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

William A. Fischel
Dartmouth College

Abstract

Portland's moderately high housing price inflation between 1975 and 2000 is moderate only when compared with other metropolitan areas in the western United States. The West, led by California, pioneered the growth control movement, which raised housing prices in the late 1970s to a permanent differential. Portland's policy of promoting infill development does not seem to have offset the containment effects of its urban growth boundary.

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Does infill policy offset the growth boundary?

Here's a multiple-choice question, like the kind they give on the Scholastic Aptitude Test (SAT):

Which of the following best characterizes the effects of Portland's urban growth boundaries (UGBs):

(a) They inevitably cause higher housing prices.
(b) They never accelerate rates of housing price increase.
(c) The truth lies somewhere between these extremes.

If you have ever taken an SAT preparation course, one of the clues the instructors offer to identify answers that are probably wrong is categorical statements such as (a) and (b). Words like "never" and "inevitably" are always suspect, if not always wrong. So your high school senior could have come up with the same conclusion as Anthony Downs has in this study, even if he or she had no clue what a UGB is and could not locate Portland on a map. (Here in New England, we'd put it in Maine, so let me be clear that I mean Portland, OR, and that when I speak of Portland's land use policies, I know that they are the product of Oregon's pioneering statewide plan to manage urban growth in all of its cities [Knaap and Nelson 1992].)

I want to argue that Downs has actually provided us with something stronger than he says he has. Portland's urban growth containment policy, of which the UGB is an important feature, most probably does cause higher housing prices. The truth *does* lie somewhere in between, but it's closer to (a) than to (b).

It is useful to place Portland's plan in a historical context. It was part of the growth control movement, which was, as Norman Williams (1982) put it, "a major movement in the 1970s—apparently springing up spontaneously in local areas all over the country" (235). I have argued (Fischel 1990) and others have continued to confirm (e.g., Levine 1999; Mayer and Somerville 2000; Pendall 1999) that growth controls both raise housing prices and tend to displace housing to more remote, lower-density suburbs.

The charge that growth controls cause housing prices to rise seems to embarrass people who advocate them. The oddity is that economists do not regard higher prices as necessarily a bad thing. On the one hand, if a community becomes more attractive because it is well planned, has good transportation, and preserves desirable open space, more people will want to buy homes there, and that should raise their price (Fischel 2001). On the other hand—and any economist worth the name has two hands—higher prices could be the result of monopolistic effects. A less benign view of Portland's metropolitan growth management plan is that it acts as a cartel for the benefit of existing homeowners by reducing the supply of new homes that might compete with those for sale from the existing market. This would give resident homeowners a nice capital gain to reap when they retire or move away for other reasons.

I have elsewhere given qualified praise to Portland's growth management plan for at least thinking about the monopoly-supply effect (Fischel 1997). Portland's plan is not a stop-growth policy. Its intent is to retard greenfield development beyond the urban fringe and at the same time channel growth into infill development within existing communities. And Portland does not just talk about infill as a vague aspiration. Its regional land use board, "Metro," is elected by regional districts that do not correspond to local government boundaries (this is done to reduce parochial interests). Metro can and often does require local governments within the region to rezone to accept higher densities than they would have on their own (Abbott 1997).

Thus, whether Portland's plan keeps regional housing prices in line is an important test of the efficacy of its infill policy. Economists know that if you declare large fractions of desirable, developable land off limits to developers, housing prices will rise. What we do not know for

sure is whether the effects of greenfield preservation can be offset by infill policies. That is what is at stake here.

Housing price inflation is a western metropolitan phenomenon

Downs's approach is to compare the rise in Portland's prices over various periods of time with what has occurred elsewhere. The places he chooses are other large metropolitan areas around the country, especially those in the West. His strongest evidence that Portland's prices were rising especially rapidly is found during the 1990–95 period. Even after accounting for just about anything else that might have caused housing prices in a metropolitan area to rise, Portland clearly led the country during that period.

The 1990–95 period is especially interesting because it brackets the 1992 decision by Metro to expand the UGB by less than had been expected. UGBs would be toothless and would have no effect on housing prices if they included vast amounts of developable land or if they were expanded every time developers clamored for more land. It was pretty clear that before 1990, Portland's boundary was small enough that it affected housing prices. Studies in the 1980s by Arthur Nelson (1988) and Gerrit Knaap (1985) established that developable land outside the boundary was lower in price, other things being equal, than land inside. This could not have been true had the boundary not been seen as a binding constraint.

Nonetheless, Portland's boundary was intended from the beginning to be expanded outward over time, and owners of developable land and home builders surely anticipated this. In 1992, though, Metro announced a much-less-than-anticipated expansion of the boundary and planned to accommodate growth with what still seem to be unrealistically high densities (Fischel 1997). Developers of the single-family homes that most people want thus had to scramble for land within the existing boundary. The scramble bid up land prices and hence the price of housing. Downs's regression seems to capture that effect rather clearly, thus confirming the findings of Mildner, Dueker, and Rufolo (1996) as well as those of Phillips and Goodstein (2000). (Downs notes that the latter study concluded that it was land speculation that caused the price increase, but this seems to overlook the fact that speculation would be engendered by the new information that future land supplies would be smaller than expected.)

So why does Downs find room to exculpate Portland's growth boundaries? The reason is that in other periods, Portland's housing prices did not grow much more than those of comparable metropolitan areas in the West. In Downs's table 3, whose metropolitan housing price index is among the most accurate, Portland ranked only number 30 (of 36 areas compared) in housing price inflation between 1980 and 1990. And after its number-one ranking in the 1990–95 period, it fell to number 16, the middle of the pack, in the 1995–2000 period. From 1975, before the UGB was established, to 2000, Portland ranked only eighth in the nation in housing price inflation. Seven other metropolitan areas had higher rates of inflation over that period, and none of them had a similar growth boundaries program. It is this evidence, which seems to hold up after the data are tortured econometrically, that causes Downs to give Portland the Scot's verdict: Not proved.

