FYI

Break Down Thos

An excerpt from a new Planners Press book tells how to get affordab

When it comes to affordable housing, everyone "knows" that complex and time-consuming local government regulations are an important cause of why housing costs so much in America and therefore why so many people find housing "unaffordable."

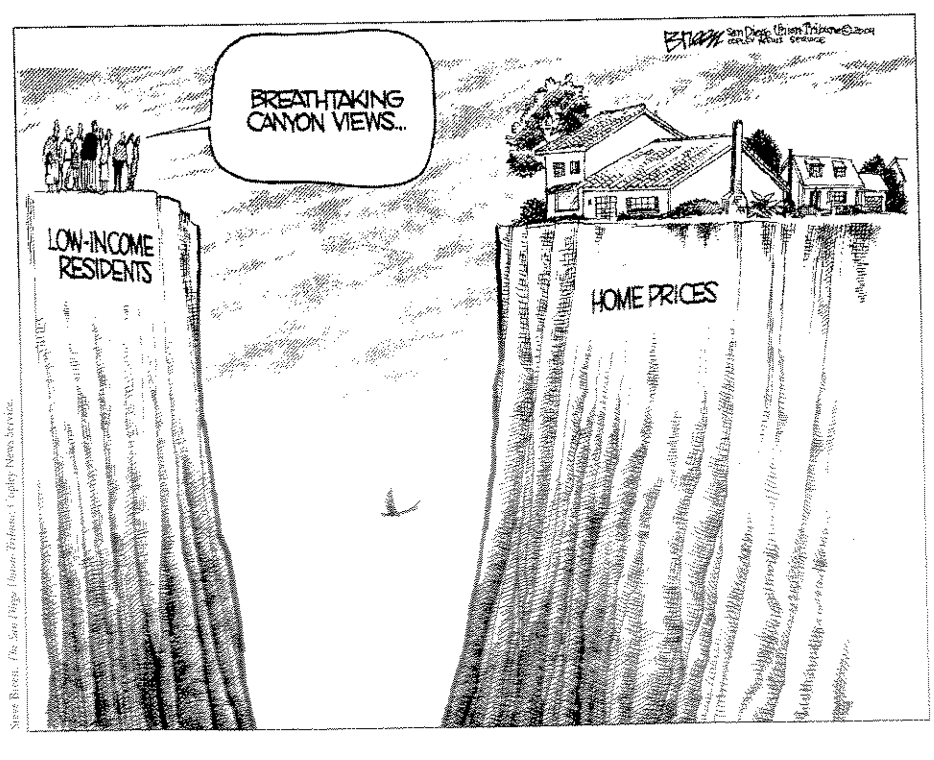
I believe the key issues about regulatory barriers to affordability are not "What is the impact of local regulations on housing?" or "Which regulatory barriers impede affordable housing the most?" Rather, they are "Why do communities adopt such barriers?" and "What can we do about it?"

My approach to this subject differs from the approaches of most others. Moreover, my views on this subject are considered by many elected officials too radical to be used as the basis for public policy. I will start with my basic conclusion.

In my opinion, many suburban governments in the U.S. deliberately pass local regulations aimed at maintaining or raising housing prices within their jurisdictions. They do so because they are politically dominated by homeowners, who form a majority of the residents in most suburbs.

Those homeowners want to maximize the market values of their homes—and they oppose any changes, such as permitting apartments or other lower cost housing nearby, that they fear might threaten the market values of their own homes. Therefore, as long as we leave full regulatory power over housing planning and construction in the hands of local governments, there is no realistic chance that housing costs can be reduced.

This economic motivation to maintain high housing costs is reinforced by two widespread social desires among Americans. One is to live in neighborhoods occupied by people who are at least as well off economically as they are. The other is the desire of most whites not to live in neighborhoods where African Americans comprise more than about 25 to 33 percent of the residents. Both of these social goals are also served by keeping housing prices high.



