



JOHNSON REID
LAND USE ECONOMICS

MEMORANDUM

DATE: JUNE 15, 2009

TO: John Williams and Malu Wilkinson
METRO

FROM: Jerry Johnson
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SUBJECT: 2009-2030 URBAN GROWTH REPORT

Johnson Reid was asked to review the Urban Growth report for a coalition of business groups.¹ The primary purpose of our review was to clarify and evaluate the methodologies used in deriving the report. As our analysis progressed, it was our opinion that the policy implications of the alternative scenarios evaluated were significant. As a result, we felt that the ongoing dialog with respect to the housing UGR should include a more complete discussion of implications associated with the alternatives presented. This memorandum summarizes our reading of some of the policy issues we feel should be discussed. The bulk of information utilized in our review is contained in public documents published or commissioned by Metro.

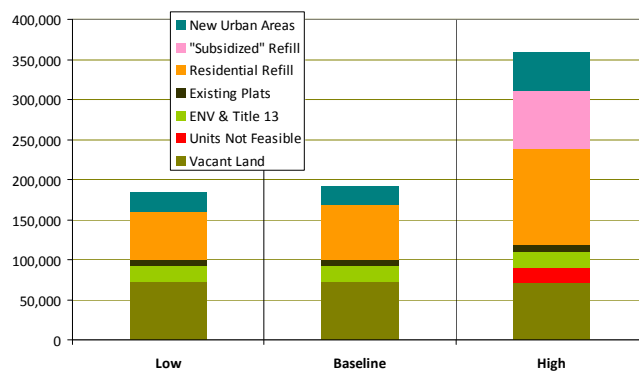
SUMMARY URBAN GROWTH REPORT

The Preliminary Urban Growth report addresses the demand for residential units, as well as the capacity within the current UGB to accommodate new units. On the demand side, the projected new dwelling unit range is between 224,000 and 301,500 new units over the planning horizon. While it must be recognized that there is a significant differential between these two numbers, we believe the methodology used to derive this aggregate number is relatively clear.

The capacity range outlined in the report is what we are primarily concerned with clarifying. The range between alternative scenarios in this case is almost 2:1, with the high capacity scenario reflecting a number of aggressive assumptions that are either highly questionable or entail significant policy trade offs that should be addressed.

It is our opinion that areas of policy significance are anticipated impacts on housing affordability, infrastructure, livability and economic development.

PRELIMINARY UGR RESIDENTIAL CAPACITY



¹ Home Builders Association of Metropolitan Portland, Commercial Real Estate Economic Coalition, NAIOP, Associated General Contractors, Portland Business Alliance, Westside Economic Alliance, Portland Metropolitan Association of Realtors, Clackamas County Business Alliance and the East Metro Economic Alliance.

AFFORDABILITY

A key component of the capacity calculations in the UGR is an expectation of future policy choices that will increase refill rates as well as the market feasibility of vacant lands. Higher density residential developments are seen under this assumption to provide for a greater share of marginal housing production. To the extent that future housing capacity is in higher density developments, the economics of this type of housing should be understood.

As noted in previous studies, the per square foot cost of building higher density development forms rises significantly once densities exceed 25 units per acre. Cost increases are a result of quantifiable factors above and beyond underlying land values. This additional cost must be passed on to consumers in the form of higher rents or sales prices, or offset by direct subsidies to developers to reduce the cost of construction. An example of this would be a typical Pearl District condominium, which sells for close to \$500 per square foot with homeowners association dues of almost \$500 per month. Wood frame homes in suburban communities are typically priced well below \$200 per square foot, allowing for lower prices and/or a greater range of amenities such as usable square footage.

It is our understanding that the price inflation associated with a marginal shift to higher densities is reflected in MetroScope output, which is alluded to in other studies but not clearly outlined. We would be very interested in the implied housing price and characteristic assumptions in the MetroScope output, but were unable to find them. As noted in 2008 PSU Institute of Portland Metropolitan Studies report, significant impacts on affordability are anticipated, but this is largely not discussed in the UGR. This would seem like an area of obvious policy interest.

While increasing the marginal density of new development will likely have an inflationary impact on housing prices, it also affects the range of choices available to the market. Urban condominium living is highly desirable to a subset of households, but not appropriate for the full spectrum of the market. The ability of this type of housing to serve market demand is more limited when financial ability is considered, as these units tend to be unaffordable for a wide swath of the market.

A policy facilitating a significant escalation in housing values will also have a largely regressive impact, as the outcome will inflate real property assets, which are disproportionately held by more affluent households. The markets most likely to be negatively impacted are market-rate renter households, who represent a large portion of workforce housing.

