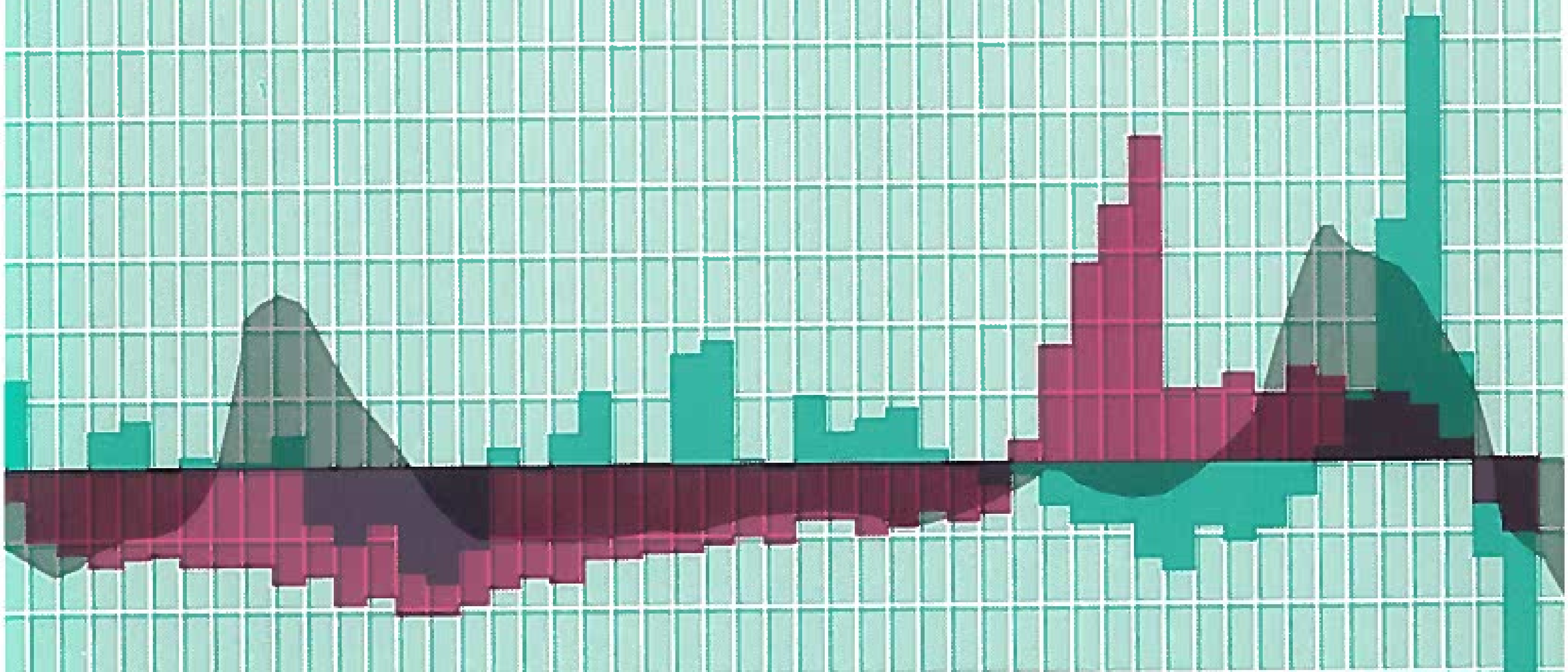
LAND POLICY & BOOM-BUST REAL ESTATE MARKETS



LINCOLN INSTITUTE OF LAND POLICY
POLICY FOCUS SERIES

CONTRIBUTORS

Karl E. Case
Professor of Economics
Wellesley College

Robert Cervero
Professor of City and
Regional Planning
University of California at Berkeley

Robert C. Einsweiler
Director of Research
Lincoln Institute of Land Policy

Joe R. Feagin
Professor of Sociology
University of Florida

Susan J. Hobart
Vice-President for Development
Heartland Properties, Inc.
Madison, Wisconsin

Stephen T. Honey
City Manager, City of Boulder
Boulder, Colorado

C. Timothy Lindstrom
Staff Attorney
Piedmont Environmental Council
Charlottesville, Virginia

John E. Petersen
President, Government Finance
Group, Inc., Arlington, Virginia

Michael A. Quinn
Senior Planner
King County Planning and
Community Development Division
Seattle, Washington

Dorothy S. Teater
County Commissioner
Franklin County, Columbus, Ohio

Joan M. Youngman
Senior Fellow
Lincoln Institute of Land Policy

EDITOR
Jonathan D. Cheney
Lincoln Institute of Land Policy

The Lincoln Institute of Land Policy

The Lincoln Institute of Land Policy is a nonprofit and tax-exempt educational institution established in 1974. Its mission as a school is to study and teach land policy, including land economics and land taxation. The Institute is supported by the Lincoln Foundation, established in 1947 by John C. Lincoln, a Cleveland industrialist. Mr. Lincoln drew inspiration from the ideas of Henry George, the nineteenth-century American political economist and social philosopher.

Integrating the theory and practice of land policy and understanding the forces that influence it are the major goals of the Lincoln Institute. The Institute's strategic plan defines six interrelated agenda items that are the focus of its activities: strategic management of land, community and individual rights and responsibilities in land, taxation and regulation of land, the functioning of land markets, changing land use patterns, and the relationships between transportation and land use.

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The Policy Focus Series

The objective of the Lincoln Institute's policy focus series is to bridge the gap between theory and practice, in both directions. Each policy focus report provides the written equivalent of a policy briefing on a particular issue of concern to state and local policymakers. After surveying the research literature and public policy organizations with an interest in the topic, we formulate some basic questions about the issue. We then convene a work-shop that brings researchers and practitioners from all parts of the country together; we base the policy focus report on the group's discussions and on essays that the contributors prepared. The workshop on "Land Policy and Boom–Bust Real Estate Markets" was held at the Lincoln Institute of Land Policy in Cambridge, Massa-chusetts, 10–12 December 1993.

Land Policy and Boom–Bust Real Estate Markets
edited by Jonathan D. Cheney



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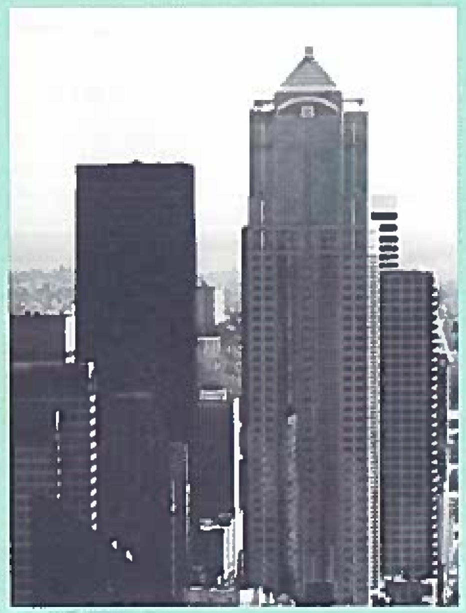
EXECUTIVE SUMMARY

THE VOLATILITY OF LAND AND REAL ESTATE MARKETS, EXEMPLIFIED BY THE BOOM–BUST CYCLE, IS A RECURRING FEATURE OF AMERICAN ECONOMIC LIFE. As housing prices and the rent for office and commercial space rise and fall, there can be wide-ranging effects on regional economies, social conditions, land use patterns, and local govern-ment's financial health. Yet the large-scale economic trends and federal policies affecting real estate often seem beyond the control of ordinary citizens and of government at the municipal, county, and state levels.



In the 1990s, many local governments throughout the U.S. have been trying to cope with the aftermath of the boom and bust years of the 1980s. The high cost of real estate in some sections of the country, particularly the East and West coasts, have eroded the competitive position of these regions, leaving them more vulnerable to job loss during the recent recession. The high cost of housing in many metropolitan areas has limited homeownership to a shrinking percentage of the population. And the subsequent decline in the value of homes has brought economic insecurity to the many Americans for whom home equity was their major financial asset.

Both the boom and the bust phases of the real estate cycle have encouraged inefficient land use patterns. Overbuilding has often burdened communities with costs for public services and infrastructure added during booms. And falling property tax revenues have intensified the fiscal pressures on local governments and shifted a greater proportion of the property tax burden onto residential taxpayers.

Promising policy responses to these problems include:

- using an adopted land use plan to guide growth when it occurs and to reduce speculative pressures by balancing the supply of developable land with actual demand
- informing elected officials, planners, developers, and citizens about market conditions and growth trends so that policies can be developed to accommodate growth without a speculative boom in real estate prices
- increasing the ability of property tax assessment practices to respond to changing market conditions and improving financial stability by moving toward long-range planning of public budgets
- applying the preceding techniques in the context of a larger vision of a community's needs and aspirations

Mastering the cycle of boom and bust means building a strategy for the future that takes into account citizens' values, economic development goals, and the social and fiscal impacts of land and real estate development.

Drawing upon the perspectives of the contributors to the policy focus workshop, this report attempts to convey the causes and solutions that tie together the diverse experiences of cities in the Midwest, the Rocky Mountain states, and the Sunbelt, as well as the East and West coasts. While there is no panacea for the problems associated with the boom–bust cycle, the methods outlined here may enable communities to maximize the fairness, efficiency, and stability of the urban development process, while minimizing its economic and social costs.

The Boom-Bust Cycle: Why Local Government Should Care

Judging this event by hindsight, planners will discuss the role of the automobile, the future of shopping and of the central business district, the issues of urban growth, the economics of land speculation, and municipal reliance on the real estate tax. They are important issues, though a touch abstract, as is usual in planning talk. But in the end, these issues reduce to the quality of life, at least for someone, since without that quality there is no need for economics, taxation, cities, and all the rest.

Kevin Lynch,
Managing the Sense of a Region (1976)

THOSE WHO SEEK TO GUIDE THE FORTUNES OF the cities and suburbs that make up America's metropolitan areas aim to enhance for all citizens the "quality of life" mentioned in the quote *(at left)* from Kevin Lynch.[1] Yet economic change can undo policymakers' best-laid plans for the future of a metropolitan area. In recent years, scholars and other observers of the urban scene have amply documented the rapid and profound economic changes that have affected U.S. metropolitan areas, along with changes in the structure and functionof these areas. Books like Neal Peirce's *Citistates* (1993) and Joel Garreau's *Edge City* (1991) have gained a wide audience for their contrasting views of these trends. Peirce emphasizes the interdependence of center cities and their suburbs and the need for a continuing focus on the vitality of downtowns, while Garreau prophesies the increasing dominance of emerging office and commercial complexes in suburbia.

Amid all these changes, one phenomenon underlies the others: volatility of land and real estate markets. Price changes in this sector of the economy often seem to magnify trends that originate elsewhere, resulting in cycles of boom and bust that

Profile of the Boom–Bust Real Estate Cycle

1. Gross rents rise rapidly.
2. Net rents rise even more rapidly.
3. The selling prices of existing buildings advance sharply.
4. It pays to erect new buildings.
5. The volume of new construction rises.
6. The volume of building is stimulated by easy credit.
7. "Shoestring" financing swells the number of new structures.
8. New buildings absorb vacant land: the land boom.
9. Optimistic population forecasts during the boom.
10. The vision of new cities in cornfields: the methods of some subdividers.
11. Lavish expenditures for public improvements.
12. All real estate factors at full tide: the peak.
13. The reverse movement begins (the lull).
14. Foreclosures increase.
15. Stock market debacle and the onset of the depression in general business.
16. The process of attrition [all the factors now operate to depress real estate values].
17. The banks reverse their boom policy on real estate loans.
18. The period of stagnation and foreclosures.
19. The "wreckage" is cleared away.
20. Ready for another boom, which does not come automatically.

Developed in urban economist Homer Hoyt's classic analysis, *One Hundred Years of Land Values in Chicago*, this list captures the typical course of a real estate boom and, with minor adjustments, still rings true for many localities that experienced such booms during the 1980s. Source: Hoyt, 1933, 377–403

reflect the larger economy's surges of growth and lapses into recession. Within an individual metropolitan region in the grip of a real estate boom, the psychology of speculation fuels the cycle, and the inflated real estate market itself can become a driving factor in subsequent events. Similarly, when the market goes bust, a cascade of consequences can ensue for the regional economy, for society, and for local government.

From the standpoint of economics, the boom–bust cycle may represent a situation in which supply merely overshoots demand. The real estate market subsequently "corrects" itself as prices and rents fall during the bust. Such a view, however, may leave much to be desired from the policymaker's perspective. During a real estate boom, municipalities often invest in infrastructure and otherwise expand public services because new development is expected to more than pay its own way. Cities may welcome gentrification of older neighborhoods, without considering the effects on long-time residents and the local labor force.

Local government officials, who must address this wide array of social and political problems, need to understand not only the dynamics of markets, but also the broader contexts that influence booms and busts.

A useful framework to guide local government practice might be three general criteria suggested by economist Karl Case:

- *fairness:* maintain social equity by preserving jobs and access to affordable housing
- *efficiency:* promote market efficiency by making information on real estate prices widely available; increase overall efficiency of land use patterns by balancing the costs and benefits of development
- *stability:* contribute to the sustainability of regional economies and the fiscal health of the local governments that serve them by dampening the ill effects of the boom–bust cycle

This report will examine the ways in which boom–bust cycles in real estate can prevent governments from attaining these three general goals. The report will also use these criteria to assess a range of remedies for the problems of boom and bust.

