

PORTLAND'S HOUSING MARKET AND THE 2018 URBAN GROWTH BOUNDARY DECISION

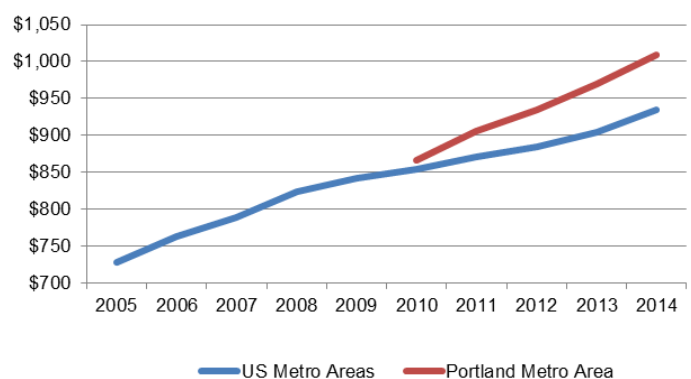
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Portland, Oregon's urban growth boundary (UGB) has been an iconic policy for the urban planning profession for the past 40 years. The boundary is an element of an urban containment system to promote farm and forest protection and promote the development of dense, walkable urban spaces. Measured in these physical terms, the policy has been quite successful. Rural areas of the Willamette Valley remain productive farmland, specializing in wine, fruits, hazelnuts, nursery plants, and other agricultural products. And Portland's downtown is recognized as a well designed urban core, with numerous greenspaces and parks and a revitalized downtown and urban neighborhoods.

At the same time, housing prices and rents in the Portland metropolitan area have been rising at rates significantly above the rate of inflation, with the City of Portland declaring a housing crisis. This paper argues that Oregon's landmark land use regulations have been side-tracked in recent years by layering of local regulations that have reduced housing production and created a regional housing crisis. In addition, this paper reviews the prospects for an urban growth boundary expansion in 2018.

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Average Metro Area Rents



DEVELOPMENT OF PORTLAND'S UGB

Under the State of Oregon's land use planning system, all cities within the state are mandated to have urban growth boundaries to contain its residential and commercial activities. Cities are required to analyze the capacity of their urban growth boundaries on a regular basis to insure 20 years' worth of land for population and employment growth are maintained within these boundaries.

It's widely recognized that Portland's original UGB set in the late 1970's had a generous land supply and didn't initially have a significant impact on overall development costs. The boundary was particularly loose on the western edge of the metropolitan area in Washington County, where the county seat of Hillsboro was 20 miles west of downtown Portland. In addition, the boundary was established in the late 1970s prior to a pronounced recession in the early 1980s in the state of Oregon. As a result, the Portland metropolitan was able to grow within its newly established boundary with Washington County being a leader in the production of new housing units.

Starting the early 1990s, development within the Portland region accelerated and housing costs and land costs started to increase. In roughly 1995, the Portland metropolitan region achieved average housing prices that exceeded the national average for urban areas for the first time in history. Spurred by policies promoting economic development, Washington County attracted major investments by Intel and other information technology firms.

At the same time, the region engaged in a process to develop a long term development plan, known as the 2040 Growth Plan. In the language of the debate, citizens were told that the region faced a choice of "growing up or growing out." That is, the region could continue with previous policies to provide generous amounts of land for low-density fringe development (i.e., "growing out"), or the region could minimize the need to expand into exurban farmland by promoting higher density inside the UGB (i.e., "growing up").

Ignoring for a moment the pejorative language represented by the "growing out versus growing up" choice (who doesn't want to be a grown-up), a conscious decision was made to seek to accommodate future growth within the existing urban growth boundary, rather than two available options: (1) promoting the development of satellite cities, or (2) promoting continued low-density development along the fringe of the urban growth boundary. The Portland-area regional government, Metro, implemented a long-standing policy known as the "Metropolitan Housing Rule," which encouraged all jurisdictions within Metro's boundary to set aside land for a variety of housing types. As a result, much of the development in the 1990s included a mix of single family housing and multi-family housing. As a result, most jurisdictions have residential zoning that can accommodate mid- and high-rise construction, provided the demand for those products exist.

Throughout the 1990s, Metro made small UGB expansions, satisfying the desires of individual property owners, developers, and jurisdictions. State rules mandated that any urban growth boundary expansion focus on the protection of high quality farmland to preserve the agricultural economy. Since 1980, the area inside Portland's UGB has expanded by 10 percent, while the population of the metropolitan area has grown by 78 percent

In 2000, Metro determined that a large expansion of the UGB was warranted and they implemented an expansion in the Damascus area of Clackamas County, in the southeastern corner of the metropolitan area. The Damascus area was chosen because of the relatively poor soil quality and rugged terrain that made the land area less suitable for intensive agricultural development. The expansion decision led to a Metro-promoted ballot measure in 2004 to create a new City of Damascus that was approved by a wide

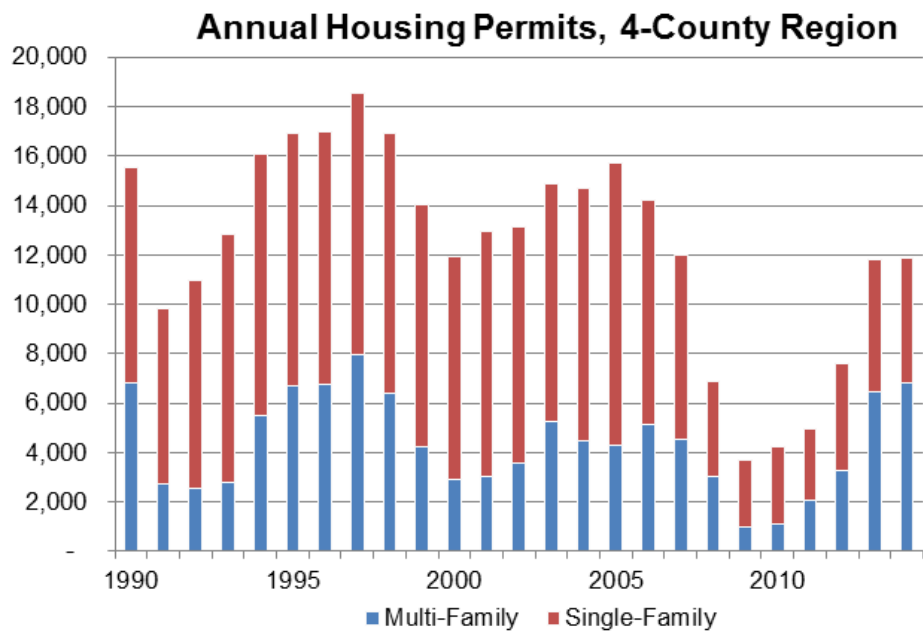
DEVELOPMENT OF PORTLAND'S UGB

margin of local residents. Damascus became the first newly incorporated city in the state in 22 years.

