

Providing Affordable Housing

by Michael Bodaken and Anne Heitlinger

There is nothing like a local land use debate centered on affordable housing to verify the accuracy of Tip O'Neill's oft quoted truism: "All politics is local." Nevertheless, there have been myriad local planning and preservation efforts that, taken together, demonstrate that some local and state production and preservation efforts actually work. Maintaining affordable housing in our nation is critical, and local officials play a large role in that effort.

Despite the economy's recent slowdown, we live in prosperous times. Homeownership has hit a record high level, climbing above 67 percent for the first time in our country's history. Unemployment is low. Rapid technological innovation has increased productivity and created longer, sustainable economic growth. However, some of our citizens are being left behind.

America is experiencing a crisis in its affordable housing inventory. Rising real estate markets often translate into an increased potential for the loss of affordable housing. Our nation has set the "affordability index" for housing costs at 30 percent of one's income, yet according to Harvard's Joint Center on Housing Studies, in no housing market in the nation can a household earning today's minimum wage reasonably afford a modest two bedroom rental.¹ America's poor are living in overcrowded or dilapidated housing or are spending a large percentage of their discretionary income on shelter, placing rent in competition with other essentials.²

1 See *State of the Nation's Housing*, 1999 (Harvard University Joint Center on Housing Studies).

2 The impact on local economies of residents "overpaying" for their homes is beyond the scope of this essay. Suffice it to say that to the extent a working family is paying more than 30 percent of its income for shelter, that incremental cost is not available for purchases of retail services or goods.

For low-income renters (households earning 50 percent or less of median income) affordability is threatened because the contracts for subsidies on much of the nation's regulated affordable housing supply are about to expire.

Many owners of HUD assisted affordable units are actively choosing to exit government-sponsored programs, motivated by personal lifestyle choices, HUD's increased scrutiny of their actions, and tax considerations. According to data gathered by the National Housing Trust, private owners have already "taken to market" more than 100,000 HUD assisted or insured apartments, and monthly an additional 2,000 such apartments are following suit. The average rent hike for these units is 45 percent.

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Our housing problems are not limited to the poor. Firefighters, schoolteachers, administrative assistants, indeed, people from all walks of life, often have to pay well beyond their means for their home. The struggle for affordable housing is geographically widespread and is well beyond the urban poor. Nearly 15 percent of American families – 13.7 million households – pay more than 50 percent of their income for rent or live in a slum, even though some of these families earn up to 120 percent of the median income for the county in which they live.³

Many other moderate income Ameri-

3 *Inclusionary Zoning: A Viable Solution to the Affordable Housing Crisis?* (New Century Housing, Vol. 1, Issue 2, October 2000).

cans are forced to live far from where they work in order to afford shelter. Forced to travel long distances to their jobs, they face (and contribute to) increased traffic congestion and growing demand for housing in the outer rings of metropolitan areas.

The lack of affordable housing is profoundly affecting all of us.

WHAT CAN LOCAL AND STATE OFFICIALS DO?

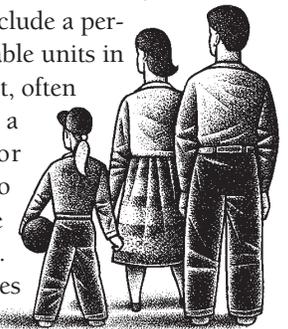
The balance of this article will focus on four methods through which state and local officials can help spur affordable housing development or preservation: zoning, taxation, housing trust funds, and planning.

1. Zoning

Local zoning can have a significant impact on affordable housing preservation or construction. There are two general zoning issues with respect to affordable housing: *exclusionary* zoning and *inclusionary* zoning.

Exclusionary zoning exists when the zoning code is written in such a way that prevents (or makes very difficult) the construction of affordable single-family houses or apartments. Such measures include: large lot sizes; excessive set back requirements; widespread use of low density zones; exclusion of multi-family housing as a by-right use; and minimum floor area requirements.

Inclusionary zoning can take several forms. In some communities, builders are required to include a percentage of affordable units in their development, often accompanied by a density bonus or other allowance to provide incentive to the developer. Some communities will also



allow a fee to be paid in lieu of providing affordable units. These funds are then used to supplement the locality's own funding for affordable housing programs.

Inclusionary zoning programs establish a maximum sales price or rent to be charged in the affordable units. They also ensure that the housing must remain affordable for a minimum number of years (often, ten to fifteen). Some communities grant density bonuses, variances, and other accommodations to developers who choose to include affordable units in their developments.

Another form of inclusionary zoning is through "linkage fees." These fees are paid by developers of office or commercial projects (often based on square footage) linked to the need for providing housing to accommodate workers who will be employed by businesses in the new development. Such policies are designed to address the possibility that economic development may be hampered by a lack of housing affordable to workers. The fees paid in by developers fund homeownership, rehabilitation, and other special housing projects.

Inclusionary zoning policies provide some built-in advantages: generally, affordable housing units are provided at little or no cost to local governments; mixed income developments are created; and (at least arguably) urban sprawl is reduced. At the same time, inclusionary zoning is not a panacea. The number of households that actually benefit from inclusionary zoning is relatively small compared to the need – often, inclusionary zoning ordinances require no more than 10 percent of the housing units to be set aside as "affordable."

2. Taxation

Taxation is one of the most powerful local tools available for promoting affordable housing, especially when it takes the form of full or partial waivers of property taxes to affordable housing developments. Abating a portion of the property taxes reduces operating costs and helps to ensure the financial health of the development. When developments serve low and very low-income households,

management of operating costs is one the key elements of maintaining affordability.

