECONOMIC FUEL

Once an opportunity zone's geography and population is defined, what makes one a richer or poorer opportunity environment? The raw fuel of opportunity is *discretionary* income, defined by economists as income left over after the basic costs of living like housing, groceries, transportation, utilities, health care, and taxes. This money can be spent directly on post-secondary education or training, provide the seed money to start a business, support a charity, or provide the consumer purchasing power to support local businesses and startups that in-turn provide jobs.

Maximizing the discretionary income in an opportunity zone involves:

1. ***Maximizing incomes with high-paying jobs*** (traditional economic development)
2. ***Minimizing the cost of living***, which involves, in addition to low taxes, having the most competitive markets possible in goods and services providers as well as housing (minimal supply constraints). This relates directly to providing the broadest range of housing options.

With regards to the first point on maximizing incomes, discretionary income supports vibrancy and amenities like restaurants, bars/nightclubs, museums, sports, arts, entertainment, shopping, and other leisure activities—which in turn helps the region to attract new high-paying jobs (a positive feedback loop). [Figure 3] For example, the Zagat Survey notes that Houstonians (the top ranked city in Figure 1) dine out more frequently than any other major U.S. city—4.2 times per week on average, which is 30% above the national average and 24% above New York City, which has long been the culinary center of the country.



DYNAMIC VIBRANCY

Our last major element for maximizing opportunity zones is minimal zoning, permitting, and land-use regulations. These restrictions often increase commercial and residential costs[xi], as well as preventing population density where there is housing demand. Just as the large majority of an iceberg is hidden below the water, all of the development and vibrancy prevented by over-planning and overregulation is invisible compared to the small "top of the iceberg" development that gets through the hurdles.

Easy availability of affordable commercial space is critical to entrepreneurship. More commercial space also means more competition, lowering prices and increasing discretionary income. The same effect applies to residential space: the more there is, the more affordable it will be, and therefore the more discretionary income that will be created after rents or mortgage payments are factored in. Finally, minimizing these restrictions increases the vibrancy of the local construction industry, a good source of skilled and unskilled blue-collar jobs that provide important rungs on the ladder of upward social mobility[xii].

In her book, "The Future and its Enemies," Virgina Postrel describes *dynamism*, "an open-ended society where creativity and enterprise, operating under predictable rules, generate progress in unpredictable ways." In Houston, the highest standard-of-living major metro area in America [Figure 1], this dynamic is enabled by a lack of zoning, replaced instead with voluntary local deed restrictions and "***checklist permitting***" with predictable development requirements rather than arbitrary and unpredictable approval boards and red tape. No zoning and streamlined permitting promotes low commercial and residential costs, high competition among goods and services providers, a robust construction industry, plenty of suburban housing supply[xiii], and higher densities where there is demand, usually through apartment complexes, condo towers, and townhomes.

CONCLUSION

So summing up the principles of opportunity urbanism:

- Invest in mobility infrastructure, especially roadway capacity and including innovative approaches like congestion-priced toll lanes to create a self-funding high-speed bus/van/carpool transit network serving the multiple dispersed job centers of modern metros.
- Embrace both suburban growth as well as urban density and infill.
- Bring down the cost of living by increasing the supply of commercial and residential space, and therefore increasing competition.
- Overhaul and streamline zoning, land-use, and permitting codes.

By improving both mobility and the housing supply, affordable proximity is improved, the cost of living is reduced, and cost-of-living adjusted incomes increase. The improvement in discretionary incomes increases consumption and economic activity as well as the ability to pursue additional education/skills, start a business, support charities, or save up the down payment for house—leading to an overall improvement in opportunity and prosperity. The result should be a transformation into a vibrant, growing "***city of opportunity***" that includes both the core and expanding periphery.

Enlightened planners have to step up and take the lead championing these policies for today's middle and working classes as well as for future generations lacking a voice against the all-too-vocal NIMBYs and inflexible smart growth ideologues. They can turn planning into something that expands opportunity for the little guy in America rather than squelches it.

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