Localizing Affordable Housing

I live in one of those blue urban bubbles you've heard so much about since the presidential election. So my social circles were filled with a good deal of generalized shock and anger and dislocation in the days that followed the surprise outcome. But I also had a good number of friends and acquaintances with a much more concrete worry, because I'm in a graduate program in Urban and Regional Planning, and many of my classmates are considering or plan on working in the affordable housing industry. The common refrain I heard from them was, "My career plans depend on HUD [the U.S. Department of Housing and Urban Development], and now who knows *what*'s going to happen to HUD?

It's unfortunate that we do depend so much on the federal bureaucracy to produce housing, something that is really a quintessentially local concern. There are reasons for it, both historical and practical, but it is ultimately a source of fragility. It puts local entities' ability to meet local needs at the mercy of distant decision makers whose priorities may or may not be aligned with those needs. Cities and advocacy groups should be thinking about how to re-localize and claim more control over the way we tackle these problems.

How Affordable Housing Works

People who work in the field talk about capital-A "Affordable housing" as a very different thing from lower-case-a "affordable housing." The latter means, literally, housing that people can afford to own or rent. The former, however, refers to housing which receives some form of subsidy: either its rent is kept below market-rate by deed-restriction or law, and/or its tenants are income-screened or subsidized with vouchers. And it is very much an industry, which operates according to a pretty standard set of rules and financing mechanisms.

Particularly in the Twin Cities region of Minnesota, there is a remarkably large and active affordable housing industry, including several prominent nonprofit developers and charitable foundations who frequently collaborate to get projects done. I've been told by professor after professor, "Minnesota is just about the best place in the nation to be if you want to work in affordable housing."

But there's a glaring source of fragility here: affordable housing development, as it is most often practiced, grinds to a halt without federal money.

Pruitt-Igoe housing project, St. Louis. Source: Wikipedia

The reasons for this are complex and date back to the New Deal, and they're beyond the scope of this piece. But essentially, from the late 1930s through the mid-1960s, most low-income housing was public housing, funded by the federal government and administered by local housing authorities. By the mid-'60s, the public housing program was in disarray—infamous for poor living conditions, deferred maintenance, high crime rates and social dysfunction, and near-total racial segregation.

With bipartisan support during the Nixon Administration, Congress shifted housing resources toward programs that would leverage the private and nonprofit sectors to produce low-income housing, rather than have government do so directly. These include the Section 8 voucher program, begun in 1974, and Community Development Block Grants, which are given to local governments to spend nearly however they see fit, within some very basic parameters.

In 1986, the IRS, of all agencies, became the largest player in subsidized housing when a revamp of the federal tax code created the Low Income Housing Tax Credit (LIHTC). Nonprofit housing developers apply in a competitive process to be awarded these tax credits; those who receive them can turn around and sell the credits to an investor. The investor receives a dollar-for-dollar reduction of its tax bill. The nonprofit uses the proceeds to supply the bulk of the funding for an affordable housing development project. LIHTC dominates affordable housing finance in the United States: it has created nearly 3 million units since its inception. No other program comes close to that number.

LIHTC is the biggest source of funding for new projects by far, but HUD money is often the deal-clincher. An extremely simplified funding package for the construction of an affordable multifamily complex looks something like: 70% equity from the sale of LIHTC credits, 25% mortgage, 5% money from one of HUD's various grant programs. Cities and local foundations often chip in too at the margins to make the deal pencil out.

This reliance on a grant-based model, and specifically on federal dollars, makes the affordable housing sector vulnerable and chronically underfunded. It's no wonder that subsidized affordable housing meets only a tiny fraction of the demand for it. (The Section 8 voucher program, for example, serves only about 1 in 4 households eligible for it, with long waiting lists in nearly every city.)

Columbia Heights, Washington, DC. Source: Wikipedia

But there's not denying that, in high cost-of-living cities, subsidized housing provides homes for a significant number of people. For just one example, it's estimated that around 18% of the housing units in Columbia Heights, Washington, DC are income-restricted. That translates to thousands of low-income people who get to stay in an increasingly expensive area where many of them have deep roots—people who otherwise might well have been displaced by rising rents and evictions. That's not nothing. It's important.

