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Top Ten State and Local Strategies to Increase Affordable Housing Supply

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http://www.fanniemaefoundation.org/programs/hff/v5i1-topten.shtml

Surveys show that Americans are increasingly concerned about the availability of affordable housing, and yet housing tends to be low on most policy agendas. One reason might be that policy makers mostly think of addressing housing needs by spending money on subsidies—but there are in fact many policy and program actions that can stimulate production of more affordable housing at little or no cost. It is imperative that housing move up on the policy agenda to meet the growing challenge posed by changing demographics.

Consider these facts that illustrate our nation's evolving housing needs:

• Despite the 1990s economic boom, the supply of housing fell 30,000 units below demand.

• Housing overcrowding increased by one-third in the same decade.

• It is estimated that by 2010, the number of families with children under 18 will fall by 3 percent, the number ofnonfamily households will increase by 17 percent, and households without children will increase by 19 percent.

• The baby boom generation is aging, and the number of empty-nester households (ages 55 and older) is expected to double between 2000 and 2020. Some studies indicate that most of this group prefers town house or condo-style housing to traditional single-family detached homes.

• Because of the changing ethnicity of the U.S. population—much of it driven by immigration—the number of minority homeowner households will grow by 10 million from 2000 to 2020, with another 15 million new minority renter households.

As housing supply lags demand, essential workers often cannot afford to live in the communities where they work. My analysis of suburban communities in metropolitan Atlanta, for example, shows that production of housing affordable to school teachers and public safety officials in counties where they work can meet only about half the demand.

Frustrating efforts to expand housing supply to meet demand is NIMBYism. Not-in-my-backyard sentiments discourage especially moderate- to high-density housing. This may be one reason why the share of total housing units in structures of five or more units fell during the 1990s despite apparently growing demand.

In the face of growing demand for housing, especially of somewhat higher-density forms, but given a weak economy that shows few signs of returning to its 1990s level of production, combined with NIMBYism, what can be done to meet the housing needs of the next decade or two? Perhaps two things: 1) Recharacterize housing needs to get to YIMBYism ("Yes, in my backyard") and 2) Identify options to better meet housing demand through mostly nonsubsidized state and local solutions.

Who Needs Affordable Housing?
Let us consider how public policies and discussions characterize housing needs. First we had "public housing"—operated by the government, with some infamous and costly failures—a term that now carries a lot of negative baggage. Currently, the emphasis is on "affordable housing," which is supposed to mean privately provided housing affordable to the masses—but this concept seems to have gotten stuck with the subsidized housing tar baby. Inevitably, subsidized housing will continue to be needed for the lowest-income populations—but in fact, much of the housing constructed today is not affordable to most middle-income households. Often overlooked are the housing needs of productive individuals or families whose life-cycle situation or income, or both, limit their housing options in the current marketplace. The term "workforce housing" is gaining popularity in reference to school teachers, public safety professionals, medical technicians, and the like. It does not, however, include the fastest-growing group: retired households on fixed incomes, who can be labeled collectively as "pensioners." Thus, focusing attention on "workforce and pensioner" housing needs may be the most effective communications approach to get the public to say "Yes, in my backyard" to affordable housing.

Nonfederal Solutions with Limited or No Subsidies
What can be done to expand the supply of housing affordable to working families and pensioners? The federal government is probably tapped out, shifting the burden to state and local governments. But it needn't be viewed as a burden: A number of innovative, mostly nonsubsidized, steps can be taken to stimulate the private sector to build more workforce and pensioner housing. In many cases, simple actions such as code or zoning changes can make it possible for more affordable homes to be built; in other cases, a modest investment can offer a big payback in more housing. Here are my top ten innovations that state or local governments can use to address the housing need–production mismatch:

Changes in Local Codes, Zoning Regulations, Fees, and Procedures

1. Streamlined Permitting. Oregon and Florida provide two examples of streamlined permitting to promote production of housing affordable to working families and pensioners. Oregon may have the most favorable climate in the country for facilitating affordable housing production. State law there requires local governments to meet their "fair share" of the region's affordable housing needs, adopt clear and objective (rather than vague and subjective) review standards, and render land use decisions within four months of application. A special Land Use Board of Appeals hears appeals and gives decisions expeditiously—faster than in any growing state in the nation. Florida is more specific: Any housing development project meeting broad definitions of "affordability" is automatically entitled to expedited review by local government, even to the point of delaying decisions on other development proposals technically ahead in the queue.

2. Accessory Dwelling Units. Known variously as "granny flats," "garage-over" units, and the like, accessory dwelling units (ADUs) can provide affordable rental housing options, especially for young or elderly singles. But ADUs are commonly prohibited by local codes, apparently because homeowners fear renters or higher densities in their neighborhoods. Some communities appear to be rethinking their approach, however. Portland, Oregon, has developed a model for ADUs for different types of neighborhoods based on a variety of design templates that minimize neighborhood impact. The State of Washington goes one step further by requiring jurisdictions with more than 20,000 residents to adopt ADU ordinances.