THE BOOM–BUST CYCLE

Land and real estate markets have been on a roller coaster ride in the United States since the early 1980s. This volatility resulted from a variety of factors: economic growth, demographic change, and federal tax and banking policies. In newly developing metro areas in Sunbelt states and across the West, growth in jobs and population, along with easily available financing during the 1980s, triggered the real estate boom. In older metro areas in the Northeast and California, growth pressures interacted with other factors—such as land supplies limited by topography or existing urban development, or stringent land use regulations—to cause escalating real estate prices. Other regions, notably the older metropolitan areas in the Midwest, experienced slower growth

THE BOOM–BUST CYCLE

A Tale of Two Cities: Boston and Los Angeles

By the mid-1980s, house prices in Boston were beginning to accelerate rapidly, and continued to do so for three full years. Prices continued to rise even after the rate of increase slowed, reaching a peak toward the end of 1988. The overall increase during the boom was 159 percent.

Prices in Los Angeles began accelerating two years after the boom began in Boston. The pattern was similar, with a steady four-year acceleration of prices, followed by deceleration. Los Angeles's peak occurred in 1990; prices had risen 102 percent since 1985.

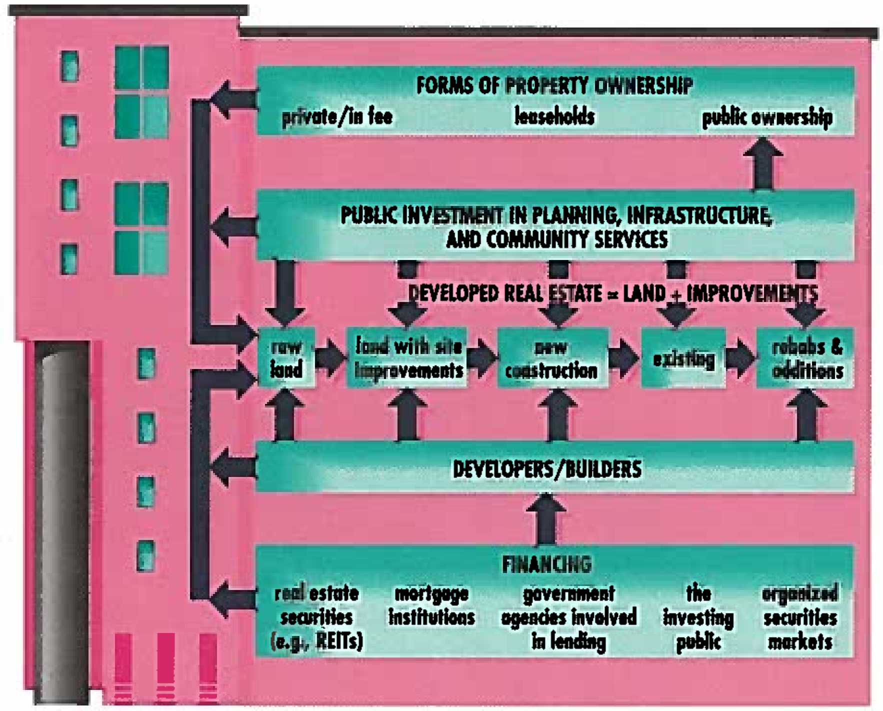
Prices in both cities dropped significantly between 1990 and 1991. Overall, the peak to trough decline in Boston was just under 16 percent with a slight rebound to 13 percent below peak in 1993. Los Angeles was down 19 percent and falling as of 1993.

and more stable real estate markets during this period. In those areas where a boom did occur, however, the growing demand for real estate products, whether offices, homes, or retail stores, snowballed into a wave of speculative overbuilding that left markets glutted when demand slackened.

With the onset of recession in the late 1980s, the speculation-fueled binge gave way to falling prices and stagnant markets for homes, and soaring vacancy rates and falling rents for retail and office properties. In the mid-1990s, many local governments throughout the U.S. were still trying to cope with the aftermath of the boom. Overbuilding often left communities with a legacy of burdensome costs for public services and infrastructure added during the boom. Falling property tax revenues intensified the fiscal pressures on local governments and shifted a larger portion of the property tax burden from commercial to residential taxpayers. The sections below detail the principal effects of the boom–bust cycle—on regional economies, on local government finance, on land use patterns, and on the fabric of society itself.

Economist Karl Case set out to explain the great Boston boom, which exemplifies the experience of many other cities in the Northeast. With excellent data for 10 cities for 10 years, he was able to explain a substantial part of the variation in home prices.[2] For Boston, however, the model predicted a 15 percent increase in prices based on "fundamentals" such as employment growth, income growth, and interest rates. Prices had actually risen over 150 percent. Case went out on a limb and argued that the boom was "speculative" in nature—not that price-gouging speculators were buying and reselling land at ever higher prices, but that every buyer was willing and eager to pay more in expectation of future capital gains. When people expect asset values to rise, their expectations become a self-fulfilling prophecy. The subsequent bursting of the bubble adds weight to the interpretation that speculative behavior played a major role in the cycle.

The Structure of Real Estate Markets



The availability of financing drives the creation of supply in real estate markets, a situation that sometimes leads to overbuilding. Source: Adapted from Alan Rabinowitz, 1988, 20.

WHEN prices reflect simply over-exuberant expectations, the market's function in allocating space among competing uses breaks down: land use patterns are distorted and overbuilding can occur.

—Karl Case

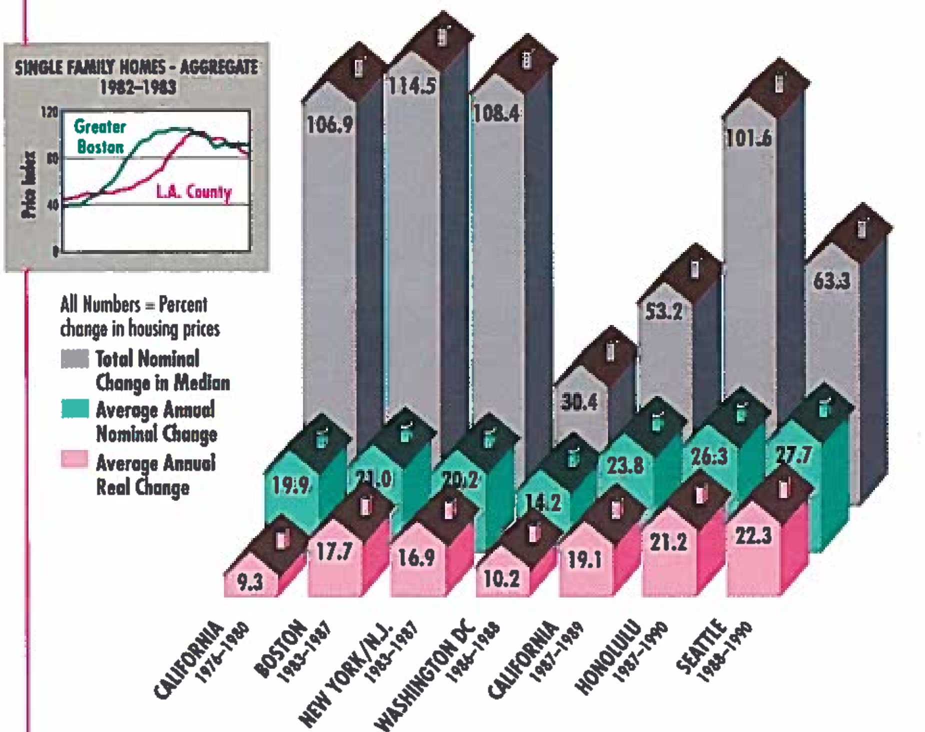
An efficient land or real estate market is one driven by economic fundamentals. For example, population growth, income growth, demographic changes, construction costs, and so forth, clearly affect the land market, which allocates space among competing uses. When land or real estate markets are driven not by economic fundamentals but rather by simple expectations of future capital gains, prices may be bid up sharply to the point that they no longer transmit economic information efficiently. When prices reflect simply over-exuberant expectations, the market's function in allocating space among competing uses breaks down: land use patterns are distorted and overbuilding can occur. Economic activity as well may shift within and even across regions.

Without a doubt, many firms that would have had a comparative locational advantage in New England over the last decade have chosen to locate elsewhere because of real estate prices increased by speculation.

EFFECTS ON REGIONAL ECONOMIES

Economic stability is the number one public policy concern confronting many

Recent Housing Price Booms in the U.S.



In major metro areas along the coasts, owners of single family homes racked up impressive gains during the 1980s. Yet after nearly a decade of steady increases, housing prices in both Boston and Los Angeles slid downward (*inset*). Source: Case, 1991; Case and Shiller, 1993.

American cities of all sizes. Yet a real estate boom and the bust that inevitably follows can undermine this stability. Economic analysts differ on the relative importance of the real estate cycle to the economic performance of America's metropolitan regions. A convincing case can be made, however, that the boom–bust cycle may make some places overpriced and thus less competitive in relation to other, less expensive places. This in turn affects local governments, the citizens whose jobs disappear or taxes increase or real estate wealth is reduced, the banks that overextend themselves and fail or lose capital, and the firms that lose markets or are unable to borrow from distressed banks.

Why was the recent economic downturn so much worse on the coasts than in the rest of the country? Massachusetts, for example, lost 12 percent of its jobs. In Case's view, the real estate cycle was an important factor. The boom created massive numbers of jobs, income, and great wealth through the appreciated value of home-owners' real estate. It also destroyed the cost structure of both New England and California, and later was responsible for the loss of thousands of temporary jobs in construction and the FIRE (finance, insurance, and real estate) sector. Other jobs in the service sector depended on the spending power of people newly enriched by the increased value of their real estate assets. These jobs, too, vanished as the bust wiped out those largely ephemeral gains.

In both cases, the economic downturn may have been triggered by external factors such as cuts in defense spending (both regions) and a decreasingly competitive computer industry (the Boston area). California's many assets and the eternal optimism of Californian investors have contributed to its recent downfall. Forty years of rapid growth and real estate speculation bred a belief that the state was immune from any economic downturn. Yet California's inflated housing prices and overheated market made it particularly vulnerable to the 1990–92 recession. National tax reforms sharply curtailed real estate construction and real estate investment trust (REIT) syndications statewide, leaving vast inventories of office space, especially in the suburbs of Los Angeles.

CALIFORNIA'S inflated housing prices and overheated market made it particularly vulnerable to the 1990–92 recession.

—Robert Cervero

SOCIAL CONSEQUENCES

Steep and rapid escalations or declines in real estate prices have repercussions throughout society, raising equity issues of income distribution and of access to housing and jobs. Well-to-do segments of the population can absorb these shocks, but those in the lowest economic rung often fare poorly. Busts cause disinvestment in marginal and depressed areas, further widening the gulf between economic and ethnic groups.

During a boom, as prices escalate and the demand for land increases, those seeking low- or moderate-cost housing may be unable to compete and find themselves forced out of the local market, or forced to locate in areas distant from work and services. During the real estate boom of the 1980s, this effect was especially pronounced in the Northeast and along the Pacific coast, where homeownership rates for younger households in particular fell markedly.[3] Builders were able to increase their profit margins by catering exclusively to those who could afford "up-scale" housing.

A lack of affordable housing can put

pressure on a community's social service institutions and programs. In addition, unaffordably high housing prices can negatively affect a community's economic development ventures when businesses looking to locate there cannot find housing affordable to potential employees.

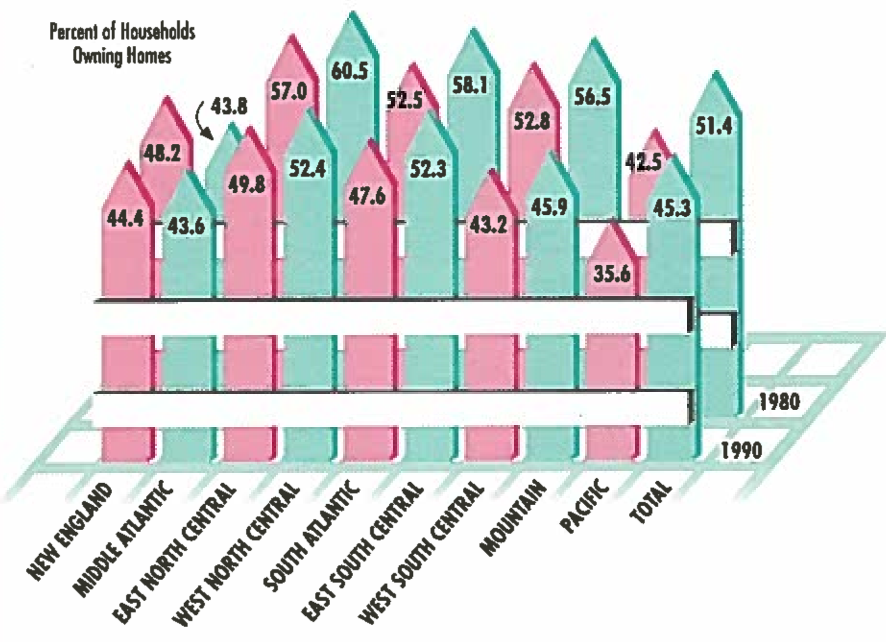
Boom–bust periods directly and sharply change income distribution. During real estate booms in the East, for example, homeowners saw their equity rise exponentially and were protected from housing cost increases by fixed-rate mortgages. At the same time, however, rents rose sharply, reducing the standard of living for renters. The median income of owners in the Boston area, for example, was just about twice that of renters. In addition, 700,000 owner occupants in Greater Boston earned about $135,000 each in capital gains on paper. That's a total of $94.5 billion! At the same time, however, the wait list for public housing in Boston jumped to 20,000.[4]

The inflation in land values which occurs during a real estate boom may result in dramatic increases in real estate taxes as assessments rise to reflect inflation. This will be a particular problem for those on fixed incomes, rural landowners, and others who cannot afford second mortgages on the newly inflated value of their property. Increased assessments can also lead to political pressure for arbitrary caps on or cuts in spending, which can affect schools and other government services.