However, soon after the creation of the City of Damascus, local residents became increasingly skeptical of the impact of incorporation and refused to adopt a local plan that would allow significant new housing to developed. The city engaged in prolonged debates about its future and was widely seen as dysfunctional. Ultimately, the local residents voted to dis-incorporate the jurisdiction in 2016. Today, the Damascus area remains a sparsely-populated portion of the metropolitan area, far removed from the highway grid of the region, largely unserved by water and sewer utilities. Portions of the former territory of Damascus have been annexed by the neighboring pro-development town of Happy Valley, so that some housing is being produced. However, the leadership of Metro, Clackamas County and Happy Valley recognizes that most of the Damascus territory won't be developable in the foreseeable future.

IMPACT OF THE GREAT RECESSION

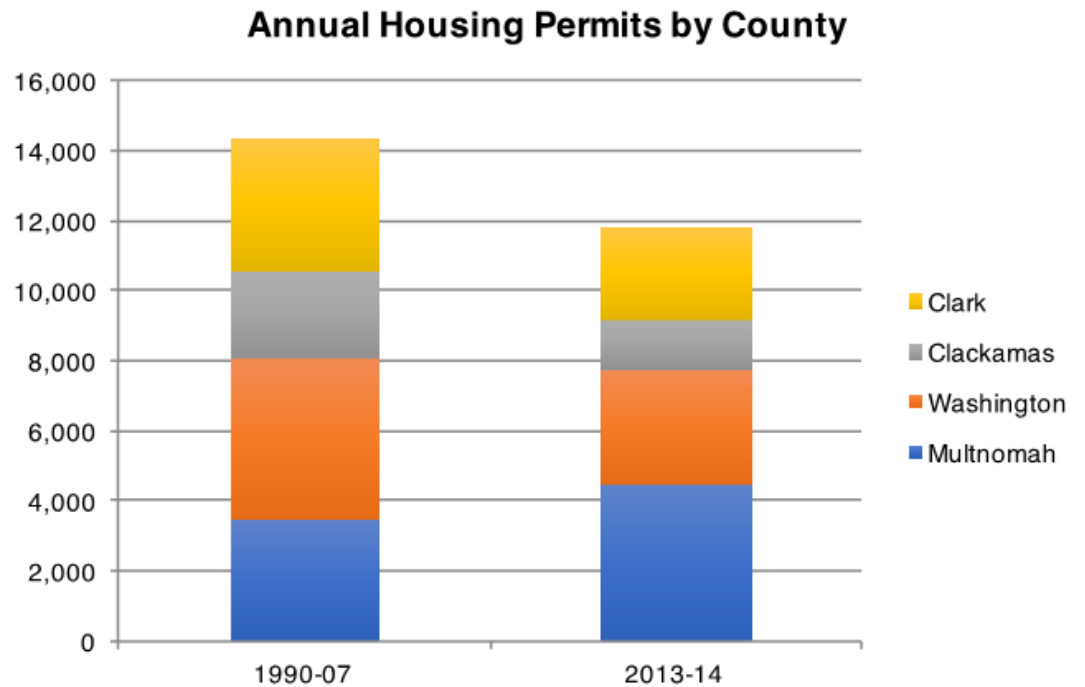
Like most metropolitan areas, Portland experienced significant economic dislocations resulting from the Great Recession of 2008. Portland was one of the last metropolitan areas to experience a decline in home prices, but the decline that happened was quite severe. The average existing home price in the region declined from \$311,700 in July, 2007 to \$223,000 in January, 2011. The decline in home prices led to a precipitous decline in housing production, particularly in the suburban counties in the metropolitan area. Housing production in the four county region (including Clark County, Washington) averaged 14,000 units per year from 1990 through 2007. By 2009, housing production fell below 4,000 units. While the total number of housing units produced has risen in recent years, the average for the last four years is 12,000 housing units per unit. When comparing population growth against housing production, there is an absence of about 50,000 housing units arising from the recession.



In addition, the distribution of housing production in the recent years has been quite different than previous decades. Between 1990 and 2007, 67 percent of housing production in the four county region has come in the form of single-family homes, falling

IMPACT OF THE GREAT RECESSION

to 62 percent in 2008-12, when housing production was depressed, falling to 47 percent single family in 2012-16, when overall housing production had recovered. And at the same time, there was a boost in construction in Portland and Multnomah County relative to the three suburban counties. In 1990-2007, Multnomah County comprised 23 percent of housing permits, rising to 33 percent in the years of reduced production (2007-12) and 37 percent in the recovery period, 2013-16.



There are a couple of explanations for these trends, with the most convincing being that the Great Recession delayed marriage and child-raising. Singles and childless couples tend to settle in central city neighborhoods where social gathering places are concentrated. In addition, the decline in wealth from the recession has damaged the ability of young couples to buy homes, and apartments tend to be more concentrated in Multnomah County. And market outcomes are the interaction of supply and demand, so the challenges of subdivision developers to find capital for land acquisition may have led to an abundance of apartment construction over single-family home construction.

In any case, the rising demand for apartments has led to significant rent increases, making Portland one of the fastest appreciating rental markets in the United States in recent years. Those market conditions have led to considerable turmoil in city and state housing policy. In October, 2015, the Portland City Council declared a housing emergency, vowed to increase affordable housing production and required that landlords give a 90-day notice for any rent increase exceeding 5 percent. In January, 2016, Portland Mayor Charlie Hales declared a moratorium on removal of homeless encampments on public property (that policy was rescinded in August, 2016). In March, 2016, the Oregon legislature removed a long-established prohibition on city governments implementing inclusionary zoning programs, and that option was quickly adopted by the City of Portland. Finally, in February, 2017, Oregon House Speaker Tina Kotek renewed her call for the legislature to remove its long-standing ban on cities implementing rent control. While the legislature did not follow that recommendation, the Portland City Council declared a housing emergency and passed an ordinance requiring landlords to offer to pay relocation

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expenses of between \$2,900 and \$4,500 should a landlord implement a no-cause eviction or propose a rent increase of 10 percent or more.

One of the ironies of the shift from a housing market dominated by single family construction in the suburbs to multi-family construction in the central city is the widespread appearance of a housing construction boom, when in fact, the region is experiencing a 15 percent decline in housing production. Every apartment construction site of five stories or more warrants a tall construction crane, often requiring demolition of old structures, temporary vacation of streets for construction staging, and regular deliveries by cement trucks. Downtown and close-in Portland has been awash in construction activity, which is duly noted by journalists and local residents. Yet the dearth of single-family construction on the urban fringe has been largely unnoticed in the local press. Few residents are aware of the 15 percent overall decline in housing production.

