RCG

State and Local Policy Strategies to Advance Housing Affordability

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Executive Summary

The United States faces a severe and worsening housing affordability crisis that increasingly affects every state and almost every major community in the nation. The two most recent economic shocks, the Great Recession and the ongoing COVID-19 pandemic, profoundly exacerbated housing affordability across the country. As a result, it is now more important than ever for states, cities and local communities to take decisive action to support housing affordability in their jurisdictions, a goal that will likely require policymakers to recognize the need for a multipronged, or even all-of-the-above, strategy to meaningfully address the crisis.

This paper intends to shed light on the scope and scale of the problem in communities across the country and to highlight a selection of policy pathways that communities can and should consider pursuing in order to support local affordability through: 1) Financial Policy Measures; 2) policies aimed at Increasing the Supply of Housing and Zoning; and 3) Permitting Policy Reform.

Housing Affordability by the Numbers

- The affordability crisis is increasingly affecting households of all ages, education levels, races, geographic locations and tenure status as renters or homeowners.
- Housing affordability across the nation declined precipitously in recent years for many groups. In fact, approximately one in three households were cost-burdened as of 2019. Additionally, nearly half of all renters were cost-burdened as of 2019, a fact that severely reduces the ability of these households to potentially save for a home.
- In most areas of the country, income growth failed to keep pace with the increase in home prices in recent years. The median home sales price grew 20% faster than the median income in more than 80% of states from 2009 to 2019.
- Growth in housing costs was in part fueled by a large undersupply of housing. Of the 300 metropolitan areas analyzed in this report, 189 did not permit enough housing units to keep pace with household formation from 2011 to 2019.
- Modest income growth and rising housing costs kept many renters from transitioning to sustainable and affordable homeownership. In 281 of the 300 largest metros in the U.S., more than four out of ten of renters spent 30% or more of their income or more on housing costs, as of 2017. Additionally, less than half of all homes sold in these largest 300 metro areas were affordable to the median income renter
- The COVID-19 pandemic further exacerbated the housing affordability crisis across the country. In particular, the pandemic wreaked havoc on renter households, who were already struggling with rising housing costs. In fact, 5.3 million renter households contained at least one person who lost their job, with households making less than the local median income accounting for 60% of that group.

Policy Pathways for Improving Housing Affordability

Financial Policy Measures

- Down payment assistance (DPA) programs provide a mechanism to support households that could otherwise afford to purchase a home, if they could access enough capital to meet the initial down payment requirements. In fact, recent research estimated that 45% of all potential homebuyers in need of assistance could afford the median-value home in their county with DPA of less than $25,000, and in many cases less than $10,500. DPA programs are especially important for households burdened by student loans, or first-time buyers without access to financial support from their families.
- One such program, the Maryland Mortgage Program, provides a variety of sub-programs that helps tailor the support in a way that can best meet the needs of low- and moderate-income homebuyers. Many DPA programs offer homeowner counseling and financial literacy training to help support responsible, affordable and sustainable homeownership. In fact, the delinquency rate on home loans for participants in one New Mexico program was significantly lower than in a comparable control group.
- Shared-equity models are made up of an array of programs that place restrictions on home resale, with_the goal of allowing households to purchase affordable homes by limiting the sales price to keep them affordable for the next buyer.
- Shared-equity programs provide significant advantages to homebuyers who would otherwise be unable to afford a home, while still offering a significant return on investment, and in doing so, help households get into the market and eventually transition to market-rate housing.

Increasing the Supply of Housing

- The cost of building homes increased rapidly in the latter half of the last decade. Hence, reducing the costs of building housing units, both single and multifamily, is critical to increasing the stock of housing.

- Labor shortages played a major factor in driving up housing costs, especially in high-cost markets with strong labor markets. The construction sector only recovered to the pre-Great Recession peak employment as of 2016, and as of 2019, had hundreds of thousands of job openings. Additionally, structural factors kept many groups from entering these fields, while more than 20% of construction workers will reach retirement age during the next decade. Local and state governments should seek opportunities to support trade schools and apprenticeship programs to help fill this gap and increase the supply of skilled labor in these critical fields.
- Innovation in the homebuilding industry could also help drive down the costs of construction. In fact, the Department of Housing and Urban Development (HUD) concluded that if modular and factory-built housing could reach greater scale and replicability, builders could achieve an overall savings of up to 20% over traditional construction.
- Cities can use development fee waivers and should think in terms of adding together all local and state fees put on housing projects to better assess, and seek opportunities to reduce, the true costs of development. These policies can encourage development that meets the goals of developers, communities and local governments.
- Legislatures can also mandate state-level feasibility standards to align fees across municipalities and ensure housing development is not suppressed in specific geographies.
- Accessory dwelling units (ADUs) can provide a significant benefit for municipalities by increasing density, often without the need for major zoning changes, and with a more limited amount of construction activity in residential communities. It is important for ADU programs to focus on removing cost and time barriers, providing education on best practices and ensuring homeowners have the resources and financing to build them.
- The aging stock in many of America's major cities poses a challenge for local governments across the country and limits the ability for stock to turn over or for new stock to come online. Legacy cities and underserved neighborhoods, many of which lacked significant investment this cycle, can potentially use existing public funds and institutions, as well as existing federal programs such as Opportunity Zone designations, to leverage private capital and knowledge in revitalization efforts.
- Housing Trust Funds and Community Land Trusts provide policy pathways for local governments to directly support long-term affordable housing. These programs also help communities experiencing renewal to remain affordable for current and future residents.
- Density bonuses provide developers with a level of density above what local zoning would traditionally provide, in exchange for the development of on-site or off-site affordable housing. This can act as a win-win for municipalities, which get affordable housing, and developers, who can offset the costs of affordable units with increased revenue from a greater number of units. Cities from New York to Austin utilize density bonuses to incentivize the development of affordable and market-rate housing, at relatively little cost to local governments.
- While density bonus policies are particularly well-suited for large cities with access to transit and major job clusters, the rising costs of housing and land will likely make density bonuses increasingly effective outside of the largest cities, and in less urban settings.

Zoning and Permitting Policy Reform

- While often contentious, it is critical for local and state governments to assess the zoning and permitting ordinances. In many cases, these costs are not intended to be prohibitive, but in others, costs may be designed to discourage new residential development or specific types of new housing.
- Researchers at the Wharton School of Business, estimated that the regulatory environment became more arduous and cumbersome across much of the nation between 2006 and 2018, despite an ongoing, and deepening affordability crisis.
- Inclusionary zoning is a relatively more direct approach, by which localities or states can require developments to include affordable housing, often in areas where it is undersupplied or would provide a large public good. It is important for inclusionary housing policies to align with local market conditions to ensure that these policies remain economically and socially viable, and do not turn into a barrier to development.
- Up-zoning and rezoning policies involve converting low-density, or commercial parcels to higher-density housing lots. Broadly, these policies should focus more specifically on underlying zoning regulations that can be modified to support the development of new housing over time.
- Up-zoning can be implemented at relatively little cost to local governments and can keep the character of local neighborhoods, while still allowing for slightly increased density.
- Municipalities and public agencies should assess their landholdings to identify underutilized land, or find vacant or blighted lots and rezone these lots for housing, especially in areas in which increased housing would benefit nearby businesses and residents.
- Expedited permitting processes should continue to be a major facet of regulatory reform at the municipal level. In fact, a survey conducted by JCHS, permitting and regulatory approval was rated the number one barrier by homebuilders in 2019, and was the second largest barrier for multifamily developers. For developers, time is money, and with faster approval times,

developers could produce housing more consistently, which has the potential to lower construction costs and allow for lower housing costs over time.

- Local permitting departments should make efforts to streamline existing programs to support increased permitting and applications. Following the example of Massachusetts, states may also need to become involved to unify permitting processes, especially in cities where the approval process can be arduous or drawn out. However, it is critical to ensure these programs continue to respect the wishes of local communities and environmental health.

Introduction

The United States faces a severe and worsening housing affordability crisis that increasingly affects every state and almost every major community in the nation. While affordability challenges took decades to develop, the crisis was heavily exacerbated by the Great Recession and Foreclosure Crisis of the mid-2000s and the uneven economic recovery. In the wake of these events, it took years for some households to gain back enough wealth and security in their housing, while for others, continually increasing housing costs kept their financial positions precarious. Critically, the COVID-19 pandemic rapidly changed this trend as millions lost their jobs, and households were forced to seek government aid or exhaust savings. These impacts were even greater among lower- and moderate-income households, the same households that have struggled with mounting housing costs for decades. As a result, it is now more important than ever for states, cities and local communities to take decisive action to support housing affordability in their jurisdictions, a goal that will likely require policymakers to recognize the need for a multipronged, or even all-of-the-above, strategy to meaningfully address the crisis.

This paper will first shed light on the scope and scale of the problem across the country by highlighting the extent to which communities large and small, urban and rural, 'low' and 'high' cost are all struggling with a growing affordability crisis. Next, this paper will explore a wide and varied spectrum of policy pathways that communities can and should consider pursuing in order to support local affordability through: 1) Financial Policy Measures; 2) policies aimed at Increasing the Supply of Housing and Zoning; and 3) Permitting Policy Reform0. Collectively, these policies highlight examples from more than 20 states, as well as local policies from numerous cities, large and small, spread across the nation. While this list is certainly not an exhaustive catalog of all the innovative and promising policy efforts underway across the country to combat this crisis, these policies were carefully selected to highlight unique policy characteristics, or as prime examples of forward-looking policies. Together, these policy pathways and the selected local examples are intended to serve as an actionable perspective on housing policies that can contribute to increasing the supply of housing that is affordable to a broader base of households, addressing the challenges of rising housing costs, and ultimately, helping local and state government efforts to improve housing affordability for millions of households around the nation.

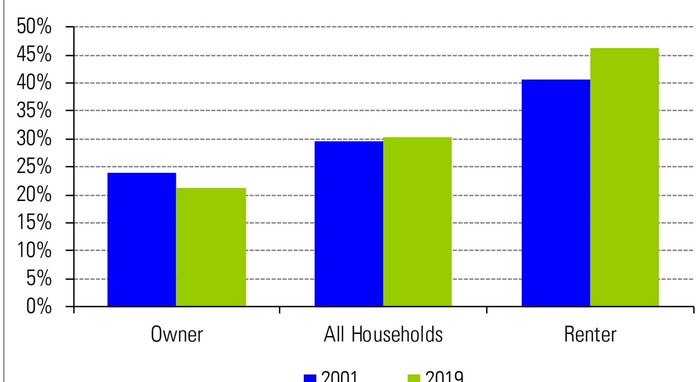
Housing Affordability by the Numbers

National Housing-Cost Burdens

Even before the current COVID-19 crisis, the widespread decline in housing affordability in recent years affected households in almost every part of the nation, making it more difficult for many households to make ends meet, preventing millions of renters from saving for a down payment on a home and limiting access to the American dream of homeownership. According to the Harvard Joint Center for Housing Studies' (JCHS) The State of the Nation's Housing 2020 report, approximately one in three households were cost-burdened in 2017, meaning they spent more than 30% of their income on housing. Exceeding this 30% threshold is generally considered to be a reliable indicator that housing costs are not affordable, likely forcing households to cut corners when it comes to other household expenses and severely limiting household savings. Critically, nearly half of all renter households in the nation fell within this category, and the share increased significantly in recent decades. In fact, from 2001 through 2018, the share of renter households facing cost burdens increased by five percentage points to 46.3%.[1]

Affordability is a challenge across all household types. Between 25% and 43% of owner households of all races were cost-burdened in 2019.[2] White households were the least cost-burdened, while black households were the most cost-burdened. Largely reflecting existing income inequality, the share of cost-burdened households among renters ranged from 42% to 54%. Approximately 54% of black renter households were cost-burdened, and nearly 52% of Hispanic renter households were burdened. In comparison, slightly more than 42% of Asian households and nearly 42% of white households were cost-burdened. Cost burdens are also significant across all levels of education and income. However, households with higher levels

Change in Share of Households Cost Burdened



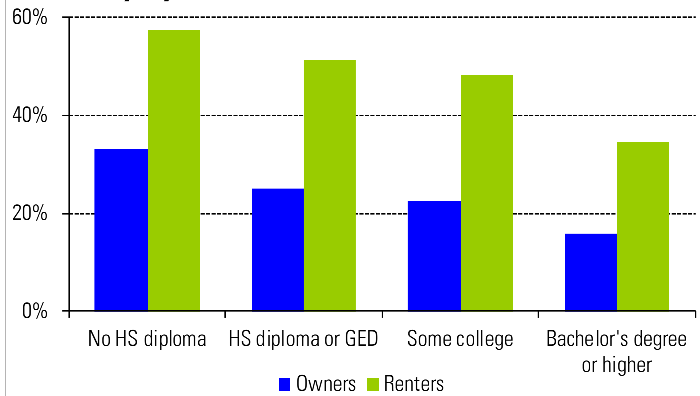
Note: State of Nation's Housing 2020 Report
Source: Harvard Joint Center for Housing Studies

of education were notably less cost-burdened than households with less formal education. In fact, the gap in cost burden between households with a bachelor's degree or higher and households with no high school diploma was nearly 25%. Nonetheless, nearly 35% of renter households with a bachelor's degree or higher were cost-burdened, and approximately 50% of households with some college background were cost-burdened. Education level is highly correlated with future earning potential; however, cost burden rates are on the rise for nearly all income groups.[3] Notably, from 2006 to 2018, the share of cost-burdened renter households with an income between $30,000 and $75,000 grew by an average of 8 percentage points across nearly every populous metropolitan area in the nation.[4]

Affordability is not age dependent either, as renter households of all ages experience cost burdens. Between 26% and 54% of households of all ages were cost-burdened nationally in 2019. Among renter households, between 43% and 58% of households of all ages were cost-burdened. In fact, housing-cost burdens among adults aged 65 and older are at an all-time high; nearly 55% of renter households aged 65 and older were cost-burdened in 2019.[5] Additionally, 24% of owner households aged 65 and older were cost-burdened. Millennial owners and renters were also cost-burdened. In fact, 21% of owner households aged 25 to 44 were cost-burdened, while 42% of renter households were cost-burdened.

