



Questions and Answers about Oregon's Land Use Program:

UGBs and Housing Costs

Q: *Do Urban Growth Boundaries (UGBs) drive up the cost of housing?*

A: *Independent academic studies have concluded the impact of UGBs on housing prices, if any, is negligible.*

Two recent independent academic studies found UGBs are not to blame for recent housing price increases. A 1998 study conducted by Eban Goodstein, Economics Professor at Lewis and Clark College, concluded: "Is Portland's UGB responsible for an affordability crisis in that city? Our answer is probably not."¹ A recent study in the *Journal of the American Planning Association* found: "permit caps and growth boundaries, often modeled as supply constraints that will inexorably elevate housing prices, did not consistently reduce housing growth in the 1980s. Neither did they have any consistent average effect on housing unit types, tenure, or affordability..."²

Oregon Building Industry Association lobbyist Jon Chandler admits there is no good information linking UGBs and home prices.³

Q: *Do UGBs severely limit land supply, thereby increasing housing costs?*

A: *No. Cities are required to maintain a 20-year supply of land for residential development, and land costs are only a small portion of housing costs. Other factors are far more significant in determining the cost of housing.*

Oregon's Statewide Planning Goal 10, "Housing," requires every community to zone sufficient land for affordable types of housing. Oregon law requires fast-growing cities, cities with populations over 25,000, and metropolitan service districts to include within their urban growth boundaries enough buildable land for the next 20 years of residential growth.⁴ A perpetual 20-year supply of residential land clearly is not a severe limit.

A home price includes many factors: raw land, land improvements, home design, home construction, financing, and so forth. The 1999 Oregon Housing Cost Study (OHCS), sponsored by the Oregon Building Industry Association, the Marion-Polk Building Industry Association, the Oregon Association of Realtors, local governments, and others, examined the impact of these various factors on home prices. According to the OHCS, the price of raw land—the part of the home price supposedly affected by UGBs—is currently about one-seventh of the price of new homes in Portland, only 7% in Eugene-Springfield, and only 3% in Salem. That means home prices are being driven by factors other than land supply.

Q: *Is Portland one of the nation's least affordable places to live?*

A: *No. This "factoid" has been thoroughly discredited.⁵*

This fallacy is based on the affordability rankings put out by the National Association of Home Builders (NAHB), not a disinterested observer. These rankings have been thoroughly discredited.

For the fourth quarter of 2000, NAHB ranks Portland's home affordability as 165th out of 180 cities, and Eugene-Springfield as 170th. But at 155th place, i.e. ranked significantly more "affordable," is Santa Barbara, where average family income is slightly less than Portland's (\$53,500 vs. \$53,700), and median home sales price is \$40,000 (24%) higher! Also, NAHB's analysis says New York City (median home sales price \$250,000) is more affordable than Eugene (median \$137,000).⁶

Q: *Why have Portland's home prices recently skyrocketed?*

A: *Recent rapid home price increases are mainly caused by increased demand, a low starting price, and rising costs in a variety of items that affect the price of homes. Homebuilders have also chosen to build more expensive homes.*

The increase in housing prices in the Portland metropolitan area precisely tracks the region's growth in employment and population. "[M]ore conventional demand side housing market dynamics explain housing price increase in Portland. Since the early 1990s, the region has enjoyed above average employment growth . . ."⁷ At any rate, the increase in Portland's housing prices has slowed recently relative to other Western states, as those states' economies are improving.

According to the OHCS, the median home price in the Portland area rapidly increased from 1991 to 1998. Yet in looking at specific developments, the increase in raw land costs was only \$15,704 of the total increase, less than the \$25,317 increase in hard and soft land costs (e.g. installing water and sewer lines, utilities, system development charges, architecture fees.) In Eugene-Springfield, the modest increase in land costs, \$1,778, was dwarfed by the increase in the cost of building the house itself, \$18,772. In Salem, land costs rose by only \$1,542 while hard and soft land costs rose by \$21,670 and the cost of building the house rose by \$12,791.

Finally, the OHCS found home builders are choosing to build more expensive units instead of lower cost houses to reduce their risk.

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Q: *Doesn't low-density sprawling development lead to cheaper housing options?*

A: *No. Home prices are skyrocketing in cities with and without growth boundaries. Portland's median home prices are similar to, or lower than, comparable cities.*

Average homes prices in Los Angeles are \$40,000 more than in the Portland region, and Orange County homes cost an average of \$112,000 more than in the Portland metro region. Sprawling Denver and Salt Lake City have also seen their home prices increase greatly.