METRO'S 2015 UGB DECISION

Within this context, Metro made an evaluation in 2015 of the capacity of its urban growth boundary and whether it needed to be expanded. Under procedures which have evolved somewhat over the years, Metro produces a population forecast, estimates the demand for employment land and residential land, measures the availability of land inside the UGB, and determines if the UGB should expand to meet the deficiency. The population forecast for the region is probably the least controversial part of the process, but includes a complicated allocation of the expected growth between the Metro jurisdiction, neighboring Clark County, Washington (which is not governed by Metro) and smaller jurisdictions in nearby counties that are not part of Metro.

With that population forecast in hand, Metro computes a Housing Needs Analysis that determines the number of housing units needed over the next 20 years. There is a similar process that determines the amount of employment land that's needed. Metro then surveys the various local jurisdictions regarding the development capacity available for new housing units and new employment activities. In doing this, Metro accounts for both undeveloped greenfield sites as well as opportunities for redevelopment activity, using a computer model known as Metroscope. Lands which are within established flood plains and having steep slopes are removed from this analysis.

Ultimately, Metro's Urban Growth Report in 2014 determined the region had 10,400 surplus acres for single family construction, 10,300 surplus acres for single family construction, and 990 surplus acres for industrial land to meet 20 years of population growth. As a result, Metro determined no additional acreage was required within the UGB for either housing development or employment growth. While a coalition of suburban mayors argued for more land for development and there was a specific expansion proposal from the City of Wilsonville, the Metro Council in 2015 adopted the recommendation by Metro staff that no expansion of the urban growth boundary was warranted. Hence, in a region in which the central city declared a housing emergency, the regional government saw no reason to release additional land for housing development.

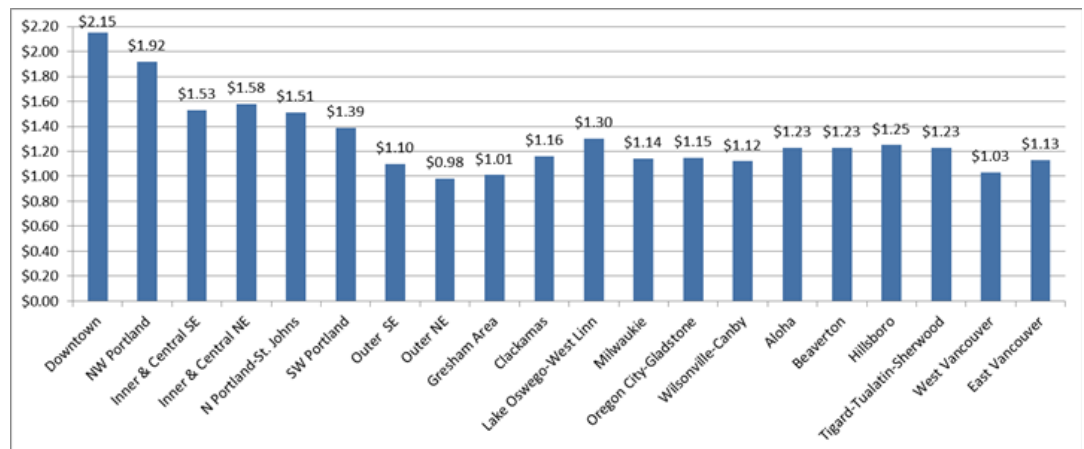
Behind the Metro staff recommendation has been a policy to accept city zoning limits as the development capacity of the region, rather than taking a market feasibility perspective. Historically, the City of Portland has generous zoning along the avenues and boulevards in the city, as well as town centers such as Portland's Gateway district. However, building at high or even medium densities requires much higher rents than currently exist in those neighborhoods. And like most metropolitan areas, apartment rents at the core of the metropolitan area are much higher than they are closer to the metropolitan edge. And in particular, the drop off in rents from Portland's downtown to

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its eastside neighborhoods along 82nd Street, Cully Street, Gateway, and 122nd Street is particularly steep. As a result, much of the development capacity within Portland is only achievable if rents rise dramatically across the entire region, or if these East Portland neighborhoods gentrify to a significant degree.



To illustrate this, I draw upon some research we did for Holland Residential back in 2014. In that research, we collected development pro formas for a number of apartment projects built in the preceding three years. For each apartment project, we noted the development type and computed an average rent per square foot for each project. We found that in our market, apartment projects neatly segment into three development types. Garden apartments are two-story apartments with wood-frame construction that is usually built in outlying communities. They often have surface parking or tuck-under parking and rent for \$1.00 to \$1.20 per square foot. Mid-rise apartments are typically five story construction with four floors of wood-frame construction built over a one-story concrete podium for parking. Mid-rise apartment buildings are usually built in close-in neighborhoods up to three miles from downtown and rent for \$1.70 to \$2.10 per square foot. Beyond five stories, current building codes in Portland require more costly steel and concrete construction (although some experimentation with cross-laminated timber construction has been done in recent years). High rise projects will only be located in near downtown neighborhoods and require rents in the \$2.70 to \$2.90 per square foot range.



The result is what I call the “Wooden House Theory,” which ought to have some appeal in a timber-producing state such as Oregon. Generally, homebuilders facing somewhat high land costs can produce cheaper homes on a square foot basis by going from one-story to two-story construction. The roofing costs and land costs are reduced, and the savings overwhelms the extra cost of the staircase. In today’s housing market in Portland with its

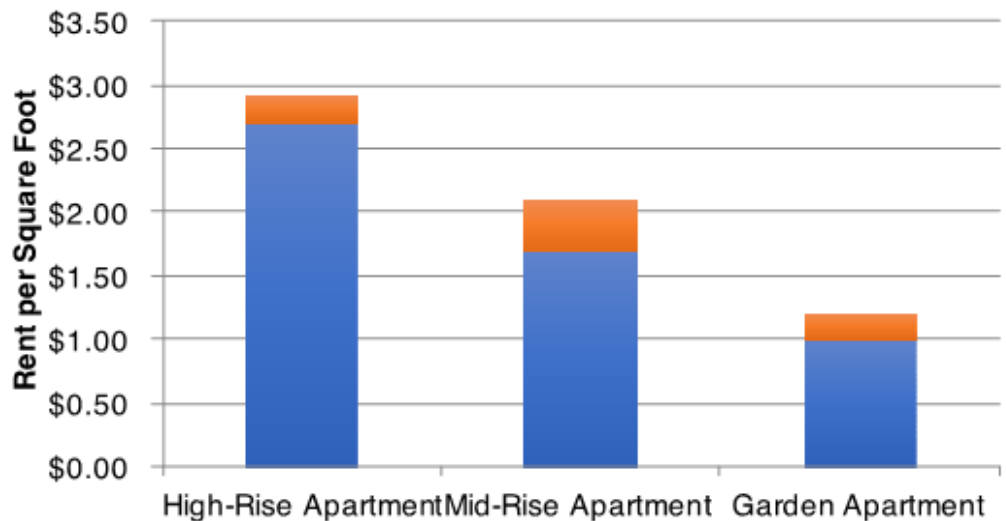
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increased land costs, ranch homes are no longer produced in any quantity. Yet two-story construction requires relatively low-cost and easily obtained labor skills and materials. What it does require is significant quantities of available land.

