



Policy Perspective

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**C A S C A D E
P O L I C Y
I N S T I T U T E**

813 SW Alder, Suite 300

Portland, Oregon 97205

5 0 3 · 2 4 2 · 0 9 0 0

f a x · 2 4 2 · 3 8 2 2

www.CascadePolicy.org

Info@CascadePolicy.org

Squeezed out:

No swingset, no sandbox, no space left for the American Dream

By John A. Charles

Portland, Oregon's approach to urban growth has been upheld as a model for other cities. However, the region's land use and transportation policies, which emphasize densification in the name of preventing urban sprawl, have had significant adverse effects. In this Policy Perspective, John A. Charles examines how the Urban Growth Boundary has diminished consumer choice in the housing market.

When Julie Riggs and her husband moved from Washington, D.C. to Portland in 1998, they thought they were pursuing the American Dream. They wanted to leave behind the crowded, expensive neighborhoods of Washington and buy a home with a roomy yard and a white picket fence. They were familiar with the area, having graduated from Lewis & Clark College a decade earlier, and felt that Portland would be the ideal place to settle down and raise their daughter, Camille, after 11 years in the east coast fast lane.

Julie's husband works for a consulting firm in Lake Oswego, while Julie recently quit her job with a Portland nonprofit to be a full-time mother. With professional job skills and above-average family income, they thought home buying would be a snap compared to what they had endured back east.

Yet, one year later, they are still renting a home in Tigard. Despite countless hours of searching—and a file cabinet of brochures to prove it—they have not found an affordable home on flat land that has a yard big enough for a swing set. And with the recent birth of their second daughter, Caroline, the issue of yard space is even more important.

"The American Dream is dead in Portland," Julie says. "How can that be in a state with as much land as Oregon has?"

We generally think of the affordable housing problem as one that affects only people with limited incomes and meager job skills. But after a decade of rapid price growth, the Portland housing market is now becoming a challenge even for families with copious amounts of education and multiple incomes.

And it's not as if homebuyers are searching for huge mansions on five-acre lots. The Riggs would be thrilled with a 2,600 square foot house on a lot that's 10,000 square feet—not even a quarter-acre. Nevertheless, virtually every new house they've seen in the suburbs of southwest Portland is being built on a smaller lot.

That is now the norm in the Portland metro area. According to the Metro regional government, the median lot size for new houses in 1995-96 was 6,700 square feet. Eighty-seven percent of all new homes were built on lots smaller than 10,000 square feet. Only 36 homes in the entire region—less than one percent of all new homes—were built on lots larger than 20,000 square feet, which is about a half-acre.

While there are many factors that account for Portland's high cost of housing, clearly the government policy of creating a land shortage, in a state where only 1.8 percent of the land mass is urbanized, is having a significant effect—not just on price, but on quality.

This trend, of course, is part of Metro's plan. In the name of preventing urban sprawl, Metro has enacted various land-use and transportation plans designed to shrink lot sizes and limit options for the location of new homes. It is certainly doing that, but the long-term result may be the creation of an exclusive enclave that is unaffordable even for upper-class residents.

In January 1999, a consortium of 17 organizations, ranging from the Oregon Association of Realtors to the environmental advocacy group 1000 Friends of Oregon, released the jointly funded "Oregon Housing Cost Study," which found these alarming patterns:

- By 1997, Portland's median house sale price had increased to \$155,000, surpassing the U.S. median of \$127,000 for that year. Portland's median increase also trumped those in rapidly growing cities such as Las Vegas, Phoenix, Tucson and Denver from 1990 to 1996.

- In the first quarter of 1998, only 35 percent of houses sold in Portland were within the economic range of families earning Portland's median household income. Nationally, 68 percent of houses sold were within median income range.

- Oregon is producing proportionately fewer single-family homes than the rest of the nation. Between 1992 and 1997, the proportion of single-family units produced in Oregon comprised 65 percent of the market, while nationally, the proportion jumped to almost 78 percent of total units produced. In the early 1980s, 69 percent of the housing units produced in Oregon were single-family homes, compared to 57 percent of those built in the rest of the nation.

METRO: Striving for scarcity

While these numbers may be discouraging to prospective homebuyers, Metro anticipated—even planned—for them. In a Metro report released in 1994 called "Metro Measured," analysts for the agency compared the Portland region to 54 other cities, using dozens of statistical measures. The researchers found that growth-management policies then being considered by the Metro Council for adoption would likely worsen Portland's housing problems.

Specifically, the agency found "a public welfare trade-off for increased density, reduced vehicle-miles-traveled and higher non-auto travel. The downside of pursuing such objectives appears to be higher housing prices and reduced housing output." In an agency not known for accurate forecasts—consider its predictions for light-rail ridership—this one turned out to be remarkably prescient.

