

February 12, 2026

Senator Khanh Pham
Senate Committee on Housing and Development
Oregon State Legislature
Salem, Oregon

Dear Senator Pham:

My name is Gerard Mildner. I'm a retired professor at Portland State University, where I headed up the real estate program and taught in both the planning school and the business school. My background is economics and real estate markets. I volunteer with the Revitalized Portland Coalition and Multi-Family Northwest, however these remarks are my own.

I will offer a few **comments on SB 1522** and try to place the bill in the larger context of housing markets and housing policy.

The Portland Metro region has years of experience with urban reserves and no longer prioritizes farm value when deciding where to expand the boundary. Those changes made a lot of sense. In the Portland market, land values on the UGB fringe are roughly 20:1 in favor of urban land values over agricultural land values (with lots of variability). However, if you consider those numbers, there is more economic activity per acre for urban land than rural land.

The critical factor for **where to expand the UGB** should be where housing costs and development potential are highest, not where farming value is low. Farms require good climatic conditions, level ground and good road access. Master-planned communities and warehouse industrial development needs the same kind of land.

In 2002 (ie prior to the policy change), Metro expanded its UGB in the Damascus area, which due to topography, lack of roads, and lack of housing demand remained largely undeveloped and had low soil quality and low agricultural potential. The Damascus expansion added acreage to Metro UGB, but it was ineffective in meeting Metro's housing needs. The 13,000 acres of Damascus expansion is slowly being developed by Happy Valley and Gresham, but will require a lot of public infrastructure investment due to road and drainage issues.

The greater problem for our urban reserves policy is the difficulty of expanding the urban growth boundary. In its 45 years of operation, **the Portland Metro UGB has expanded by only 15% in acreage, while our population has grown by 80%**. Under those conditions, land costs have risen enormously, as have housing prices. I'm not sure this is well understood, which is why I'm testifying today. Unfortunately, Metro and the other jurisdictions are locked into a policy of no expansion. Public officials can burnish their career on an environmental vote, with no development a positive achievement. And local residents discourage talk of their city expanding.

There's also a lack of understanding of the economics of construction among local public officials. **Economics of scale has only limited importance in real estate and higher density costs more in terms of rent.**

Higher density housing development requires higher rents on a per square foot basis. In research we did at Portland State, we found the mid-rise development (ie, 4 stories of wood construction over a concrete podium) required **50% higher rents on a square foot basis** as compared to two-story garden apartments. And we found that true high rent development above 5 stories (using concrete construction and elevators) required an additional 50% rent premium. That only happens where land costs are highest, such as the Pearl District and South Waterfront.

These differences in rent premiums for each development type are influenced by land prices, which vary enormously across the Metro area. Those differences explain why **high density construction** only exists in central core, and **mid-rise construction** only happens in an inner ring, where rents are high enough to potentially support that development type. Beyond that inner core, apartment development is dominated by **two-story construction**.

Of course, we should welcome all types of housing development, so I'm not arguing against mid-rise and high-rise construction. Rather, we need to provide for the development of two-story apartments, which is the dominant form of new housing in the suburbs. **When we make mid-rise and high-rise construction the dominant form of development, we should expect rents and housing costs to rise.** Other prices will rise to compete with that supply.

To boost the amount of new housing construction, these are my recommendations to the Committee:

First, **open the Portland Metro urban reserves for development.** This will reduce the power of landowners on the urban fringe, letting markets determine whether the landowners sell for urban development and how that property will develop. Given the 20:1

difference land values inside and outside the UGB, there will be plenty of incentive for landowners to develop their property (or an opportunity cost for not developing that land).

On the residential side, we have run out of room for new master-planned communities that would build upon the success of River Terrace, Bethany, Villebois, and Forest Heights. Due to rising land costs in the region, newer developments like River Terrace offer a mix of single-family homes, townhomes, and apartments. We should let developers determine that mix. From an economic point of view, the most valuable reserves will be on west and south side of the Metro region due to higher housing prices in adjacent areas and the proximity of the sites to employment centers.