Going beyond two stories requires a significant increase in rents due to the combination of higher cost materials and higher skilled labor. While land costs are reduced from the smaller foot print of these taller structures, those savings are not compensated by the higher materials and labor cost. And finally, true high rise construction results in a luxury product that is only warranted in high amenity areas. And for both the mid-rise and the high-rise product, they face the additional opportunity cost of retiring an existing income-producing property. That is, given the absence of unoccupied sites close to the center of the metropolitan area, developers have to acquire already-developed sites near the center and pay property prices that account for the value of the structure being torn down.

In looking at data on average rents for existing apartments in the Portland market, we can see that the only a select number of close-in neighborhoods have rent levels that justify mid-rise construction. As a result, as the region switches from a suburban-based housing supply to an urban-based housing supply, we are turning to a high-cost product. And as the new housing supply arrives to market at a higher price point, that removes the competitive constraint on the pricing of existing apartments.

Range of Rent by Density



This change in the regional expectations can be seen from a 2013 map produced by the City of Portland in its Comprehensive Plan Update. The map shows the change in housing density expected in the year 2035, showing spikes north, south and east of downtown, but also along 82nd street, the Montavilla neighborhood, and the Gateway District several miles east of downtown.

When I saw this map, I was already familiar with the intensive new development happening in Portland's Pearl District, South Waterfront, Division Street, and the Williams and Vancouver couplet north of downtown. However, I was surprised by the expectation of high density development in Gateway and 82nd Street, which I had remembered as typified by low-density housing, Chinese and Mexican food restaurants, and used car lots, not to mention the data I was familiar with on average apartment rents. Upon visiting

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these locations, nothing had dramatically changed in these neighborhoods in terms of their physical development. From what I could tell, the 2013 city report was strictly aspirational and not a true market forecast.

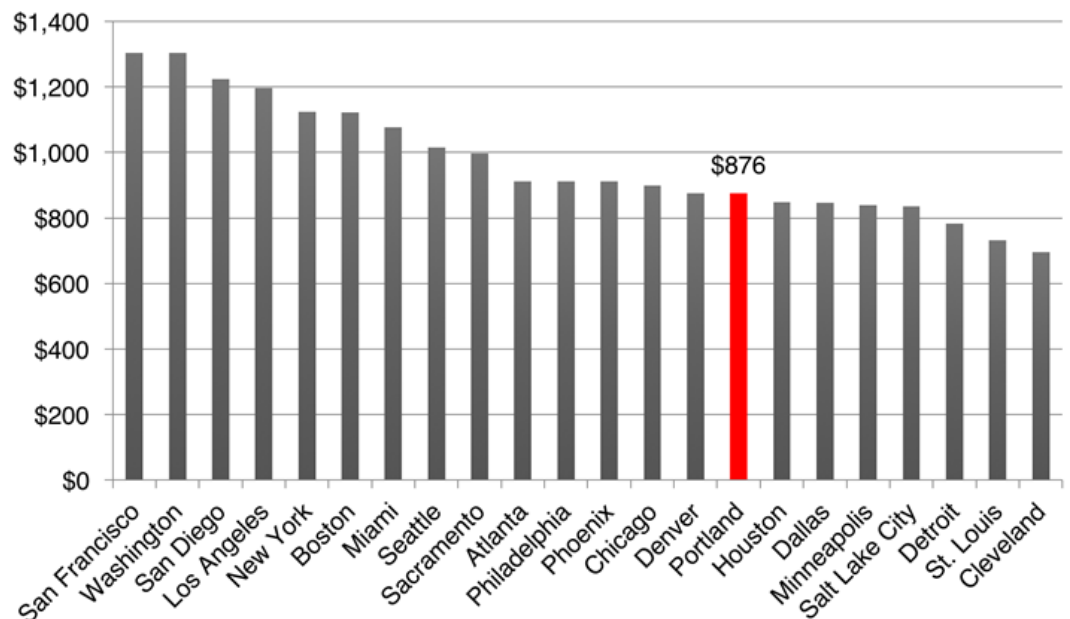
The final element of the UGB decision that is worth examining is the operation of the MetroScope model, at least using the procedures that were in effect in 2015. The MetroScope model is essentially a population assignment model that finds the next best place for a household type to be placed in the metropolitan area. Households are assigned to locations that meet the demand represented by their household profile, as measured by age, income, and household size. As development capacity is used up, the additional households are assigned to the next best location within the UGB, assuming there is some additional housing development capacity.

The problem with the MetroScope model (the 2015 version) is that development capacity, as represented by the permitted zoning, was assumed to be developable. However, as discussed above, development at higher density levels requires high rent levels, which are often much higher than market rents in the location of those apartment buildings. And since zoning entitlements in much of the relatively low-income, low-rent neighborhoods of east Portland are quite generous, there was plenty of development capacity to handle the additional population growth expected over the next 20 years. In that sense, Portland's generous zoning entitlements acted as a sponge to soak up whatever population and housing demand that Metro's demographic forecasters threw at them.

To their credit, Metro's planners estimated the housing prices and apartment rents that would need to be achieved to reach those development targets. They anticipated that average rents in the Portland region would need to rise by 37 percent in inflation-adjusted terms in 20 years to justify the higher costs of development. Factoring in a 2.5 percent annual inflation factor, that would mean that rents would rise by 124 percent—more than doubling their current levels. Home prices would rise even faster in Metro's estimation—148 percent in 20 years.

To assess what that level of appreciation would mean, I've arrayed the median gross rent in the Portland metropolitan area in 2009 against 21 other US metropolitan areas, selected for their size and location.