Moreover, the agency found a distinct relationship between road-building and affordable housing. Researchers noted "a reasonably consistent relationship between housing price and miles of road per 1,000 population. Once we drop below three miles of road per 1,000 population, only two of 10 regions are below \$100,000 median value (home price) and those two are above \$80,000. Above three miles of road per 1,000 population only three of 36 regions are more than \$100,000."

Metro concluded in its report that the availability of roads is comparable to the availability of land in predicting housing prices: "We cannot dismiss the importance of transportation investment as a factor in owner occupied housing prices," the researchers wrote.

One might think that these forecasts would have had some effect on the Metro council, but one year later the council adopted the 2040 Growth Concept, a comprehensive, 50-year growth management plan projecting a regional population increase of 80 percent, but only a 13 percent increase in the number of new lane miles of roads. This Growth Concept (known informally as the "2040 plan") was later incorporated into the Metro Regional Framework Plan, a comprehensive document bringing together all Metro policies regarding regional land use and transportation. This plan is binding on the 27 jurisdictions (three counties and 24 cities) within Metro.

By limiting road building, Metro ensures that vast tracts of land throughout the region will remain landlocked, unavailable for housing. Metro can guarantee this outcome through its control of the regional transportation budget, and by its legal authority over any proposed expansions of the Urban Growth Boundary (UGB).

In essence, under the 2040 plan, Metro is the perfect monopolist, allowing just enough new land and road investments to keep raw land prices inside the UGB extremely high, benefiting a select group of landowners at the expense of everyone else.

The effect of this strategy is documented in Metro's 1997 Housing Needs Analysis. The report found that "holding neighborhood characteristics, zoning, and development fees constant, price per acre for single-family residential areas declines steadily from about \$150,000 per acre to \$120,000 per acre at the edge of the Urban Growth Boundary (UGB). Beyond the UGB, price per acre falls dramatically to \$18,000 per acre, which is a combination of the value of land for rural uses and a speculative premium value based on the presumption that it will eventually be used for some urban purpose."

Expanding the boundary substantially would have the effect of flooding the region with cheap buildable land. Inexpensive land would likely lead to lower-cost housing.

Skeptics might question whether these savings would be passed on to homebuyers, and if the Portland development market were dominated by a small cartel of huge developers, perhaps they wouldn't.

But Portland is blessed with an intensely competitive development industry. According to the U.S. Department of Commerce, the number of general contractors in the Oregon house-building industry jumped by about 60 percent between 1982 and 1992.

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With such a competitive industry, home buyers would be likely to see the savings prompted by lowered land costs passed on in reduced home prices.

The regulatory agenda of nonprofit housing providers

Land-use planning supporters have long held to the fiction that constraining land supply through zoning has no significant effect on the price of homes, so it comes as no surprise that they continue to fight virtually all major proposals to expand the Portland UGB, or to shift funds away from costly rail transit to road-building.

What is interesting is the extent to which self-styled affordable housing advocates in the Portland region have bought into this Wizard of Oz mentality.

Diane Luther, executive director of Northwest Housing Alternatives, Inc., serves on Metro's Affordable Housing Technical Advisory Com-

mittee (HTAC). Like everyone on HTAC who was interviewed for this analysis, she has never been provided a copy of the Metro Measured report—despite its obvious relevance to her task—and did not know that Metro's 2040 plan was predicted to make Portland a less affordable place to live.

However, she dismissed the implications, saying, "If you build a straight highway on flat land and build 200 homes out there, you can achieve some economies of scale, that's true; but suburban development is subsidized. Besides, people aren't building affordable housing in the suburbs, they are mostly building McMansions."

When asked whether she would prefer to start an affordable housing project with land priced at \$18,000 per acre just outside the UGB, or land inside the UGB priced at \$120,000 per acre, she replied, "the true cost of building on that cheap land is much higher due to subsidies for roads, schools and sewers."

"There is little evidence that the majority of prospective homeowners...desire to live in the same neighborhood as their place of work. The largest increase in trip-making is the suburb-to-suburb commute, reflecting conscious choices by intelligent people that other values are more important to them than living next door to their workplaces."

This is a common theme among supporters of land-use regulation. They dismiss the price advantage of non-urban land as the product of subsidies. Yet the largest single subsidy for development of any kind—government schools—exists everywhere in Oregon. Moreover, government schooling is not really a subsidy to development, it's a subsidy to families who choose to send their kids to government schools. It has nothing to do with location, density or design of residential development.

Nonetheless, if the 2040 advocates are correct, then it logically follows that the services provided by Portland Public Schools should be a bargain, because they have the economies of scale available to large urban institutions. In fact, the opposite is true. Representatives of the Portland school district are already on record in testimony to the legislature, saying that they have higher costs than the suburbs and should therefore receive more money from the state.