ADUs may be added to an existing home, such as through a basement conversion, or be included in a newly constructed home. *New Urban News* reports that many "New Urbanism"—style developments are offering ADUs in new homes, often above a garage or on an alley. An ADU can provide rental income to help pay the owner's mortgage, while offering future flexibility to use the space as a home office, lodging for teenagers or elderly family members, or guest quarters. ADUs, typically 500 to 600 square feet, have appeared in new housing developments in Florida, California, Oregon, Colorado, Illinois, Maryland, and North Carolina. In some cases, the developer sought local code changes to permit ADUs.

3. Development Agreements. Master-planned communities offer the opportunity to meet affordable housing needs in ways that smaller-scale subdivisions probably cannot. But few such communities are designed exclusively for affordability. One exception is Timberleaf in Orlando, Florida, a 188-acre mixed-use development where most of the 1,800 housing units are affordable, especially to Disney World employees. The city and Timberleaf developers negotiated the major questions of scale, timing, facilities, and density in one master plan that is implemented by a development agreement between the developer and the city. Although those negotiations took more than a year, individual approvals for stages of the development occur within 30 days. In contrast, similar approvals in the average subdivision in urban Florida take up to 18 months. The streamlined permitting process is managed by a design review committee (DRC), which is given specific authority to permit development in Timberleaf. The DRC provides a single forum for all city departments that have a role in the permitting process. It includes local bankers and developers, thereby ensuring sensitivity of permitting to the developer.

4. Relaxed Floor-Size Minimums. When homeownership became possible for the American masses in the postwar years, a typical Levittown house—the quintessential starter home—had 750 square feet. Today, many communities have zoning codes that require a much larger minimum housing unit size. A survey of metropolitan Atlanta suburban communities, for example, shows that nearly all limit detached housing to 1,200 square feet or more. Such minimums have no relation to the public health and safety provisions of building codes, which allow smaller units. In such communities, Habitat for Humanity cannot build homes because its largest home is smaller than 1,200 square feet. Simply eliminating the minimum size for homes and relying on standard building codes (such as the Uniform Building Code and the Southern Building Code) to ensure safe housing would expand housing opportunities. The concern that smaller homes might detract from the value of larger homes in the neighborhood has not been demonstrated significantly; indeed, neighborhoods with a wide range of housing sizes tend to appreciate better over time than those with uniform sizes.

In Shoreline, Washington, near Seattle, two-bedroom "cottage homes"—detached houses with just under 1,000 square feet—provide an affordable homeownership opportunity. As reported in *The Seattle Times*, Shoreline adopted a cottage home ordinance in 2000. In the Meridian Park Cottage Homes development in Shoreline, the condo-style homes are close together but not attached, and the price tag is significantly less than the area's median home sale price. Yet, no one has claimed that these homes detract from neighborhood values.

5. "Proportional" Impact Fees and Waivers. Impact fees are one-time charges assessed on new developments to help pay for new or expanded infrastructure to serve them. The trouble is that they are typically flat charges imposed on all housing units of the same type, such as detached homes or apartments. Yet, census and other data show clearly that, on balance, larger homes have more people living in them (and hence have greater impacts on facilities) than smaller homes. In some situations, for example, the impact on schools of homes larger than 3,000 square feet is three times larger than homes of 1,000 square feet, yet both could be charged the same impact fee for schools.

The solution is "proportional" impact fees that adjust the size of the fee to the size of the housing unit based on local studies that establish the relationship between house size and occupants, vehicles, school-aged children, and other factors. In addition, impact fees can be varied by location so that more expensive locations, such as those at the urban fringe, are charged more than those where costs may be lower. Such proportional refinements to impact fee practice may stimulate production of more affordable housing. In addition, policies can be adopted to waive impact fees for qualifying low- and moderate-income housing.

Policy Initiatives

6. Affordable Housing Trust Funds. Housing trust funds are powerful tools for providing locally targeted and managed assistance for affordable housing. There are nearly 300 housing trust funds in the United States—37 states have trust funds and the rest are mostly run by counties and cities. The funds have a variety of revenue sources, but among the most common are some portion of the local real estate transfer tax, penalties on late payments of real estate taxes, and fees on other real estate–related transactions. In a few cases, private-sector employers whose workers face a shortage of affordable housing support housing trust funds—the Silicon Valley Manufacturing Group in California is one of the founders and a key funder of the Housing Trust of Santa Clara County, a public-private partnership.

Each housing trust fund has a governing body that decides how the funds are used. Some support demand-side solutions, such as subsidizing the down payment on a home purchase by low- to moderate-income residents. But housing trust funds are often used to increase the supply of affordable housing, such as by providing zero-interest loans or gap financing for affordable housing new construction or rehabilitation.