INFRASTRUCTURE COSTS

A primary objective that higher density assumptions appear intended to address is infrastructure costs, which are purported to be lower in Centers than on more peripheral development areas. The benefits cited are cheaper infrastructure, reduced automobile commutes and more complete walkable communities. While the objectives are good, it appears unclear based on existing research that this relationship is necessarily the case.

It would appear that the underlying assumption is consistent with a hub and spoke model of urban form, in which employment is concentrated in a central area and then transportation costs increase as distance from the core increases. As noted in the E.D. Hovee study, the Central and inner ring areas in the metropolitan area have been losing jobs over the last decade, while outer ring areas have added jobs at an average annual rate of over 3.0%. The study's associated focus groups, organized and funded in part by Metro, included industrial and institutional employers. These groups indicated a continuing preference for the outer rings, where land is cheaper and sites are larger. With employment increasingly concentrated in suburban areas, housing in those same areas will tend to offer shorter commutes and decrease the pressure on infrastructure.

In general, available information does not indicate that infill development is inherently less costly to serve than development on the periphery. Metro commissioned a study in 2008 entitled “Comparative Infrastructure Costs: Local Case Studies”, which evaluated the cost of providing infrastructure to a range of sites in the metropolitan area. The study found significant variety in estimated costs across urban and suburban locations, with costs for refill projects ranging from both the least and most expensive. The results of this analysis were inconclusive regarding the marginal costs of refill versus greenfield development, but did highlight the significant differential in costs on a site by site basis. In Metro’s “Regional Choices” discussion guides published in 2008, the differential in infrastructure costs under alternative assumptions with respect to density and development form were also not significant.

The rationale that increased densities yield clear savings in infrastructure investment is not well supported at this time. Our review of secondary literature is more supportive of a view that infrastructure investment generally drops as density increases to a certain point, and then increases again. In infill locations, infrastructure investments can be extremely high, particularly when the existing infrastructure was not designed to handle the new densities. Infrastructure costs can also be very high in peripheral locations, but that can be mitigated by considering the ability to serve an area with infrastructure when evaluating new development areas.

LIVABILITY

We see two areas in which the issue of livability needs to be discussed in terms of the alternative scenarios outlined in the UGR, outside of affordability. The first of these is the assumed rate of “refill”, which is assumed at the historic rate of 27% in the Low and Baseline scenarios, and increased to 40% in the High scenario. Additionally, the high scenario assumes an additional 71,000 “subsidized refill” units. Under each scenario, the recent rate of refill is assumed to continue over the next 20 years. We find this assumption somewhat questionable, as it would appear reasonable to assume that the most viable redevelopment sites would be developed first, and that there would be a general loss of appropriate sites over time. This may be offset by a price affect, in which rising home prices encourage a greater degree of redevelopment.

Our primary problem with the assumption is under the high growth scenario, under which 53.5% of net new housing capacity is accounted for by “refill” and “subsidized refill”. We feel that this level of development pressure in existing neighborhoods will be viewed as reducing livability, and highly contested by the targeted neighborhoods. In addition, increasing residential densities in existing neighborhoods provides challenges to providing new parks, schools and public facilities, as sites will be both scarce and expensive. The extensive assumption of urban renewal investment necessary to realize the “subsidized refill” will also limit funding of other city services, schools, county and other taxing jurisdictions.

The preference for higher density development forms has not been established, particularly at the level of production assumed.

ECONOMIC DEVELOPMENT

Metro has defined a successful region as “Current and future residents benefit from the region’s sustained economic competitiveness and prosperity”. Housing choice and its impact on the area’s economic competitiveness is substantial. To the extent that regional land use planning efforts for housing and jobs do not reflect employer location preferences, our competitiveness and subsequent prosperity are compromised. Metro’s current models assume economic growth levels as a given, and don’t acknowledge that employers have the choice to locate elsewhere if they can’t find the sites they need or want in the Portland metro area.

A loss of economic vitality in the area affects affordability by reducing wage levels and household incomes. The future success of centers and corridors will be highly dependent upon a vital local economy.

SUMMARY

While this memo primarily addresses more general policy issues, we feel that a number of the assumptions underlying the capacity calculations are unsupported, particularly in the high capacity scenario. These include the following:

- The increase in “refill” capacity to 40% appears to be baseless
- The “subsidized refill” assumption reflects an extension of a large number of urban renewal districts as well as a change in policy with respect to what they will subsidize
- The assumption that units assumed to be not feasible will become feasible under the high capacity scenario does not appear to be supported, unless an undisclosed change in assumed housing prices is also assumed. As noted in the 2002 ECONorthwest review of the previous UGR, the real cost of housing under the “tight UGB” scenario was predicted to rise 47% to 72% by 2025. I am assuming a similar assumption is made under the current scenarios, but was unable to find it.
- The availability of all new “urban areas” under the high growth scenario is also dubious without more advanced planning and funding mechanisms for infrastructure financing. (e.g. Damascus)