Average Metro Rent, 2009

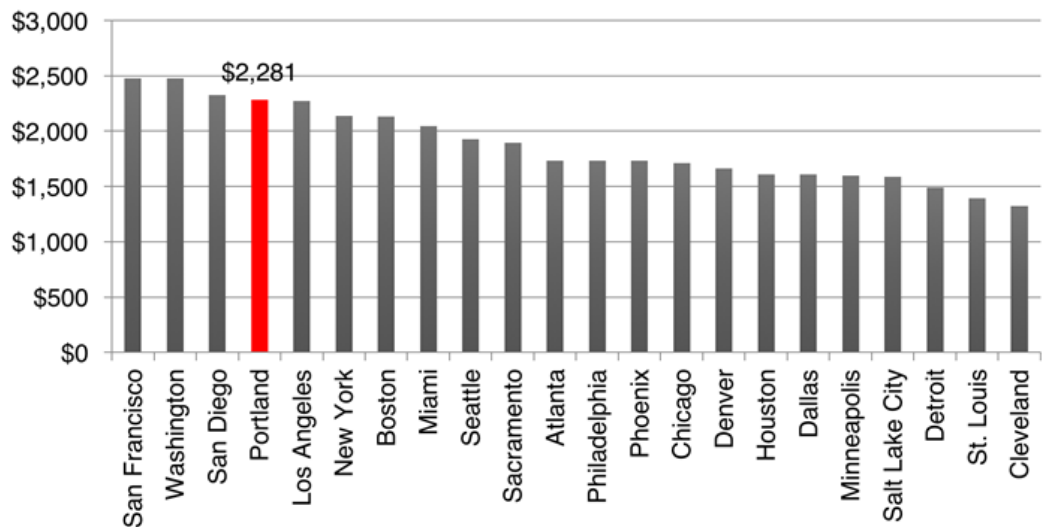


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In that diagram, we find that the rents in the Portland region are somewhere in the lower half of the distribution, competing with large metropolitan areas such as Chicago and Dallas, and west coast competitors like Phoenix, Denver, and Salt Lake City. More importantly, Portland area rents are substantially below those in the major cities in California, such as San Francisco and Los Angeles, which are important sources of employment growth for this region. Economic development agencies in the region routinely recruit Bay Area software firms, arguing that while Portland may not have the same cultural or climate amenities of California, our housing is one-third less expensive and we're a short airplane flight away. Put differently, the software firm in Bay Area can convince some of their engineers to move to Portland, knowing that the engineer can afford to buy a nice house.

However, with the rent and price increases anticipated by Metro's 20-year plan, that value proposition evaporates. If rents in Portland rise by 37 percent more than the rate of inflation for apartments elsewhere, the large discount relative to the California cities vanishes. The engineer in Silicon Valley won't readily accept a move to Portland, and our competitors in Denver, Phoenix, Salt Lake City, and Austin will win those firm relocation opportunities.

Projected Average Metro Rent, 2035



In practice, the strategy of absolute containment of the region's population is likely to result in reduced employment opportunities and slower economic growth. Workers will require compensation for accepting jobs in a high cost, modest amenity region. If firms cannot achieve significant cost savings from locating in Portland, expansion will occur in other cities, whether that's our mountain state competitors, cities in Texas, or cities in the Southeast US, such as Atlanta and Charlotte. Children who grow up in the Portland area will more likely move to those cities to find employment, creating what I call the "Santa Barbara Effect."

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Our city will remain a nice place with amenities, but it won't be a dynamic place where new employment and technology are developed. Homeowners will feel richer, but the resulting increase in home equity won't matter until they retire and move to Arizona or Nevada. Additionally, the brunt of the transition to Metro's policy to appreciate real property assets will be felt most harshly by the poor, who don't own property. Low-income households have been shown to be losers in regions that constrained spatial expansion in the face of population growth pressure.

PORTLAND'S 2016 INCLUSIONARY ZONING DECISION

A further complication to Metro's development plan for the next 20 years has been the imposition of inclusionary zoning in the City of Portland. Struggling to meet the political demand for more affordable housing production, city leaders followed a two-track strategy. In the first track, they proposed and the voters accepted a \$258.4 million bond measure to produce and preserve affordable housing. In the second track, they lobbied the state legislature to remove the ban on municipalities implementing affordable housing mandates on new apartment construction. The legislature complied and the City of Portland is the only jurisdiction in the state with inclusionary zoning. Under the inclusionary zoning policy, all buildings of 20 or more housing units must set aside 20 percent of those units to be affordable to households with incomes 80 percent of the area median income.

Developers were given an option of paying a fee in lieu of providing units within their buildings, but that fee has been set sufficiently high to make it unattractive. Planners at the city favored projects with mixed levels of income in each building. Developers were also promised by the legislature to be offered incentives to provide housing units under the inclusionary policy, but that appears to have been delivered in the form of bonuses that were removed from the zoning code, and then offered back to developers if they provided affordable housing.

Evaluating these policies requires some analysis of the broader purposes and impacts of housing policy. Housing is a necessity in terms of household consumption, or in the language of economists, housing is income inelastic. The 10 percent of households with the lowest incomes spend approximately half of their income on housing. As incomes rise, housing expenditures increase much more slowly than income, with the highest-income 10 percent of households spending only 10 percent of their income. As a result, any policy that reduces housing costs tends to be progressive.

This can be seen in the cost of providing a housing unit. All housing units need to have at least one bathroom and one kitchen to meet most local zoning codes, and those two rooms are the most expensive rooms in a house. As a result, there are certain fixed costs of housing that must be paid into order to be housed, and those fixed costs are a greater percentage of a poor household's budget.

Housing assistance can be provided in two broad approaches. Supply-oriented assistance programs offer housing units to low-income individuals at a reduce cost. In public housing units and Section 8 Existing Housing projects, apartments are set at a percentage of tenant income with the federal government paying the difference with market rents. With low-income housing tax credits and other programs, benefits are given to investors, who promise to hold rents to particular levels, usually set at 30 percent of benchmark income levels in a community (as was provided in the City of Portland's inclusionary zoning regulation). In supply programs, the benefit follows the unit, so when the tenant leaves, the discounted rent applies to the new tenant.

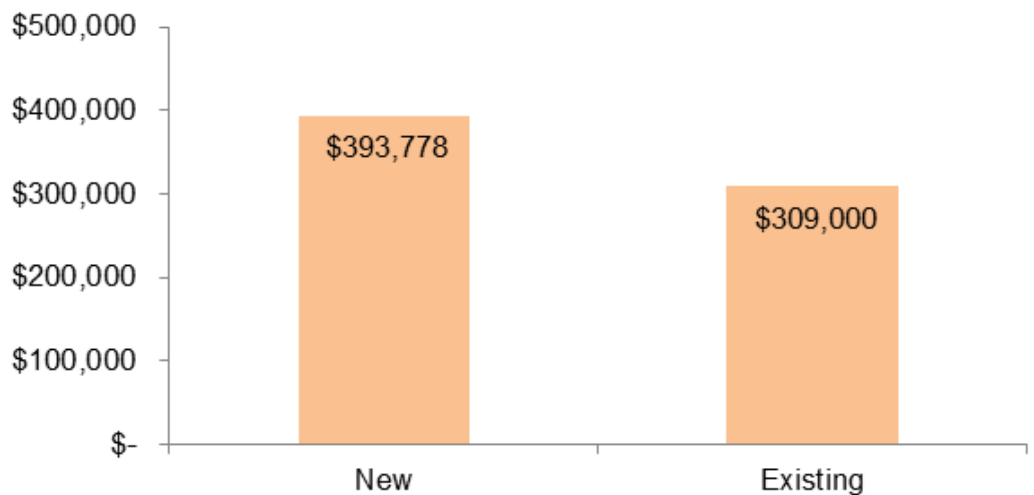
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Demand-oriented assistance programs give a voucher or certificate to households that meet the eligibility criteria who can then shop for apartments within their market. If they are accepted by the landlords, the tenant is expected to contribute 30 percent of their income in rent and the federal government will make up the difference between that and the apartment rent, which is set at the 80 percent percentile of rents in that market. In demand programs, the housing benefit follows the tenant, so if they decide to leave their apartment, they can seek an apartment elsewhere in the community under similar terms.