The statistics from NAHB's own website show the median price for a Portland home in the fourth quarter of 2000 was \$168,000, compared to \$188,000 in Denver, \$216,000 in Seattle, \$250,000 in San Diego, \$469,000 in San Jose, and \$530,000 in San Francisco. The Western U.S. tends to be the most expensive area in the country for housing.

Q: *Is Oregon's housing comparatively expensive?*

A: *No. Oregon's housing is relatively affordable for renters and buyers alike.*

A 1999 Harvard study found Oregon's housing to be relatively affordable. Oregon was in the middle of the pack nationwide in the number of full-time job incomes needed to rent a typical two-bedroom apartment, and the cheapest among West Coast states (Washington, California, Oregon, and Alaska).⁸

Home prices in the Portland area are still below the average sale price in the Western region and home prices in Eugene, Salem and Medford were below the average price for the nation as a whole.

According to the National Association of Home Builders, only 28% of the houses for sale were affordable by the median household income in the Portland area. But according to the Oregon Housing Cost Study, "in 1998, households classified as having median incomes (as defined by HUD) could still afford the median house price in Portland..."

Q: *Wouldn't a free market be better for real estate?*

A: *Independent real estate market analysts find growth controls provide stability in the housing market.*

The Real Estate Research Corporation, an independent real estate investment consulting firm, has found: "In reality, the most stable investment markets – the ones that have staying power and hold value – also have growth controls, either government-enacted or enforced by natural geographic boundaries. It's no coincidence that San Francisco, Seattle, and Boston are hemmed in by water, Chicago borders a huge lake, and Manhattan is an island. Developers reflexively loathe the regional growth boundaries set by Portland, Oregon, but admit the laws have led to a thriving downtown center as well as a healthy metropolitan area."⁹

Q: *How does Oregon's planning program lower housing costs?*

A: *Communities are required to provide for all types of housing and permit reviews are faster than most states. Statewide planning also saves homebuyers money through reducing the amount of property taxes required to pay for infrastructure.*

Maintaining the affordability of housing is an important part of Oregon's statewide planning program. Goal 10, "Housing," requires every community to ensure sufficient land is provided for affordable types of housing. As far as we know, only Wisconsin has a similar requirement.

A joint study by the Home Builders and 1000 Friends concluded Oregon's program of UGBs, in combination with other tools from the land use program, kept housing prices in the Portland metropolitan area two to three times more affordable than other West Coast cities.¹⁰ This is because the program requires cities to designate land for all types of housing, and because developers wishing to build on that land get one of the fastest permitting processes in the nation.

The Home Builders of Metropolitan Portland, in a letter to then-HUD Secretary Jack Kemp, wrote: "Oregon's growth-guiding legislation has successfully fostered affordable housing . . . UGBs are an effective tool. UGBs create a decision system, making it clear to government officials, real estate developers, financial institutions, property owners, and residents where development may occur. The concept has enabled communities to realistically plan expansion in services and infrastructure to support future housing needs while limiting urban sprawl and keeping housing costs down. . . Land use regulation can in fact be a powerful force to reduce housing costs and red tape. In Oregon, it has done just that."¹¹

Finally, planning reduces infrastructure costs. A Rutgers University study concluded that without a statewide planning act in New Jersey, each new home would cost \$12,000 - \$15,000 more. Oregon's planning program also provides for efficient, planned infrastructure investments.¹²

Sources:

¹ Eban Goodstein, "Growth Management and Housing Prices: The Case of Portland, OR," December 1998.

² Rolf Pendall, "Local Land Use Regulation and the Chain of Exclusion", Spring 2000 Journal of the American Planning Association.

³ *Willamette Week*, Jan 13, 1999. www.wweek.com/html/politics011399.html

⁴ Codified at ORS 197.296.

⁵ See www.friends.org/nahb.html

⁶ Figures from National Association of Home Builders' website, www.nahb.com

⁷ Goodstein, *ibid*.

⁸ State of the Nation's Housing: 1999, Harvard Joint Center for Housing Studies.

⁹ *Emerging Trends in Real Estate*, 1998

¹⁰ 1000 Friends of Oregon and The Home Builders Association of Metropolitan Portland, "Managing Growth to Promote Affordable Housing: Revisiting Oregon's Goal 10," 1991.

¹¹ As cited in Action, Regulatory Reform for Affordable Housing Information Center, Summer 1992.

¹² Rutgers University, Impact Assessment of the New Jersey Interim State Development and Redevelopment Plan, 1992.

Fact sheets on other urban planning issues are also available from 1000 Friends. For more information, visit www.friends.org.