

## Comment on Anthony Downs's "Have Housing Prices Risen Faster in Portland Than Elsewhere?"

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### *Abstract*

Forms of urban containment are found in more than a hundred jurisdictions across the United States. The lightning rod for the debate over urban containment is metropolitan Portland, OR, which has had an urban growth boundary for a generation. In the early 1990s, housing prices there soared, providing fodder to interests opposed to public interference in the private development market. Downs contributes to the debate by finding that over the long term, metropolitan Portland's housing prices are more in line with its West Coast and national contemporaries than not.

This comment first reviews some of the literature associating growth controls and growth management with housing price changes. I then examine how Oregon's and metropolitan Portland's particular institutional measures ameliorate potential price effects, offering lessons for containment programs everywhere. I caution that urban containment is here to stay and that the best way for development interests to protect themselves from undesirable outcomes is to advocate Portland-style urban containment.

**Keywords:** Growth management; Housing; Land use

Urban development patterns are a product of many factors, not the least of which is conventional planning and zoning practices. Those practices include separating land uses. When those practices include large lot and large house size requirements under the guise of preventing congestion (contending that low density reduces congestion), being fiscally responsible (noting that more expensive homes bring higher property taxes), and protecting property values (fearing that mixed uses degrade value), they can result in racial segregation. Peiser (1989) observes that conventional planning and zoning practices usually push development farther out and over a larger area than would occur without them, often invading farm and forest lands prematurely.

At the risk of being too simpleminded, there are perhaps only two ways to undo what some, if not many, perceive to be the undesirable effects of conventional planning and zoning: eliminate it or change it. Houston does not have zoning, so its development patterns could be considered a reasonable proxy for effects in the absence of planning and zoning. Yet the complex web of covenants used by developers there would seem intent on achieving the same outcomes as conventional planning and zoning but with less flexibility to respond to changing needs because covenants are applied on an ad hoc basis and they last forever. It is

possible that Houston's development patterns are worse than would occur with conventional planning and zoning, but this is not certain.

Houston is the exception rather than the rule. It would seem that as an institution, planning and zoning are here to stay. That being the case, if we want to undo the undesirable effects of planning and zoning, we need to change their institutional context. That is what Oregon has done.

### **Fear of urban containment**

As draconian as its statewide system of urban growth boundaries (UGBs) and zealous open space preservation policies may appear (Knaap and Nelson 1992), Oregon's experience in urban containment is instructive. To whom? Development interests, mostly. Why? For their own self interest. Let me explain.

First of all, consider that urban containment is rapidly growing. The first significant urban containment effort was launched by Lexington and Fayette County, KY, in the late 1950s. By the 1970s, there were only a handful of communities restricting urban development. Beginning in the late 1970s and continuing through current times, urban containment has spread remarkably. By my count, today there are more than a hundred examples of urban containment, ranging from single-community approaches, such as Sioux Falls, SD, to the county-wide approaches seen throughout Florida, to the metropolitan approaches seen mostly in the Northwest with a nod to the Twin Cities. The trend continues.

Second, consider that the principal feature of urban containment is limiting the supply of land available for development. A central axiom of economics is that if supply is constrained relative to demand, prices go up. Development interests naturally worry that urban containment per se will lead to higher housing prices. The literature my colleagues and I reviewed recently indicates that they have plenty of evidence to support their concern (Nelson et al. 2002). A summary of it is instructive here.

Consider initially the effect of supply constraints caused by land use regulations on the price of land, albeit not necessarily the price of housing. In their pioneering effort to measure this, Black and Hoben (1985) classified all metropolitan statistical areas along a continuum from "restrictive" to "normal" to "permissive" in terms of accepting growth,

usually through expanding the supply of developable land. They found that more restrictive orientations lead to higher land prices. Chambers and Diamond (1988) updated the Black and Hoben (1985) study using more direct measures of restrictiveness and found that regulatory delay and the unavailability of land zoned for development increased land prices (Fischel 1989). Using a similar continuum, Guidry, Shilling, and Sirmans (1991) found that average finished lot prices in the “most restrictive” cities were about twice as high as in the “least restrictive” cities. Segal and Srinivasan (1985) found that reducing the supply of developable land was associated with higher land prices.