Given this outline, the cost of a household living in subsidized housing (under either supply or demand approach) varies enormously with income. Households with zero income will receive a benefit equaling the cost of their apartment. For two-bedrooms in Multnomah County, that amount is \$1,330 per month or \$15,960 per year. The true benefit of household is something less than this amount in that they might have spent their money different had they been given cash instead of a rent voucher. At higher incomes, the household is expected to contribute more, so the federal subsidy and the tenant benefit is less.

For tenants in supply-oriented programs, the true benefit is less insofar as they are assigned a particular unit, which almost certainly would not be the unit they would have rented had they been given the cash equivalent. This inefficiency of supply-oriented projects has been estimated by economists as a consumption inefficiency of approximately 20-35 percent compared to demand projects. In some cases this inefficiency corresponds to location of the unit being offered. Given a voucher, the recipient would choose a location closer to their work or their children's school. But in many cases, the inefficiency result from the agency spending dollars on new construction with less space, when the household would prefer old construction with more space. As showed below when looking at average house prices in the Portland region, new homes sell for a considerable premium over older homes.

**Average Single-Family Housing Price,
3-county area**



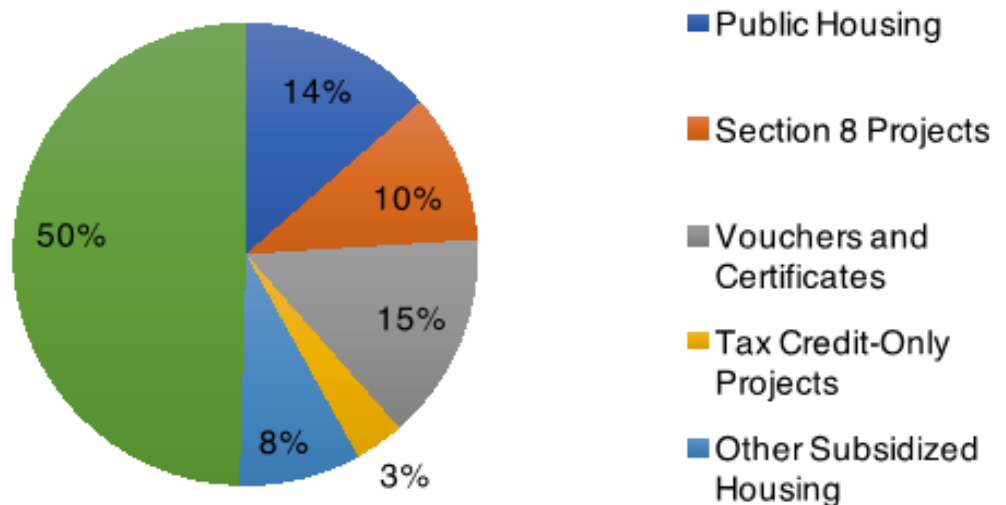
A second inefficiency of supply-oriented housing assistance is production inefficiency. Over the years, economists have measure the cost of providing housing of equivalent quality by public, private, and non-profit developers and managers. Publicly-built housing tends to be about 30 percent more expensive than privately built housing. Supply-oriented programs are sometimes built by the private sector using tax incentives or zoning

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bonuses, but often the value of those benefits to investors and developers exceed the amount of benefit that tenants receive from the project in terms of reduced rents.

In addition, housing benefit in the United States has always been a rationed benefit, rather than a benefit that all eligible households receive, which creates a horizontal inequity. That is, since the inception of federal housing policy in the 1930s, Congress has never allocated enough funds for every eligible household to receive housing benefits. Unlike other social welfare benefits like Medicaid or Social Security, only a fraction of households receive housing benefit. To illustrate this, if we add all the households below the US poverty line, which roughly translate into eligibility for housing assistance, and compare it to all the public housing, tax credit housing, Section 8 assistance housing, and other programs, we find that only 50 percent of those households could be served. And since some housing assistance goes to families above the poverty line, the 50 percent measure of horizontal inequity is actually a lower bound.

Distribution of US Poverty Households



Given this brief outline of the economics of housing assistance, Portland's inclusionary zoning policy has numerous flaws. First, tenants will receive benefits because they live in particular units. If they are unhappy with their unit or their life circumstance cause them to move, they will lose their benefit and return to paying market prices. Hence, the policy suffers from consumption inefficiency.

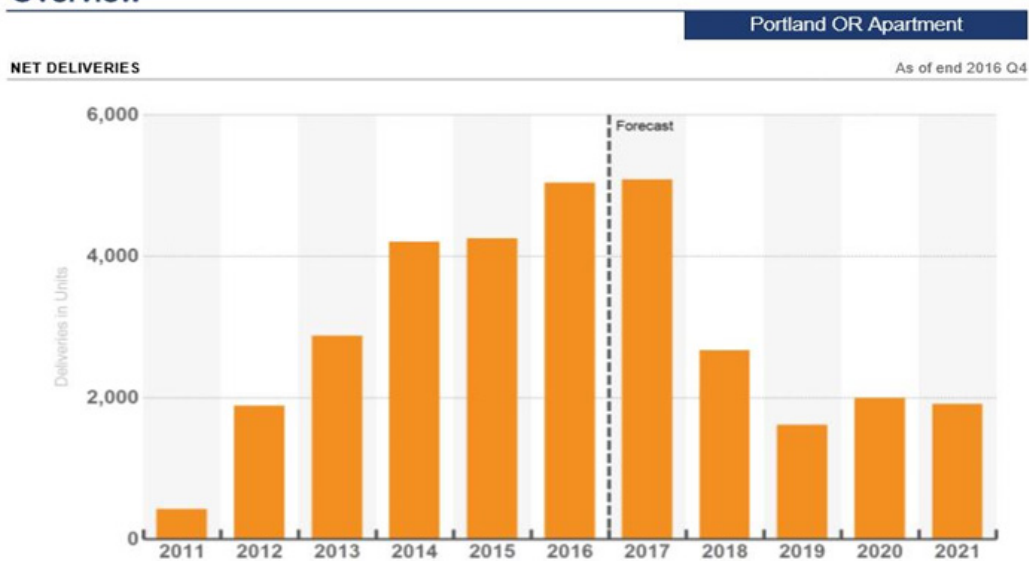
Second, developers have strong incentives to reduce construction costs on the inclusionary housing units they build, although they must keep the quality level between the subsidized units and the market rate units the same. Since they are expected to set rents at a level that is the same across the entire city, developers will be most likely to build affordable housing units either in buildings with low overall amenities or in districts where rents and land costs are low. The developers will be incentivized by the zoning bonuses offered as compensation, but that value of the benefit to the developer will exceed the benefit gained by the tenants.