INFLUENCE ON LAND USE PATTERNS

In the haste to cash in on new development during a boom, cities may become overly permissive in regulating land use. Lax zoning, tax credits, or the virtual giveaway of publicly owned land can eventually cost local governments dearly, both environmentally and economically. As land values increase dramatically during a boom, legal and political pressure on local public officials can lead them to make piecemeal changes in plans and or-

A Decade of Decline in Homeownership for Younger Households



During the 1980s, housing price increases and high mortgage interest rates led to an across-the-board drop in homeownership among buyers aged 25–34.

Source: Joint Center for Housing Studies, 1994, 9 (U.S. Bureau of the Census statistics).

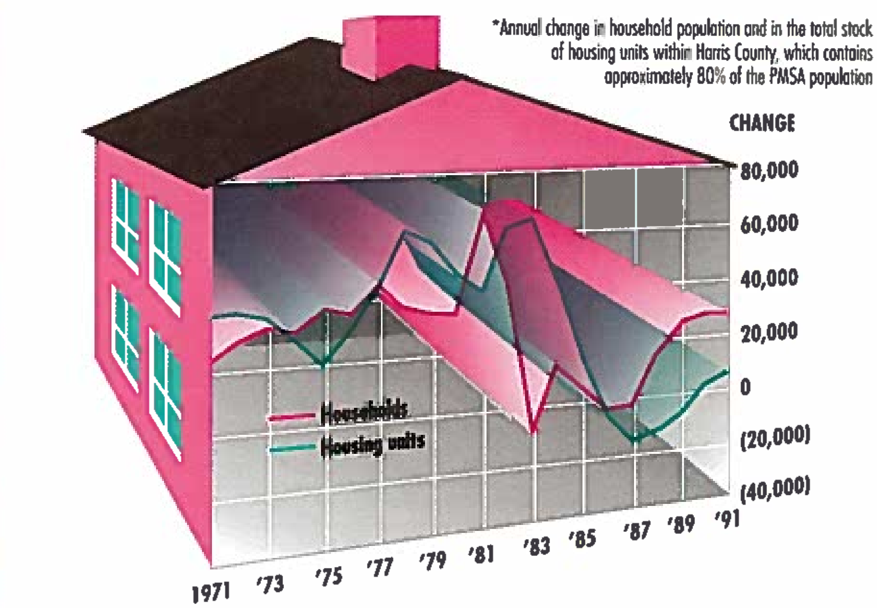
Houston and the Legacy of Speculative Overbuilding

In Houston boom and bust has been a way of life, for the metropolitan economy as well as for its real estate markets. Yet even in the case of Houston, speculative overbuilding created problems that persisted long after the end of the latest downturn in the oil and gas business. Two University of Houston economists who have studied the city's real estate markets point out that the cycles in the oil business alone cannot account for the magnitude of Houston's fall. Vacancy rates for housing rose to 18 percent in 1985, and houses lost on average 30 percent of their value between 1983 at the peak of the boom and 1987. Houston's office market saw a similar spate of overbuilding and subsequent crash in both occupancy rates and rents (Smith and Tesarek, 1991).

Houston has paid a high price for its explosive growth. Since the 1970s the city has had a massive deficiency in sewage facilities, and by the 1980s the city's treatment plants regularly violated wastewater standards. Industrial growth from the 1940s to the 1980s seriously depleted water wells, creating subsidence and flooding and forcing a shift to highly polluted lakes. Severe traffic congestion has been a major problem for decades. An Interior Department study ranked Houston 140th among U.S. cities in per capita park land. And Houston has long had a housing crisis for the non affluent.[5]

During the Houston boom, the business elite expressed little concern with services needed by the citizenry. Now, there is some belated realization of the severe social costs of a century of unrestrained development. Kathy Whitmire, who served as Houston's mayor in the 1980s, put it this way: "We thought the economy was going to keep booming and it would be relatively easy to make improvements for traffic, parking, water, sewage treatment, and a convention center. The public wanted something done because with all the growth there came frustration."[6] In spite of the public's perceptions, however, Houston's elite lagged in addressing these needs.

Annual Change in Households and Housing Units*, Harris County, Texas



During the early 1980s, speculative overbuilding combined with a recession in the oil and gas industry to create a severe and long lasting real estate bust in the Houston metro area. The graph reflects the extreme decline in demand for housing as construction of new units dropped and vacancy rates rose. During this period housing prices fell by 30 percent and more in some neighborhoods, and condos lost up to 60 percent of their value.

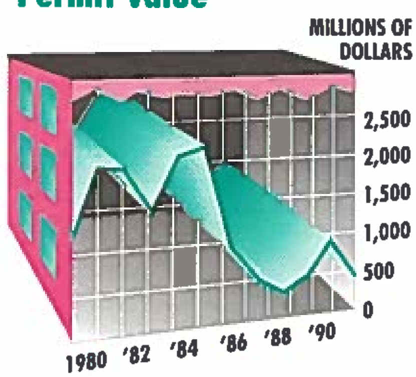
Source: Smith and Tesarek, 1991, 397–99.

dinances to serve private, speculative interests. The result is often urban sprawl, strip commercial development, and a loss of aesthetic quality and community character.

During bust periods, public officials may be inclined to accept any new development to attract new industry and investment, keep people employed, and shore up revenues needed for vital public services. At such times, public officials may succumb to the temptation to permit low-density, sprawling developments that haunt the community later because they are not well supported with infrastructure and services.

Many believe that the rationale for public attempts to regulate the boom–bust dynamics of land and real estate markets is fairly straightforward. Others are reluctant to see local government intervene in the market. Whether enthusiastic or reluctant, local government's land use regulatory activities have important effects on land and real estate markets and thus on the local economy. Zoning and land use regulations that restrict the land supply within a jurisdiction can trigger a boom's escalating prices. Conversely, zoning that is overly lax can create an excess supply of land, leading to haphazard, sprawling development. For example, Route 28 outside Washington, D.C., was planned to attract commercial development, but in the wake of the real estate boom, it unexpectedly attracted residential development instead. This illustrates how the boom–bust cycle can distort land use plans in unpredictable ways.

Texas Office Building Permit Value



The severity and persistence of the downturn in office-building construction in Texas shows how long lasting the effects of a real estate bust can be.

Source: D'Ann Petersen, 1992, 7.

WITH excess capacity, good values, and what are perceived to be safer, more livable neighborhoods, such new suburbs will serve as the launching pads for the next boom.

—John Petersen

When the real estate market revives, in public finance expert John Petersen's view, the focus will likely be on these fringe locations—the new residential suburbs to which young professionals have flocked. Over the longer haul, these suburbs' abundance of properties, newly installed infrastructure, and plentiful land zoned for development will present major problems for the nation's central cities. With excess capacity, good values, and what are perceived to be safer, more livable neighborhoods, such new suburbs will serve as the launching pads for the next boom. It remains to be seen whether cities can compete with these new suburbs in attracting both private and public investment. This growing imbalance suggests that without strong land use planning, low-density sprawl will continue to characterize the emerging landscapes of metropolitan America. In many regions, the speculative boom–bust cycle will fuel this kind of growth.

IMPACT ON LOCAL GOVERNMENT FINANCE

The boom–bust cycle can wreak havoc on local government's fiscal stability as revenues roll up during a boom and decline during a slump. Unstable revenue flows make budget planning difficult. Governments may meet the fixed costs of bonded debt (incurred to meet infrastructure needs during a boom) only by cutting services, increasing taxes, or doing both, during a bust. The lag in recognizing the need for new infrastructure to meet boom-period demand, or cuts in services during a bust, can both result in overcrowded schools, traffic congestion, and inadequacies in police and fire protection and other local services.

In some parts of the country, the value of all real estate has declined in real, price-deflated terms since the highpoint reached in the late 1980s. The erosion in values, especially those in commercial office, retail, and industrial properties, has worked its way through the assessment system and has now caught up with the property tax. Revenue declines are placing intense pressure on many local government decisionmakers either to raise tax rates or to ask voters to override limitations on tax increases. And since the erosion in real property value has been concentrated in the commercial and industrial sectors, it is accelerating the shift of that tax's burden to the residential sector.

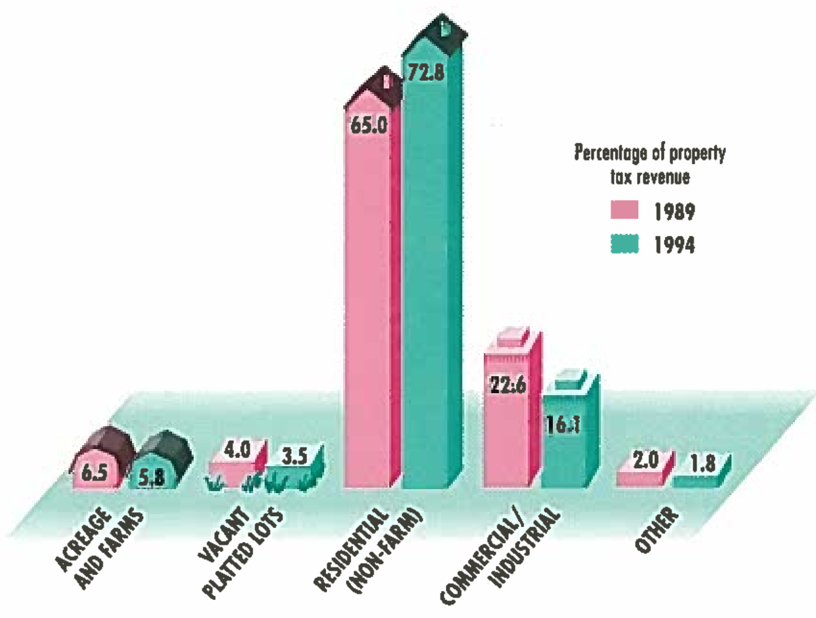
A study undertaken by John Petersen for the Urban Land Institute revealed that this has been a nationwide problem. Jurisdictions in Virginia and Texas, which assessed real estate at 100 percent of its market value, saw the sharpest decline in their tax bases and, consequently, in their revenues. This was especially true in areas that were subject to speculative land purchasing. Loudoun County in Virginia, for example, had a 24.8 percent decline in taxable property after values peaked there in 1990. Dallas experienced five straight years of decline in property value following the 1980s real estate boom there.[8] In many areas, Petersen found, the steepest declines were in the value of commercial and office properties, although certain residential markets were also affected.

Development "On the Edge": Suburban Washington, D.C.

The Route 28 taxing district in Fairfax and Loudoun Counties, Virginia, was a special taxing entity created to build a major highway near Dulles airport. It was debt-financed on the premise that rapid future commercial development would support the debt, and its bonds were sold to investors with a backup promise of future state highway aid. Now, values have sunk. Developers, who sued to get land along Route 28 zoned commercial in the first place are applying to rezone the properties for residential use. The highway has been built, but residents driving elsewhere to work, rather than shoppers, will be the road's primary users. And state funds, rather than local tax sources, will pay an increasing share of the debt incurred in building the road.

Whatever the disappointments with the Route 28 project, it produced a major divided highway 25 miles due west of Washington. The road is now a magnet for new residences and will support future commuting patterns north and south where none existed before. It is part of the new "Edge City" infrastructure that is ready to support the next wave of regional development.

The Tax Shift from Commercial/Industrial to Residential



The Urban Land Institute has estimated that commercial/industrial properties have been losing a larger percentage of their value since the 1980s boom than have residential properties, while other land uses remain proportionately about the same. As a result, homeowners pay a larger percentage of the property tax burden. Source: Urban Land Institute, 1993, 3–5, exhibit 4.

THE RANGE OF POLICY RESPONSES

Rapid change in real estate markets makes it difficult for local government policy to keep pace. Policies put in place to manage a boom may need to be revamped in the event of a downturn, and vice versa. Local governments lack the political mandate and the financial resources to intervene directly in real estate markets. Yet a variety of techniques in property taxation and public finance, land use planning, and land information systems all hold some promise of dampening boom–bust cycles within existing frameworks of local and regional governance.

Four major points are widely applicable to this picture. First, sticking to an adopted land use plan can do much to guide growth when it occurs and reduce speculative pressures by assuring that the supply of developable land remains a known quantity in the development process. Second, the more information that elected officials, planners, developers, and citizens have about market conditions and growth trends, the more likely it is that policies can be developed to accommodate growth without a speculative boom in real estate prices. Third, local governments can increase the responsiveness of their property tax assessment practices to changes in market conditions as well as improve their financial stability by moving toward long-range planning of public budgets. And fourth, communities must apply the preceding techniques in the context of a larger vision of who they are and where they are going. Mastering the cycle of boom and bust means building a strategy for the future that takes into account citizens' values, economic development goals, and an understanding of the social and fiscal impacts of land and real estate development. The section that follows outlines what local governments can do to address each of these needs.