Now consider the effects of planning regulations on housing prices. Rose (1989a, 1989b) found that constraints of all kinds explained about 40 percent of the variation in house prices, with about three-quarters of that attributable to natural and the rest attributable to regulatory constraints. Luger and Temkin (2000) examined the impact of land use regulation in several North Carolina and New Jersey communities, finding that the direct costs of excessive regulations (those they deemed beyond the level necessary to preserve health, safety, and environmental quality) to be from \$10,000 to \$20,000 per new housing unit.

What about the effects of growth controls and growth management on housing prices?<sup>1</sup> Schwartz, Hansen, and Green (1981) examined growth controls in Petaluma, CA, and found that the price of new housing was significantly higher in Petaluma than in two nearby communities that did not impose growth controls. Additional studies of San Francisco Bay-area communities found similar housing price effects attributable to the imposition of growth control ordinances (Dowall and Landis 1982; Elliott 1981; Rosen and Katz 1981).

Landis’s (1986) study of three California metropolitan areas is especially instructive because it explores differences in growth control and growth management regimes in detail: Sacramento, which allows flexible UGB expansions through frequent plan amendments; Fresno, which imposes a charge or tax on new development that varies with distance to existing urban development (to encourage compact development); and San Jose, which relies primarily on growth controls to slow the rate of rural land conversion. These differences result in distinctly different types of housing and land markets in each community. In Sacramento, a competitive market is maintained, and new home builders face no barriers to entering or exiting the market. As a result,

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<sup>1</sup> Growth controls limit development through quotas, moratoria, point systems, and so forth, while growth management aims ostensibly to accommodate growth consistent with broad goals and objectives. See Nelson et al. (2002).

housing in a wide range of prices and styles is provided. In Fresno, the highly concentrated structure of the home-building industry creates a situation where incumbent home builders consistently hold a competitive advantage over new entrants, thereby raising prices. The effect of San Jose's growth control policy is to raise land costs, thus creating market entry costs for all developers.

Yet later work by Landis (1992) casts some doubt on the uniform assumptions about the relationship between growth controls and housing prices in California: In particular, he compared seven growth-controlled cities with six similar non-growth-controlled cities to determine the effects of growth controls on housing prices (among other things). Landis (1992) found that median single-family home prices did not increase more rapidly in the growth-controlled cities than in the non-growth-controlled cities. Others have also found that growth controls need not necessarily limit growth and, by implication, housing prices (Glickfeld and Levine 1992; Warner and Molotch 1992).

We (Nelson et al. 2002) conclude from these studies that the housing price effects of growth management policies, generally and of urban containment in particular, depend substantially on how they are designed and implemented, that is, their institutional arrangements. If the policies serve to restrict land supplies, then housing prices should rise. But if they restrict the supply of land while facilitating housing production at a level needed to meet market demand, housing prices need not rise. This brings me to Portland, OR, and Anthony Downs's contribution to the debate.

### **Reforming the land use planning institution to facilitate housing**

Let us begin in 1973. "Urban sprawl" was popularly perceived as low-density suburban development of mostly Willamette Valley farmland. The valley is one of the nation's most productive agricultural regions, but it is also small (about 100 miles north to south by 40 miles east to west) and home to about 70 percent of Oregon's 3.5 million residents. As farmland was developed, agricultural productivity fell and taxes rose. A coalition of interests formed—one that I call the "unholy alliance"—composed of environmental interests that wanted to prevent the development of farmland and other open spaces and real estate development interests that wanted to build product to meet market needs. Their interests intersected with the idea of reallocating property rights on both sides of UGBs (drawn in Oregon around every city or urban area, including Lonerock—population 24). Outside UGBs,

property owners have only the right to use their land for open space purposes, such as farming, forestry, and natural resources; urban-scale development is not allowed.<sup>2</sup> The rationale included minimizing negative externalities of two sorts, one involving the conflict inherent between commercial resource activities (noise, dust, chemicals, hours of operation, slow-moving vehicles, etc.) and urban residents (seeking quiet enjoyment of rural landscapes), and the other involving taxpayer subsidies to low-density development.