This moment of uncertainty about the fate of federal support for housing is a great time to put some Strong Towns principles into action. Strong Towns is about building fiscally sound and resilient communities. Resilience means knowing you're going to be able to finish what you started. If you've got grand plans for your town but they will fall apart if federal money dries up—if a recession leads to belt-tightening or a change of the party in power alters federal priorities—you're probably not a Strong Town.

This is true in transportation and public infrastructure. It's true when it comes to big-ticket economic development initiatives. And it's true when it comes to housing.

How can we take a more holistic look at *why* affordable housing is a problem in our cities to begin with? Why is the housing market failing to the extent that there is such a shortage of decent housing that won't break the bank for lower-income Americans?

And once we've taken that look, how can we fix the shortage in a way that is fiscally sustainable and resilient to changing political winds? And responsive to local feedback mechanisms? A few thoughts on what cities and affordable housing developers should be doing:

1. Find local resources, and use them to leverage scarce state and federal ones

If HUD's budget gets slashed, housing developers are going to have to get more resourceful. Press your city and county to dedicate what funds they can. Use these funds to leverage and stretch the dollars from federal grant programs—try to match them with local contributions. Build connections with local foundations, or key business players. Affordable housing becomes not just a social-welfare but an economic development problem in expensive cities, where employers may struggle to attract a workforce; local Chambers of Commerce are often deeply interested in this issue.

2. Make life easier for small landlords

Let's be clear about one thing: most affordable housing is not Affordable Housing. Most low-income people live in units sold and rented on the open market without any subsidy. It's a quirk of the capital-A Affordable industry that it has even coined its own jargon for something that really shouldn't need it: NOAH—Naturally Occurring Affordable Housing. Also known as.... housing.

While NOAH is the most important source of affordable housing, the rule that there's no free lunch applies: a cheap apartment is almost certainly cheap for a reason. It may be in a high-crime neighborhood. A lot of it is in awful condition, with severe mold or plumbing problems. Small-time, mom-and-pop landlords may struggle to pay for routine maintenance, if they can't bring in enough rent to justify it.

There are a few ways that local policy changes can help preserve small-scale rental housing. One is tiered code enforcement. Aggressive code enforcement can be a barrier to renovating old buildings that need it; they may be out of compliance with zoning or building codes in ways that have been "grandfathered in," but a renovation can cause that grandfathering to lapse. Sensible code enforcement should involve a simple set of rules and procedures, and should prioritize actual pressing health and safety issues over things that are more cosmetic or can safely be deferred for later.

Source: Johnny Sanphillippo

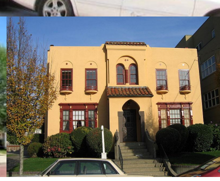
Strong Towns member and contributor Johnny Sanphillippo recently wrote about the ordeal he went through trying to renovate and operate a small rental property in Cincinnati. It's well worth a read. Faced with bureaucratic obstruction, Johnny eventually gave up. That's Cincinnati's loss, and his would-have-been-tenants' loss as well.

This kind of thing is a local problem with a local solution; no HUD involved.

3. Unlock incremental growth in housing supply

There's a more macro problem here which shouldn't be ignored: why does demand for subsidized housing so badly outpace the supply of subsidy dollars? Why is the market, in many parts of the country, failing to meet the housing needs of a large segment of the population?

A big reason has to be that we've choked off many of the avenues for housing supply to grow organically to meet demand. It used to be that neighborhoods in high demand would gradually intensify in land use over time: duplexes and triplexes would replace single-family homes, small apartment buildings would go up on individual lots. But a whole swath of these "missing middle" housing types have been zoned out of most American neighborhoods.


This leads to unproductive, car-dependent development patterns. This directly affects affordability, because transportation costs are a huge part of the average household's budget. An incremental, Strong Towns model of development would tilt the playing field back in favor of walkable communities.

There's another way the lack of missing middle housing hurts affordability. Without incremental growth in housing supply, what we get is two types of neighborhoods: those that see nearly zero redevelopment, and those where land values have risen enough to justify massive residential projects on the scale of whole city blocks. A lot of backlash against skyrocketing housing costs is occurring in a handful of hot urban neighborhoods in places like San Francisco, DC, and Brooklyn, where redevelopment has produced a torrent of rapid, disruptive change in the character and demographics of the neighborhood.