A Spectrum of Policies Toward the Boom-Bust Cycle

Measures that provide information on prices and economic trends can improve the efficiency of markets and lessen the possibility of escalating prices and overbuilding. More proactive measures to influence real estate markets through strong tax policies or public sector participation as a major force in land markets (e.g., land banking) can be highly controversial among voters, especially property owners.

The Boom in the Pacific Northwest: The Case of Seattle

The greater Seattle area experienced its last boom in land and real estate markets during the second half of the 1980s. Rapid expansion in employment, particularly at Boeing, produced a marked increase in population immigration into the Central Puget Sound counties. This led to an upsurge in new residential and commercial building activity and an accompanying consumption of vacant land. During the 1980s, new residential development overran an estimated 26,000 acres of such land—more than 40 square miles—in King County alone. Much of this was in the form of low-density development in urban fringe areas. King County is the heart of the region and Washington's most populous county. Between mid-1987 and mid-1990, the average sale price of single-family homes in the county surged from $105,000 to $170,000, an increase of almost two percent per month.[7]

Unlike the Northeast and southern California, Washington state did not experience a steep decline in real estate markets. The national economic recession of the early 1990s was slow to make itself felt in the Puget Sound region. Cushioned by an enormous backlog of orders for commercial jet aircraft, Boeing only began layoffs in late 1992.

Similarly, local land and real estate markets did not go bust, although conditions leveled off. Prices for single-family homes now average about $175,000. Demand for new housing has cooled. Not even 20-year low interest rates have brought a return to the frenzied market conditions of the late 1980s.

Prices have remained high in spite of the economic downturn for several reasons. The area remains attractive on the national scene, both economically—as a trade center on the Pacific Rim—and naturally—with natural beauty and opportunities for outdoor recreation. At the same time, land to support new growth has become more scarce, and homeowners have refused to accept that sellers' market conditions no longer apply (unless, of course, they have to move).

In commercial real estate, the downturn in the Seattle area has been comparatively mild for three reasons. Companies have not been hit as hard by recession as elsewhere in the nation. The market did not overbuild to the extent as did markets in other parts of the country, and the supply of large buildable sites for new development has dwindled.

Notes

1 The late MIT professor of planning was the author of many works that attempted to humanize the discipline of city planning. His book, *Image of the City*, (MIT Press, 1967) analyzed urban form as experienced by city residents.

2 Karl E. Case and Robert J. Shiller, "The Behavior of Home Buyers in Boom and Post-Boom Markets," *New England Economic Review* (November/December 1988) 29–46.

3 Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing* (Harvard University, 1993) 9–12. This report offers a broad overview of the economic, social, and demographic factors driving current trends in homeownership.

4 Karl Case and Leah Cook, "The Distributional Effects of Housing Price Booms: Winners and Losers in Boston, 1980–89," *New England Economic Review* (March/April 1989).

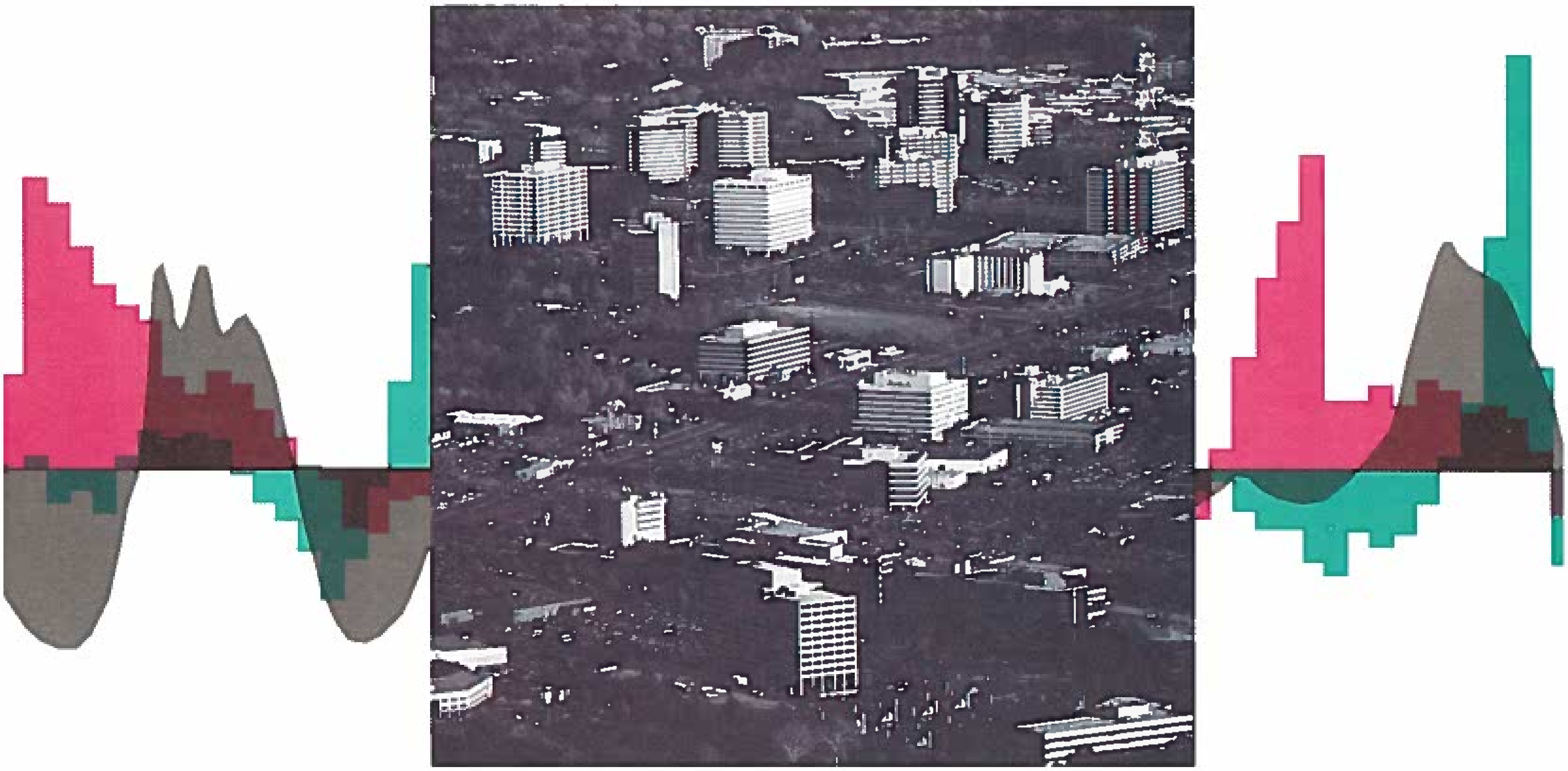
5 Joe Feagin has analyzed the relationship between Houston's urban problems and patterns of real estate development in the city in his book, *Free Enterprise City* (Rutgers University Press, 1988).

6 Feagin's source for this quotation is Steve Kerch, "After falling apart, Houston is getting it together" *Chicago Tribune* (12 July 1992, N-1).

7 King County Planning and Community Development Division, *King County Annual Growth Databook*, 1993, (King County, Washington, 1993) 19.

8 John E. Petersen and Kimberly Edwards, *The Impact of Declining Property Values on Local Government Finances* (prepared for the Urban Land Institute by the Government Finance Group, Inc., Arlington, Virginia) dated 31 March 1993.

Techniques to Mitigate the Boom-Bust Cycle



WHAT CAN BE DONE TO REDUCE VOLATILITY IN LAND AND REAL ESTATE MARKETS? Some believe that the best way for cities to shield themselves from future boom–bust cycles is to maintain diverse economic bases and introduce tax and assessment programs that are buoyant during the "up" cycle and resistant during the downward slide. Such policies would help a city to resist cyclical downturns in particular businesses. They may even allow a local government to turn a period of exceptional land price inflation to its advantage, by enabling the municipality to capture a portion of the increasing land and real estate values. Others, less optimistic, believe that some factors affecting land prices are simply beyond the control of any level of government. This section reviews some techniques that may assist local governments in influencing the scope and pace of development and thus moderate the extremes of the real estate cycle.

LAND USE PLANNING

A well-developed program of land use planning can help a community to minimize the risks associated with the boom–bust cycle. These risks include both abandoned development projects with loss of expected tax revenue, and overbuilding with high vacancy rates that lower rents and property values. Unplanned development may also produce undesirable aesthetic, functional, and environmental effects on the community. One analyst of the real estate development process has noted that "the municipal government not only has to play for itself but . . . is also the guardian of some of the consumers' interests. The community has an important interest in the viability of a real estate development in terms of both short-term and long-term cash solvency. It must be sure of enough property tax revenue for regular expenditures as well as capital improvements. The community will be concerned not only with the use of a specific site but also with the way in which that site interacts with its neighbors."[1] Only through strong planning, consistently applied, can a community ensure that this interaction between new development and existing land uses will be functional, livable, and cost-efficient.

A lack of land use controls adds an element of uncertainty to land and real estate markets. To avoid wasting time and money, many developers and investors will bypass areas where land use plans have not been developed. The advantage to a community that does plan, therefore, can be considerable: the community stands to gain the additions to its tax base and infrastructure that well-planned, sustainable development can bring.

Coordinated use of an array of land use planning tools may help achieve the goal of sustainable development without volatile prices in real estate markets. Communities that enact long-range, growth management programs may be able to minimize the problem of overbuilding and increase the chances that development will bring tangible benefits. Components of such growth management systems may include:

- a comprehensive land use plan
- a growth control ordinance
- impact fees
- strategic purchases of land by local governments during soft market periods

Central to the growth management concept is the premise that communities need to address transportation and infrastructure, affordable housing, open space protection, and economic development simultaneously. The balanced development envisioned by proponents of growth management can, in theory, contribute to the "sustainability" of local economies.[2]

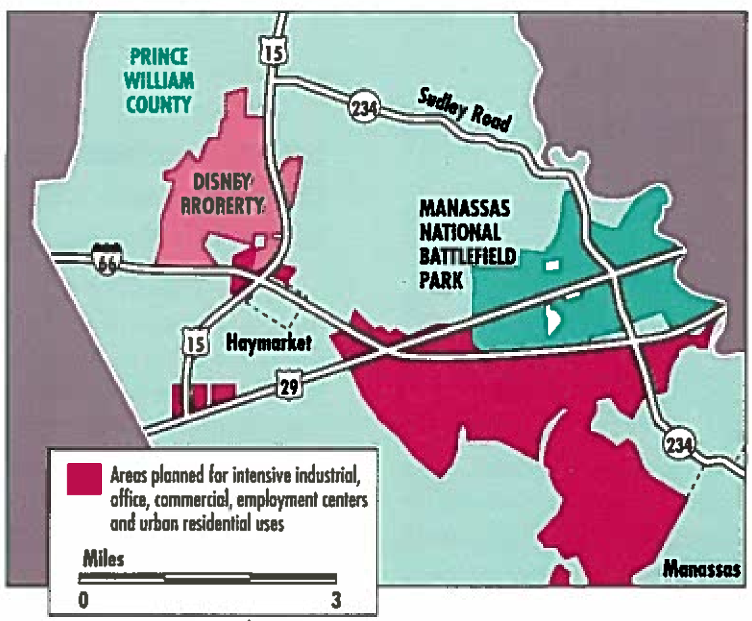
There are drawbacks and limitations, however, to efforts to influence the boom–bust cycle through land use planning. It usually takes many months, if not years, to change zoning and land use regulations in ways that respond to market conditions. Such a response is often too late to be useful and may even exaggerate the cycle if changes are enacted so late that they hit the next swing of the market.

Direct public-sector involvement in land markets is another way in which local governments can influence land use and make the real estate cycle work to their advantage. During the "down" phase of the boom–bust cycle, for example, a local government could purchase available parcels at relatively low prices. The jurisdiction could subsequently use the land in urban redevelopment and "infill" projects, to assemble sites for large-scale development, or as part of a transfer of development rights (TDR) program. Such land banking has been used extensively in Europe and Canada (e.g., Stockholm and Toronto). Land banking as such is rare in the U.S., perhaps because it requires direct public expenditures to acquire land. Cities have, however, leased publicly owned land to generate revenue.[3] And a variation on land banking has been practiced by community land trusts that acquire land for affordable housing and/or conservation. Vermont's Housing and Conservation Trust Fund offers a unique yet promising example of a public/private partnership that draws on some aspects of land banking to further the goals of housing affordability and land preservation in a market with rising land and house prices.[4]

In contrast with the argument that land use regulation is a panacea for problems rooted in the boom–bust cycle, planner Michael Quinn suggested that the traditional land use tools like zoning and subdivision controls are not directly useful for regulating real estate market cycles. Even the newer tools such as urban growth

> *I THINK every level of government should develop long-range, strategic plans. Yet there are a few problems here. We are working on this in Franklin County, and one commissioner thinks it's a waste of time. Another difficulty is the need to coordinate tax policy with stratetgic planning.*
>
> *—Dorothy Teater*

Unpredictable Side-Effects...



A local real estate boom can distort land use planning objectives in the region where it occurs. When Disney announced its plans for a historical theme park near the Manassas National Battlefield in suburban Washington, D.C., planners were concerned with the huge potential for additional growth that the project would attract to the historic landscapes around the publicly protected battle site. Source: *The Washington Post*, 7 May 1994, G-5.

boundaries or transfer of development rights programs are intended for other purposes. At best, these tools have little or no effect on market cycles. At worst, as many critics of growth management assert, they may raise land prices and reduce both housing affordability and business profits.