Steve Breen, The San Diego Union-Tribune/Copley News Service

Thus, merely urging local governments to change their regulations in recognition that society needs more affordable suburban housing is a waste of time. Such exhortation was the main action carried out by every past federal housing commission—with no perceptible results whatsoever. Those who seriously consider this subject agree with me privately, but almost no one in authority has the guts to come out and say it, because local "sovereignty" over housing policies is a sacred cow that few are willing to challenge.

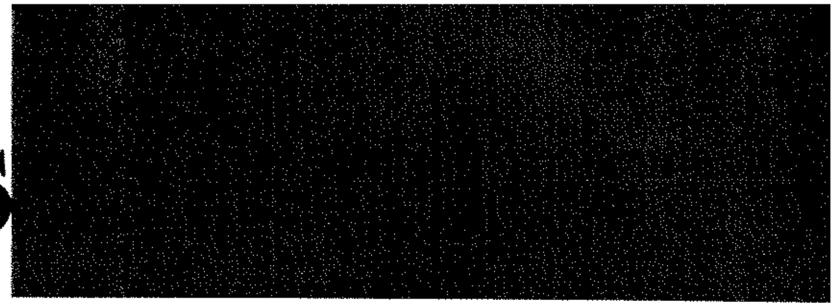
The fundamental problem

The U.S. Department of Housing and Urban Development has declared that any low-income household that spends more than 30 percent of its income on housing has a "housing affordability" problem. HUD further states that any household with an income lower than 80 percent of the regional median income can be considered to have a "low income." Also, any household with an income below 50 percent of the regional median income has a "very low income." Thirty percent of income was presumably chosen because HUD concluded that any low-income household spending more than that share on housing probably could not afford other basic necessities of life such as food, medical care, and transportation.

Under HUD's definition of housing affordability, a very large proportion of all American households have such a problem. According to 2000 census figures, 22.3 million American households (21.1 percent of all American households and 53.6 percent of all those with incomes below 80 percent of the national median) had a housing affordability problem in 1999 by HUD's definition.

Since then, housing costs have risen much more sharply than household incomes. According to the National Association of Realtors, the median sales price of single-family homes sold (in current dollars) rose from $133,300 in 1999 to $191,000 in June 2004, a gain of 43.2 percent in five years. (In California, median housing

Barriers



ousing built. **By Anthony Downs**

prices rose 123.4 percent in that same period.) However, U.S. median household incomes rose only slightly in the same five-year period, so a lot more households are having "housing affordability problems" today than they did just five years ago.

One possible reaction to the high numbers of households considered to have housing affordability problems by HUD's definitions is to adopt some other set of definitions that produces lower numbers. This is the tactic adopted by New Jersey's Council on Affordable Housing. The council counts as seriously deficient the existing housing units that lack plumbing or kitchens. Then it adds an estimate of the number of future low- income households that will not be adequately served by older units "filtering" downward in the inventory or by new construction.

This method produces much smaller estimates of the number of affordable housing units that New Jersey needs to create in the future than would the use of HUD's definitions. However, although I have great respect for Robert Burchell and his Rutgers University colleagues, who have developed this method, I confess I cannot understand how it works. Yet I believe that pursuing alternative definitions of how many households suffer from housing affordability problems may be a fruitful path to follow.

Causes and effects

In practice, American housing affordability problems have five different manifestations. The first is the simple "gap" between the incomes of the very poor and the minimum costs of reasonably adequate shelter. Our economy needs many low-wage workers who do not earn enough to close this "gap" but who must live somewhere near their jobs.

The second manifestation is the absence of affordable housing in new-growth areas, especially affluent suburbs. This is where most new jobs are being created. However, such areas often adopt building codes that prevent construction of low-cost housing, causing many poor people—especially minorities—to become concentrated in older, inner-city neighborhoods.

Third, housing costs vary immensely among specific metropolitan areas. Median home sales prices are over six times as high in the most costly area (the San Francisco Bay Area) than in the least costly region (Ocala, Florida). Income variations among metro areas are much less extreme—only about 2.5 to one.