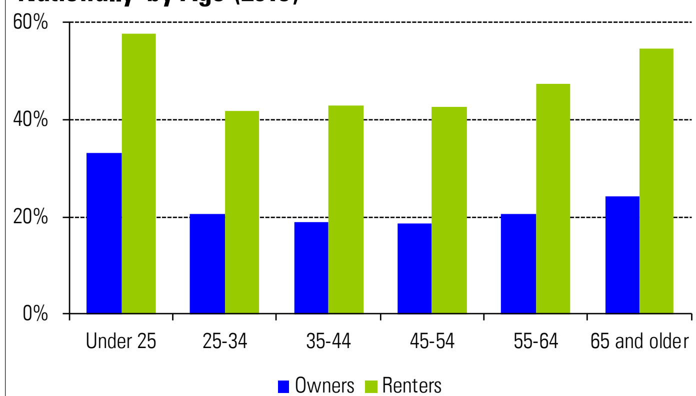
Housing affordability is on the decline for all household types across the nation. Regionally, the Midwest was historically more affordable than the West for both renters and owners; however, between 43% and 49% of all renter households across the Northeast, Midwest, South and West were paying at least 30% of their income on housing in 2019. In fact, there were only 6% fewer cost-burdened renter and owner households in the Midwest than the West. Additionally, between 17% and 25% of owner households across all regions were cost-burdened. With cost burdens across all regions, affordability is clearly a nationwide challenge in need of innovative policy solutions that target the unique issues in each state and local market.

Percent of Households Cost-Burdened Nationally by Education (2019)



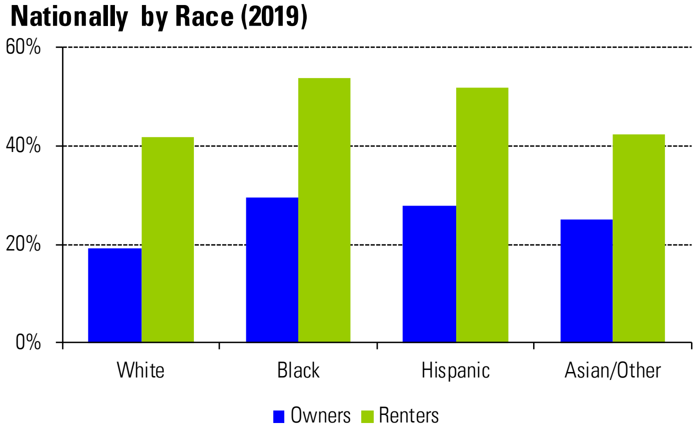
Note: State of Nation's Housing 2020 Report
Source: Harvard Joint Center for Housing Studies

Percent of Households Cost-Burdened Nationally by Age (2019)



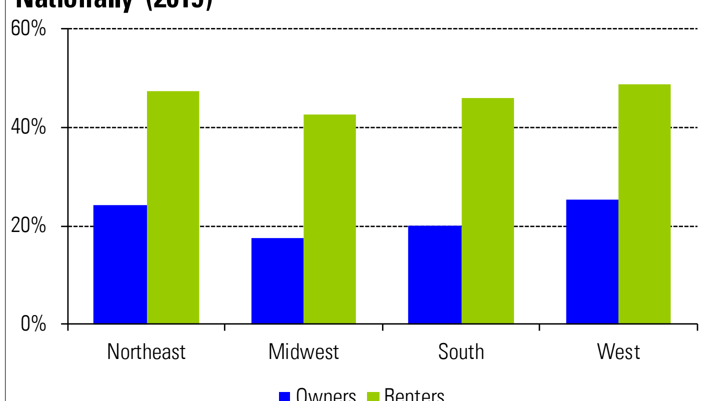
Note: State of Nation's Housing 2020 Report
Source: Harvard Joint Center for Housing Studies

Percent of Households Cost-Burdened Nationally by Race (2019)



Note: State of Nation's Housing 2020 Report
Source: Harvard Joint Center for Housing Studies

Percent of Households Cost-Burdened Nationally (2019)



Source: HUD

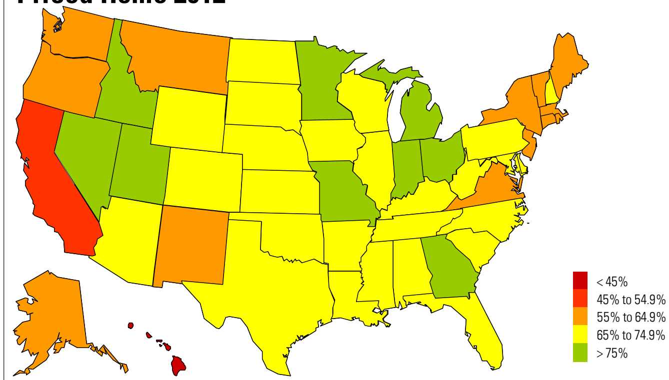
Affordability by State

RCG measured housing affordability as the share of households who were able to afford the monthly payments on a median-priced home, assuming a 30-year, fixed-rate mortgage, a 20% down payment and the typical costs of property insurance and property taxes. Based on this metric, across the 75 major markets tracked by RCG, housing affordability for renter and owner households was relatively stable, historically, during the period preceding the mid-2000s housing bubble, with an average of approximately 51% of households able to afford the median-priced home in their local market from 1992 to 2003.[6] Thereafter, however, the period of housing boom led to a sharp decline in affordability, followed by a dramatic but temporary improvement in affordability, as home prices collapsed in the wake of the foreclosure crisis. More recently, however, the combination of rising housing prices, tighter mortgage standards and relatively weak income growth reduced affordability across all states throughout the recovery and economic growth cycle.

Based on a corresponding state-level affordability calculation, RCG estimated that from 2012 to 2019, households in states across the West experienced the largest decline in the share of households able to afford the median-priced home, with a drop of nearly 10 percentage points. During this time period, the Midwest experienced a 6.5 percentage point decline in the share of households able to afford the median-priced home. In the Midwest, affordability fell by 11.4 percentage points in Michigan—more than any other state in the region during the seven-year period. In the Northeast, Maine experienced the most significant affordability decline at 11 percentage points. In the South, the largest declines were in Florida and Georgia, where the share of households able to afford the median-priced home fell by an average of 13 percentage points. In the West, the share in Nevada fell by 23 percentage points. RCG estimates that monthly mortgage payments on the median-priced home increased by more than 20% in all but four states and by more than 40% in 32 states. Notably, in Idaho, Georgia, Utah and Nevada, the estimated monthly mortgage payment doubled during the 7-year period.

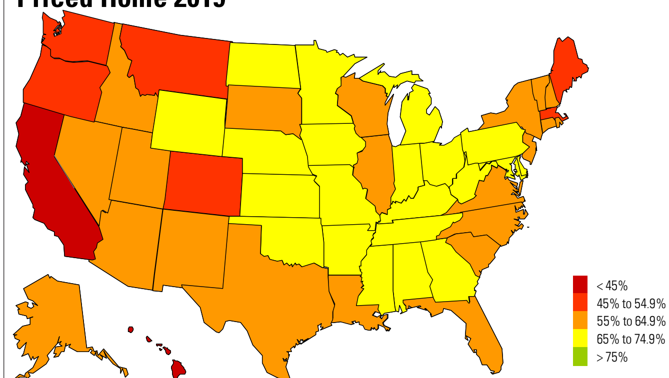
Importantly, these trends reflect the fact that in most areas of the country, income growth failed to keep pace with increases in home prices in recent years. In fact, from 2000 to 2019, the ratio of median home price to median income, another common measure of how affordable housing is, increased in 46 states. Furthermore, the median home price grew around 20% faster than the median income in 41 states from 2009 to 2019, and as a result, price-to-income ratios across the country are almost back to levels from the mid-2000s. In Nevada, Michigan, Arizona, Colorado, Georgia, Idaho, California, Florida, Texas and Indiana, home prices grew faster than median household incomes—more so than in any other state. Income grew faster than median home prices in only nine states: Connecticut, Delaware, Maryland, New Jersey, New York, Oklahoma, Pennsylvania, Virginia and West Virginia. These ratios also increased across metropolitan areas. In fact, the price-to-income ratio is higher than

Share of Households Able to Afford the Median Priced Home 2012



Note: Change in share of households spending 30% or less of their income on the median priced home using standard 30-yr. fixed rate mortgage and 20% down payment assumptions.
Source: Census, NAR, RCG

Share of Households Able to Afford the Median Priced Home 2019



Note: Change in share of households spending 30% or less of their income on the median priced home using standard 30-yr. fixed rate mortgage and 20% down payment assumptions.
Source: Census, NAR, RCG

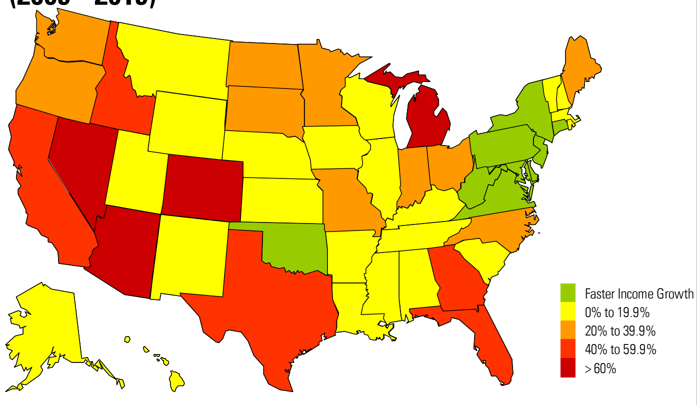
it was during the housing boom in one-third of the largest metro areas, including Denver, San Jose, Nashville and Atlanta.[7]

Affordability by Metropolitan Area

The median home price to median income ratio increased across markets of varying populations. As of 2019, the price-to-income ratio, was considerably larger for renters than owners, with the gap most significant in major metro areas with a population greater than three million. For renters across major metro areas, the price-to-income ratio was largest in Boston, Seattle and Miami. Across large metro areas with a population greater than one million but less than three million, the gap in price-to-income for renters was largest in Providence, Denver and Salt Lake City. Within moderate metro areas with a population between 500,000 and one million, the gap was largest in Honolulu, Fresno and Springfield (MO), and among small metro areas with a population less than 500,000, the gap was largest in Naples, Reno and Gainesville.