It should be pointed out, however, that such tools are important for structuring the overall pattern of growth within a community. Although this growth may occur in fits and starts in responses to market cycles, it will be "sustainable," if a community has a planning framework that remains in place in spite of changing market conditions and shifting political sands.

As Franklin County Commissioner Dorothy Teater observed, "I think every level of government should develop long-range, strategic plans. Yet there are a few problems here. We are working on this in Franklin County, and one commissioner thinks it's a waste of time. Another difficulty is the need to coordinate tax policy with strategic planning." Participants also stressed the need for timely and consistent implementation of plans as well as the processes of regulatory review and permitting. As one pointed out, "a plan is only as good as its implementation and development review process, and if there's not a commitment locally to implement, then it's going to go on the shelf as just another document."

REGULATION is like the fool in the shower. It gets too cold so you turn it all the way to hot, and then it gets too hot, so you turn it all the way to cold, and it makes the cycle worse.

—Stephen T. Honey

REGULATION: HOW IT AFFECTS REAL ESTATE MARKETS

Land use regulation can be used to restrict development during euphoric periods and encourage it during down periods to prevent shortages, said Stephen T. Honey. But the danger is that regulation is like the fool in the shower. It gets too cold so you turn it all the way to hot, and then it gets too hot, so you turn it all the way to cold, and it makes the cycle worse. From a local government's viewpoint, one issue stands out when it comes to turning the shower handle from hot to cold and back again: too-stringent regulation tends to increase the cost of housing, as developers pass those costs of development along to consumers.[5]

Shortages of developable and appropriately zoned land can spur speculation and fuel the boom–bust cycle. On the other hand, adequate capital infrastructure and reasonable expectation of appropriate zoning provide for stable economic growth. Communities obviously differ greatly in the amount of growth they wish to accommodate. Ultimately, the choice of what course to steer—between limiting growth or encouraging it—is a political one. Among the techniques that can offset the costs of growth and limit the potential for triggering a real estate boom are measures such as:

- retaining control over the type and size of new business and industry by avoiding "over-zoning"
- requiring consistency between zoning and capital planning actions and local comprehensive plans
- local options to adopt revenue sources other than real estate taxes
- adequate public facilities ordinances to authorize deferral of site plan and subdivision plat approvals until public facilities are in place to support development

It has been argued that impact fees increase the economic "efficiency" of each real estate development decision by forcing such decisions to include the additional costs that they impose on the community. For example, a government might assess an impact fee to pay for widening a road where a development project would produce traffic congestion. Yet imposing such fees can increase housing costs, and may also produce price increases that sweep across existing housing in the same market creating windfalls for present residents.

Robert Einsweiler asked whether these fees could somehow be pushed back on the landowner. In contrast, Robert Cervero maintained that pushing fee payments back on the landowner may not be the best policy since it might discourage development in inner-city infill areas where the landowners are not always in high-income brackets. Perhaps giving federal and state tax credits for impact fees paid to local governments could help prevent this problem, transferring some of the cost burden to higher levels of government. Cervero also suggested that a creative system of credits and exemptions

Managing Land Supply and Urban Services in Franklin County, Ohio

Franklin County and Columbus, Ohio, have had subregional booms in land development. To moderate this pressure, however, there has also been a supply of appropriately zoned and serviced land available elsewhere in the region. Franklin County sits on level land without serious topographic or soil constraints. It is the center of a region of developable farmland, unimpeded by a major river, mountain range, or ocean. In addition, local governments have not enacted unnecessary legislative barriers to growth. For all these reasons, the county has experienced rather stable real estate markets. Although there was an overabundance of Class A office space in recent years, current trends show that even here markets are strong and ready for additional development.

A further means of establishing stability in Franklin County's real estate markets is the urban service area, which ties a capital improvements program to planning, and which permits the timely financing and extension of infrastructure. Another practice that contributes to the overall stability of markets in the Columbus area is the zoning board's restraint in approving requests to rezone land, and especially resistance to speculative rezoning requests that do not conform to the county's comprehensive plan or to the needs of the real estate market. This has helped to maintain an equilibrium which avoids both oversupply and shortage of appropriately zoned land and also has acted as a brake on the system, but does not "confiscate" anyone's development rights as would blanket growth controls.

should be applied to impact fees to encourage efficient land planning. For example, credits against exaction payments could be granted for transit-oriented development, such as mixed-use projects sited near rail stations, because such developments generate fewer automobile trips per square foot than otherwise comparable ones straddling freeways.

To offset the tendency toward ever-higher housing costs, communities need a proactive approach to creating and preserving affordable housing. One tool to achieve this could be inclusionary zoning—incentives for the inclusion of affordable units in all residential development. Susan Hobart reported that such a measure was under consideration in Madison, Wisconsin.

A community's control over land use planning and development regulation gives it considerable leverage over the scope and pace of development. The optimal solution would also include managing the land supply: providing just enough land to accommodate needed new housing and jobs at densities that can be supported cost effectively with infrastructure and services. To accomplish this without stimulating a sharp increase in land prices, planners need information on how much raw land is available at any given time.

Real Estate Data Sources

Publishers

- National full service brokers
- Regional full service brokers
- Real estate consultants and market research firms
- Survey and transaction reports

Types of Property

- Office
- Industrial
- Retail
- Residential
- Land

Geographic Coverage

- National
- State
- Metropolitan area

The real estate industry collects and sells a wide range of market information including market analyses and databases. Local governments attempting to moderate the extremes of the boom-bust cycle need to develop methods to make effective use of this private-sector information. Source: Simons, 1994

LAND INFORMATION AND SUPPLY MONITORING

Boom–bust real estate markets reflect overly optimistic guesses about value and marketability made by builders, buyers, and local government regulators. Often, the information on real estate supply and demand that forms the basis for these guesses is fragmentary or unreliable. The only real way out of the "fool in the shower" dilemma mentioned above, which makes it difficult for real estate developers and local governments to arrive at a sustainable balance between development and regulation, is this: more complete and accurate tracking of how real estate markets are performing in a region. Local governments also need methods of applying this information to develop forecasts of downward and upward trends.

It is generally agreed that land use planning for urban service areas will stabilize real estate markets if such planning assures an adequate supply of developable land. It can be a daunting task, however, to establish the systems that will generate this information on an accurate and timely basis and in a form that policymakers can use. There simply is no unified system for collecting and disseminating real estate market information on a metro area basis. Yet some information is available. Real estate firms, development companies, and real estate industry market research groups maintain their own databases. Some of this information is available for sale or distributed for free. A recent publication of the Pension Real Estate Association, *Data Sources for Real Estate Markets*, surveys over 200 currently available private-sector data sources. The report was prepared under the direction of C. F. Sirmans at the University of Connecticut's Center for Real Estate and Economic Studies.

One metropolitan area where real estate market information is relatively easy to access is San Diego. The San Diego Association of Governments (SANDAG), for example, operates a nonprofit organization, SourcePoint, which sells a comprehensive package of information about the area's real estate and other economic indicators. Other local and state data sources, along with private studies and forecasts, round out the information picture.[6] Local governments still face the challenge of collecting and interpreting available data—and paying the associated costs.

To make this mass of information available to local governments in useful form, more public/private cooperation may be needed. Ways must be found to link into multiple listing systems (MLS), and to arrange access to proprietary data for aggregate trend reporting. For example, cooperation between MLSs and assessors who have cadastral data would be particularly helpful. Another need is for standardized definitions of office space types and for measurements of "quality" in housing.[7]

The use of private, proprietary data should not pose an insuperable problem if the data refers to geographic subareas within a metropolitan region. Information on a property-by-property, parcel-by-parcel basis, on the other hand, might well be sensitive.

The volatility of boom–bust cycles makes the timeliness of the data an important issue. To be responsive to change, it would be desirable to track inventories and prices quarterly. Yet this might necessitate massive—and expensive—information systems that most local governments cannot easily afford.

Another expense in the creation of such an information-sharing network is the cost of establishing an institutional context within which real estate market data can be utilized. Boulder City Manager Stephen T. Honey pointed out that there would have to be a line item in the municipal budget for this purpose as well as personnel and programs that would integrate the data into long-range land use planning and strategic planning, whether for economic development or for affordable housing. Financial and political constraints might make this difficult for many communities, yet it will be necessary if real estate market data are to be used effectively.

THE PROPERTY TAX

The fluctuation in property tax revenues that results from the boom–bust cycle can have a destabilizing effect on local governments and thus adversely affect citizens' quality of life. To counter these effects, some workshop participants identified aspects of property taxation that could be helpful tools. Suggested measures include:

- indexing tax rates to leading indicators during upswings and lagging indices during down cycles
- introducing improved and more responsive land appraisal methods
- improving quality, timeliness of local assessment practices

Multiyear averaging of property values could ease the impact of rising prices. This would require state authorization and might turn out to be a problem when a downturn begins. A provision of this sort would prevent assessments from falling as fast as market values—which would benefit local governments but might anger taxpayers. Another possibility would be a limit on the maximum percentage increase in assessed values in a given year. This would slow the impact of price rises on taxpayers. Where states have enacted such limitations, however, the results have been mixed, whether in containing the growth of spending or in taxpayer contentment. The fiscal woes of California during the early 1990s, that stemmed in part from the effects of the property tax limitation measure, Proposition 13, are a case in point.[8]

The most important step is to avoid long-term reliance upon the automatic rise in the tax base brought about by land price increases—another way of recognizing that no stage of the real estate cycle is a permanent condition.

ECONOMIC downswings with their rising unemployment and declining profits are precisely the wrong time to ask property owners to bear tax burdens any higher than necessary.

—Michael Quinn

A playground adjoining a subdivision in Sun Prairie, Wisconsin. Photo courtesy of Heartland Properties, Inc., Madison, WI

Under boom–bust conditions, the property tax's effect on real estate markets may be marginal. Owing to the lag between the time a property tax is assessed and then paid, it appears that the property tax would have a limited effect on speculative behavior. It remains unclear, moreover, how a such a tax can be structured to do its regulatory work while also being politically acceptable. In Joan Youngman's opinion, taxes on land gains or land transfers, set high enough to influence speculative behavior, would probably be unpopular with voters. Michael Quinn pointed out that local property tax policy typically aggravates real estate market swings. While one might want to soften the blow to local government revenues in "down" land markets by allowing for a lag between market shifts and assessments, this ignores several problems. State laws typically prohibit assessment at other than current market value, and the millage rates of taxing distracts may simply rise to offset any positive effect on taxes from decreased assessments. In any case, economic downswings with their rising unemployment and declining profits are precisely the wrong time to ask property owners to bear tax burdens any higher than necessary.

INFRASTRUCTURE AND THE COSTS OF DEVELOPMENT

From a local government perspective, the increased demand for services that accompanies a boom can cause serious financial problems. Steep cuts in federal resources for infrastructure have placed an increasing burden on local governments. One of the strongest tools available to local governments to limit these costs has been the ability to control the provision of public infrastructure—the roads, sewers, and water systems necessary to support growth. The timely provision of infrastructure during a market upswing allows development to proceed efficiently without major price increases. Requiring that infrastructure be built concurrently with the development that it is designed to support, however, may effectively stunt development or chase it to other jurisdictions. Such concurrency requirements now exist in both Washington and Florida.

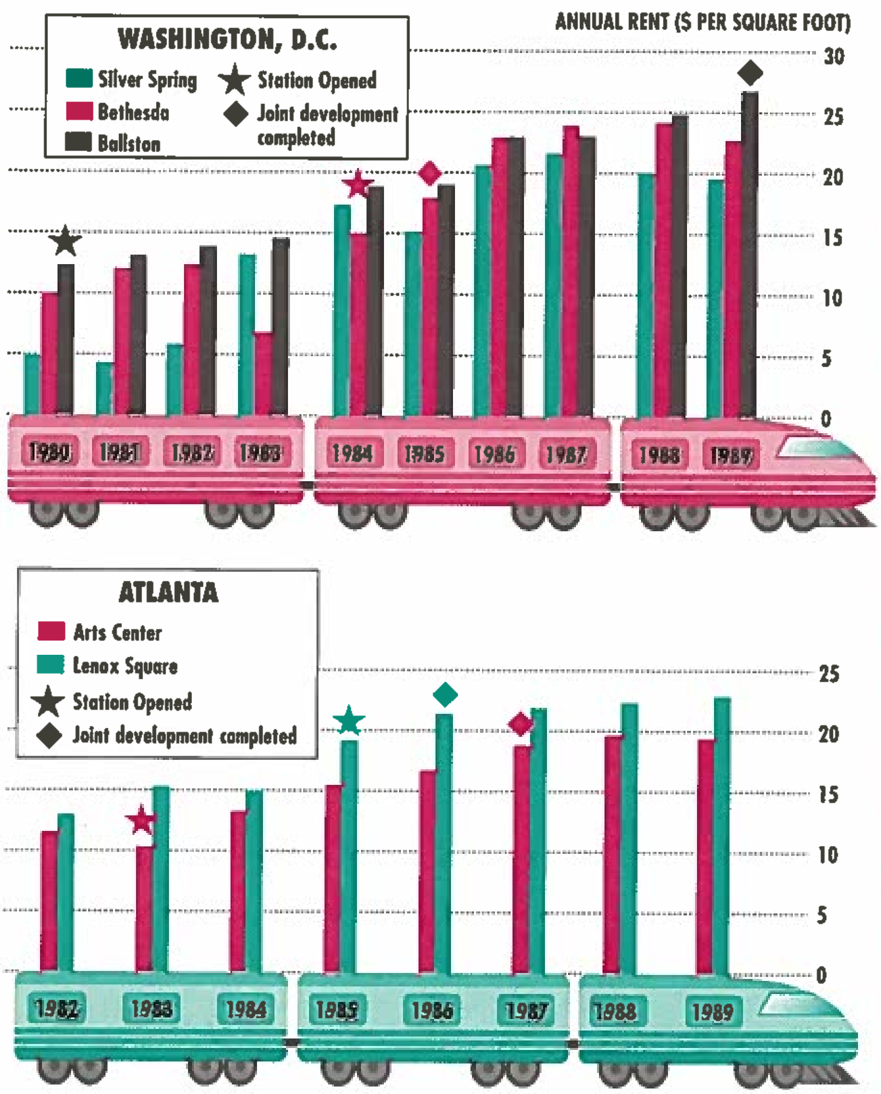
In a rising market local governments may be able to obtain nontax revenue in the form of exactions, linkage payments, and other contributions in exchange for development rights. The critical element in government planning may be a realization that the price cycle is likely to shift. Local governments need to prepare for the eventual downturn with the knowledge that these revenue sources will not last after the boom.