Properties receiving waivers typically must be owned by nonprofit entities, and the housing must remain affordable for a minimum number of years. California, for example, provides full and complete property tax relief for affordable properties owned by nonprofit entities. In Texas, property tax abatement may be granted for affordable housing if the housing is developed by a HUD certified Community Housing Development Organization, with the savings going to fund resident services programs.

Another way communities can facilitate affordable housing is to examine the property tax rates for various types of housing. If the rate is higher for multi-family properties, this will adversely impact the affordability of the housing, as those higher rates are passed on to residents.

3. Housing Trust Funds

Some 150 states and localities have established housing trust funds. These funds provide a dedicated stream of revenue to assist in the development or preservation of affordable housing. The Center for Community Change, which gathers information on housing trust

funds across the country, has found over forty different types of revenue sources for these initiatives. Common sources include development fees and miscellaneous forms of tax revenues. Trust funds can be designed to respond to each community's affordable housing needs by establishing priorities, target populations, and affordability guidelines. Trust funds are commonly administered by the municipality under the guidance of an advisory board.

4. Planning

There are three planning documents which can serve as particularly important tools to assist in the production of affordable housing:

1. *The local comprehensive plan.* The comprehensive plan lays out existing land uses and provides direction for future development. Two questions to ask: does the plan facilitate the provision of affordable housing? Is housing linked to transportation and economic development issues? By ensuring that affordable housing is addressed in the comprehensive plan, a community can lay the groundwork for ensuring that low and moderate income workers can remain in the community.

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Inclusionary Zoning

Montgomery County, Maryland's mandatory inclusionary zoning ordinance has been emulated by a number of jurisdictions. Any developer building more than 50 units must provide between 12.5 and 15 percent of the units as "affordable" (that is, serving households earning 60 percent of the county's median income). Of these affordable units, approximately half are designated for lower income households (50 percent of median income). Developers are provided up to a 22 percent density bonus to build the affordable housing. Unlike most inclusionary ordinances, the developer is not permitted to pay a fee in lieu of construction. Montgomery County's program has, by most accounts, been a huge success. A total of some 10,000 affordable units have been produced over

the past twenty years.

The City of Sacramento last year adopted an inclusionary zoning ordinance. There, the city's "Smart Growth" advocates argued that the construction of purely market rate housing on the dwindling number of vacant properties remaining in the city ran counter to environmental and planning policies. The inclusionary zoning ordinance would, they argued, make it possible for low and moderate income workers to reside closer to their jobs within the city's boundaries. The Sacramento ordinance requires developers of 10 or more units in new growth areas to dedicate at least 10 percent of new housing units to very low income households and 5 percent to low income households.⁴

⁴ A developer in Sacramento subject to the inclusionary zoning ordinance may request certain incentives such as reduced development fees, special permitting, and density bonuses.

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2. *The HUD-required "Consolidated Plan."* All states and many cities receive funding from the Department of Housing and Urban Development under the HOME Investment Partnerships program and the Community Development Block Grant program. In accepting such funds, HUD requires the preparation of a plan that details the spending priorities and actions for using these federal funds. This is one of the most important documents for ensuring that local governments are funding affordable housing construction and preservation efforts. For more, see "Understanding HUD's 'Consolidated Plan' Requirement," on page 20 of this issue.

3. *The Qualified Allocation Plan.* This plan is prepared by the state housing finance agency for the distribution of low-income housing tax credits. Tax credits have become one of the primary vehicles for financing affordable housing and are awarded on a competitive basis. Housing financed through tax credits has

affordability restrictions – a portion of the units must serve households between 50 and 60 percent of the area's median income. The state agency creates an allocation plan (with public input), and can include points for projects with demonstrated local support and/or which are consistent with local housing or development plans. Further, some states are now creating set-asides for tax credits specifically for housing preservation projects. ♦

Michael Bodaken is head of the National Housing Trust (<www.nhtinc.org>), which provides technical assistance to resident groups and non-profit organizations interested in purchasing federally financed, affordable, multi-family housing developments. To date, the Trust has helped preserve over 3,600 affordable housing units.

Anne Heitlinger, an Assistant Vice President with the Trust, is assisting the Trust and its clients in their efforts to preserve affordable housing in the Midwest and Eastern United States. Ms. Heitlinger has over seven years of experience in housing and community development, including program development, affordable housing finance, loan/grant administration, research, and program evaluation.



On-Line Comments

"The authors offer a good summary of the policy mechanisms most commonly used to promote the preservation and production of affordable housing. But we must acknowledge that despite the use of these mechanisms by planners and policy makers, we are seeing a growing crisis of affordable housing in communities across the country.

Those who design and implement policies intended to promote affordable housing often cannot see the disconnect between their policies and the realities of the market. All too often, local governments' efforts to promote affordable housing are not viable because their land-use policies do not provide enough land on which to build such housing.

Many local governments develop affordable housing programs that make use of incentives and tax policies to produce the desired result. But when those same jurisdictions fail to identify a suitable supply of land for affordable housing, then tax breaks

and other incentives make no difference. This is a fundamental problem that is often overlooked. It takes political will to assure that land is available for affordable housing. Without land, the other policies – as well-intentioned as they may be – are of little use."

– Michael T. Rose, President, Michael T. Rose Land, Inc., Laurel, Maryland

"I'm a mayor and also the chair of the Plan Commission. Our city has a population of 7,800. We want clean, affordable housing for our low income citizens. Our problem is that these new developments want tax exemption. In fact, we've experienced a tax-exempt organization buying properties and taking these privately owned units OFF the tax roll. All this puts more demand on city services without helping pay for them, as well as transferring costs to remaining taxpayers. In my city, many of the remaining taxpayers are low income widows who still own the modest homes they and their husbands bought years ago."

– Mary Kinnunen, Mayor, City of Rhinelander, Wisconsin