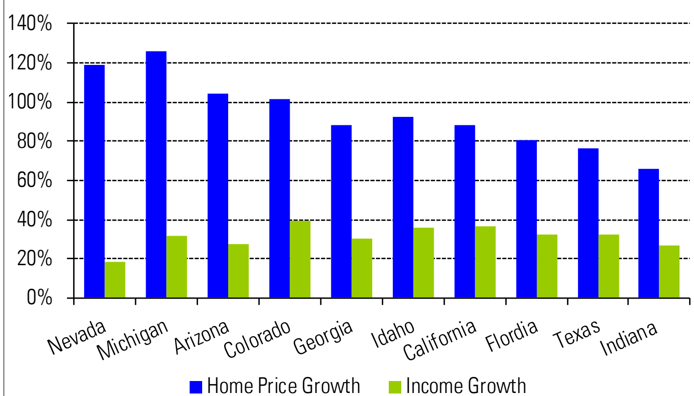
Examining an alternative measure of housing affordability based on data from JCHS, across 300 of the most populous metro areas in the

Gap Between Home Price and Income Growth (2009 - 2019)



Note: Represents cumulative Median Home Price Growth less Median Household Income Growth
Source: Census, NAR, RCG

Median Home Price Growth vs. Median Income Growth (2009-2019)



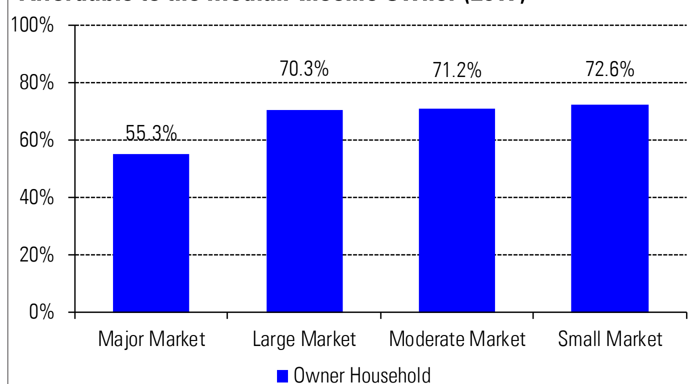
Source: NAR, Census, RCG

nation, 71% of recently sold homes had monthly payments affordable to the median income owner household, which was 29 percentage points greater than the 42% share of homes that were affordable to the median income renter household. While this metric differs considerably in methodology from RCG's broader state affordability metric, the insights once again highlight the depth and breadth of affordability challenges around the country.[8] By market size, the median income owner household in major metro areas (those with more than three million people) could only afford 55% of recently sold homes, while the median income renter household could only afford 31% of recently sold homes. In large, moderate and small metro areas, the affordability gap is also significant. On average across large metro areas, the median income owner household could afford 70% of recently sold homes, while the median income renter household could afford just 40%. Across moderately-sized metro areas, the median income owner household could afford 71% of recently sold homes, while the median income renter household could afford just 40%. Across small metro areas, the median income owner household could afford 73% of recently sold homes, while the median income renter household could afford just 44%. Among all major metro areas, San Diego, Boston, Seattle, New York and Philadelphia were among the top 10 metro areas with the smallest share of recent home sales affordable to the median income renter. Among large metro areas, Providence, Denver, Salt Lake City and Baltimore were the least affordable by this measure. Across all moderately-sized metro areas, Fresno, Honolulu and Springfield (MO) were the least affordable, and across all small metro areas, Boulder and Eugene (both college towns), were the least affordable.

Additionally, the share of households spending more than 30% of income on housing, or cost-burdened households, was significant across the majority of metro areas in recent years. The largest share of cost-burdened households was in Los Angeles, Miami, Salinas, San Diego and Santa Maria in 2017, the most recent data available. This disparity was more varied across tenure types. Los Angeles, Salinas, San Luis Obispo, Honolulu and Atlantic City had the largest share of cost-burdened homeowners with a mortgage, while The Villages, Monroe, Miami, Punta Gorda and Bloomington had the largest share of cost-burdened renters.

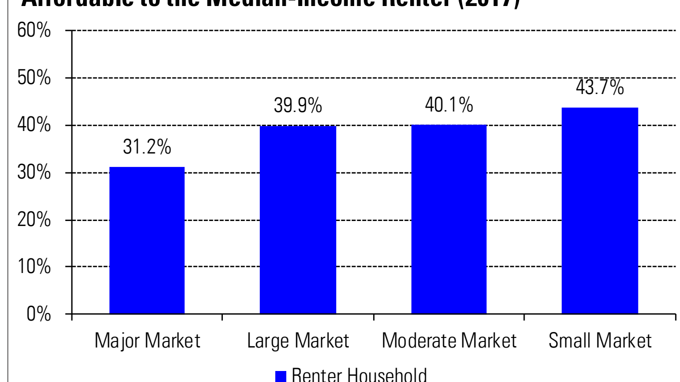
Not surprisingly, cost burdens closely aligned with the gap between residential permitting (the authorization by local governments to start construction of new housing) and job growth. The measure for

Recently Sold Homes with Monthly Payments Affordable to the Median-Income Owner (2017)



Note: Major Markets are metro areas with a population greater than or equal to three million. Large Markets are metro areas with a population greater than or equal to one million but less than three million. Moderate Markets are metro areas with a population greater than or equal to 500,000 but less than one million and Small Markets are metro areas with a population less than 500,000.
Source: Harvard Joint Center for Housing Studies, RCG

Recently Sold Homes with Monthly Payments Affordable to the Median-Income Renter (2017)



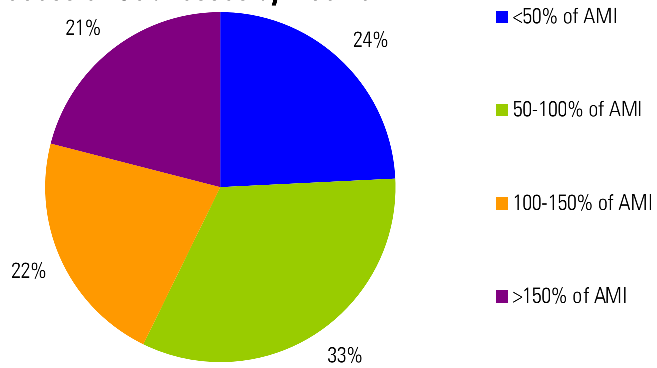
Note: Major Markets are metro areas with a population greater than or equal to three million. Large Markets are metro areas with a population greater than or equal to one million but less than three million. Moderate Markets are metro areas with a population greater than or equal to 500,000 but less than one million and small markets are metro areas with a population less than 500,000.
Source: Harvard Joint Center for Housing Studies, RCG

underbuilding examined in this analysis assumes that equilibrium (a value of 1) would require at least one permit to be issued for every two jobs added to the local economy. Among the top 20 metro areas with the largest share of households paying more than 30% of their income on housing, 16 also had lower levels of permitting growth relative to job growth from 2011 to 2019. However, the issue of underbuilding was by no means limited to high-cost areas. In fact, relative to job growth, more than 70% of metro areas were underbuilt since 2011. Among major metro areas, Detroit, the Inland Empire, Phoenix, Chicago and Tampa were all significantly underbuilt relative to job growth during this period. Across large metro areas, Richmond, Sacramento, Las Vegas and Salt Lake City were the most underbuilt markets. Across moderately-sized markets, Modesto, Bakersfield, Fresno and Stockton (all cities in the California Central Valley) were most underbuilt, and across small markets, Longview (WA), Mount Vernon (WA), Tyler (TX) and Ocala (FL) were most underbuilt.

The Impact of the COVID-19 Recession

To date, the pandemic and efforts to contain the virus are gravely impacting state and local economies around the nation. While employment declined across all sectors following economic shutdowns, there was a distinct bifurcation in job losses by income class. During the 15 weeks from February to May 2020, 50 million unemployment claims were filed, 21 million jobs were lost, and the unemployment rate rose to a peak of 14.7%. Furthermore, these losses disproportionately occurred in households with lower incomes. The majority of job losses were concentrated in lower-income sectors, such as retail and leisure and hospitality. However, even prior to the pandemic, the share of cost-burdened renter households was already most significant across households with food preparation and serving-related jobs.[9] While jobs are recovering, challenges persist, particularly in low- and moderate-income industries. Moreover, with virus cases surging in many parts of the country, the prospects for further reopening and job recovery remain highly uncertain in the near term. In fact, nationally, RCG does not expect full recovery of job losses until mid-2023.

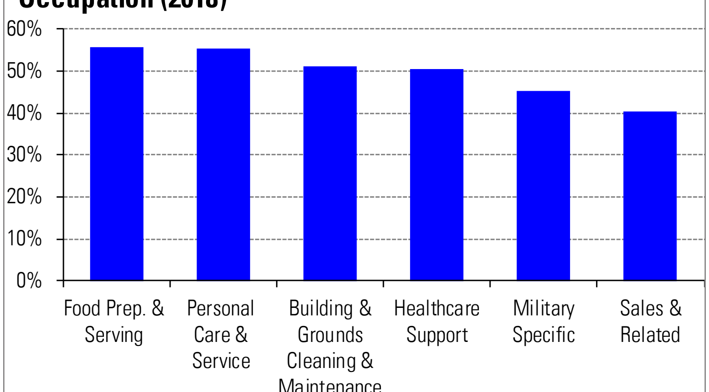
Share of Renter Household COVID-19 Recession Job Losses by Income



Note: Job Loss Between February and August 2020
Source: Urban Institute

In total, the Urban Institute estimated that from February 2000 through August 2020, 5.3 million renter households contained at least one person that lost their job.[10] People in renter households earning less than the area median income (AMI) represented nearly 60% of these job losses. Lower-income renters were already the most cost-burdened households prior to the pandemic, and job losses are only making this affordability challenge worse for many of these households that were most affected by the economic fallout of the pandemic. Additionally, there is already a clear bifurcation in the single family housing market. During the pandemic, single family home sales surged in recent months among high-income households, while homeownership for low- and moderate-income households is becoming increasingly unattainable. This rapid and unprecedented shock to lower-income renters will further exacerbate the gap in housing affordability across households in every state during the next few years, making the need for new policy approaches to tackle the challenges of housing affordability that much more urgent.

Share of Renter Households Cost-Burdened by Occupation (2018)



Note: America's Rental Housing 2020 Report
Source: Harvard Joint Center for Housing Studies

Least Affordable Markets by Metro Area Size

Share of Recently Sold Homes with Monthly Payments Affordable to the Median Income Owner Household

Metro Size	Metropolitan Areas	State	Share of Affordable Homes
Major	Los Angeles-Long Beach-Anaheim	CA	12.8%
[3 mil. +]	San Francisco-Oakland-Hayward	CA	17.1%
	San Diego-Carlsbad	CA	23.0%
	New York-Newark-Jersey City	NY-NJ-PA	40.1%
	Seattle-Tacoma-Bellevue	WA	40.5%
	Miami-Fort Lauderdale-West Palm Beach	FL	46.1%
	Riverside-San Bernardino-Ontario	CA	46.4%
	Boston-Cambridge-Newton	MA-NH	49.8%
	Washington-Arlington-Alexandria	VA	63.0%
	Phoenix-Mesa-Scottsdale	AZ	64.7%
Large	San Jose-Sunnyvale-Santa Clara	CA	23.4%
[1 mil. to 3 mil.]	Sacramento-Roseville-Arden-Arcade	CA	45.0%
	Portland-Vancouver-Hillsboro	OR-WA	45.7%
	Denver-Aurora-Lakewood	CO	49.3%
	New Orleans-Metairie	LA	55.6%
	Providence-Warwick	RI-MA	60.1%
	Salt Lake City	UT	61.9%
	Las Vegas-Henderson-Paradise	NV	63.1%
	Orlando-Kissimmee-Sanford	FL	63.4%
	Austin-Round Rock	TX	65.9%
Moderate	Oxnard-Thousand Oaks-Ventura	CA	18.8%
[500,000 to 1 mil]	Urban Honolulu	HI	27.5%
	Stockton-Lodi	CA	38.1%
	Fresno	CA	49.2%
	Durham-Chapel Hill	NC	54.2%
	Charleston-North Charleston	SC	55.3%
	North Port-Sarasota-Bradenton	FL	56.6%
	Bakersfield	CA	57.1%
	Modesto	CA	58.8%
	Cape Coral-Fort Myers	FL	60.0%
Small	Salinas	CA	14.6%
[< 500,000]	Santa Cruz-Watsonville	CA	16.0%
	San Luis Obispo-Paso Robles-Arroyo Grande	CA	18.7%
	Santa Rosa	CA	20.1%
	Barnstable Town	MA	26.6%
	Bend-Redmond	OR	33.1%
	Missoula	MT	33.2%
	Boulder	CO	33.4%
	Eugene	OR	34.2%
	Santa Maria-Santa Barbara	CA	36.1%

Note: Metropolitan area size based on population. JCHS defines affordable payments based on 3.5% down payment (minimum for FHA loan), including property taxes and insur and mortgage insurance.