We won't know the full impact of this legislation for a while, but there was a rush of permit applications submitted to the city prior to the February 1 implementation deadline and hardly any permits requested after the deadline. CoStar forecasts that apartment

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construction in 2018 will fall dramatically. We are likely to see a lot of buildings proposed in the 15-19 unit range—because these buildings wouldn't be subject to the regulation—thereby reducing the overall housing production from a given amount of land. Housing analysts are expecting to see new construction in places like Beaverton, Milwaukie, and Gresham to the west, southeast, and east of the City of Portland, however these are three of the lowest rent areas in the entire metropolitan area. Instead, there is likely to be a lull in construction after the pre-February permits have been utilized. Rents will then rise, followed by new construction in these close in suburbs once they reach the higher price points required for redevelopment and mid-rise construction. In that sense, Portland's inclusionary policy really takes on an exclusionary character.

Overview



Seen in that light, Portland's inclusionary zoning policy is really a development tax that is being used to create a stream of social benefits. And as a development tax, the benefits will be highly skewed to a few individuals (horizontal inequity) and harm the interests of many of the poor. That is, reduced apartment rents will be a benefit to the small number of residents that receive them. As rents rise in the neighborhood around them, they will likely become long-term tenants. But for the majority of low-income households in the city and the region, rents will continue to increase and they will suffer. There will be multiple sources of their suffering, but the connection between that suffering and inclusionary zoning will be indirect and not obvious.

Portland's affordable housing bond is a more appropriate source of revenue than a development tax given the problem being addressed. Low household incomes and high housing costs represent a social problem for the region, so using a development tax on the industry that provides housing doesn't make sense. Funding affordable housing with a tax increase on all property owners is a more appropriate response.

In fact, designing a demand-oriented program at a regional or state level would be even better. The natural geography for housing markets is regional, and the federal government encourages local public housing authorities to make their Section 8 vouchers portable across county lines. Unfortunately, housing policy at the local level is dominated more by housing providers than housing recipients, so city policy tends to be biased in favor of the less efficient strategy of providing units, not portable vouchers.

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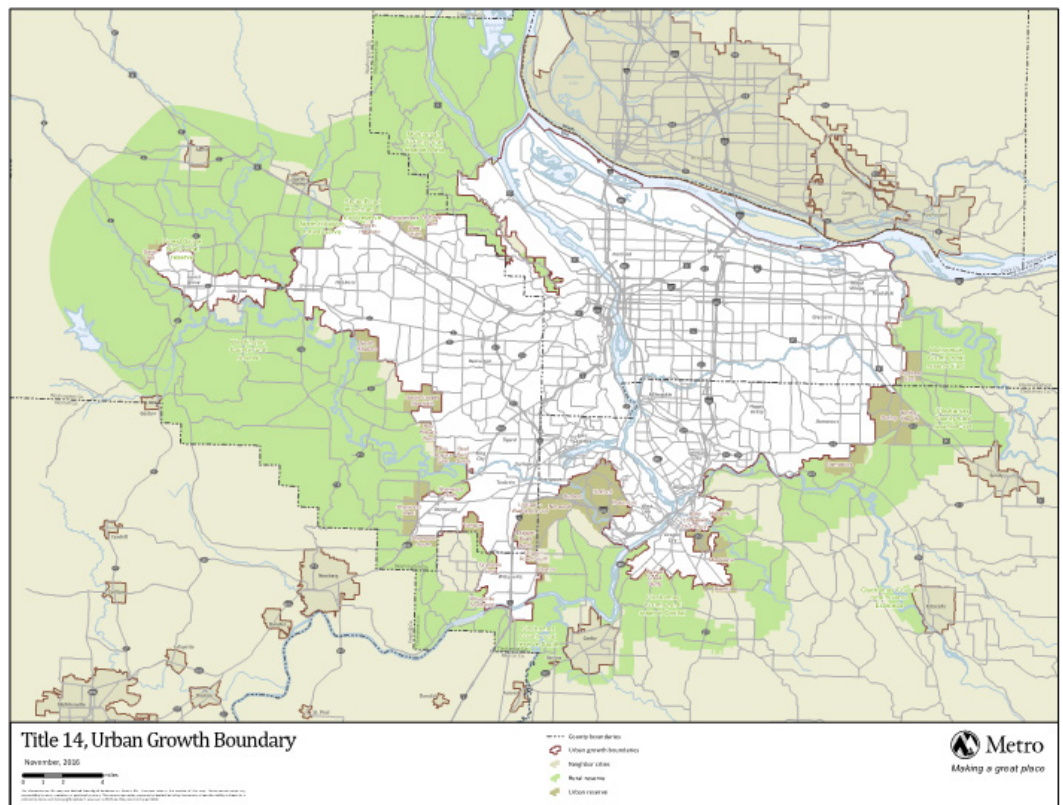
Due partly to the dissatisfaction with the 2015 Urban Growth Boundary decision, Metro Council has planned for an accelerated review of the urban growth boundary in 2015, three years ahead of the mandatory six-year schedule. Due to wariness resulting from the Damascus case, Metro is asking local jurisdictions to nominate UGB expansion sites by December 31, 2017, that they would be willing to concept plan. One interpretation is that Metro is ceding its growth management responsibilities to local government, but maybe a better interpretation is that Metro is giving preference for expansion with willing and motivated local partners. Finally, Metro staff have also modified its MetroScope model to better estimate the economic feasibility of higher density projects, rather than accepting zoning capacity as given. For parcels inside the UGB, MetroScope will simulate pro forma models of a variety of development types and select the type (and corresponding density) that delivers the highest return to landowners.