California growth controls spilled over into Oregon

Another story, though, is suggested by an examination of the data in table 3. Between 1975 and 2000, the longest period for which the annual housing price inflation rates are calculated, 9 of the top 10 are in the West. Only Boston (number 5) breaks the pattern. Every California metropolitan area except Riverside (number 11) is in the top 10: San Jose (1), San Francisco (2), Oakland (4), Los Angeles (6), San Diego (7), Sacramento (9). Thus the three non-California metropolitan areas, Portland (8), Seattle (3), and Denver (10), are in pretty select company.

Another interesting fact evident from table 3 is that the West's lead in housing price inflation was established in the 1970s. The 1975–80 data indicate that *all* of the top 10 are in the West, with Riverside displacing Boston. In fact, every metropolitan area that was in the top 11 in the 1975–2000 period except Boston was also in the top 10 in the 1975–80 period. The West (California plus Portland, Seattle, and Denver) won the housing price inflation race by getting out in front fast and staying there over the long haul.

Why is this important? It is not widely appreciated that single-family homes in the West used to be cheaper than in the rest of the country. As of 1967, regional differences in prices of new single-family homes were small, and the West (dominated by California) then had *lower* prices than either the North-Central and Northeast regions (U.S. Bureau of the Census 1969). Nor does differential growth seem to cause the differences in inflation. The population of California, the 1970s leader in the growth control movement, grew more rapidly in the 1950s

and 1960s, but its persistently higher prices did not develop until about the 1970s (Fischel 1995; Gyourko and Voith 1992). Southern states that grew rapidly as jobs and population shifted to the Sun Belt in the 1970s did not experience similar housing price inflation.

Seen in this light, Portland's housing price inflation is part of a larger regional trend that started sometime during the 1970s. Why did the West become so expensive, and why has its resulting high level of housing prices persisted into the present?

The answer, I think, is that the West led the nation in growth controls. California had the largest population and the greatest number of immigrants (both from abroad and from the rest of the United States). Its adoption of these controls has dominated the discussion. Much of the responsibility for California's lead, for good or ill, has to be put on the California Supreme Court. Until the late 1960s, that court had always (during the 20th century) been deferential to local regulation (Williams 1982). After that time, the court changed its policy. The old rule had deferred to localities that wanted to promote development as well as those that wanted to stop it. While there were plenty of cities that gave developers a hard time, developers had a safety valve: They could roll up their plans and go to the next jurisdiction. This meant that if housing prices began to rise, the supply would respond—maybe not in exactly the places that developers wanted to build, but in communities close enough that metropolitan housing prices did not increase.

After 1967, the California court adopted a new rule. Instead of "the community always wins" (whether pro- or antidevelopment), the rule was "the developer always loses." This conclusion is not just sour grapes from California developers. It is the product of an elaborate study of judicial decisions by independent legal scholars (DiMento et al. 1980). Led by Donald Hagman, this team of eight professors and students examined the qualitative determinants of every land use decision by the California Court of Appeals and the Supreme Court until the late 1970s. They found that after 1967, virtually the only predictor of who would prevail in court was whichever side the antidevelopment interests were on. The new rule continued to defer to communities that gave developers a rough time. Communities that rolled out the red carpet, however, now found themselves on the losing side. Every major doctrinal change in land use law by the California Supreme Court favored the antidevelopment side. By the time this pattern began to have bite in the 1970s, housing prices in California started going through the roof, never to return to normal levels.

The actions in California very likely affected other places in the West as well. There were two avenues by which its antidevelopment influence

would be felt elsewhere. One was that employers found it difficult to relocate employees to California—employers do think about housing costs for that reason (Johnes and Hyclak 1999)—and started to look to other areas in the West. Thus, Portland, Seattle, Denver, Las Vegas, and Salt Lake City began to absorb some of California's job spillover. Another export was California land-planning law. The innovations of both planners and judges began to seep into neighboring jurisdictions and made it more difficult for developers to respond to the new migrants' demand for housing. The price of the existing stock got bid up instead. Indeed, in many ways, the regulatory response in Portland and Seattle was a response to immigration pressure from jobs and households repelled by the higher prices to the south.

It's easier to exclude than to include

The upshot is that Downs's finding of a seemingly modest increase in housing prices between 1975 and 2000 needs to be reconsidered. Portland's housing price inflation looks modest only in relation to the rest of the West. Compared with the rest of the country outside of the West (including the rapidly growing South), Portland's housing prices, like those of other Far West metropolitan areas, look quite a bit out of line.

It is important to note that Portland's growth boundary is intended to be different from the growth controls of California. (I would add that so are Seattle's, although there I have evidence that the regional infill goal is being undermined by newly incorporated cities whose primary reason for existence is to retard growth [Fischel 2001].) Portland's plan attempts to promote infill housing as well as prevent greenfield development. What the 1975–2000 inflation figures show, then, is that Portland has not been very successful in promoting infill housing. A successful infill program should have retarded housing price inflation. Unless Portland has become a much nicer place to live than it was before 1975, in which case demand shifts would explain the inflation, it seems most probable that Oregon's growth-boundaries plan does cause high housing prices as a result of its restraints on supply.

Author

William A. Fischel is Professor of Economics at Dartmouth College.

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