

City Observatory

Bursting Portland's urban growth boundary won't make housing more affordable

By Joe Cortright

Like many cities in the US, Portland is experiencing an affordable housing crisis. In the coming month or so, the Oregon Legislature will consider a package of bills to address it. One proposed solution: inclusionary zoning, requiring people who build new apartments to hold some units' rent at below-market rates.

Unlike most states, Oregon law prohibits local governments from enacting inclusionary zoning laws. As a *quid pro quo* for agreeing to drop the ban, the development industry is suggesting a weakening of the state's land use laws, including our urban growth boundary.

This is a losing proposition on both ends. Busting the urban growth boundary will do nothing to address housing affordability, and inclusionary zoning would likely make the city's affordability problems worse. Here's why:

1. **Affordability is about growing up, not out.** The economic literature is very clear that the affordability problem is caused primarily by the constraining of higher levels of density within existing urban areas. Rents are rising in Portland (and Seattle and San Francisco) because of the difficulty/constraint on building in the center. Adding land at the urban edge does little to expand either the supply of housing overall or the supply of affordable housing. In the last 15 years, the urban growth boundary (UGB) has been expanded to add more than 32,000 acres of land, but since 2000, these UGB expansion areas have added only 8,500 new housing units—about 7% of new dwellings.
2. **The market demand/affordability problem is in the urban core.** In 2005, homes in Portland sold for a \$20,000 discount compared to homes in suburban counties. Today, Portland homes sell for a \$27,000 premium to homes in the suburbs. Adding more land on the periphery does very little to influence supply in the center, where the demand is.

3. **Adding more supply in the core is the key to addressing affordability.** The solution to rising rents is to aggressively create more housing, especially multifamily apartments in the urban core. Yes, demand has grown more quickly than supply, and the development pipeline is long and slow, but as new units come online, they help absorb the demand that is pushing up prices. Case in point: Seattle—roughly a year ahead of us in the housing construction up-cycle—has seen rents soften in recent weeks.
4. **Inclusionary zoning increases market prices.** Inclusionary zoning tends to drive up the cost of market-rate units, since developers recoup the cost of subsidized units by increasing prices elsewhere. On top of that, the negotiated nature of inclusionary zoning approvals adds uncertainty and delay to the development approval process—which also drives up costs. While there’s only limited experience with inclusionary zoning, evidence from Boston suggests that inclusionary zoning will cause fewer new units to get built, and that constriction in supply will tend to drive up prices in the entire market.
5. **Inclusionary zoning creates only token numbers of affordable units.** In New York, one of the hottest real estate markets in the world, inclusionary zoning has produced fewer than 3,000 units in a decade, while Portland created about 2,300 affordable units just in the Pearl District with Tax Increment Financing. Inclusionary zoning creates so few units that it’s like a lottery: if you’re lucky enough to get a subsidized unit, bully for you. But everyone else probably ends up paying more for housing as a result.
6. **Inclusionary zoning requirements would encourage further sprawl.** Because inclusionary zoning is likely to apply only to housing built in Portland, not in the suburbs, it will penalize dense development in the city relative to housing on the periphery. It would effectively be a tax on urban development, but not suburban development—unless the inclusionary zoning requirement applies regionally.
7. **If we want to make housing more affordable, let’s get rid of parking requirements.** Oregon actually does allow inclusionary zoning—for cars, in the form of parking requirements. Requiring parking reduces the amount of land that can be used to house people, and directly drives up the price of new homes and apartments, costs passed on to homebuyers and renters. Studies show that in urban centers, parking requirements drive up rents by about \$200 a month.

Housing affordability is a real problem, and demands solutions that address the reality of today’s market. Sacrificing the state’s prudent system of planning for growth is not a remedy.

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