On the commercial side, increasing the land supply inside the UGB will make economic development much easier. Metro and the Port of Portland have produced several reports documenting the lack of large industrial development sites, yet Metro decision-makers are conditioned to oppose industrial UGB expansions.

This lack of supply is pushing industrial warehouse development south and north of the Metro area (ie, Woodburn and Ridgefield, Washington). The shortage of land is making industrial development problematic. Investors are told that a site might be ready in 5-6 years, provided several reluctant bodies approve. Several of the existing urban reserves have good industrial development potential (eg, Hillsboro, Sherwood, Tualatin, Wilsonville, Gresham), mostly related to their topography and access to the highway network.

To make these UGB expansions effective, the legislature should determine which Portland-area jurisdiction should manage each reserve and require them to start planning their development. Most of those designations are obvious and non-controversial – Hillsboro has three adjacent urban reserves; Sherwood, three; Wilsonville, three, Oregon City, three, etc. These cities have looked at these sites for years and need to plan these new areas.

More contentious will be the Stafford Triangle, which is contested between Lake Oswego, West Linn, and Tualatin. Some legislative decision-making and guidance would be helpful in producing housing on all of these sites, including investment in infrastructure costs. However, we should let a few hundred in-holders dominate the needs of wider community.

Second, we need to **remove additional financial burdens on new development**, including requirements that cities and developments must construct below-market housing, known as “inclusionary zoning”. There are other regulatory barriers to development, but Inclusionary Zoning, or the Inclusionary Zoning Tax, is a power that the legislature gave to the City of Portland in 2016. The legislature should repeal that power in 2026 given the failed experiment that the program represents.

Inclusionary Zoning is an expensive way to develop housing. The difference in market and regulated rent is a cost of development. Developers can reduce the size of their project to avoid the IZ tax burden, or it can suffer the consequent and increase its trigger price for development.

Either way, **Inclusionary Zoning reduces new housing supply** – and less supply means higher rents and prices in the larger region, across multiple housing types

Inclusionary Zoning is inequitable. The benefit of the IZ unit goes to a few dozen low-income households. However, the cost in terms of market rents imposed on thousands of households. Low-income households spend the greatest fraction of income on housing, so the burden of higher housing costs is disproportional.

Therefore, while the initial benefit per recipient is large, that benefit sticks with a particular housing unit, not the initial household. If their circumstances change and they want a different unit or benefit, they will lose the benefit. Hence, below-market housing has long tenures, much longer than most renters. As a result, thousands of equally disadvantaged households never qualify for the benefit and end up paying more in rent due to the supply shortage.

The core of cost problem is New vs. Old. Even in the fastest growing markets, new housing represents only 1-2% of the housing stock. Because that housing is newly built, it's guaranteed to be of higher quality than the typical house and therefore sell (or rent) at a higher than average price. Because new housing is higher priced, the low-income households receive a benefit that is substantial, but tied to a particular unit. It's rarely how that household would spend the money if they received a portable voucher.

Economists and policy makers have long recognized that **demand-based assistance (i.e., vouchers) was more efficient than building public housing units for helping the poor.** We would be better off designing means-tested, voucher-type programs that help low-income households find housing in existing neighborhoods. The consensus in favor of demand-oriented assistance has been in place since the creation of Section 8 housing assistance in the 1970's. We should copy the mistakes of supply-side policies of the 1950's and 1960's.

There's one exception to that advice. In the 1986 tax reform, Congress created low-income housing tax credits (LIHTC) which is a relatively complex and inefficient form of supply-based housing assistance. State and local governments receive an allocation of federal tax credits and offer them to local developers. We should continue to use those funds, but **we shouldn't compound Congress' policy error** by mimicking subsidized housing construction at a state or local level. We should continue to respect the autonomy of

public benefit recipients by giving them portable vouchers that help them shop for an apartment.

I hope this is a useful introduction to some of the issues in housing policy. I'm happy to correspond further.

Sincerely,

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