As for the non-school aspects of development, the presumed bargains of urban development are more myth than fact. For example, the total public subsidies that will be provided to developers of the Pearl District in downtown Portland—currently the city's crown jewel of redevelopment—will exceed \$150 million. This includes subsidized infrastructure, the demolition of the Lovejoy Ramp to the Broadway Bridge, the construction of the 10th street trolley, and tax abatements.

At a Portland City Council hearing for this project, when the level of subsidies was being debated, Commissioner Jim Francesconi asked

one developer why these subsidies were necessary. The developer responded simply, "Because density costs money."

In a room full of land-use planning advocates, not a single person rebutted that statement, yet planners and their allies continue to argue that building in the city is inherently cheaper than building on the urban fringe.

Margaret Nelson, a vice president at Key Bank, a member of HTAC, and also a board member of Community Partners for Affordable Housing, is a supporter of Metro's growth policies, and sees no inherent conflict between her perceived role as an affordable housing advocate and Metro's monopolistic control of the regional land supply. When asked whether she'd prefer to build homes on land priced at \$18,000 per acre rather than \$120,000 per acre, she replied, "We would rather start with land priced at \$120,000 because we want people to live near their jobs, and they also want to be near their jobs."

This is a fairly stunning admission for someone who professes to be concerned about the poor. The people who actually need the help might prefer that she focus on getting cheap land wherever it is, and let them worry about the commute, especially since most jobs are being created in the suburbs anyway, not the city.

Even if building on cheap land at the urban fringe created longer commutes for the new homeowners, there is little evidence that the majority of prospective homeowners, or renters for that matter, desire to live in the same neighborhood as their place of work. The largest increase in trip-making is the suburb-to-suburb commute, reflecting conscious choices by intelligent people that other values are more important to them than living next door to their workplaces.

Attending a meeting of the HTAC, it's obvious that part of the problem is the structure of the committee. Although the committee of 28 appointed people has a thin veneer of diversity—public, private, and nonprofit interests are all represented, plus various subcategories of "stakeholders"—in reality, the members parrot one another, and the discussion sounds as if it's taking place in an echo chamber.

"Our job is to come up with an affordable housing plan within the context of the 2040 plan . . . In order to be on the committee, you have to accept the premise of the 2040 plan."

—Jeff Condit, member, HTAC

During a training session for committee members on an upcoming public outreach campaign, members were briefed on answering the most Frequently Asked Questions. One member asked about the widespread perception that the UGB is having an adverse effect on housing stock, and the committee broke out in laughter at the presumed silliness of such an assertion.

The fancy PowerPoint presentation being created for the campaign

never mentions the shortage of buildable land as a factor of any kind. Rising housing prices are attributed to increased consumer demand, the desire for certain neighborhood amenities, shrinking household size, in-migration, and the vibrant economy. No one on the committee suggests adding the role of zoning in driving up housing costs.

The one-dimensional worldview of committee members is not an accident. As Jeff Condit, a land-use attorney and member of the committee stated, "Our job is to come up with an affordable housing plan within the context of the 2040 plan, so choosing sprawl is not an option. In order to be on the committee, you have to accept the premise of the 2040 plan."

Developing an affordable housing plan, according to Margaret Nelson, means focusing on "how to come up with the funds for affordable housing." In other words, the committee is looking to buy its way—with someone else's money—out of a problem that government regulation helped create, and no analysis of the underlying cause is allowed.

While there are many factors that account for Portland's high cost of housing, clearly the government policy of creating a land shortage, in a state where only 1.8 percent of the land mass is urbanized, is having a significant effect—not just on price, but on quality. If a developer has to start with land that is 700 percent higher in price than would be the case without restrictive zoning, the only way to moderate the effect of that cost on the finished product is to build more homes on the same amount of land.

At the margin, that may not matter. Studies have shown that if homeowners get a chance to buy a decent-sized lot, they are unlikely to leave the area for a chance at something even bigger.

For example, if a family planned to buy a home on one acre, but had to accept a home on a half-acre because that was the only way the developer could build an affordable house, the buyers would likely still be satisfied because they saved a lot of money. After all, the lot is still pretty big.

But if homebuyers wanted a 20,000 square foot lot, and all they could find was a 4,000 square foot lot, the price of the finished home would be irrelevant. The compromise in quality—the lack of a backyard—would be so severe that they might instead buy in Washington state, and endure the long commute, to get a larger lot for the same price.