7. Apartments Can Support Single-Family Housing Values. There is the popular perception that multiple-family or attached housing per se reduces the value of nearby single-family or detached housing. In the past there was ample evidence for this, but with current building code and site-planning requirements this may no longer be the case. For example, there is growing academic evidence that new apartment developments may increase values of nearby single-family homes for three reasons. First, the mere fact that higher-density housing is attracted to an area by market forces signals higher values for all properties. Second, and more subtle, multifamily housing may increase the supply of potential buyers for nearby single-family homes. Third, when part of a mixed-housing and mixed-use development, higher-density housing adds choice to an area that by design is made more attractive than nearby developments. But owners of single-family detached homes may remain anxious about attached housing developments in their communities. One response may be a "home equity assurance" program. Such a program was pioneered in the late 1970s in Oak Park, Illinois, to discourage panic selling in the face of racial transition. It has apparently been successful, and similar programs are now operating throughout Illinois. An equity assurance program enrolls property owners near higher-density residential projects and pays the difference between the appraised value and the sale value if it is negative. Oak Park has yet to pay out under its program. While experimental, the Oak Park solution may be worth considering elsewhere.

8. Inclusionary Housing Requirements. Montgomery County, Maryland, and Fairfax County, Virginia, are geographically contiguous and have many similarities, including that both face the problem of providing affordable housing, yet they have very different governmental contexts. Both counties are in the Washington, D.C., metropolitan area, have nearly 1 million residents each, and are among the nation's wealthiest counties. They also face significant growth pressures. Why are they different? Maryland is a "home rule" state that gives cities and counties substantial discretion in managing such local affairs as planning and zoning, while Virginia is a "Dillon Rule" state, meaning that local governments need specific permission from the state to assume most responsibilities. Despite their institutional differences but because of their similarities in managing growth, both have devised roughly similar approaches to meeting at least some needs for affordable housing.

Montgomery County's Moderately Priced Dwelling Unit ordinance requires developers of more than 50 detached residential units to set aside 12.5 to 15 percent of all units for price-controlled sales over 20 years, in exchange for density bonuses of 20 to 22 percent; the exact numbers are determined on a sliding scale relative to project size. After initially being struck down by Virginia courts, the Fairfax County Affordable Dwelling Unit ordinance was crafted to survive future court tests. It gives a density bonus of up to 20 percent to developments of more than 50 units that voluntarily set aside 6.25 to 12.5 percent of them for "affordable" housing. Unlike Montgomery County, the Fairfax County ordinance applies to all residential developments, not just to for-sale developments. In both cases, a coalition of housing advocates, businesses, and civic leaders championed the need for inclusionary housing.

9. Housing Enterprise Zones. For several decades, Atlanta's population has declined as households moved to the suburbs. There were several reasons for this, not the least of which was that suburbs simply offered better value in new housing relative to the older stock in the city. To induce new residential development in targeted areas near downtown and other commercial nodes, and near public transit, the city created a housing enterprise zone program. Within these zones, new owner-occupied dwellings receive a 100 percent property tax abatement the first year, a 90 percent abatement the second year, and so forth over 10 years. In addition, impact fees are waived for new housing of all types—including rentals—built in enterprise zones; payments in lieu of those fees are financed from a special housing trust fund created by the city's impact fee program. Property tax abatements have long been used to provide incentives for commercial development. For housing, the return on investment in forgone taxes and fees can be more stable neighborhoods, a stronger future property and sales tax base, and an increased supply of all housing, including units affordable to working families and pensioners.

10. Leveraging the Low-Income Housing Tax Credit. Created in 1986, the Low-Income Housing Tax Credit (LIHTC) program gives investors in qualifying projects a credit against their federal income taxes. A rental property allocated tax credits is required to be affordable to low-income households for at least 15 years. The manner of implementation is left up to individual states. With the program now more than 15 years old, however, units built 15 years ago may revert to market-rate housing, thereby reducing supply. In some states, new LIHTC approvals are simply replacing older units that move to market-rate housing. However, in some states, such as Washington—where 20,000 units have been provided under the program since 1987—tax credit recipients agree to make units affordable to low-income households for 40 years instead of the federally required 15-year minimum. Even with a 40-year contract, there is a waiting list of investors. States that meet just the minimum IRS terms may consider the example of Washington and other states to maximize production of affordable housing; otherwise, after 15 years or so, all many may be doing is using new tax credits to replace units moving to market rate.

The Future Canvas

According to census data, the United States loses about 0.6 percent of its housing stock annually. Within a generation, by 2025, it will lose about 15 million units. Between 2000 and 2025, the United States will add nearly 30 million households. A total of about 45 million new housing units will need to be built, or about half as many units as existed in 1990. Where will these units go? More important, will all those units even be built? A comprehensive assessment of long-term housing needs, at least at the level of metropolitan areas, needs to be undertaken, and each community needs to be a constructive part of the dialogue to meet future housing needs for a rapidly changing society.

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