Sun Prairie, Wisconsin, a fast-growing suburb of Madison, developed a special assessment tool to address the cost of creating infrastructure in the community's rapidly growing subdivisions. The city issued bonds and used the proceeds to develop the drainage system. As the subdivisions were developed, special assessments applied equally to each property paid off the bonds.

Related tools available to local governments include:

- Impact fees to finance needed infrastructure: Colorado, California, Maryland, and Florida have led the way in their use. Impact fees have been the fastest growing source of municipal revenues, despite

Public/Private Partnership: Sharing the Costs and Benefits of Real Estate Development



Joint development of transit stations and adjoining office/retail properties has brought fiscal benefits to the cities of Washington, D.C., and Atlanta, which made revenue-sharing deals with developers. A study by Robert Cervero has shown that rents are higher and vacancy rates lower for these projects than for similar developments that are not located in conjunction with transit facilities. The legacy of overbuilding in commercial real estate markets still limits the wider application of joint development methods. Transit-oriented residential development, on the other hand, may offer a new arena for these public/private partnerships. Source: Cervero, 1994, 88, 92.

Joint Development and the Creation of Value in Real Estate Markets

Joint development and value capture schemes provide an efficient and equitable means to finance public infrastructure. Examples include benefit assessments, facility connection fees, and land acquisition ground leases. Transit authorities in Washington, Toronto, and Miami have leveraged rail investments to partially recoup investment costs using such tools. The key is for the local government to have an entrepreneurial organization that proactively seeks out joint real estate development opportunities. Today, most opportunities lie with residential and mixed-use projects. The Bay Area Rapid Transit (BART) system around San Francisco, for example, recently negotiated a deal with several housing developers to build midrise apartments on existing park-and-ride space at two rail stations. Rising land values have made this land conversion economically feasible. Although, in the near term, park-and-ride lots discourage commercial development, over the long term they can be an asset. They constitute a large, preassembled, open tract of land under single ownership, which is easily developed. As such, they function as a form of de facto land banking. BART uses lease revenues to pay for replacement parking lots with parking garages and will enjoy the added benefit of having many more potential revenue-paying customers living near stations. Washington, D.C.'s metropolitan transit authority worked out a similar program at the Ballston rail station in Arlington, Virginia in the mid-1980s. Today, around 3.5 million square feet of commercial, residential, and mixed-use development sits atop the Ballston station, turning a once-moribund neighborhood into the city's most densely populated—and one of its most prosperous—areas.[9]

the real estate slowdown that persisted in many parts of the country.

• Special assessments and tax increment financing for funding regional infrastructure.

Another mechanism for defraying infrastructure costs is joint development: these public/private partnerships enable local government to share in the rise in land values generated by public investment.

LONG-RANGE FINANCIAL PLANNING

Longer-term financial planning would help local governments to weather the ups and downs of the real estate cycle. Communities must seek long-term financial stability within the cyclical fluctuations of the local economy. An important step in this effort, both symbolic and practical, is the adoption of a five-year financial plan.

We need a way to keep the issue of the boom and bust cycle before the city council and before the public—mechanisms to institutionalize a long-term view of public finance in relation to the real estate cycle.

—Stephen T. Honey

As one city manager put it, "We need a way to keep the issue of the boom and bust cycle before the city council and before the public—not just budget forecasting, but long-range comprehensive planning, strategic plans for economic development, and affordable housing—mechanisms to institutionalize a long-term view of public finance in relation to the real estate cycle." Such a program might include:

• capital planning and budgeting

• retention of excess revenues generated during booms in reserve funds for use in subsequent periods of bust

Clearly, it is desirable for local governments to avoid basing recurring operating expenditures on property and other taxes that respond to construction and new development activities. The techniques of value capture and related development exactions discussed above can be an integral part of such a long-range approach to finance.

Notes

1 James D. Vernor, "An Introduction to Risk Management in Property Development," (Urban Land Institute, 1981) 10–11.

2 John DeGrove and Deborah Miness, *The New Frontier for Land Policy: Planning and Growth Management in the States* (Lincoln Institute of Land Policy, 1992) 137–160.

3 Lynne Sagalyn, "Leasing: The Strategic Option for Public Development," (Lincoln Institute of Land Policy, 1993) working paper.

4 James M. Libby, Jr., "The Vermont Housing and Conservation Trust Fund: A Unique Approach to Developing Affordable Housing," *Clearinghouse Review* (February 1990); Vermont Housing and Conservation Board, *Report to the General Assembly* (State of Vermont, 1994).

5 See, for example, James C. Nicholas, *State Regulation/Housing Prices* (Rutgers University Center for Urban Policy Research, 1982) chapter 3; George R. Parsons, "The Effect of Coastal Land Use Restrictions on Housing Prices: A Repeat Sale Analysis," *Journal of Environmental Economics and Management* 22 (January 1992) 25–37; and John D. Landis, "Land Regulation and the Price of New Housing: Lessons from Three California Cities," *Journal of the American Planning Association* 53 (Winter 1986) 9–21.

6 A. Quang Do, "Inquiry," *Urban Land* (April 1994) 96. Research publications of the various Federal Reserve Banks around the nation also frequently feature analyses of regional real estate market conditions. See also Godschalk, et al., *Land Supply Monitoring: A Guide for Improving Public and Private Urban Development Decisions* (Oelgeschlager, Gunn & Hain, 1986).

7 See the discussion of the role of market information in J. Thomas Black and William E. Houser, "Moderating Cyclical Overbuilding in Commercial Real Estate," in *Land Use in Transition: Emerging Forces and Issues Shaping the Real Estate Environment* (Urban Land Institute, 1993) 45.

8 See, for example, Frederick Stocker, *Proposition 13: A Ten-Year Retrospective*, (Lincoln Institute of Land Policy, 1991) and William Fulton, "California Fiscal Woes: State-Local Tug-of-War Continues, Land Lines 6 no. 1 (January, 1994).

9 Robert Cervero, "Rail Transit and Joint Development: Land Market Impacts." *Journal of the American Planning Association* 60 no. 1 (winter) 83–94; *Transit-Supportive Development in the United States: Experiences and Prospects* (Federal Transit Administration, 1993).

Sustainable Futures Strategies for Communities

BEYOND THE SPECIFIC TOOLS AND TECHNIQUES DIRECTED AT METROPOLITAN LAND and real estate markets, there are a variety of policies that have direct bearing on the real estate development process and its central place in determining the present and future character of communities. These include:

- widening citizen involvement in defining the values and goals that guide policymakers' decisions regarding real estate markets
- developing a "public balance sheet" to enable communities to judge the social costs and benefits of further growth
- using fiscal impact analysis to assess the property tax effects and financial costs or benefits of development
- analyzing the long-term fiscal, social, and land use consequences of economic development programs

Each of these in turn relates to the problems of boom and bust. The more a municipality knows about its own long-term needs, and the more skeptical and comprehensive its analysis of a proposed development, the less likely it is to permit overbuilding, to extend infrastructure unwisely, or to enact self-defeating tax abatements to attract investment. Such measures can also help in building wide support within the community for long-range land use planning.

DEFINING COMMUNITY VALUES

For local officials to work together successfully with the private sector and with other levels of government to manage problems arising from the boom–bust cycle, they need to know what the public supports—where there is consensus or disagreement on economic growth and real estate development, tax equity, and so on. If possible, local government should regularly assess community values through a process of scientific surveying and focus group discussions.

Similarly, citizen involvement in planning and real estate development decisions can insure a broad base of support for

Point-Counterpoint: How involved should local government be?

The tools and techniques available to local governments for shaping land and real estate markets are comparatively weak. To some degree this reflects the commitment we have made to minimize the intrusion of local government into our lives. In part it is because local government resources are puny in comparison with the wealth that resides in the private sector. —*Michael Quinn*

The answer for dealing with cycles of real estate and industrial investment in cities is obvious: a return to a central focus on the common good. More democratic control over the quality of life in communities. More direct input into housing development. More control over flight-prone corporations and real estate investors. —*Joe Feagin*

In New Hampshire, the Community Stewardship Program assists rural communities in defining a vision to guide future development. Rollinsford, N.H., residents analyze land use during a "charrette" design/planning session. Photo courtesy of J. Berry, N.H. Office of State Planning

projects to meet community needs such as affordable housing. Such involvement can also lessen the likelihood that public subsidies will be extended to private projects that in the long run might not benefit the community as a whole.

A prerequisite for public involvement is public education. As one contributor put it, "It seems to me somebody has got to take responsibility for educating the public—getting information out, getting the public involved in participatory planning and discussion. Do we really want this company to come, even if it brings three thousand jobs, if it's going to cost us thirty million dollars in sewage and water problems down the line? Those decisions happen without public discussion as a rule. You're lucky if the council gets into a discussion of it. And it seems to me that in a democracy local governments, state governments, all the way up the line, have this educational responsibility."

Among issues that workshop participants identified as being important topics for such education were:

- globalization, corporate location decisions, social costs of growth, and the role of these elements in the boom–bust cycle
- cyclical nature of markets—to discourage public expectations that a boom will be permanent and to foster acceptance of measures to prepare for a downturn
- factors contributing to value

"PUBLIC BALANCE SHEET": SOCIAL COST ACCOUNTING

Communities today routinely evaluate the fiscal and environmental impacts of development. The results of such studies may motivate the adoption of measures to restrain a real estate boom. Communities can broaden such studies to illuminate the social costs of the boom–bust cycle as well. A method that tallies these costs, showing clearly what a community stands to gain and lose in quality of life as the residents define it, would be of crucial importance to public officials in their decisionmaking. The public balance sheet, an analytical tool envisioned by some urban advocacy groups, would scrutinize the social costs and inefficiencies of urban development: shortage of affordable housing, large numbers displaced by large-scale development and left without suitable housing, chronic racial segregation, worsened traffic congestion, air and water pollution, constrained choices for consumers because of real estate development decisions about places and types of housing, and taxpayer burdens that result from tax concessions to attract investment.

This concept of the public balance sheet is not new, but so far it has not been widely applied. One example is a study of attitudes toward growth in Phoenix, Arizona. The Center for Business Research at Arizona State University conducted a survey of business owners and managers there.[1]

The results indicated that even this group did not uniformly favor the high rates of growth associated with the city's population boom during the 1980s. The owners of small businesses and those who had lived in the area for more than 10 years, for example, were more likely to be concerned about the potential costs of new growth than were those who worked for large firms or were newcomers to Arizona. Although respondents rated growth as beneficial to business, they also rated

Do we really want this company to come, even if it brings three thousand jobs, if it's going to cost us thirty million dollars in sewage and water problems down the line?

higher taxes, traffic congestion, pollution, and urban sprawl as problems to be reckoned with, and criticized public planners for failing to curb these side-effects of growth. While the survey did not attempt to assign specific costs to alternative patterns of development for Phoenix, it did show how to get beyond the usual fiscal impact studies and analyze broader perceptions of growth. The varying perceptions of stakeholders in urban development are themselves important factors in the political decisions that guide such development.

Community development advocates could use the balance sheet approach to highlight the often substantial social costs created by some development projects. Real estate developers could contribute to defraying these costs, much as they currently do with the infrastructure costs associated with development.

FISCAL IMPACT ANALYSIS

Many communities in the early stages of a real estate boom welcome growth in the expectation that it will bring in more property tax revenues than it will require in municipal services. Fiscal impact analysis enables communities to develop more precise estimates of these effects. For example, the American Farmland Trust, in its effort to show that preserving farmland or open space is less costly to rural communities than residential development, has developed a method to determine the cost of community services for different land use types.[2] Detailed, quantitative fiscal impact studies, set forth in works such as *The Fiscal Impact Handbook*, by Robert Burchell, offer a more comprehensive approach to assessing the impacts of growth.[3] In the context of the boom–bust cycle, fiscal impact analysis is especially important in showing the mutually reinforcing interrelations between industrial and commercial development on the one hand, and residential development on the other.

Any variety of growth which initially triggers the boom will inevitably set off a wave of responses in other sectors of the real estate market, leading to the fiscal pressures or benefits associated with that growth as well. For example, a major residential development will bring in commercial enterprises that provide services to residents, and so on.

Fiscal impact analyses which take into consideration the dynamics of the markets will be increasingly important. These analyses must account for the portion of property values resulting from a real estate boom that will probably evaporate in the bust phase. Fiscal projections must incorporate such declines in value.