Sources: Harvard Joint Center for Housing Studies, Census, RCG

Least Affordable Markets by Metro Area Size

Share of Recently Sold Homes with Monthly Payments Affordable to the Median Income Renter Household

Metro Size	Metropolitan Areas	State	Share of Affordable Homes
Major	Los Angeles-Long Beach-Anaheim	CA	5.7%
[3 mil. +]	San Francisco-Oakland-Hayward	CA	8.3%
	San Diego-Carlsbad	CA	11.0%
	Boston-Cambridge-Newton	MA-NH	12.0%
	Seattle-Tacoma-Bellevue	WA	18.6%
	New York-Newark-Jersey City	NY-NJ-PA	19.7%
	Riverside-San Bernardino-Ontario	CA	24.0%
	Miami-Fort Lauderdale-West Palm Beach	FL	27.8%
	Washington-Arlington-Alexandria	VA	33.7%
	Philadelphia-Camden-Wilmington	PA-NJ-DE	34.9%
Large	San Jose-Sunnyvale-Santa Clara	CA	11.6%
[1 mil. to 3 mil.]	Providence-Warwick	RI-MA	14.4%
	Sacramento-Roseville-Arden-Arcade	CA	14.7%
	Portland-Vancouver-Hillsboro	OR-WA	14.7%
	Denver-Aurora-Lakewood	CO	17.9%
	Salt Lake City	UT	21.0%
	New Orleans-Metairie	LA	27.8%
	Austin-Round Rock	TX	30.8%
	Baltimore-Columbia-Towson	MD	32.0%
	Las Vegas-Henderson-Paradise	NV	35.8%
Moderate	Fresno	CA	8.4%
[500,000 to 1 mil]	Oxnard-Thousand Oaks-Ventura	CA	10.7%
	Urban Honolulu	HI	11.5%
	Springfield	MA	12.9%
	Stockton-Lodi	CA	13.3%
	Modesto	CA	18.0%
	Worcester	MA-CT	18.1%
	Boise City	ID	18.2%
	Durham-Chapel Hill	NC	22.5%
	Bridgeport-Stamford-Norwalk	CT	22.7%
Small	Santa Cruz-Watsonville	CA	1.7%
[< 500,000]	Boulder	CO	7.8%
	Fort Collins	CO	8.3%
	Albany	OR	9.0%
	Barnstable Town	MA	9.6%
	San Luis Obispo-Paso Robles-Arroyo Grande	CA	10.0%
	Eugene	OR	11.0%
	Santa Rosa	CA	11.3%
	Salinas	CA	11.8%
	Corvallis	OR	14.0%

Note: Metropolitan area size based on population. JCHS defines affordable payments based on 3.5% down payment (minimum for FHA loan), including property taxes and insur and mortgage insurance.

Sources: Harvard Joint Center for Housing Studies, Census, RCG

Most Underbuilt Markets by Metro Area Size

Average Annual Permitting vs. Annual Average Job Increase From 2011 to 2019

Metro Size	Metropolitan Areas	State	Employment Increase	Permit Increase	Permitted Unit / 2 Jobs
Major	Detroit-Warren-Dearborn	MI	33,800	1,791	0.11
[3 mil. +]	Riverside-San Bernardino-Ontario	CA	43,500	2,412	0.11
	Phoenix-Mesa-Scottsdale	AZ	54,000	7,373	0.27
	Chicago-Naperville-Elgin	IL	57,500	9,596	0.33
	Tampa-St. Petersburg-Clearwater	FL	31,000	5,189	0.33
	Los Angeles-Long Beach-Anaheim	CA	104,900	18,044	0.34
	San Francisco-Oakland-Hayward	CA	61,900	10,648	0.34
	San Diego-Carlsbad	CA	29,300	5,125	0.35
	Miami-Fort Lauderdale-West Palm Beach	FL	58,300	11,121	0.38
	New York-Newark-Jersey City	NY	152,800	39,585	0.52
Large	Richmond	VA	10,600	940	0.18
[1 mil. to 3 mil.]	Sacramento-Roseville-Arden-Arcade	CA	20,800	2,069	0.20
	Las Vegas-Henderson-Paradise	NV	25,700	2,816	0.22
	Salt Lake City	UT	18,600	2,636	0.28
	Indianapolis-Carmel-Anderson	IN	19,600	3,029	0.31
	Milwaukee-Waukesha-West Allis	WI	7,400	1,267	0.34
	Jacksonville	FL	16,100	2,913	0.36
	San Antonio-New Braunfels	TX	24,900	4,586	0.37
	Orlando-Kissimmee-Sanford	FL	37,200	7,101	0.38
	New Orleans-Metairie	LA	5,600	1,105	0.39
Moderate	Modesto	CA	3,400	138	0.08
[500,000 to 1 mil]	Bakersfield	CA	4,800	246	0.10
	Fresno	CA	7,900	486	0.12
	Stockton-Lodi	CA	6,000	380	0.13
	Scranton-Wilkes-Barre-Hazleton	PA	1,100	77	0.14
	Lancaster	PA	3,700	279	0.15
	Lakeland-Winter Haven	FL	4,800	432	0.18
	McAllen-Edinburg-Mission	TX	5,600	612	0.22
	Provo-Orem	UT	10,400	1,246	0.24
	Palm Bay-Melbourne-Titusville	FL	4,200	530	0.25
Small	Longview	WA	500	8	0.03
[< 500,000]	Mount Vernon-Anacortes	WA	900	26	0.06
	Tyler	TX	1,300	39	0.06
	Ocala	FL	1,800	56	0.06
	Spartanburg	SC	4,100	152	0.07
	Vallejo-Fairfield	CA	2,700	103	0.08
	The Villages	FL	1,200	47	0.08
	Morristown	TN	600	30	0.10
	Punta Gorda	FL	1,000	54	0.11
	Santa Rosa	CA	4,600	261	0.11

Sources: Census, RCG

Policy Pathways for Improving Housing Affordability

The decline in housing affordability, which accelerated in the last 10 years in the wake of the Great Recession, has encouraged states, regions, counties and cities across the country to take action to address affordability challenges. These policies vary greatly across levels of governance, ranging from cities making reforms to zoning laws to states providing larger-scale financing programs. On top of public programs and policies, private-sector companies and nonprofits have also created initiatives that often work with public entities to reach policy goals. However, nearly all of these programs have the underlying objective of increasing affordability of housing in rural, suburban and urban communities across the United States.

This report will analyze a selection of the very large number of policies, initiatives, programs and incentives that exist across the country. The policies highlighted here should provide examples of noteworthy efforts that have strong potential to address one or more of the many facets of the current problem. However, each community across the country is unique, and any attempt to create holistic and lasting methods of addressing the current affordability crisis will likely involve a variety of the kinds of policies described here, recognizing the importance of adjusting them to best fit local market conditions.

We have identified three main themes in which many of these policies can be categorized. They include **Financial Policy Measures,** policies aimed at **Increasing the Supply of Housing** and **Zoning and Permitting Policy Reform**. These themes encompass a wide variety of policies, initiatives and programs that attempt to support housing affordability, including those implemented at all levels of government, as well as programs created by nonprofits and in some cases supported by the private sector.

Financial Policy Measures

Providing access to sustainable homeownership can and should be an important part of efforts to promote housing affordability across the nation. During the last few decades, many states, municipalities and nonprofits implemented a variety of financial support programs, with the goal of supporting affordable and sustainable homeownership. Many different forms of financial assistance exist across these jurisdictions, ranging from the down payment on a home to the sales price. Down Payment Assistance (DPA) programs and property tax exemptions are the most common type of policy in this theme, although innovative solutions also exist outside of these programs.

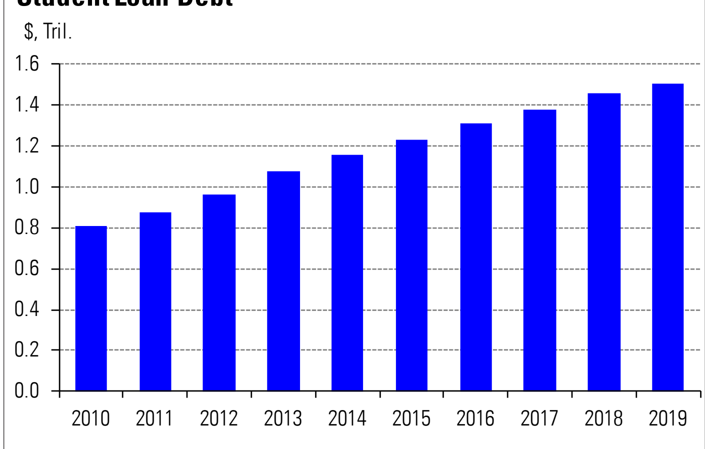
Down Payment Assistance (DPA)

Historically, many first-time buyers accessed homeownership with help from family members, benefiting from intergenerational transfers of wealth. However, many low- and moderate-income households, particularly prospective first-generation homebuyers, often do not have access to these sources of capital or are limited in their ability to save for a home. Down Payment Assistance (DPA) programs provide a mechanism to support households who could otherwise afford to purchase a home, if they could access enough capital to meet the initial down payment requirements. Nearly all states have programs that provide DPA to homeowners in some form or another to help fill this gap. The various policies set different criteria for the percentage of median family income in the area that is needed to qualify, the amount of the loan for down payment, how much equity the homebuyer is required to contribute, and a long list of other criteria. However, the fundamental goal of all these DPA policies is the same, namely, to support households that would be able to afford a home if they had access to the up-front capital necessary. In fact, researchers found that of nearly 20 million potential homeowners, 45% of all potential homeowners in need of assistance (as identified by the study), could afford the median-priced home in their county with DPA of less than $25,000, and in many cases, less than $10,500.[11] The policies mentioned in this category are not a holistic or representative sample of all DPA programs across the country. Instead, these policies are highlighted specifically because of unique attributes that make them more innovative.

Maryland: Maryland Mortgage Program

The State of Maryland administrates the Maryland Mortgage Programs or MMP. This program provides a 30-year, fixed-interest-rate mortgage, with access to additional financial assistance programs once a homebuyer qualifies for the umbrella MMP program. These different sub-programs provide homebuyers with a wide range of options in the form of down payment assistance that works best for them, which is a major advantage, since households seeking DPA can come from very different backgrounds. The sub-programs offered include those for first-time buyers, those with student debt and those employed at qualifying companies. First-time buyers can purchase homes anywhere in Maryland using the same advantages as those who would be looking to buy in 'targeted areas.' Recog-

Student Loan Debt



Source: FRBNY

nizing the burden that student debt poses for many households, Maryland offers the SmartBuy 2.0 program. This program provides homebuyers a 'benefit' worth 15% of the value of the home (up to $30,000 dollars) to pay off student loans, although the student loans must be completely paid off at closing.[12] Finally, the MMP includes a Partner Match program which allows employers, homebuilders and developers, community organizations and local governments to provide grants or loans that would then be doubled by the MMP for use on down payments or closing cost fees. Across all of these programs, the MMP also typically requires that homebuyers complete homebuyer education courses regarding purchasing a home and the responsibilities of homeownership. One of the major strengths of the MMP is the flexibility for homebuyers, and the breadth of sub-programs offered. This program has been a great success, and in 2019, nearly 4,300 loans, totaling more than $1.2 billion, were reserved.[13]

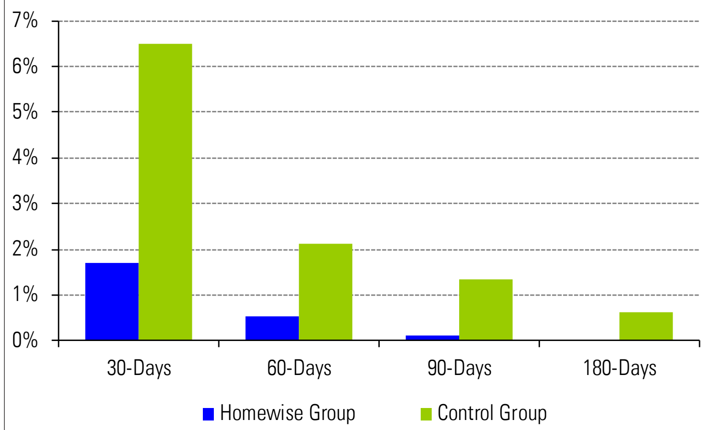
Minneapolis: Neighborhood LIFT

Minnesota contains various down payment assistance programs, including a high-profile Public Private Partnership (PPP). Recently, Wells Fargo, a major employer in the region, partnered with NeighborWorks America and NeighborWorks Home to provide $7 million for a DPA program in the Minneapolis-St. Paul metro area. The program aims to provide DPA to households earning less than 80% of the family median income and will come in the form of a forgivable loan.[14] Homebuyers must stay in the home for at least five years, and the program will also provide homeownership counseling to eligible households regarding the application process and budgeting. Wells Fargo expects to enable 425 households to become homeowners in Minneapolis. However, since 2012, Wells Fargo invested $504 million in DPA programs and helped 24,500 households become homeowners nationally.[15] The PPP aspect of this program provides a substantial benefit to the city, in that it requires no city funding but supports the goal of the city to increase homeownership. Also, by targeting specific areas in the region through the LIFT program, this partnership can support the households most in need of support on their path to homeownership. Along with the other important aspects, educating new homeowners and ensuring that they remain stable in their situation are major goals of this DPA program and should be a major factor in other DPA programs.

New Mexico: Homewise

Many think of the Southwest as one of the more affordable regions in the country. However, many residents still struggle with affordability challenges. In an attempt to provide relief for this issue, a nonprofit Community Development Financial Institution (CDFI), Homewise, developed an innovative solution. Homewise originates traditional mortgages, under GSE standards, at 80% LTV. These are then sold on the secondary market. However, what makes this program innovative is that they then offer homebuyers, who qualified for the first mortgages, a second 18% LTV mortgage, essentially leaving the homebuyer to cover only 2% of the original home value. Homebuyers who participate in this program then participate in homeownership preparation and financial coaching programs. A major advantage of this form of program is that as the servicer of the loan, Homewise can identify when homeowners may be struggling and can help address the problem. The program has proven successful, with sizable decreases in 30-, 60- and 90-day delinquency rates.[16] This success drew the attention of the Albuquerque region's largest health group, Christus St. Vincent Medical Center, which partnered with Homewise to provide housing options for nearly 100 local employees.[17] Programs like Homewise provide a viable way for communities to support affordable homeownership by leveraging public and private funds to provide down payment assistance to homebuyers for whom homeownership would otherwise be out of reach. Programs like this also build a financially savvy and a confident class of homeowners through education and support programs.