Fourth, older, inner-city neighborhoods experience the process of gentrification, which causes housing prices to rise. This may lead poorer residents to be displaced or to experience hardships due to rising rents.

Finally, we must account for the immigration of very poor people from abroad, many of whom arrive here with almost no money, sometimes illegally. At first, they cannot afford "decent" accommodations and do not qualify for subsidies. Hence, they must live overcrowded in older quarters until they amass enough money to move into "decent" shelter. We rely on such slum housing to accommodate this ever-changing group of very poor people and some poor households who have permanently low incomes.

Less accepting than ever

Two sets of forces have recently influenced housing markets to be more hostile to affordable housing: structural conditions and dynamic forces.

A key structural condition is a greater increase in citizen participation in land-use decisions over the years. Housing development was once politically dominated by homebuilders, but their influence has been overshadowed by organized groups of municipalities. Also, new environmental laws require countless studies before developments can be approved. Each step is an opportunity for a lawsuit aimed at stopping new construction or causing long delays, which are costly to developers.

A second structural condition is the home ownership bias in federal housing policy. Owners receive large-scale tax benefits that encourage investment in bigger dwellings. Low-income renters have the most serious housing problems, but the value of the subsidies they receive is small compared to benefits enjoyed by homeowners—especially wealthy ones. This bias strengthens the political clout that homeowner voters exercise over local governments.

Third is that fact that land-use decisions are fragmented and no one is motivated to serve the interests of the whole region. Therefore, localities adopt laws concerning lot size, setbacks, building materials, and rejection of multifamily units that are by no means required for health and safety but are purely exclusionary in nature.

Several dynamic forces operating within those structural conditions have produced a rising tide of resistance towards affordable housing, expressed in higher regulatory barriers.

The most important dynamic factor is inescapable regional population growth. Many metropolitan areas are going to grow fast whether their residents want such growth or not. Our nation's compound annual total population growth rate in the 1990s was about 1.24 percent per year. We cannot stop immigration from abroad, so we are surely going to keep growing.

Attempts by local governments to limit their own growth just push the region's growth to other parts of the region—usually farther out—and aggravate sprawl. Because local governments are parochial, most care only about their own growth rates, ignoring the effects that local policies have on regional growth.

The second dynamic factor is fast growth and the problems that accompany it, especially rising traffic congestion. However, congestion would get worse even with no growth, since Americans keep driving more vehicles farther per capita each year.

The third dynamic factor is the smart growth movement. Its advocates support three axioms hostile to affordable housing: strong citizen participation; support for fragmented local control over land-use policies; and the implicit axiom that local governments should never adopt policies that might inhibit increases in home values.

This hostility is disguised as fiscal responsibility under the theory of fiscal zoning. That theory declares that no *new* local uses should be permitted if they add more to spending than to tax revenues. Multifamily housing is considered a fiscal loser, although it generates fewer children per unit than most single-family housing.

In fact, fiscal zoning denies local shelter for all low-wage workers, even though local and regional economies need such workers to function. For this reason, universal use of local fiscal zoning by all or most communities within a region is a disaster for that region as a whole. Nevertheless, many areas use it because each local government looks only at its own resources.

Proposals for change

In theory, there are two basic ways to "solve" housing affordability problems. One option is to raise the incomes of poor households, or to provide them with subsidies, so they can pay the high prices required to obtain decent shelter.

Another option is to lower the cost of decent units by reducing the minimum quality standards we demand, improving the terms of ownership, reducing regulatory barriers, and expanding the supply of housing through massive new production to drive down the prices of existing units.

Unfortunately, most Americans reject both of these approaches. Thus we are left with only a few alternative tactics.

The first alternative is to allay homeowners' fears that affordable housing will reduce the market values of their homes. Most past studies have not shown adverse effects, but homeowners are hard to convince.