Social Costs/Benefits of Urban Growth

Costs	Benefits
To Businesses	
Increased competition	Improved market potential
Higher costs for land, labor utilities	Better availability of labor
Higher taxes	Increased access to business services
Increased travel time	Improved efficiency and productivity
To Individuals	
Higher taxes	Higher incomes
Increased living costs/housing prices	Wider choice of employment/housing
Psychological and physical stress	Greater cultural opportunities
To Society at Large	
Higher crime rate	Economies of scale for urban services
Increased demand for social services	Broadened tax base
Increased homelessness	Increased rate of innovation/invention
More traffic congestion and accidents	Improved medical care and education
Environmental damage	
Air/water quality problems	
Light, sight, and noise pollution	
Higher government costs	

During a real estate boom, the many costs of growth many outweigh the benefits usually associated with increased urban size. Source: Adapted from Rex, 1987, 5

ECONOMIC DEVELOPMENT

Booming communities may want to be very selective about additional growth. Communities in economic distress after a bust in real estate markets may be tempted to do almost anything to attract growth (see "Tax Abatements" below). In either case, communities must weigh carefully the costs and benefits of programs to foster economic development. Such investment can exacerbate the boom–bust cycle and burden local government with long-term costs. As in the case of metropolitan Boston, skyrocketing real estate prices can eventually be a factor in a region's loss of economic competitiveness

Two Approaches to Economic Development

In 1981 Portland, Maine, invested $15 million ($30 million with interest) in a scheme to entice the Bath Iron Works shipbuilding company to open a major repair facility on the city waterfront. Twelve years later, following the end of the Cold War, the facility's operations have been significantly scaled back. Although it did provide over a thousand jobs for Portland during the late 1980s, Bath Iron Works did not fulfill the initial expectations that it would act as a stable employment source during the recession that followed.

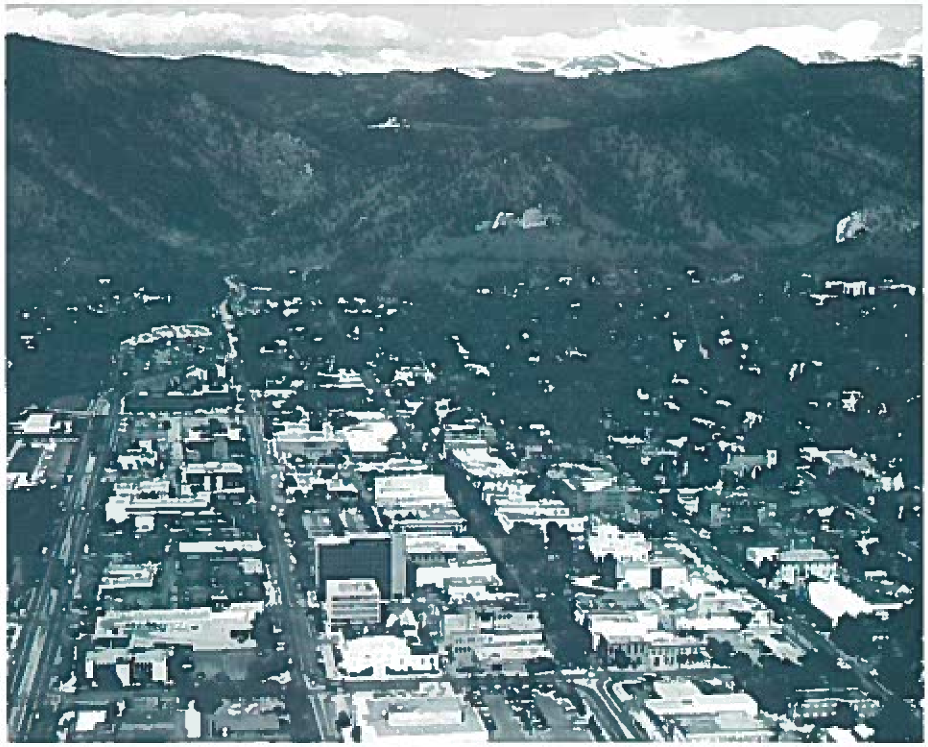
In contrast to this investment in a specific, large-scale project, the city of Boulder, Colorado, has pursued a different strategy. At the same time that Portland wagered its scarce resources on the shipbuilding concern, Boulder invested over $30 million in its public open space program to preserve the scenic beauty of the area's Rocky Mountain foothills environment.

Initially members of Boulder's business community opposed the open space program. Now, twelve years later, many of these individuals point to the program as a major inducement to business development in the area. And, ironically, it was the Boulder business community that provided critical support for a dedicated countywide sales tax increase to finance additional open space purchases.

Clearly, quick-fix economic development strategies are fraught with peril. The case of the Bath Iron Works underscores the risk of basing economic development expectations on specific industries that may be vulnerable to cyclical downturns or decline resulting from large-scale economic trends. It is much more responsible to invest community resources strategically in long-term programs that strengthen the community's values and are consistent with its vision.

and business decisions to locate elsewhere.

One promising exception seems to be joint development projects in which the public and private sectors share the risks and benefits of specific developments. Robert Cervero cited as an example the



Two communities seeking to attract businesses and jobs, Boulder, Colorado, and Portland, Maine, adopted very different investment strategies. Boulder *(above)* sought to enhance scenic values and recreational opportunities by investing in open space acquisition; Portland gambled that the Bath Iron Works shipbuilding/repair facility *(below)* would be a strong source of jobs.
Photos by Alex MacLean, Landslides, Boston, Mass.

Del Norte Place project, codeveloped by the redevelopment agency of El Cerrito, California, and a private land holder. Located next to a Bay Area Rapid Transit (BART) station, the project contains a 135-unit apartment complex with 19,000 square feet of ground-floor retail. This is just the kind of mixed-use development near transit that "new urbanists" and many planners passionately promote. Making the project work required overcoming the reluctance of banks to loan to projects without a track record, like mixed-use, transit-oriented developments. The redevelopment agency therefore became an equity partner in Del Norte Place, leasing land to the developer for $1 per year and 15–20 percent of cash flow. The agency also underwrote nearly $10 million of the $14 million in infrastructure improvements through the use of tax increment financing.[4]

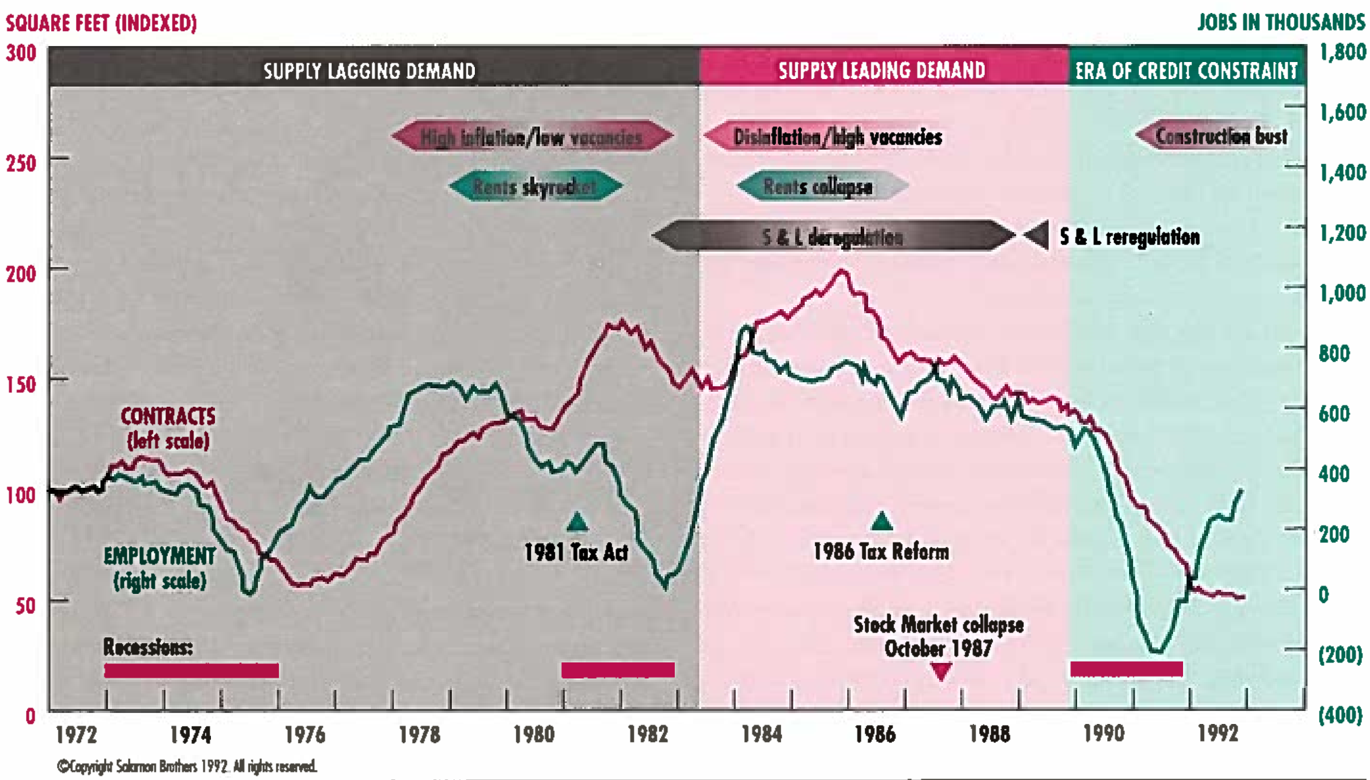
Beyond all these examples lies the larger question of sustainability. How well can economic diversification and other strategies insulate a city or region from national and global shifts in economic investment? In an analysis of this problem as it affects the market for office real estate, John M. Clapp distinguishes between "basic" employment that generates wealth and jobs for a region by producing goods to be exported and "nonbasic" employment that provides services to a region. Jobs of the latter type depend on the health of the basic employment sector. To maintain a steady demand for office space in a region, local governments should seek a mix of business types and sizes, so that decline in one sector will not undermine the local economy.[5]

Designing a local futures strategy will depend on the assets a government has at hand, and, more important, on the political consensus it can corral. Much economic activity today is geographically

Economic Stability and Landscape Change in Charlottesville

Stability may be easier to achieve in communities where land development has not become an end in itself. Stability also seems more prevalent in localities with economies made "recession proof" due to the presence of a significant government sector (one not related to the defense industry), and/or the existence of a number of small, locally owned, and diversified private employers not dependent upon a single sector of the economy. The Charlottesville, Virginia, area provides a good example. Substantial government employment sustains consistently high employment rates. And the area's scenic, cultural, and historical resources attract retirees and tourists, both of whom bring in more in revenue than they demand in services.

Office Markets and the National Economy: Construction Contracts vs. Employment Growth, 1972–92



A combination of factors, including federal tax and banking policies, stimulated a boom in office construction during the 1980s. As the graph shows, however, declines in employment growth and the onset of recession precipitated the construction bust of the early 1990s. Source: Clapp, 1993, 59.

footloose, that is, businesses seek to locate where they can minimize labor and other costs.

As an alternative to economic development programs targeted at specific businesses or industries, which may prove fickle in their devotion to any particular geographic location, communities can refrain from subsidies to specific economic development projects and instead try to attract investments that enhance the general quality of life. These investments add to the area's attractiveness as a place to live and work, and thus further enhance its appeal to businesses and new residents.

One factor that can trigger a speculative boom in real estate is the over-stimulation of economic development in localities where unemployment rates are already low. Although it may seem that such regions enjoy enviable conditions, such conditions can create problems for land and real estate markets. For example, where unemployment is unusually low, as in the Charlottesville, Virginia, area, labor for particular kinds of businesses may be in short supply. Housing, too, can be scarce in certain price ranges. An area may face the difficult choice of rejecting businesses attracted by the area's stability and prosperity because of the growth pressures that those new businesses may create. Growth pressures include the accelerated conversion of open space and agricultural land, escalating housing prices, and increased demand for government services.

> *THE development industry may act as a flywheel perpetuating population growth in order to maintain or increase the demand for developed land. Such a spiral of development activity may only end when the supply of developed land significantly outstrips demand, leading to a collapse.*
>
> —*C. Timothy Lindstrom*

To address this problem, a community can undertake labor-base analysis to identify the skills, job needs, and levels of unemployment and underemployment in the local labor force. This will help in locating new business and industry and in assessing what kind of impact new business and industry will have on a locality. Will a given firm actually employ current residents of the area, or will it attract new residents, thus increasing population and upward pressures on land and real estate prices?

Timothy Lindstrom pointed out a related factor which can lead to a real estate boom: the pressure for growth-stimulat-

Growth and Government in the Age of Anxiety

Like the economy at large, state and local governments are plowing into an era of transformation. But some insights can be gained by surveying where growth is occurring now and will likely occur in the future. Revenue and regulatory systems are increasingly critical factors in the location decisions of residents and businesses. Governments are struggling with the fiscal difficulties of having too many people and too few jobs. Thus a major theme in state and local finance is how government finance can be structured and tweaked to promote economic development.