Delinquency Rates for Homebuyers



Source: Journal of Housing Economics

North Carolina: NC Home Advantage Mortgage

The publicly-run NC Home Advantage is a more traditional DPA program, although it does offer some unique benefits and options, especially for first-time buyers. The main portion of this program involves a 15-year, zero-interest loan of up to 5% of the value of the home. The loan is forgiven at 20% each year from years 11 to 15, with total forgiveness in that final year. Repayment of the loan is only required if the home is sold, transferred or refinanced before year 15. To apply, a homebuyer must have an annual household income of $92,000 or less, a credit score of 640 or higher and have already applied for an FHA, USDA or VA loan.[18] By building off of public loans, the NC Home Advantage Mortgage can leverage the work done by other agencies to better meet the needs of homeowners most in need of assistance. This program is also wide reaching, with the income limit still encompassing nearly three-quarters of all North Carolina households.[19]

While much of the program applies to both buyers and current owners, there are additional benefits for first-time buyers. These include a credit, the Mortgage Credit Certificate, on the first-time buyer's federal tax return for up to 30% of the interest on the primary mortgage for existing homes, or 50% for newly built homes.[20] This credit comes in the form of a dollar-for-dollar tax credit for low- and moderate-income, first-time homebuyers purchasing homes that meet program criteria, which helps support housing affordability by lowering net housing costs. Policies like this not only help increase the rate of homeownership broadly, but can also increase access to, and demand for, newly built homes, which may in turn spur developers to increase the supply of housing.

As an alternative to this program, the North Carolina Housing Finance Agency also offers an NC 1st Home Advantage Down Payment program. This program provides loans, with generally the same underwriting as the previous loan program, only to first-time buyers, but with a flat loan limit of $8,000. This can greatly increase the scope of homes available for purchase under this program, although this program excludes users from taking advantage of the above first-time buyer tax credit. Overall, the NC Home Advantage Mortgage provides strong benefits to a large share of the North Carolina population, and supports the goal of homeownership through responsible homebuying.

Key Takeaways:

- DPA Programs help to provide assistance to households on the verge of homeownership, especially those **who could normally afford the monthly costs of a home but have been unable to save for a down payment.**
- It is important for DPA programs to offer **flexibility for different situations, especially student loan borrowers and first-generation homebuyers** who are less likely to have access to savings or other forms of help to make the **transition to homeownership**.
- While it is typically important for borrowers to have **skin in the game**, some lenders have shown that this is **not necessarily the only way to ensure repayment**. Instead, it may be better for lenders to work with borrowers and remain interested in their success on the path towards sustainable homeownership.
- **Financial literacy education and counseling that help to** better prepare households for responsible homeownership are a critical piece of many successful DPA programs. These initiatives can **help support new and potential homeowners through these important life decisions**.

Property Tax Exemptions

Another source of financial relief for many homebuilders, developers and households are various property tax exemption programs. These include but are not limited to Homestead Tax exemptions and tax abatements.

Homestead Tax Exemption

These tax exemptions are very common across most states, although the exact cutoffs, eligibility and impacts can vary widely. Generally, Homestead Tax Exemptions (HTE) are granted by states to groups that are distressed economically for any number of reasons, such as disabled homeowners, veterans, widowed spouses of veterans, seniors, low-income homebuyers and victims of natural disasters. The exemptions allow these groups to set aside a designated dollar amount or percentage of the value of their home that will be exempt for property tax assessments or to provide a tax refund using a similar equation. For example, if the base property tax is 2% on a $200,000 home, the annual property tax assessment would be $4,000. Under an HTE, a qualifying household may be able to claim an exemption of $50,000, reducing the assessed value to $150,000, and the annual property tax assessment to $3,000. The HTE is also an annual credit, so the benefit can be sustained over long periods of time. These kinds of programs can be very effective at selectively targeting groups prone to housing stresses and helping to support homeownership affordability.

Various states have also applied these exemptions beyond the traditional sets of groups. Examples of these initiatives include:[21]

- Massachusetts: Tax exemptions can be claimed by public safety personnel such as firefighters
- Texas and Maine: Properties that implement renewable energy upgrades can qualify
- Minnesota: Implementation of pollution controls makes properties eligible

However, states are not the only ones that offer these credits. Various cities and municipalities from San Francisco to Baltimore offer similar tax credits to homeowners, while others also offer significant tax exemptions to developers of affordable housing. For example, Provincetown, MA offers a tax exemption for multifamily property owners offering rental units on a year-round basis, based on how much of the property is affordable.[22] 'Affordable' in this case is defined as 80% of area median income or less. In this instance, the city is recognizing the public good provided by increasing affordable housing supply and reducing cost burdens for developers, based on how many units are produced. Washington, D.C. uses a similar policy and provides property tax abatements for residential developments that provide 5% of units to low-income households, and 10% of housing units to households earning at most 60% of area median income.[23] The abatement, in this case, is significant, at 75% of the difference between the pre-development and post-development tax burden.

Property tax exemptions, both for private single family residences and multifamily developments, provide pathways for states and municipalities to provide support for homeowners at risk of experiencing housing stress, while also incentivizing an increase in the supply of affordable and market-rate housing.

Key Takeaways:

- Property tax exemptions, including the Homestead Tax Exemption, **can provide groups at high-risk of housing stress much needed support.**
- Tax exemptions and abatements can also be used to **incentivize certain behavior in the housing market**, such as **renewable energy upgrades or the development of affordable housing**.
- **State and Municipalities of all sizes and densities** can effectively use tax exemptions, especially when they benefit communities through support for cost-burdened households or increasing the supply of housing.

Public & Nonprofit Shared-Equity Models

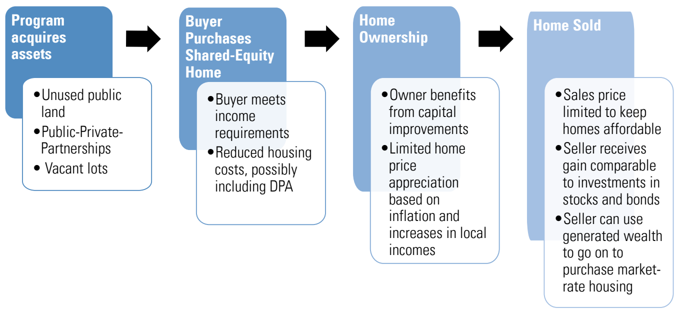
Public and nonprofit shared-equity models are typically aimed at keeping currently existing housing affordable for communities. These policies are centered on the idea of limiting the resale value of a home to below-market-rate levels to keep housing affordable over long periods of time. HUD defines shared-equity programs as "an array of programs that create long-term, affordable homeownership opportunities by imposing restrictions on the resale of subsidized housing units".[24] These shared-equity programs are typically administered by local community organizations and nonprofits, or in some cases, the developers of a site. Alternatively, in the case of private sector shared-equity programs, the goals and setups vary widely. Private programs can be administered by any number of sources from lending corporations to family members. These private programs often operate by offering a share of the home, and the profit at sale, in exchange for upfront assistance with the cost of the home. This could potentially act as an alternative to a DPA loan. Private programs often do not limit the resale price, and are focused more on helping transition households to homeownership, rather than supporting sustainable affordability over time. However, the goal of this section is to highlight the public and nonprofit avenues for shared-equity models, which largely eliminate the possibility of concerns regarding homeowners being taken advantage of through predatory business or lending practices.

Examples of Shared-Equity Programs Across the Country

City	Program	Source of Assets	Support to Buyers	Shared -Equity
Austin, TX	HomeBase Texas	Purchase of land from developers.	One-on-one shared-equity education session, one prepurchase homeownership course	2% annual appreciation on the sales price
Bay Area, CA	Hello Housing	Develops homes, sells inclusionary units in market-rate projects	4 to 8 hour HUD-certified ownership course	Varies by locality; CPI, Income increase, flat .25% appreciation per quarter
Burlington, VT	Champlain Housing Trust	Inclusionary zoning requirements, HTF developments, existing units under sale with a buyer-driven opt-in	Homebuyer education and prepurchase counseling	25% of appraised appreciation from purchase to sale, 100% of capital improvements
Long Island, NY	Long Island Housing Partnership	Develops homes, tax-foreclosed properties	Mortgage counseling, DPA, matched savings program	CPI, but caps price at level equal to percentage of area median income as at initial purchase
Nashville, TN	The Housing Fund	Foreclosed suburban subdivisions, develops homes on vacant land, acquires homes	Supports homebuyers throughout the buying process, required homebuyer counseling	Years 1-3: 25% of appraised appreciation; Years 3-30: 50%; Years 30+: 100%; capital improvements costs added to above %s
Park City, UT	Mountainlands Community Housing Trust	Purchases or acquires lots from inclusionary zoning developments	Prepurchase counseling	Maximum of 3% annual appreciation on purchase price. 100% of capital improvements.
Seattle, WA	Homestead Community Land Trust	New infill construction, single-family rehabs, partnerships with nonprofit developers	First-time buyer education class, one-on-one financial counseling	1.5% annual appreciation on the sales price, which is restricted. 100% of capital improvements
South Florida	CLTs of Palm Beach County, Del Ray Beach, South Palm Beach County, South Florida (Broward)	Acquire never-occupied or foreclosed homes, develop on public lands, partnering with local developers	Attend HUD-certified ownership course, CLT orientation, DPA, financial coaching	Up to 25% of appraised appreciation; or share of purchase price plus change in area median income; credit available for capital improvements

Source: Urban Institute

Public & Non-Profit Shared-Equity Models



Shared-equity programs (sometimes referred to as limited-equity cooperatives) operate by selling shares in the cooperative to residents of the community, which gives the holder the right to occupy and manage a property. The bylaws of the shared-equity program would set the maximum sales prices of properties as well as any adjustments to the maximum sales price, such as inflation, area income or change in local prices. Some programs also allow homeowners to receive all, or a significant portion of, any capital improvements made to the property, which incentivizes owners to maintain the homes. Shared-equity programs also typically have maximum income thresholds to ensure they are meeting the needs of those most impacted by a lack of affordability. The major goal of the program is that homebuyers purchase an affordable home but agree to limit their profit from that home in order to keep it affordable for the next buyer. The ability to implement this type of program varies by state, but many states do support versions of these programs.[25]

While more research into the efficacy of these policies is needed, existing research has found positive results after examining programs in nine states.[26] Shared-equity programs provided returns to homebuyers that were competitive with investments in stocks or bonds, and the homes remained affordable while under the umbrella of the program. Additionally, researchers found that for homeowners in the shared-equity program:[27]

- Delinquency rates were lower than non-shared-equity counterparts.
- Foreclosures were less common.
- They were often able to go on to purchase market-rate homes following their time in shared-equity programs.
- Moves to new homes were on pace with the national average and were not locked-in.

In other cases, researchers came to similar conclusions for communities of widely varied sizes. They determined that shared-equity communities in Burlington (VT), Duluth (MN), Boulder (CO), Davis (CA), Atlanta, Seattle and San Francisco helped households establish wealth through homeownership, without keeping them in place or lowering their mobility.[28] In fact the researchers reported:

"…these shared-equity programs are successful in creating homeownership opportunities for lower-income families that allow purchasers to accumulate assets, while, at the same time, creating stock of affordable housing that remains within the financial reach of subsequent lower- income homebuyers"

This research helps to highlight how, regardless of community size, from small city to large metropolis, or community type, from college town to dense urban area, shared-equity programs can prove effective in supporting low- to moderate-income households and helping people to attain more sustainable housing situations.

City First Homes (CFH) in Washington D.C. is an example of a shared-equity model. The program acts as a nonprofit with support from local governments, foundations and private organizations. City First combines a Community Land Trust approach with a shared-equity model to better provide for the communities they are invested in, while ensuring mobility for homeowners. In this program, buyers pay a smaller down payment at time of purchase, with a reduced monthly mortgage payment. As with most shared-equity programs, the resale price is then limited to keep the homes affordable for the next buyer. However, as the research above noted, CFH reports that "many homeowners who purchase a permanently affordable home often move on to purchase a market-rate home after selling their home to another qualified buyer" in the shared-equity community.[29] CFH also helps educate homebuyers and tenants with resale and financial literacy, by offering homeownership counseling as part of their program. All of these different policies come together to form a resilient policy program that supports affordability and has the potential to increase the rate of homeownership.