A more novel but untested approach, suggested by William Fischel in his book, *The Homevoter Hypothesis*, is home-value insurance, which guarantees that the values of homes near affordable units will not decline, or will rise at

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some minimal rate, when existing homeowners sell their homes. The insurance premiums could be paid for by the developers of the affordable housing, or by the locality as a whole.

Another approach is to make it legal to build smaller, less costly housing units. One way to do that is to remove zoning obstacles to manufactured housing, which is far less costly than new traditional units. In the past 50 years, over 12 million manufactured housing units have been shipped (one out of every 7.2 units built), so this is nothing new.

Yet another option is to allow accessory housing units to be added to relatively large, single-family units as a matter of right to the owners of such large units. This could produce thousands of new, low-rent units at no public cost to taxpayers.

Legalizing very small conventionally built homes could be a way to go as well. I have recently visited large cities and small towns in which thousands of tiny housing units were built in the 1950s and some new ones are being built now. These units may contain less than 500 square feet but have the basic amenities that a family needs.

We should also enlist the help of two groups with real political clout: employers who cannot find low-wage workers nearby and middle-class households, especially public workers, who cannot afford decent housing without overly long commutes. Until these groups suffer enough to insist upon mandatory, statewide action, remedies are unlikely.

Be inclusive

Another approach is to use inclusionary housing or zoning laws. They require developers of any new units to create from 10 to 20 percent affordable units in exchange for benefits such as higher density for their market-rate units. If made mandatory nationwide, this policy could substantially add to the affordable housing supply, especially in fast-growing regions. Regulations must require that such units be kept affordable for a minimum number of years.

In essence, inclusionary zoning imposes much of the cost of providing low-cost housing on

Regions with the Largest Percentage Gains in Median Home Sales Prices, 1990 to 2004

Rank	Metropolitan Area	1990 Q2 Price	2004 Q1 Price	Percent Gain
1	Miami/Hialeah, Florida	89.00	245.90	176.3
2	Denver, Colorado	87.00	231.80	166.4
3	Fort Lauderdale/Hollywood/ Pompano Beach, Florida	92.20	243.40	164.0
4	San Diego, California	183.70	483.00	162.9
5	West Palm Beach/Boca Raton/ Delray Beach, Florida	108.20	267.00	146.8
6	Fort Myers/Cape Coral, Florida	69.90	171.80	145.8
7	Portland, Oregon	79.70	195.10	144.8
8	Madison, Wisconsin	80.00	195.20	144.0
9	Las Vegas, Nevada	93.30	224.90	141.1
10	Nassau/Suffolk, New York	161.90	384.00	137.2

Lisa Barton; source: National Association of Realtors homebuilders and land owners, who are engaged in providing market-priced housing. Therefore, such a policy requires much less expense in public funds per affordable unit created than do direct government housing subsidies to low-income households.

Admittedly, statewide mandatory inclusionary zoning policies violate the desirable public finance principle of not forcing particular private parties to pay for attaining general public sector objectives. Nevertheless, I recommend this policy when three conditions prevail.

First condition: Many low-income households are being seriously harmed financially by high home prices and rents within their state. Second condition: There is no other feasible way to aid those households. (That, I think, is the case in California right now. There is not enough public money to provide meaningful subsidies, and there is not enough political will to expand new housing construction sufficiently to drive down existing home prices.) Third condition: The private parties forced to bear most of the costs—mainly homebuilders and land owners—have made large-scale profits from past increases in home prices and will probably continue to do so.

Under those three conditions, state government has a responsibility to assist low- and moderate-income households within its boundaries as best it can. Mandatory statewide inclusionary zoning is one of the few ways states can meet that responsibility, even though it will not aid all the needy households being harmed by high housing prices and rents.

I also believe that when a state mandates inclusionary zoning, the requirement should be applied to all communities equally. This will eliminate the possibility that individual communities could adopt rules that are ineffective or unfair to homebuilders, or to avoid any policies designed to help low-income households. If every community must add new, affordable housing units, they all will become more acceptable in general over time.