States with high costs, including both high taxes and entangling regulatory snares, took the biggest hit in the latest recession. Growth in the midst of the national recession did occur in the Rocky Mountain states, the Southeast, and parts of the Central Plains. All these regions have low to moderate appetites for public services, and tax bills to match. Reversing the huge migration to the East and West Coasts that occurred in the three preceding decades, the latest wave of growth has headed back for the hills. In the Far West, two factors propel the latest wave of growth: the economic vitality of the Pacific Rim, and the massive outmigration by middle-class whites from Southern California in response to that region's economic difficulties and racial and ethnic tensions. Oregon and Washington are benefiting from both trends. The fight over jobs is nowhere more evident than in southern California, where firms are fleeing to the deserts and mountains of Arizona, Nevada, New Mexico, Utah, and Colorado. California benefited greatly from a surge of immigration in the 1980s, when Los Angeles became the manufacturing center of the country. It is now hemorrhaging jobs. Suffering the triple whammy of high business costs, defense spending cuts, and military base closures, it is running out of the wherewithal to finance its rapidly growing dependent population.

In the Southeast, the draw has been low taxes and a business climate that usually welcomes development. As its primary economic base has broadened, the Southeast now is enjoying the natural development of a second wave of service industries. Foreign investment also is playing an increased role in the region, as in the case of car manufacturing. The Japanese came early to Tennessee. More recently BMW has come to South Carolina, and Mercedes Benz has announced plans to build a plant in Alabama.

Not surprisingly, these growth nodes are not necessarily attached to the central cities. In the 1980s, the places of choice for development were the closer-in areas that attracted existing workforces from downtown areas to the more salubrious and convenient locations in the suburbs. These areas, with new infrastructure in place and first-class office and industrial space ready to lease, will be the setting for the next cycle of growth. In the more remote regions, the existence of university and research installations helps develop footholds for new, high-tech businesses, which are willing to seek out low-cost, low-hassle places to operate and live. An outstanding example of the sylvan setting for silicon is the Research Triangle in North Carolina. Recently, university towns such as Boulder, Austin, and Albuquerque have been growing apace, with much of the influx coming from California.

ing action which may be brought to bear upon local officials by those with an economic stake in land development. Under such circumstances, land development can become an end in itself, triggering several consequences:

- a cycle of rising land values
- inflated economic expectations on the part of rural landowners inconsistent with traditional rural uses
- heightened involvement by developers in local elections and campaigns, which may increase the influence of a speculative agenda in local land planning
- pressure for zoning exceptions and amendments to facilitate private speculative objectives which are inconsistent with established plans
- development industry pressure for the promotion of more economic development

The development industry may act as a flywheel perpetuating population growth in order to maintain or increase the demand for developed land. Such a spiral of development activity may only end when the supply of developed land significantly outstrips demand, leading to a collapse. Such a collapse may occur because of some outside force, such as increasing mortgage interest rates, or the simple inability of a locality to continue to attract enough growth to sustain the boom.

Joe Feagin also identified patterns of decisionmaking among urban elites as a factor in the boom–bust cycle. According to this urban-sociological approach, these elites form "growth coalitions" of bankers, corporate executives, real estate developers, and politicians that orchestrate the scope and pace of real estate development within a given metropolitan area.[6] This analysis raises questions about equity and public participation in real estate development decisions—which are important community-wide issues.

DEBATING TAX ABATEMENTS

In many areas, communities seeking to bolster their economies in the wake of a boom have used tax abatements to attract and retain businesses. The popularity of this tool has grown. It can be difficult to demonstrate, however, that any one abatement helped to achieve a particular economic development goal. For this reason, tax abatements in general are not necessarily a reliable means of securing long-term economic sustainablility for a region.

The practice of granting tax abatements has become so widespread, and the competition among municipalities and regions to attract businesses so intense, that companies have perhaps come to take these concessions for granted. Ultimately, there must be other good locational reasons to induce a company to move to a given place. And even then, there is never a guarantee that in five or ten years the company will not go elsewhere in an effort to further reduce its operating costs.

State and local tax burdens and the mix of government services really do count when it comes to locating economic activity. The last recession put all states into the job retention and job search business. Engendering a favorable "business climate" is no longer enough. The old rule of thumb was that the state or locality could afford to give up the direct taxes on business because they would not have been collected had the business not located there. Now, the dollar value of the location concession is more likely to be what the business brings in by way of local purchases and wages, because if business doesn't come (or stay), these will not be available either. That is a high price tag, but nervous communities are increasingly willing to pay it.

As a means of enforcing corporate responsibility in this regard, Joe Feagin suggested that local governments insist on the payback of tax credits or abatements if a company relocates out of a community before a certain number of years has elapsed. Exactly how such agreements could be negotiated or enforced remains uncertain.

John Petersen described two possible outcomes of the interjurisdictional competition to attract businesses through tax abatements and other concessions. In one commonly held view of the issue, full-scale competition among governments for jobs is becoming a key determinant of the public service menu and its cost structure. The high value-added businesses that communities want the most, however, are exceedingly footloose and will choose low-cost, uncongested environments for living and working. Therefore, production will increasingly go to low-cost areas.

> *REGIONS cannot compete if their central cities are rotting. Thus economic self-interest, it is hoped, will promote more rational and compassionate policies of interregional cooperation in land use and financing decisions.*
>
> —*John Petersen*

The counter argument, especially for the older cities, is that entire regions need to pull together to compete effectively (Neal Peirce's thesis in *Citistates*). Regions cannot compete if their central cities are rotting. Thus economic self-interest, it is hoped, will promote more rational and compassionate policies of interregional cooperation in land use and financing decisions. Overarching (and expensive) federal leadership may be needed to accomplish this—yet that leadership is not likely to be forthcoming.

In either event, John Petersen predicted, the next stage of economic and real estate development will come in the outer suburbs (so-called "edge cities") and more remote centers around the nation that are uncongested, green, and relatively cheap. That appears to have happened in the early 1990s, and Petersen does not see the trend reversing.

Notes

1 See the survey of readers on urban growth conducted by Arizona State University's Center for Business Research, as reported in Tom R. Rex, "Businesses Enjoy Benefits: Individuals, Society Pay Costs," *Arizona Business* 34 no. 8 (August 1987) 1–7.

2 For information on "cost of community services" programs, contact the American Farmland Trust, 1920 N Street NW, Washington, DC 20036 (202) 659-5170.

3 See Robert W. Burchell, David Listokin, and Robert W. Lake, *The Fiscal Impact Guidebook: Estimating Local Costs and Revenues of Land Development* (U.S. Dept. of Housing and Urban Development, Office of Policy Development and Research, 1979).

4 Robert Cervero, Michael Bernick, and Jill Gilbert, "Market Opportunities and Barriers to Transit-Based Development in California," Draft Report, University of California Transit Research Program, University of California at Berkeley (June 1994) 36–37.

5 John M. Clapp, *The Dynamics of Office Markets: Findings and Research Issues* (Urban Institute Press, 1994) 68–73.

6 See, for example, Joe R. Feagin and Robert Parker, *Building America's Cities: The Urban Real Estate Game* (Prentice Hall, 1990); and John R. Logan and Harvey Molotch, *Urban Fortunes: The Political Economy of Place* (University of California Press, 1987).

Summary and Conclusion: The Boom–Bust Cycle in Context

WHEN IT COMES TO CITIES AND THEIR SUBURBS, AMERICANS HAVE RARELY QUESTIONED the idea that more growth is better. Although some suburban and rural communities have sought to limit growth and preserve community character, the large-scale processes of economic transformation and real estate development have washed inexorably over U.S. metro areas again and again. These episodes of growth have brought freeways, malls, condo villages, and office parks to the urban fringe. They have boosted the profile of aging downtowns with glitzy highrise structures, while businesses, public investment, and the middle class have continued to drain out of center cities and urban neighborhoods to the suburbs and beyond.

The ebb and flow of the real estate cycle have been an integral part of the urban development process in many parts of the U.S. Yet real estate booms in which prices increase steeply and quickly then crash dramatically have occurred most often in areas with rapid population growth along with growth in demand for office and retail space and housing. These growth pressures then interact with constraints on land supply, and with the psychological dynamics of speculative investment in land and real estate, to produce the characteristic boom–bust profile. Other regions of the country, particularly the Midwest, where developable land is plentiful, and where economic and demographic change over the last decade have been more gradual, have experienced relative price stability in real estate markets when compared with metro areas along the East, West, and Gulf coasts.

In areas where speculative overbuilding does take hold, the dynamics of the boom–bust real estate market can become a major factor in driving regional economies both upward and downward. Real estate market dynamics affect housing affordability and income distribution, may foster widespread sprawl development patterns, and can undermine local government's fiscal health.

Local governments can use a range of options to address these problems and moderate the extremes of the boom–bust cycle: comprehensive land use planning, land and real estate market information systems, improved property tax assessment systems, and long-range budgetary planning.

These measures are most likely to be effective when used in conjunction with an overall vision of a community's future. Broad-based public participation in the planning process as well as public education in the dynamics of speculative cycles in real estate are an essential part of building such a vision. In addition, a "public balance sheet" that itemizes the social costs of real estate development decisions could help to highlight costs that ordinary fiscal impact analyses may neglect. Finally, communities seeking to revitalize their economies during the bust phase of the cycle need to consider both the pros and cons of economic development programs and the use of tax abatements to attract businesses and jobs.

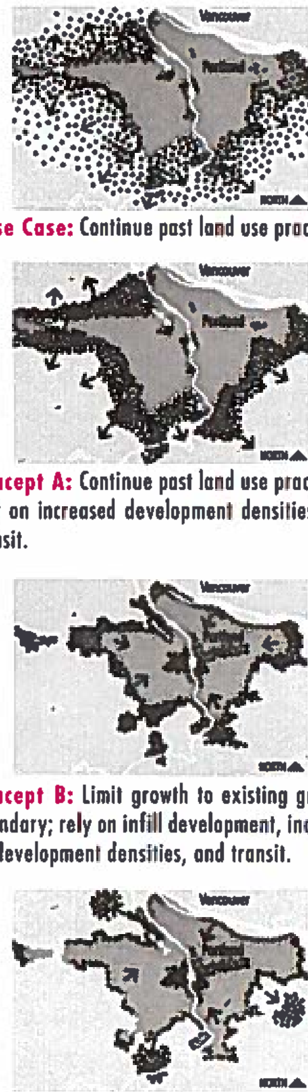
Students of urban form have attempted to discern orderly patterns within "the sprawl." The underlying assumption is often that the economic logic of locational choices should, of itself, generate workable, livable places. The persistence of a whole range of urban problems, however, suggests that the optimal urban form has yet to be attained, and that the social and environmental costs of the boom–bust cycle, as our society's prevailing mode of development, are too high. America's center cities continue to suffer the effects of poverty, racial segregation, and violence. In many suburban areas other problems proliferate: traffic congestion, air pollution, and the blight of "placelessness" as office and retail complexes and parking lots obliterate existing natural and cultural landscapes.

This report has attempted to outline some of the methods that can be effective in addressing, within existing arrangements of property rights and governance, those problems that stem specifically from the boom–bust cycle. The scale and complexity of the issues are daunting, yet some communities have undertaken the difficult challenge of linking private real estate development decisions to long-term public goals. For example, some communities have embarked on innovative public-private partnerships, such as joint development of housing, parking, and office space around transit facilities, or leasing publicly owned land to private developers. These efforts have helped to achieve balanced real estate development that is profitable to the private sector, fiscally beneficial to local government, and consistent with land use planning objectives.

On the scale of entire metropolitan areas, regional government with comprehensive land use powers holds some promise as the key to fusing economic sustainability—in which stable land and real estate markets would play an integral part—with social and environmental goals. This concept remains politically controversial. It seems to be a qualified success, however, in the Portland, Oregon, metropolitan area, where an elected regional government, an urban growth boundary, and integrated land use and transportation strategies have been implemented.[1]

Ultimately, metropolitan form is the result of the complex interactions of an ever-changing economy, systems of land use governance, taxation, and property rights, and physical design choices based on both human needs and the natural environment. To limit the effects of the boom–bust cycle in this context, and to maximize the value of real estate development's contribution to the quality of life in our urban areas, we must envision new relationships among these elements and make new choices.[2]

Getting a Handle on Growth in Portland Metro, Oregon



Base Case: Continue past land use practices.

Concept A: Continue past land use practices; rely on increased development densities and transit.

Concept B: Limit growth to existing growth boundary; rely on infill development, increased development densities, and transit.

Concept C: Combine selected features of A and B; rely on infill development and concentrated development outside growth boundary.

Growth pressures and the availability of undeveloped exurban land might ordinarily produce the land use development pattern at top. Portland Metro's use of urban growth boundaries permits several other options that can accommodate growth while contributing to other objectives, such as preserving agricultural land or mitigating traffic congestion and air pollution. Source: Portland Metro

Notes

1 See the discussion of metropolitan governance in chapter 9 of John DeGrove and Deborah Miness, *The New Frontier for Land Policy: Planning and Growth Management in the States* (Lincoln Institute of Land Policy, 1992). See also the analysis of the effects of Oregon's state-level and regional planning policies on land markets and values in Gerrit Knaap and Arthur C. Nelson, *The Regulated Landscape: Lessons on State Land Use Planning from Oregon* (Lincoln Institute of Land Policy, 1992) 62–68. A similar attempt to control sprawl by promoting higher density urban redevelopment and infill in the burgeoning Seattle metro area, on the other hand, has encountered difficulties in coordinating governmental actions and in persuading developers and residents to support the program. See Douglas R. Porter, "No Easy Answers in King County, Washington," *Urban Land* 53 no.7 (July 1994) 29–35.

2 Anthony Downs, *New Visions for Metropolitan Growth* (The Brookings Institution/ Lincoln Institute of Land Policy, 1994).

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