Inside the UGBs, property owners not only gained the explicit right to develop land for urban uses, but they were given substantially more development rights than perhaps they have ever enjoyed. Those rights included higher-density and -intensity development of land, infrastructure commitments, and expedited review of development proposals. Their rights are protected in two ways. First, about every 5 to 10 years there is a regional assessment of the amount of development anticipated over the next two or more decades. This leads to allocations of land to accommodate development within the region, because by law every jurisdiction within urban regions must meet its share of regional development needs. Second, to facilitate development, permit processing is expedited through legally mandated clear and objective (as opposed to vague and ad hoc) standards, a 120-day limit to review applications (otherwise permits are granted automatically through a *mandamus* proceeding), and a Land Use Board of Appeals (that hears and disposes of cases within 120 days of filing). (See Nelson and Duncan 1995.) Of course, the process does not always work as simply as this, but it is not that far off the mark. Since I am familiar with both metropolitan Portland and Atlanta, it is my personal observation that rezoning proposals to build higher-density housing and mixed-use development in metropolitan Portland take a few months but rarely much more than a year (even with court appeals), while the same sorts of proposals in metropolitan Atlanta take a year and often more, and up to a decade if the courts are involved.

Why do I bring this up? Proponents and opponents of Portland's UGB both seem to have it more wrong than right. Proponents of UGBs see the Portland experience as vindicating urban containment *per se* despite the fact that many containment programs are patently

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<sup>2</sup> There are exceptions called, naturally, "exception" areas, where because of prior land use approvals and development patterns, land can be used for nonfarm and nonforest use. By one estimate, several hundred thousand housing units could be constructed in these exception areas statewide. (See Knaap and Nelson 1992.) Still, they are established in such a manner as to minimize their impact on nearby farming, forestry, and other resource-based land uses.

exclusionary, are fraught with permitting delay, do not consciously accommodate the regional demand for development, and are not done from a regional or metropolitan perspective. Indeed, many of them seem geared to protecting local interests and have little to do with meeting regional needs. The UGBs in many Florida counties, for example, are not accompanied by such strong property rights policies inside UGBs as are found in metropolitan Portland, and development processing there can take years for even the simplest development proposal. The San Francisco Bay Area UGBs adopted piecemeal by local governments arguably save local open space but at the expense of pushing new low-density subdivisions into the San Joaquin Valley, the nation's fruit and vegetable basket.

Opponents have it wrong too. Development interests often complain about permit delay, neighborhood opposition to change, unclear processes and standards, outmoded zoning conditions, and exclusionary zoning. These are the very barriers to development addressed perhaps more successfully in metropolitan Portland than anywhere else, as acknowledged by the earlier Bush administration's report *Not in My Back Yard: Removing Barriers to Affordable Housing* (Advisory Commission on Regulatory Barriers to Affordable Housing 1991).

### **Anthony Downs's contribution in perspective**

Does it work? That is, does Portland-style urban containment work to minimize housing price effects? Downs's article is just the latest in a line of scholarly work addressing this question. He shows that the spike in housing prices observed in the early 1990s was a function of substantial increases in employment and income. This reminds me of something H. James Brown of the Lincoln Institute of Land Policy observed (2000). He said that if he were to choose just one predictor of housing price increases, it would be employment gain. In terms of percent change in employment, metropolitan Portland was a national leader during the 1990s and so was its change in housing prices. Since then, however, housing prices have moderated. Downs's principal explanation for this is that the UGB is still too large for the market to realize any supply-limiting effects.