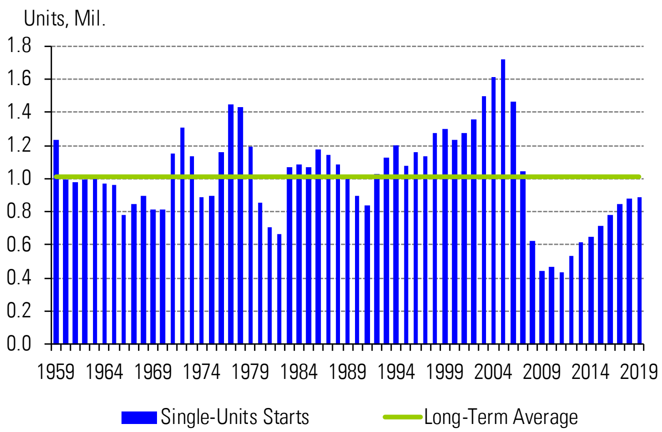
Key Takeaways:

- In **combination with other affordability programs**, such as income-targeted loan programs or DPA, shared-equity models can **provide significant advantages for homebuyers who otherwise would be unable to afford a home**.
- While some appreciation gains may be limited, **homeowners still receive a significant return on their investment** and often take those funds to **move into market-rate housing**. These programs can be applied across a **wide variety of size and type of cities**, and have shown to be effective in these various types of markets.

Increasing the Supply of Housing

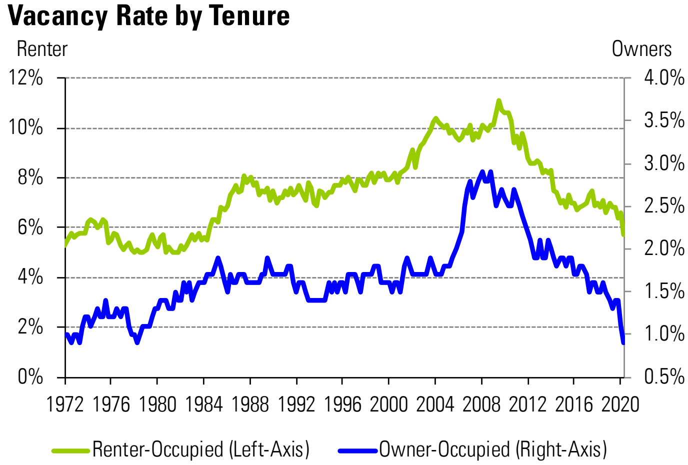
This theme is likely the most varied of the three, over-arching themes identified in this report. It includes programs aimed at incentivizing Accessory Dwelling Units (ADUs), Housing Trust Funds, neighborhood revitalization, policies aimed at reducing housing costs and density bonuses. The policies in this theme have the fundamental goal of increasing the supply of housing units, both market-rate and income-restricted, to meet the demand imbalance that has grown ever-larger during the past decade in the wake of the Great Recession. While new homebuilding accelerated in recent months as the pandemic fueled single family demand, especially among relatively high income households, prior to the pandemic, single family housing starts remained nearly 13% lower in 2019 than the long-term average since 1959[30]. In fact, 2019 became the 12th year in which single-unit housing starts remained below 1.0 million, which had occurred only twice in the 25 years from 1982 to 2007. Of the 300 Metropolitan Areas examined in the first portion of this report, less housing was permitted than was needed just to match the household formation that occurred from 2010 to 2019 in nearly 190 metros. When examining the shortfall of permitting of all kinds of units, compared with employment growth during that same period, this number grows to more than 210 Metropolitan Areas in which job growth outpaced permitting levels. These trends pushed the vacancy rate for owner-occupied homes to the lowest point since 1978, as of 2020, and apartments to the lowest point since 1984.[31] For this reason, policies in this theme are especially important and provide a fundamental path toward addressing the housing affordability crisis.

Single-Unit Housing Starts



Note: Long-term average from 1959 to 2019
Source: Census

Vacancy Rate by Tenure



Source: Census

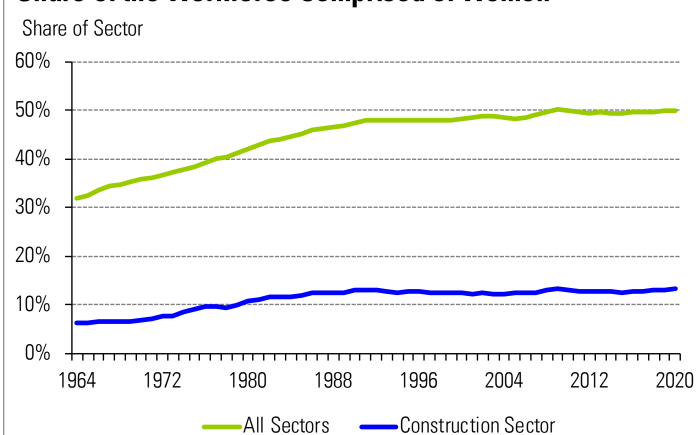
Reducing Housing Costs

The cost of producing housing is one of the largest fundamental barriers to increasing the supply of housing. A survey conducted by JCHS in 2019 found that more than 40% of single family homebuilders reported an increase in building costs of 11%-20% since 2017, and 32% of multifamily builders reported the same.[32] The average increase in prices was greater than 15% for both groups. Additionally, in the same survey, more than 80% of builders surveyed (both single and multifamily) rated labor cost and availability among the most important factors affecting homebuilding costs. It is unclear how the impacts of the COVID-19 pandemic, including increased demand for single family homes and an increase in the unemployment rate, will influence this dynamic. However, underlying structural issues are likely to persist and keep housing costs elevated.

Labor Shortages

One of the largest constraints in homebuilding, labor shortages, have been and continue to be, a major issue facing the nation. The share of all employees in the construction sector only recently recovered to the levels from the late-90s and early 2000s, as employment in this industry was severely impacted by the foreclosure crisis of the mid-2000s, a factor that led many workers to leave the workforce or shift to other industries. In fact, employment in this sector only recovered to pre-recession levels as of 2016, compared with the broader economy, which had completely recovered Great Recession job losses by 2011. Even though this industry reached the prior levels in the couple of years prior to the pandemic, many job openings remained unfilled in this sector, reflecting a severe shortage of skilled construction workers. In fact, the number of open positions in the construction industry reached a 20-year high in 2019, at nearly 400,000 openings, and accounted for nearly 5% of all job openings in the national economy as of mid-2020.[33] One potential reason for this is that structural factors have dissuaded a large portion of the labor pool from entering the construction sector. For example, as of August 2020, only 13.3% of jobs in construction were filled by

Share of the Workforce Comprised of Women



Source: BLS

women, who make up nearly half of the total labor force, and while the share of women in construction increased dramatically from 1965 to the 1990s, it has largely stagnated since. Considering this, state and local governments need to ensure that construction work is seen as a viable career path, appeals to workers who have not traditionally been drawn to this sector and can provide opportunities for employees. This includes facilitating and supporting trade schools and apprenticeship programs, which can train the next generation of skilled construction workers. Training the next generation will also become increasingly important, as large numbers of construction workers reach retirement age in coming years. In fact, the median age of workers in the construction industry was 42.6 years old, with more than 20% of workers reaching retirement age in the next 10 years, as of 2019.[34]

Innovation in Construction Practices

Beyond efforts to address the challenges of labor shortages, it is worth noting that off-site construction of homes poses a possible solution to alleviate some of the issues associated with high housing costs. The Manufactured Housing Institute reports that the price per square foot of a home built off-site can be as much as half of that of a site-built home.[35] Specifically, studies estimate that the labor costs of factory-built homes account for only 8% to 12% of the total cost of a home, compared with 40% to 60% for site-built homes.[36] Homes built off-site allow builders to take advantage of geographies in which labor or materials may be cheaper, and then transport homes to where they are most in-demand. State and local governments should explore policies that make it faster or easier for homes built off-site or that are pre-fabricated, to be placed in communities, especially in many large cities where labor costs can often be highest. These policies could include expanded zoning for pre-built homes, coordination between local agencies to allow for more efficient transportation of these homes to the final build-site and programs that help inform homebuyers and builders about the potential benefits and lower costs of homes built or pre-fabricated off-site. It is also critical for state and local policymakers to continue to support development of these building methods. A study conducted by HUD concluded that if these processes could reach greater scale and repeatability, through continued research and technological advances, modular construction, including pre-fabricated homes, could achieve overall savings of up to 20% over traditional construction.[37]

Permitting and Impact Fees

Another major hurdle facing housing developers are the fees associated with building. Permitting and impact fees are typically one of the largest costs of building homes, pre-construction. This is especially true in municipalities with onerous permitting requirements and fees, as is the case in some high-cost coastal cities. It is critical for local governments, with potential oversight from state agencies, to assess fees on new housing development to ensure that cities are not layering on onerous policies that dissuade construction. One possible way to mitigate the effects of these high costs is to 'score' legislation to find the estimated additional costs imposed on developers, in a similar way to how bills are scored for their impact on state and municipal budgets.[38] Another policy pathway involves ensuring that impact fees are calculated in a way that covers the necessary costs associated with development, without placing undue burdens on developers and thereby driving up the costs of housing, or dissuading development by limiting the ability for projects to pencil. This is likely easier said than done, especially when balancing the need to garner community support for new housing, but local governments and the state can take action through a multitude of ways. Examples include:

- Tie impact fees to actual project costs in Nexus studies (the calculation cities must make to determine legal defensible amounts).[39]
- Mandate state-level feasibility standards to align fees across municipalities and ensure housing development is not suppressed in specific geographies.
- 'Fee stack' all fees to find the real cost to developers of all local agency impact fees (cities, schools, utilities, special districts).

Lasting policy decisions should include many of the above solutions and will likely be layered on current laws.

It is also important to note that the kinds of fees that states and municipalities impose vary widely from city to city and state to state. These can range from the aforementioned permitting fees and impact fees to proffers, exaction, tap fees and transaction fees. Therefore, it is important for municipalities and states to take a holistic view of the true cost of development for homebuilders and developers, and then assess areas where this burden can be reduced. Additionally, many of the policy pathways mentioned in this section can be applied across a wide variety of fee types and at varying levels of government.

Development Fee Definitions

Development Fee	Definition
Permit Processing Fees	Covers the time spent by municipalities processing the building permit application.
Impact Fees	Offsets the financial impact of a new development on public infrastructure (roads, sewers, parks)
Exaction Fees	Similar to impact fees. Can include developer infrastructure building, cash payments to local government in exchange for variances, dedication of land for public uses
Utility Connection Fees / Tap Fees	Kind of impact fee. Paid to a regulatory agency for utility hook-up, paving and boring costs, water meters
School Fees	Kind of impact fee. Paid to school districts to offset construction or reconstruction of schools.
Proffers	Fees associated with offsetting the impacts of development on nearby properties/spaces
Transaction/Transfer Fees	Fees charged by localities or states for the right to transfer real assets within the jurisdiction. Can be flat, graduated or percentage based.

Note: Exact meaning and intreptation of fees can vary widely by jurisdiction. Please consult local codes for information regarding what fees are present within a community.

An example of another possible policy pathway comes from Austin, TX. In Austin, the city created a system of Safe, Mixed-income, Accessible, Reasonably-priced and Transit-oriented (S.M.A.R.T) housing to tackle the problem of insufficient housing supply near transit and employment nodes.[40] This policy grants housing projects, both multi- and single family, density bonuses and can waive development, permitting and impact fees, if at least 10% of all units are set aside for housing that is made available to those with 80% of the annual median family income or less. The S.M.A.R.T policy allows for greater housing density and increased housing supply in areas of the city best suited for it. It also ensures that these areas remain affordable for moderate-income families, who could potentially be priced out of high-demand areas, with transit and job opportunities. Policies like the one in Austin are likely best suited for medium to large cities with access to robust transit networks, where housing development can meet the goals of municipalities, local communities, developers and those seeking housing that is affordable.

Key Takeaways:

- Communities across the nation should **take action to remedy a severe labor shortage in the construction industry** through education campaigns, programs to increase the pipeline of workers pursuing careers in construction and other policies that can support a vital part of the economy.
- Regions experiencing persistent labor shortages and high costs of housing development should look to the possibility of expanding the use of pre-fabricated and off-site home building that can reduce the onsite expenses for producing housing.
- States should seek out ways to **support research in the field of housing innovation**, including advanced construction practices, modular housing, off-site building, etc.
- Cities with the ability to do so, should take advantage of development fee waivers to **encourage development that can ultimately meet the goals of developers, communities and the government**.