The last of these changes suggests that Metro may find a shortage of land for future development, since high density projects in low rent areas will be less likely to meet this test. However, it's unclear how much of a change in capacity will result from the modified MetroScope model. It's also unclear whether cities will do the concept planning for urban reserves (or announce the intent to do concept planning) prior to the December 31 deadline. The cities will be reluctant to spend money on concept planning when they don't know if their proposed expansion sites will be chosen. And frankly, the existing residents will have little incentive to annex new land to their jurisdiction unless they bring in more tax revenue than they cost in expenditures. And from a housing market point of view, no individual jurisdiction is an island. For example, if Wilsonville adds land to its city and housing is developed there, it won't be that Wilsonville housing prices are reduced or moderated, while prices in neighboring communities rise. In that sense, Wilsonville will be performing a public service for the region, without any specific benefit to existing residents. For communities with unhappiness about the existing level of public services, adding new land and residents will be a challenging ask by local officials.

However, given the need to analyze these Urban Reserves (which Metro has designated as the first places for the UGB to be expanded someday), I organized a class of Portland State students to evaluate their potential. In this effort, the various urban reserves were organized into seven groups, which I listed counter clockwise:

1. Gresham, Boring, and Damascus
2. Hillsboro, Forest Grove
3. Southwest (Beaverton, Tigard, King City_
4. Sherwood
5. Wilsonville
6. Stafford (Tualatin, Lake Oswego, West Linn)
7. Lake Oswego

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The two urban reserves bordering **Gresham** and in the direction of **Boring** have good potential for industrial development or housing development based upon their topography, but suffer from a lack of access to the existing highway network in the region. One could imagine highway spurs to the north or west to connect these locations to I-84 or I-205 respectively, but until they are built, these sites don't look ripe for development. The **Damascus** urban reserve remains very far from appropriate infrastructure or a willing jurisdiction for reasons described previously, and the class decided not analyze it in any detail.

The **Hillsboro** urban reserves have good development potential, especially given that the Sunset corridor already has more employment than housing units. Many workers at Intel, Nike, and other firms end up reverse commuting given the lack of housing opportunities on the west side. In particular, the South Hillsboro (or South Witch Hazel) urban reserve seems like a prime candidate for housing development, given the progress made in developing the other South Hillsboro UGB addition next door. The urban reserves north of US-26 seem promising for housing development, too, building off the development success of the Bethany neighborhood to the north. However, an outstanding challenge for these urban reserves are the lack of adjacent jurisdictions. For each area, Hillsboro and/or Beaverton would be the logical partner, but they would either need to annex other established neighborhoods or pursue a cherry-stem annexation. Finally, the Forest Grove urban reserve is located on a distant edge of the metropolitan area, and doesn't seem ripe for development.

The Southwest suburban cities of **Beaverton**, **Tigard**, and **King City** border three different urban reserves that all border or straddle the relatively new Roy Rogers Road in Washington County. Each of these reserves are close to Scholls Ferry Road, which is a high income corridor for Washington County, and near the Bull Mountain neighborhood and the River Terrace planned community. The significance is new homes in any of these

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expansion areas would likely command high prices and would develop more rapidly than other places. In addition, new subdivisions in these areas would create relatively good commutes for workers at Intel and other tech firms in Washington County. The challenge will be getting the jurisdictions that border these expansion areas to concept plan these areas.

The city of **Sherwood** has four urban reserves on their border with the most developable ones being Sherwood West and Tonquin Road. Sherwood West would end up as an extension of already developing residential areas. Tonquin Road would be ideal for light industrial. The reserve is distant from the highway network, but served by rail and close to existing industrial users.

There are six urban reserves that border the city of **Wilsonville**. The Southwest Wilsonville urban reserve is nestled between an existing neighborhood, the Willamette River, and rural reserves, and would likely develop as a high income residential area. Grahams Ferry urban reserve is located north of the Villebois planned community and also has good potential for residential development. On the east side of Interstate 5, the Advance urban reserve would build upon the existing Frog Pond development. Finally, there are three urban reserves north of the Argyle Square shopping district that have great potential for either industrial or residential development (I-5 East, Elligsen Road North, and Elligsen Road South). The industrial market tends to be strongest on flat ground next to freeway interchanges, so for employment land, Metro may want to limit residential development there, to preserve opportunities for industrial and flex space development. Towards the north, these urban reserves won't have freeway access, so residential development becomes more likely.

The **Stafford** urban reserve is a large territory sandwiched between **Tualatin, Lake Oswego, and West Linn**. The leadership of those communities, particularly West Linn, were very reluctant to see this area be classified as an urban reserve, preferring to have a nearby open space amenity. Yet the area is serviced by a major interstate highway and is located next to the highest income communities in the state. As a result, there is existing infrastructure capacity and great development potential. The Stafford dispute has been reconciled and this area offers great development potential for high and low density residential, as well as some employment and retail potential. The Stafford area has a significant downhill slope from Lake Oswego south to the Tualatin River and therefore will need major infrastructure improvements to complement the interstate highway. As a result, the most likely short-term development could come from Tualatin extending its infrastructure east in the Borland area towards the Stafford Road intersection. If such an expansion is proposed, Lake Oswego and West Linn may become motivated to propose expansions of their own.

Finally, **Oregon City** has five small urban reserves on its southern and eastern borders, Beaver Creek Bluffs, Henrici Road, Maple Lane, Holly Lane/Newell Creek, and Holcomb. These expansion areas will be a challenge to develop for a variety of reasons, including low housing prices in the community and high infrastructure costs. In addition, the city is currently planning for the development of three existing neighborhoods, Park Place, Beaver Creek, and South End. Once those areas develop, expansion into the nearby urban reserves seem more likely.

CONCLUSION

Given this range of options and uncertainty, it's unclear how the urban growth boundary debate in 2018 will result. If a housing land shortage is recognized, there is a range of good options for expansion should local governments be willing (Hillsboro, Beaverton, Tigard, King City, Sherwood, Wilsonville, and Tualatin). Identifying which community is willing requires a political analysis beyond the scope of this paper. If a shortage of industrial land is identified, then the choices are more narrow. Sherwood has a good site for light industrial, but Wilsonville has the best sites for warehousing and distribution, which requires good highway access. In both the residential and employment case, Metro might find it necessary to recruit a jurisdiction rather than seek a volunteer.

Finally, Metro's Urban Growth Report may find the no need for expansion of the Urban Growth Boundary, which would seem like an odd result when the City of Portland has declared three years of housing emergency and rents and prices are appreciating rapidly. In that environment, land owners outside the UGB may need to approach the Oregon state legislature to expand the boundary on their own, much as they did in the 2013 "grand bargain." This outcome would distress local planners, who don't want to see the legislature act as a regional zoning body. On the other hand, if housing consumers cannot get a satisfactory response from the regional government, they may need to seek a more responsive forum.