This is only partly right. As the area of land dwindles, the supply of housing need not be affected. One of the cornerstones of Portland's urban containment approach is finding innovative but sometimes not easily measurable ways to increase housing supply. For example, Downs observes that from 1991 to 2000, metropolitan Portland's production of new housing was just 1.02 units per new household, while the average

among his sample of 86 other metropolitan areas was 1.38 to 1. (This seems to be a very large figure, but is probably reasonable if one considers homes taken out of use, declining household sizes, and overproduction relative to supply. However, it could signal abandonment of older housing stock in favor of new, more distant stock.) His data come from the census, which tracks new residential units permitted annually. I suspect the actual figure is somewhat higher than 1.02, for two reasons. First, the census does not include accessory dwelling units added to existing single-family homes, something that is encouraged strongly in the city of Portland and some of the older suburban communities. Second, the census does not include new dwelling units created out of existing buildings such as lofts and condominium conversions of older office buildings. Both forms of new residential units combined added several thousands of housing units. While the ratio of net units added to new households added is not likely to reach the average of the 86 metropolitan areas, it is probably substantially higher than 1.02 and thus constitutes one reason why, at least in the latter part of the 1990s, housing prices moderated toward (and sometimes below) the West Coast average.

Consider two other studies corroborating Downs's findings but concluding differently. The first was one conducted by Gerrit Knaap and me (Knaap and Nelson 1992). We suspected that because Oregon's statewide growth management initiative required that densities within UGBs be increased and that each community within UGBs demonstrate how its land use plans would accommodate its regional share of development, housing production relative to demand would be sustained and prices should not rise. To support our claim, we constructed supply and demand curves for Portland's share of the U.S. housing market. We found that Oregon's housing prices followed the nation's cyclical pattern of price and quantity movements from the late 1970s until the 1980s. Indeed, we found further that housing supplies in the late 1980s were high enough to meet rising demand at a relatively lower price than in the 1970s.

More recently, Phillips and Goodstein (2000) used ordinary least squares regression to measure differences in metropolitan Portland housing prices compared with all other western U.S. metropolitan areas from 1991 through 1996. They found no statistically significant association between metropolitan Portland's UGB and housing prices during this period. Like Downs, they concluded that the rapid rise in housing prices seen in Portland during the study period was attributable to rapid employment and income growth rather than to regulatory factors associated with the UGB. They also found that metropolitan Portland's housing prices were roughly \$20,000 *less* than expected compared with

the western metropolitan-area housing prices. They surmise that while the UGB can by itself reduce the supply of developable land, higher-density housing can offset this.

### **Portland-style containment is hard work**

I fear 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. After all, if it is market dynamics and not containment that most influences housing prices, then they can justify any form of containment they wish—including that which becomes exclusive to only those who can afford it. This is not true. Portland-style urban containment is hard work, perhaps much harder than most urban containment advocates care to accept. Metropolitan Portland planners and officials cannot sit on the laurels bestowed on them recently by scholars such as Downs, because in the next 20 years it will be far more difficult to produce adequate supplies of affordable housing without raising prices than it was in the past 20 years, even if the UGB is expanded by tens of thousands of acres.

### **Portland-style urban containment as developers' best friend?**

Development interests need to take the lessons of metropolitan Portland to heart. There are many flavors of urban containment, but like it or not, metropolitan Portland's flavor is more savory to development interests than others. The reason lies in its emphasis on facilitating the exercise of the property rights of those who are assigned, indeed relied on, to accommodate urban development.

Those rights are advanced through new institutional arrangements that are decidedly to the advantage of development interests operating within UGBs. Considering that urban containment is becoming increasingly fashionable, it seems to me that the well-being of development interests lies in advancing Portland-style urban containment in areas where urban containment exists or is inevitable.

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