Editor's Introduction

Does Portland's Urban Growth Boundary Raise House Prices?

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Five years ago, *Housing Policy Debate* ran a forum on land use practices in Portland, OR (Lang and Hornburg 1997). The forum's lead article, by Carl Abbott, focused on how the region's growth management system arose and the extent to which the lessons learned from Portland were transferable to other U.S. metropolitan areas (Abbott 1997).

The 1997 forum also included a discussion on whether other regions should adopt Portland's land use model, especially its controversial urban growth boundary (UGB). The two forum respondents, Henry R. Richmond and William A. Fischel, disagreed strongly on this point. Richmond, a land use lawyer who was instrumental in passing the 1973 Oregon land use law that created UGBs, argued that other metropolitan areas can and should adopt the Portland model. Fischel, an economist, noted that the UGB limited urban growth in a way that could diminish Portland's economic development and that other places should carefully consider this downside.

A key concern running through the 1997 forum was the impact that Portland's UGB had on home prices. All three authors addressed the issue, as did Lang and Hornburg (1997) in their Editors' Introduction. To some economists, the relationship seems pretty straightforward—UGBs limit land supply and thus drive up house prices (Mills 1999). Yet others point out that by "upzoning" land within the UGB, the same level of development occurs as before, only within a more contained space (Richmond 1997). The 1997 Portland forum, however, presented no empirical evidence on the price impact of UGBs. Home costs were up dramatically in the region, but was that due specifically to the UGB?

The forum that follows updates the 1997 debate and introduces comparative data that place Portland's rising home prices in the context of other regions. The lead article by Anthony Downs examines house price change in 36 large metropolitan areas, including Portland, from 1980 to 2000. Downs also ran a multiple regression analysis of 85 regions that included a dummy variable for measuring the price effect of Portland's

UGB. He concludes that "Portland's UGB had statistically significant effects on home prices only in the first half of the decade [the 1990s] and then only small effects." Downs further adds that "it is erroneous to conclude from Portland's experience that UGBs inevitably cause home prices to rise faster."

While Downs's work appears to resolve the UGB house price impact question in favor of those who advocate Portland-style land use reform, even he predicts that a "stringently drawn or tightly enforced UGB" might drive up house prices in the short term if it is combined with strong demand. But on balance, Downs's study debunks the charge that UGBs necessarily drive up prices.

The first forum comment by Arthur C. Nelson largely concurs with Downs, but offers some additional analysis to explain his findings. For example, Nelson finds that Downs's explanation for why Portland's UGB has not had the price effect that most economists expected is somewhat erroneous. Downs argues that the lack of impact stems from the fact that the area inside the UGB is too large for the land market to be affected. Yet, as Nelson notes, "This is only partly right." He points out that Portland has also been successful at increasing housing supply in ways that the U.S. Bureau of the Census fails to measure, such as by adding accessory units to existing dwellings. The additional, undocumented supply helps lower house prices in the region.

Despite his agreement with Downs's finding that UGBs need not drive up house prices, Nelson's comment ends on a cautionary note. He "fear[s] that work by Downs and others can be misused by urban containment protagonists, including many in metropolitan Portland, because it can create hubris among them." Nelson is most concerned that, armed with data showing that UGBs are largely inconsequential compared with the impact of market forces, advocates may subsequently justify "any form of containment."

The second forum comment by William A. Fischel critiques Downs's analysis. Fischel's main problem is with the group of metropolitan areas that Downs selected for his comparison with Portland, noting that the western United States is overrepresented in the sample. While this might not seem a bad thing, because it places Portland in a regional context, Fischel finds fault because the real problem in Portland is not just growth management, but rather urban containment throughout the West. Fischel argues that Downs compared Portland's contained land markets with other western metropolitan land markets that may be equally bounded.

The real issue, as Fischel sees it, is that antigrowth practices, which began in California, have now spread throughout the West. Thus the measurable impact of Portland's growth management policies may be muted. Given this basic flaw in Downs's methods, Fischel remains convinced that "Portland's policy of promoting infill development does not seem to have offset the containment effects of its urban growth boundary."

Fischel's point regarding constrained land in western metropolitan areas is not without empirical basis, although the cause may be open to debate. Where Fischel sees regulation, the more important variable may be environment. Lang and Rengert (2002) find that in addition to public policy–driven growth limits, western urban expansion is constrained by three key forces:.

1. *Aridity*. Outward expansion often requires an expensive extension of the metropolitan water supply. The surrounding rural hinterland that does not share this water supply may not be able to sustain even moderate exurban development such as large-lot subdivisions.

2. *Public and Indian lands.* Aridity has resulted in the West's having more public lands. Western metropolitan areas, especially those in the intermountain West, are often surrounded by nonprivate land holdings.

3. *Slope.* The West, including the Pacific West, is mountainous, and thus there is often limited buildable land. Many Pacific metropolises are located on narrow coastal shelves. Land that seemed unlimited when these cities were founded often ran out by the late 20th century. The resulting land shortage also drives up costs and reduces building lot sizes.

Lang and Rengert (2002) find that western metropolitan areas are generally built at a higher density than in the East and are either holding their density or are getting denser. By contrast, eastern regions, especially those in the Southeast, are low density and are growing more diffuse.

Portland, ironically, is one of the few western metropolitan areas where growth could have sprawled in a more eastern fashion (Lang and Hornburg 1997). The Willamette Valley, in which Portland lies, is a level, well-watered oasis that has been valued for its eastern environmental qualities since the days of the Oregon Trail. Portlanders worry that without a UGB, their beautiful valley would become one large subdivision (Abbott 1997).

Another growth constraint that Portland faces is its limited capacity to quickly gear up for a building boom. For most of its history, Portland experienced slow and steady growth. It was never a boomtown like Phoenix (Abbott 1993), which has grown so fast for so long that its home building industry operates in permanent high gear. The Phoenix growth machine responds rapidly to housing demand by throwing up large-scale master planned communities seemingly overnight.[1]

During the 1990s, Portland for the first time experienced Phoenix-like growth pressures. Yet it lacks the home building infrastructure to keep pace with demand. Some portion of Portland's rapid escalation in home prices during the early 1990s, which Downs documents, may result from being overwhelmed by rapid growth. Limited building capacity, rather than constrictive land regulation, could prove the culprit that drove up Portland's home prices.

The forum that follows advances the debate over Portland, but does not settle the issue. Both sides can find evidence to support their view. Those arguing that Portland's UGB is not completely—or even mostly—to blame for the region's house price run-up will be heartened by Downs's findings. Others who oppose UGBs and worry that they distort housing markets, will point to Fischel's comment that "housing price inflation is a western [metropolitan] phenomenon" as evidence that further research is needed to determine why Portland's housing has grown so expensive.

Author

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[1] For example, the region now contains seven "boomburbs," or large, rapidly growing suburbs that surpass 100,000 people (Lang and Simmons 2001).

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