Examples of how costs could be minimized include allowing builders to: create affordable units that are smaller and less luxurious than the market-rate units they build; locate the affordable units on sites different from where they build market-rate units; use rental units as affordable offsets to market-rate sales units; use accessory apartments as affordable units in some cases; and benefit from density bonuses and waivers of impact fees, development fees, and local property taxes.

A major problem with inclusionary zoning is that it almost certainly could not create enough affordable housing to serve a large percentage of all the households who need housing assistance. As noted earlier, at least 22 million American households both had low incomes and spent more than 30 percent of their incomes on housing in 1999. From 1990 to 2003, the average number of housing units started in the U.S. was 1.46 million.

If that number persisted in the future, and 20 percent were affordable units, that would be 291,800 per year; at 10 percent, it would be 145,900 per year. To provide 22 million households with affordable units at those rates would take 75 years at the 20 percent rate, or 151 years at the 10 percent rate. Of course, by the time those periods had elapsed, the number of households needing aid might be much larger, and many existing housing units would no longer be usable.

In any case, it is clear that inclusionary zoning is a second-best policy. However, using second-best policies to attack housing problems is nothing new. That is what the federal government has done by providing only enough money to help half of the households that HUD says need housing assistance.

The crucial role of the states

Experience across the nation shows that significant progress has been made only where the state government has assumed a leadership role in coping with housing problems (Oregon, Washington, Maryland, New Jersey, California, Georgia, and Florida). Moreover, states are most effective if the governor assumes the key leadership role, because the governor can influence all the executive departments, the legislature, and public opinion.

Here is what the states should do:

• Set general housing goals that every municipality, village, and locality must incorporate into its comprehensive plans. Oregon and Washington provide excellent examples of housing goals that include references to the welfare of low-income households.

• Create specific planning procedures that every local government must carry out as part of its planning process. These include: inventorying all vacant land; estimating how many additional households and how many jobs will be added to the community; relating those numbers to housing needs at different income levels; establishing zoning needs for future housing development at different price levels for 10 to 20 years; and establishing locations for different types of housing as guidelines to homebuilders.

• Allow a state or regional agency to review local plans at least every three years. This agency should have the power to suggest changes in the plans to make them consistent with statewide goals and procedures.

• Set up a state agency to review housing regulations for every community in the state over a period of three years, and empower the agency to require communities to change their rules if need be. Any locality that fails to adjust its regulations along the lines suggested by this agency should have its zoning powers suspended until changes are made.

• Consider having the agency set annual affordable housing targets for the state as a whole and for specific subregions of the state. Regional planning bodies in each region should be charged with allocating those targets to specific communities.

• Consider rewarding communities that succeed both in developing approved plans and meeting their affordable housing targets. Incentives could include infrastructure assistance and school construction assistance; disincentives could include direct monetary fines for failing to have plans approved or to meet targets.

• Pass laws empowering private developers seeking to build affordable housing to sue communities that prevent their doing so if the communities do not have state-approved housing plans.

• Consider establishing a mandatory, statewide, inclusionary zoning program, especially in states where housing prices have risen very rapidly and where many low- and moderate-income households are squeezed out of the housing market. California is the outstanding example. In 2004, it had the highest and fastest-rising housing prices in the nation.

Resources

Reading. William Fischel, *The Homevoter Hypothesis* (Harvard University Press, 2001). National Association of Realtors, *Real Estate Outlook: Market Trends and Insights* (July 2004). Anthony Downs, *Still Stuck in Traffic* (Brookings Institution, 2004). Joint Center for Housing Studies. Harvard University, *State of the Nation's Housing: 2004*.

On the web. For HUD's definition of affordability, see www.hud.gov/offices/cpd/affordablehousing/index.cfm. For data on manufactured homes: Manufactured Housing Institute, *Monthly Manufactured Housing Shipments (1959-2005)*, www.manufacturedhousing.org/admin/template/subbrochures/387temp.pdf.

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