A typical affordable-housing project of the type that federal tax credits fund. Source: Wikipedia

You hear about the Mission District in San Francisco. You hear a lot less about the huge swaths of that city—more than half of its area, easily—that are low-rise, almost exclusively single-family homes, and zoned in a way that totally precludes incremental development.

Boil a pot of water on your stove with the lid on. Then crack the lid just a little. See how intensely the steam comes rushing out of that one little opening? The change in demographics and high cost of living in the Mission is a direct result of the near-total lack of incremental development in the other 80-90% of neighborhoods.

And here's the dirty little secret of the federally-funded affordable housing model: it's part and parcel of this binary system where neighborhoods have only two choices: no change or cataclysmic change. The LIHTC funding model in particular, because of how it's driven by large institutional investors, has a strong bias toward large projects—60, 80, 100, 200 units. So even affordable housing projects contribute to the perception of disruptive neighborhood change. These megaprojects disrupt the urbanism and walkability of a neighborhood. They are fragile and can become costly failures.

Strong Towns has a clear set of suggestions for addressing this: Unlock the Missing Middle. Unlock the next increment of development across a broad swath of our cities.

4. Support novel models of shared equity

Community Land Trusts are a mechanism for making affordable homeownership available to low-income people, and preserving a stock of affordable housing in a neighborhood by removing land from the speculative real-estate market. A Land Trust is a nonprofit which buys up and holds residential lots. It then sells the houses, but not the land, to low-income households. When and if the family sells the house, they can only reap the appreciation on the structure itself from any renovations or improvements they may have made. They are insulated from any fluctuations in the underlying land value.

Limited-Equity Cooperatives similarly give low-income people an ownership stake in a home they could not otherwise buy. A co-op can be anything from a single apartment building to a cluster of free-standing homes; the key is that residents own a share which entitles them to a housing unit, but do not own the underlying land: the co-op organization does. Maintenance and management expenses are shared, and the mortgage is shared across all units in the co-op, reducing the risk of default.

Models like this are versatile, equitable, low-risk, and not at all tied to a particular funding source such as federal tax credits. The specifics of how they work can be adjusted for local conditions in a way that housing tax credits as a standardized investment product never can. I predict, in an age of re-localization of the way we handle urban problems such as housing, we'll see more and more things like this.

5. Create permanent local funding sources tied to market feedback

Properly-functioning feedback mechanisms are important to the long-term solvency of any program. Localities should fund subsidized housing through mechanisms that try to ensure the funding pool will mirror the actual demand. A property tax surcharge, dedicated to a fund for affordable housing, is one way to do this. If the market is hot, and there is greater risk of displacement from rent hikes, more money comes in to address the issue. If the market cools, there is less money, but also less immediate need.

Inclusionary zoning, in which developers of large market-rate projects are required to set aside a certain percentage of units for low-income tenants, is another option. It effectively uses property owners' windfall gains in rapidly-rising markets to fund affordable housing to deal with the social problems (i.e. displacement of low-income people) created by those rising prices.

Inclusionary zoning is controversial—some argue it has a market-distorting effect and may disincentivize new development to the point where it's self-defeating, others that it's not scalable enough. It certainly doesn't make sense everywhere, but in the Seattles and Austins and New Yorks and DCs of the world it may.

That's the beauty of local solutions to local problems. They can and should be adapted to local conditions.

6. Continue to advocate for federal policy change

None of this means that federal policy will be irrelevant to local problems. HUD and other federal resources *are* important, because often the places that are struggling locally are the places that really need an influx of resources. If rich regions can spend more to help their poor than poor regions, then those disparities are just going to be magnified over time. And geographic disparities between rich and poor regions of the country are a big part of what's causing our current political polarization.

In addition, there are federal policies that directly hamstring efforts to reform local land-use and housing policy. We, at Strong Towns have been very critical of these barriers in the past. FHA rules and mortgage lending industry practices put incremental, fiscally productive forms of development at a huge disadvantage.

The federal government matters, but ultimately, building Strong Towns means building local economic ecosystems that are in balance and sustainable: where local funds are able to meet local needs in ways that are responsive to local conditions. This is as true in the housing sector as in anything else urban planners, developers, and activists do.