Accessory Dwelling Units (ADUs)

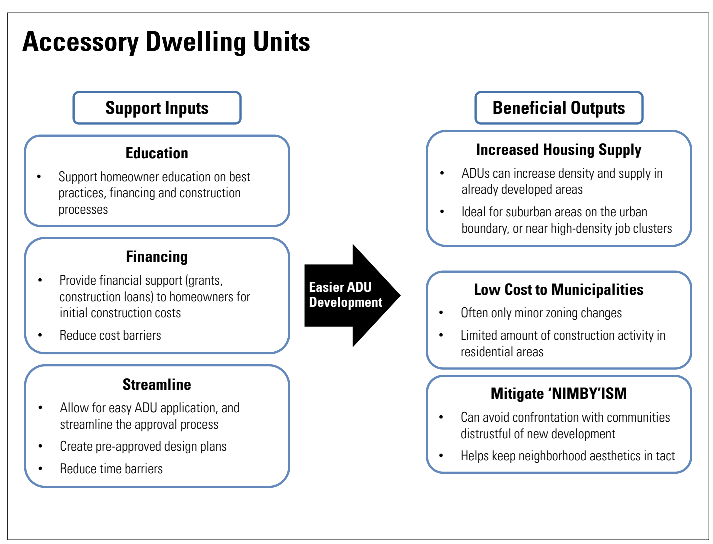
The use of accessory dwelling units is not new but provides a relatively immediate way to relieve pressure on the housing market in a region. These units can be either attached or detached from another dwelling, and are often offered as rental properties, but can also be made available for sale. Policies that support the development of ADUs are typically implemented in areas that would be categorized as suburban, but exist on the urban boundary, or are near high-density job clusters, where added density is feasible. ADU's have become an attractive way for existing homeowners to capitalize on the current value of their homes, while allowing them to stay in place and collect a new stream of income. These units provide a benefit for municipalities in that they can increase density, often without the need for major zoning changes and with a more limited amount of construction activity in residential areas. In addition to these benefits, it is also a way for cities to increase density, while bypassing anti-development or NIMBY (Not in My Back Yard) movements that may seek to oppose new, high-density residential development or approvals. However, it should be noted that in many places permitting for ADUs is not entirely straightforward and can still cause a significant time cost for those seeking to build them.

In addition, historically these units were most often used for older family members and in-law units. However, many of the policies below attempt to rework the image of these units to appeal to a broader base of households. ADUs can also further support the addition of housing stock to the market, even if these units are used by older-family members, since many of these individuals are currently living in their own households, occupying existing housing stock that has not been returned to the market in the way that it was in previous generations.

Examples:

ADU policies are an especially popular policy pathway on the West Coast, in states such as Oregon, Washington and California, where the affordability crisis is especially acute. Cities and counties in these states adopted mechanisms to streamline and expedite the permitting process for ADUs to increase the supply of housing. For example, the City of Portland made ADUs a cornerstone of their initiative to increase the supply of affordable housing, as these units represent a relatively inexpensive way for cities to add housing stock, with little public incentive necessary. In fact, between 2008 and 2018, Portland permitted more than 3,200 ADUs, the equivalent of nearly 3% of all permitting in the market during that period.[41]

Other states and municipalities took the path of expediting the permitting and approval process for ADUs to increase available housing stock. In Seattle, policymakers passed legislation in 2019 that makes it easier to add ADUs to properties within single fam-



ily zones and streamlined the design and permitting process for builders through pre-approved plans.[42] These steps are expected to lower the costs of building for homeowners and reduce the burden on planning departments through standardized practices. The State of California proposed similar steps through SB 1120, which died in the chamber in 2020. This bill would have established a ministerial approval process for lot splits (meeting certain conditions). SB 1120 would have effectively expended the permitting of additional units and ADU's in single family zones, provided that locally-concerned criteria are met (i.e. historic districts, environmental regulations.) and that neither the owner of the parcel being subdivided, nor any person working with the owner, had previously subdivided an adjacent parcel using an urban lot split.[43] Bills like this have the goal of increasing the stock of housing, while maintaining the integrity of existing neighborhoods, and will likely continue to gain traction in coming years

Beyond the policies at the state level, the City of San Jose has implemented two major initiatives that support ADU development. The city government created an ADU Master Plan Program that streamlines the review process with pre-approved ADU designs.[44] In establishing the plan, the city invited developers to submit ADU design plans, allowing for a varied set of designs to meet different property owners' needs. This included plans submitted by firms that construct ADUs off-site, which can offer significantly reduced material and labor costs and shorter construction times, factors that can be major concerns for many property owners looking to build ADUs.[45] In fact, HUD believes that "experience to date indicates that factory-built ADUs would be part of any expansion of ADU use".[46] The second major program in San Jose is operated by Housing Trust Silicon Valley.[47] This program:

- Conducts aggressive ADU education campaigns. The Housing Trust put on four workshops, one conference for 40 public officials, one panel discussion and three ADU open-house tours.
- Offers grants to pay for consultants to assess the feasibility of ADUs on a property.
- Provides construction loans to facilitate the development of ADUs (three-year, 5% interest loans of up to $250,000). Notably, these loans require a two-year affordability restriction to keep the unit available for tenants with up to 120% of the area median income.

The various cities and townships within Cape Cod, MA have also made a significant effort to incentivize the development of ADUs. These communities created the Smarter Cape Partnership to incentivize and promote the development of ADUs in the area, in response to a large number of properties becoming seasonal rentals and rapidly increasing costs of housing. Through the partnership and various local initiatives, municipalities, including towns like Falmouth and Brewster, passed ordinances to make the development of ADUs easier. These ordinances even include the ability for property owners to build ADUs by right. The Smarter Cape Partnership points out that "[ADUs] strike a great balance of more units, while keeping the charm and character of Cape Cod intact". Additionally, the partnership notes another major advantage of ADUs mentioned above, which is the lack of major zoning changes, which further keeps the character of neighborhoods intact. Beyond just ordinances, the local Housing Assistance Corporation partnered with First Citizen Credit Union in a public-private partnership that provides loans, via second mortgages or home-equity loans, for the development of ADUs. The broad approach that communities in Cape Cod are taking, through government policy, minimal zoning changes and enhanced financing availability, have the ability to provide a large number of new units in the region. This holistic approach can help act as a shining example for other communities.

Each of these programs is intended to incentivize the development of ADUs, as a mechanism to add housing supply on existing lots. In order to be successful, it is important that programs focus on removing cost and time barriers for the building of ADUs and educate local homeowners on best practices, resources available to them and potential financing options. Partnerships between public and private entities, as well as local homeowners, can also help support state and local initiatives. Public financing options may also help regions that are less dense than the coastal cities mentioned above to bring ADUs online by surmounting one of the largest barriers to construction for homeowners, which are the sizable up-front construction costs.

Key Takeaways:

- ADU policy pathways provide an opportunity to **increase housing density and supply**, while largely **maintaining their neighborhood's aesthetic and character**.
- These policies are likely best suited for **suburban single family zones with strong connectivity to large job clusters.**
- ADU policies could also potentially benefit areas traditionally averse to higher density zoning but would benefit their neighborhoods and cities with increased housing supply.
- State and local policies can support homeowners through: **partnerships and financing, education, pre-approved design plans and streamlined approvals** that reduce construction timing and lower the barrier for development.

Neighborhood Revitalization & Increasing Livable Stock

A major problem facing many Legacy Cities, and regions with aging housing stocks, is that some of these properties fall into disrepair and often sit vacant for many years. Legacy Cities include some of the most historically important cities in the country, which are still inextricably tied to the success of the country as a whole. Cities in this category include Chicago, Milwaukee, Detroit, Pittsburgh, Buffalo and Cleveland, and the majority of housing units in these cities are more than 50 years old. The aging housing stock in these cities, how-

Metro Areas with the Largest Share of Housing Stock 50 Years Old or Older

Metro Size	Metropolitan Areas	State	Share of Stock 50+ Years Old	Metro Size	Metropolitan Areas	State	Share of Stock 50+ Years Old
Major	New York-Newark-Jersey City	NY-NJ-PA	65.8%	Moderate	Scranton-Wilkes-Barre	PA	63.1%
[3 mil. +]	Boston-Cambridge-Newton	MA-NH	57.8%	[500,000 to 1 mil]	Youngstown-Warren-Boardman	OH-PA	61.5%
	Philadelphia-Camden-Wilmington	PA-NJ-DE	56.6%		Springfield	MA	61.3%
	San Francisco-Oakland-Berkeley	CA	54.9%		New Haven-Milford	CT	58.6%
	Los Angeles-Long Beach-Anaheim	CA	54.4%		Syracuse	NY	58.6%
	Detroit-Warren-Dearborn	MI	53.2%		Bridgeport-Stamford-Norwalk	CT	55.5%
	Chicago-Naperville-Elgin	IL-IN-WI	50.5%		Dayton-Kettering	OH	55.3%
	Minneapolis-St. Paul-Bloomington	MN-WI	36.5%		Toledo	OH	55.2%
	Washington-Arlington-Alexandria	DC-VA-MD	33.6%		Akron	OH	55.0%
	Seattle-Tacoma-Bellevue	WA	32.1%		Worcester	MA-CT	53.8%
Large	Buffalo-Cheektowaga	NY	68.5%	Small	Pottsville	PA	70.9%
[1 mil. to 3 mil.]	Pittsburgh	PA	63.0%	[< 500,000]	Jamestown-Dunkirk-Fredonia	NY	70.7%
	Cleveland-Elyria	OH	61.3%		Johnstown	PA	70.0%
	Providence-Warwick	RI-MA	60.3%		Elmira	NY	69.5%
	Milwaukee-Waukesha	WI	57.1%		Richmond	IN	67.7%
	Rochester	NY	56.7%		Weirton-Steubenville	WV-OH	67.3%
	Hartford-East Hartford-Middletown	CT	55.6%		Utica-Rome	NY	67.1%
	St. Louis	MO-IL	47.4%		Pittsfield	MA	66.7%
	Baltimore-Columbia-Towson	MD	45.5%		Sunbury	PA	66.0%
	Louisville/Jefferson County	KY-IN	43.9%		Cumberland	MD-WV	65.6%

Note: Share of housing units built prior to 1970 as of 2019.
Sources: Census, RCG

ever, has the two-fold effect of reducing the stock of livable housing, while negatively impacting surrounding neighborhoods. Many cities across the country utilize Community Development Financial Institutions (CDFI) in an attempt to address this issue. These have proven successful in a number of places, but one notable example is in Chicago, where the local CDFI was able to form a public-private partnership (PPP) to leverage a broader variety of funding sources to revitalize neighborhoods.[48] Specifically, the Chicago CDFI partnered with the local Community Investment Corporation, Chicago Community Loan Fund and Neighborhood Lending Services to support owners and homebuyers by providing expertise and knowledge in the area of development that each organization specialized in. This initiative was also unique in that it encouraged small-scale private investors to rehabilitate properties in low-income neighborhoods.[49] This process of public-private-partnerships could have the potential to increase the amount of available for-sale housing stock, when used to revitalize blighted or vacant units. In addition to incrementally increasing the stock of livable housing, these programs can also help to revitalize communities in which major new investment has been limited, or neighborhoods where homeowners have struggled in recent years to completely rehabilitate their homes due to high housing and construction costs. The limited amount of rehabilitation in certain communities constrained the number of households able to improve their homes and communities and move up, which keeps a segment of the housing stock that may be ideal starter-homes for younger households unavailable.

Opportunity Zones (OZs) represent a relatively new way that the federal government attempted to encourage new investment in these cities and communities, as well as urban areas across the country. This policy provides tax incentives to developers and businesses operating within designated zones, which are supposed to be underdeveloped and economically distressed areas. While the real-world impact of the OZs has been somewhat mixed, for a variety of reasons, and will take some time to determine, given the long-term nature of the tax incentives, this federal policy provides a golden opportunity for state and local governments to leverage federal policy with their own initiatives, such as many of the policies mentioned above. As with most of the ideas highlighted in this report, creating synergies among existing federal policies and state and local initiatives can provide the potential for a larger benefit than any one program alone.

One drawback of this policy pathway is the potential for investors to take advantage of public funds, or for a neighborhood to gentrify too quickly and drive out current residents. For this reason, these policies are likely best suited for neighborhoods in which home price appreciation is depressed, due to deteriorating housing stock, and where many of the current homes are owner occupied. Importantly, however, these types of programs could help communities build wealth through home equity and potentially move up, opening entry-level housing stock for the groups currently excluded from homeownership.

Key Takeaways:

- Legacy cities and underserved neighborhoods can potentially use existing public funds and institutions to **leverage private capital and knowledge in revitalization efforts**.
- These can help to increase the supply of affordable, entry-level housing, while helping homeowners in these neighborhoods build wealth.

Housing Trust Funds & Community Land Trusts

These policy pathways provide two ways for public interests to support affordability and the development of more affordable housing. Both Community Land Trusts and Housing Trust Funds are typically supported by public sources of funding and use those funds to either construct new housing or purchase existing parcels of land.