In search of . . . a backyard

For Julie Riggs and her growing family, those are the trade-offs being considered every single day as they maintain their quest for a home with a backyard. As Julie says, "We continue to drive around in hopes of stumbling onto something affordable and on a bigger lot, but we can't find it. Our standards have dropped so much we're excited if we find a 6,000 square foot lot on flat property. But usually if the lot is that big, it's on a hillside where you can't put a swing set or kiddie pool."

The lack of any rationale for this problem is especially irritating to the couple. "We are very frustrated because it seems so illogical," Julie says. "We drive around and all we see is open space, yet no one

can build out there. I could understand if this was Manhattan, where you have to trade off larger living quarters in exchange for the amenities of a big city, but why can't we get what we want in Oregon?"

Marilyn Musick, a 47-year old senior writer with a Portland public relations firm, has lived for the past 10 years in a high-rise apartment building just up the hill from the Multnomah Athletic Club. She began house-hunting last year for "something more permanent."

"With government zoning making it virtually impossible to build a house on one, five, or 10 acres inside the UGB, the only option for people who like open space is to commute to Portland from long distances."

She doesn't want to live in the suburbs, nor does she want to live in a purely urban neighborhood like the Pearl District. She's looking for an old house with a modest yard in a neighborhood where there are some trees and flowers.

It seems a reasonable desire, but Musick is already disillusioned with the Portland market. "Everything is so overpriced it's almost an insult to your intelligence for people to think you would pay these exorbitant prices for such pathetic pieces of real estate," she says. As a professional woman with an above-average income, it's not that she can't afford to buy a house; it's just that there's so little worth buying at reasonable prices.

She finds Portland's emphasis on multifamily dwellings particularly offensive. "I keep driving around seeing these mass-produced row houses and condos that have no character or landscaping. My father is an architect, so I want to live an aesthetic life, but so much of what I see being built in Portland is hideous." It's of little comfort to know that the Portland Planning Commission, which encouraged the development of row houses only 10 years ago, now admits that many of them are ugly.

Faced with such few choices, she says she'll just wait awhile longer. But given Metro's unwillingness to ease the price pressures by increasing the supply of urban land, she may be waiting a very long time.

Rick Phillips and his wife are familiar with the array of unattractive options.

They moved from Portland to Sherwood in the early 1990s to escape the density of the city. But after five years, they saw that the thickening density had caught up to them already, and they sold their house—at a price far above their purchasing price—and found a house with acreage in Beavercreek, near Colton in Clackamas County.

Because they live outside the Portland Urban Growth Boundary where land prices are much lower, the windfall from the sale of their Sherwood home netted them a sizeable lot.

The cash—and the fact that the Phillips both work at professional jobs—should have given them a fair shot at larger lots in the Portland market, where they could be near their workplaces. But even they were priced out of the running.

With government zoning making it virtually impossible to build a house on one, five, or 10 acres inside the UGB, the only option for people who like open space is to commute to Portland from long distances.

This, of course, worsens the regional traffic situation, and makes it more difficult to offer viable transit programs, but Rick and his wife are not about to give up their property.

Rick is a supporter of good planning, but now that he lives on the urban fringe, he is opposed to the expansion of the UGB. Even though the boundary essentially prevents him and his wife from living the life style of their choice close to Portland, it also shields them from the urban development they've escaped.

Rick is aware of the internal contradiction: "I would be upset at Metro's small-lot mandates if I really tried to live near Portland, but I understand why they're doing it. It's probably necessary in order to avoid expanding the UGB."

Although a large expansion of the UGB would depress land prices and help bring down the cost of housing, those people who live on large lots outside the boundary almost uniformly oppose any expansion. They've already got what they want; why should they support any change, especially when Metro, wearing the white hat of "sound

land-use planning," will do all the dirty work of exclusionary zoning for them?

It's reminiscent of the symbiotic relationship between Al Capone and the Women's Christian Temperance Union. The Bootleggers needed Prohibition to make money in the black market, and fortunately for them, the teetotalers used their influence to create such a market. Everyone was happy except consumers, who had to pay inflated costs for products of questionable quality.

At least frustrated homebuyers can take solace in knowing that Gov. John Kitzhaber, perhaps the state's most fervent defender of the status quo, feels their pain. He, too, bought a home in Portland recently, and had to pay over \$300,000. Living on a government salary, that must have been quite a pill to swallow.

But he did get what he wanted, and it wasn't a southwest Portland row house, or a small-lot home in the suburbs. He bought a home in Portland's west hills on a wooded, half-acre lot, which is more than 21,000 square feet.

Maybe after he and his wife set up a kiddie pool for their son, Logan, they'll be nice enough to invite over the Riggs girls and some other kids whose parents weren't able to afford that kind of space for themselves.

About the Author

John A. Charles, MPA, is the environmental policy director for Cascade Policy Institute.

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