Housing Trust Funds

Housing trust funds are relatively common in most major cities and provide a way for municipalities and state governments to create affordable housing for residents. Cities typically raise funds for Housing Trust Funds (HTF) through developer impact fees, inclusionary in-lieu fees, property and housing excise taxes and construction excise taxes. While it is important for cities to ensure these taxes are not large enough to dissuade housing development, these fees do provide a way for cities to provide housing for low- and moderate-income households that the public market may be unwilling or unable to provide. State-level sources of funding for HTFs typically include real estate transfer taxes, interest on real estate escrow sales, document recording fees and allocations in budget appropriations.[50] In both cases, these funds can occasionally be diverted toward causes that are not entirely in support of housing development, or appropriations where HTFs can be cut. This is an especially important problem to address in the current environment, where the COVID-19 pandemic has left many state and local budgets in dire straits. Hence, it is critical for legislation that incorporates HTFs to include sustainable funding sources that do not necessarily rely on broader budget measures. Examples of such sources include:

- Pennsylvania: Shale tax on natural gas firms operating fracking operations
- Indiana: Use tax on smokeless tobacco
- New Jersey: Revenues generated from unsafe driving tickets

In Juneau, AK, the city appropriates funds to the local HTF and receives funding from the state.[51] This dual funding helps to provide a greater level of stability in the budget for the HTF. In fact, Juneau effectively uses these funds to allow nonprofit, for-profit and public housing developers to apply for zero-interest loans to build housing units affordable to residents making 120% of the area median income or less. This policy decision helped the City of Juneau to provide affordable housing units for a large portion of the local population that was in need of housing, many of whom the city found were young adults, special needs residents, veterans and seniors.[52] By providing funds for housing that accommodates households making up to 120% of the area median income, Juneau was able to support not only households critically in need of housing, but also households seeking entry-level housing or possibly downsizing, which supports homeownership across the spectrum and relieves housing demand pressure.

Community Land Trusts

Community Land Trusts (CLT) provide a method by which homeowners and community members can maintain the affordability of a neighborhood. The land on which properties sit is owned by the trust and leased to the homeowner, with the ground lease dictating that the CLT has the option to repurchase the property on resale.[53] CLTs are often run by residents in the trust, residents of the surrounding community, public officials and other local supporters of the trust (private/nonprofit supporters). These trusts can help to maintain a level of affordability by implementing shared-equity programs, lowering down payments and limiting the resale- appreciation of the homes in the trust.

This policy method is put on display in the Douglas Community Trust (DCT) in Washington, D.C. The Douglas Community Trust was formed in response to the creation of a new pedestrian bridge/park that would connect the relatively affluent Capitol Hill neighborhood with the lower-income Southeast neighborhoods. The trust would acquire land in the community and lease it back to the homeowners and businesses in the neighborhood. The funds that DCT used came from a variety of sources, including donations, government funds, joint ventures with developers and partnerships with local homeowners. The main goal of the trust is to keep the property in the trust affordable for people at or below a targeted median family income, while educating local residents on the role of the trust and responsible homeownership practices.[54] The trust also helps to keep development interests and land ownership in local hands, while supporting the community and affordable housing. A key aspect of the DCT was a partnership with a local D.C. firm, City First Enterprises, a firm that specifically focuses on shared-equity programs to increase homeownership among groups for which this is traditionally out of reach. City First helped the trust develop a business plan and methods for keeping housing in the new trust are affordable and accessible, and also contributed a significant amount of capital and expertise to the project. The creation of the DCT, with the assistance of City First, helped the city of Washington build a new amenity for the residents of both the Capitol Hill and Southeast neighborhoods, while responsibly supporting affordability in neighborhoods that might be impacted by rising real estate prices associated with the infrastructure improvements.[55]

Key Takeaways:

- Housing Trust Funds provide an important **source of capital for housing projects that may not have moved forward under private market conditions alone**. Financing through HTFs also allows local governments to ensure affordability requirements and restrictions are enforced.
- Community Land Trusts provide a way for public, nonprofit and private interests to ensure that **communities experiencing renewal remain affordable for current and future**

residents, while also helping those residents build equity and become more educated on responsible homeownership.

- Policies in this section will likely be best suited for larger cities that can afford to finance large-scale programs. These policies would also support neighborhoods undergoing rapid change, and by partnering with developers and nonprofits involved in these communities, cities can ensure that development continues in a **responsible and equitable manner that generates affordable housing options for residents**.

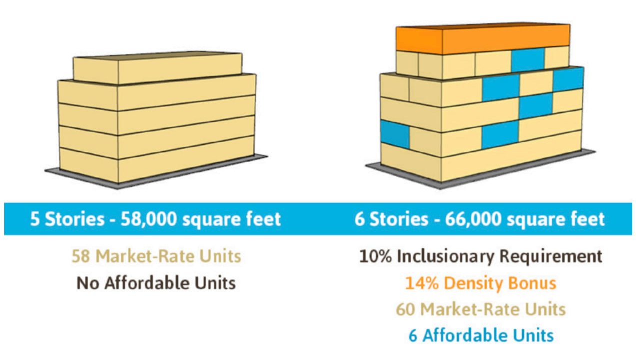
Density Bonuses

Density bonuses are a popular and powerful tool for increasing the stock of affordable housing, while also increasing the overall stock of housing in an area. These policies typically provide developers with a level of density above what local zoning would traditionally provide, in exchange for the development of on-site or off-site affordable housing. By adding density, developers are able to build more market-rate units, which can defray the costs associated with building units affordable for low- and moderate-income households. Density bonuses also provide a path for municipalities to increase the supply of housing without directly subsidizing development (except for tax breaks that are often received in conjunction with the bonuses).

One of the best-known density bonus programs exists in New York City, where developers can receive a bonus in the form of additional floor area for each square foot of affordable-housing floor area produced. The city caps this bonus at a 33% Floor Area Ratio (ratio of total floor area in a building to the land it is built on) increase over what is allowed under local zoning.[56] This floor area bonus is set at different levels, based on the type of affordable housing development being conducted and the original zoning of the land it is built on. Variables that influence the bonus include:

- Affordability level: Bonuses are larger for housing available to households with 80% of the area median income and smaller for those offered to households with 125% to 175% of the area median income. [57]
- Location: Units built on the same site as the market-rate units typically provide larger bonuses than those off-site.
- Type of construction: New construction of affordable units yields larger density bonuses than rehabilitation or preservation of existing affordable units.

Density Bonus Example
Additional market-rate units help to offset cost of affordable units



Source: Grounded Solutions Network

Additionally, regarding for-sale units, which are less common than apartment units, a CPI Index adjuster caps the resale price.[58] Overall, the density bonus program in New York City proved quite effective with nearly 8,500 affordable units permitted from 2014 to 2019, and thousands more permitted since the inception of the program in 1987.[59] The city, which set a goal to make 20% of all new units affordable with this plan, nearly met that goal and found that 19% of all units receiving permits from 2005 to 2013 were affordable.[60] Density bonuses of this type provide developers with an option when constructing buildings, and while some believe this may lead to underdevelopment of affordable units, New York City shows that voluntary programs can help create more affordable housing. Importantly, these programs do so without significant public investment. The flexibility of the density bonus program in New York City also helped support development of affordable housing in some of the most expensive neighborhoods in the city, including those that are located close to some of the largest concentrations of job opportunities. This should be a key feature of density bonus programs in other cities, especially if off-site development is an option. Density bonus programs should target areas that are most prone to affordability issues, like those with strong access to job opportunities and public transit. Where these policies are used is also important, as they are typically more effective in areas with high for-sale housing costs and rents.[61]

Another program, mentioned previously, is the Austin S.M.A.R.T program adopted in 2008. This program offers developers a density bonus for development on medium-density, single family and multifamily lots that set aside 10% of total units to be affordable. Rental units must be affordable for households making at most 60% of the median family income, while owner-occupied units must be affordable for households making 80%-100% of the median family income.[62] While the affordability period for units constructed on multifamily lots is mandated for 40 years for rental and 99 years for owner-occupied, the period on up-zoned single family lots is limited to five years for single family rental and one year for owners. The limited time period on the lower-density lots poses a potential risk that units will not maintain their affordability, although the shorter period may also help incentivize a greater amount of development, as developers can more quickly capitalize on units built. The affordability levels of this program, however, provide a strong benefit for moderate-income households, which could include young families and first-time homebuyers, who often earn too much to qualify for subsidized housing, and yet who do not have enough income to truly save for a down payment on a home. The S.M.A.R.T policy in Austin also provides one of the best examples of density bonuses in a more suburban, lower-density setting, which raises an important point. Density bonuses are not just for high-rise neighborhoods in the largest cities, these policies can also help add housing stock in lower- and medium-density areas, where a modest density increase could still motivate development by making it financially viable for developers to build more units on the same piece of land, effectively reducing their land cost for each unit. This could in turn support development of three- to four-unit structures, which were severely underbuilt this cycle, and provide a great option for first-time buyers.

In a similar vein, a bill that recently died in the California State Legislature would have attempted to provide better incentives for housing units affordable for moderate-income households. SB 1085 proposed to expand the type of units available for density bonuses in California. The Density Bonus Law (DBL) in California, first passed in 1979 but greatly expanded in 2018, allows developers to increase the density of projects by 20% to 35%, based on the number of affordable units provided in a project. SB 1085 proposed to expand the density bonus to developments offering for-sale, moderate-income housing, which are excluded by language in prior laws. The bill also included language re-emphasizing the legislature's goal "to further incentivize the construction of very low-, low- and moderate-income housing units."[63] When the bill was presented, the authors also emphasized that the goal of the legislation is to provide affordable, moderately-priced housing for groups currently unable to afford a home (i.e. teachers and nurses).[64] The California bill exemplified how policies can also expand current legal incentives to support housing affordability, at little cost to municipalities or states.

Key Takeaways:

- States and municipalities can use density bonuses to incentivize affordable housing development at a relatively **low cost**.
- Density bonuses are likely be **most utilized in high-cost areas**, or those areas with **access to transit options or job clusters**.
- However, as housing and land costs continue to rise across the country, **density bonuses will likely be increasingly effective for use outside of the largest cities and in less-urban settings.** However, connection to employment and transit centers will remain critical.
- Policies involving density bonuses should apply to a **wide variety of developments**, especially those **providing housing for moderate-income households** that may not be able to afford a market-rate home.

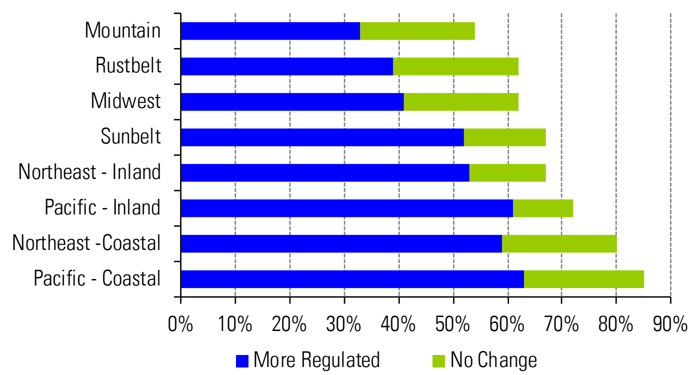
Zoning & Permitting Policy Reform

One of the most controversial and contentious areas of reform in the housing space is that of zoning and permitting policy. Developers and municipalities often see each other as opponents, but in many cases, both sides are attempting to reach the same goal through different means. Yet, research suggests that "zoning taxes" (i.e. permitting fees, impact fees, etc.) can exceed 50% of the cost of building a home, keeping all other costs equal.[65] Supporting this, a survey conducted by the JCHS in 2019 found that multifamily developers listed land use and zoning as the number one barrier to new development of housing.[66] In many cases these costs are not intended to be prohibitive, but in others, costs may be designed to discourage major new residential developments or specific types of new housing.

Of particular concern, the Wharton Residential Land Use Regulatory Index (WRLURI) (a measure of the level of regulation placed on housing development across the country) found that the regulatory environment got worse in the typical place from 2006 to 2018, amid nationwide affordability challenges.[67] This meant that, on average, the permitting and approval process became more arduous and cumbersome, with more departments and authorities getting involved, which increases the chance that projects will be delayed or rejected. At the regional level, while the regulatory burden increased most in communities on the West and East coasts, the regulatory burden also increased or was unchanged in more than three-fourths of communities in the Sunbelt, a region typically seen as more accommodating to development. It is imperative that this trend is reversed across the country, and that communities make efforts to mitigate regulatory burdens and strive to streamline processes in order to support housing production.

Policies in this theme look at ways to ameliorate these burdens and opportunities to narrow the divide between the private and public sectors through adjustments to zoning and permitting regulations.

Share of Communities where the WRLURI Increased or Was Unchanged (2006-2018)



Note: Coastal regions include only Metros adjoining the respective oceans.
Source: Wharton Residential Land Use Regulatory Index (WRLURI), NBER

Inclusionary Zoning/Housing

Inclusionary housing and zoning policies require or incentivize the development of housing that is offered at below market rate as part of market-rate developments. These policies can vary greatly across jurisdictions, and in some states and cities are voluntary but are mandatory in others. Many of the policies included in previous sections of this report can be classified under the broader umbrella of inclusionary housing or involve inclusionary housing components. The primary goal of inclusionary housing policies is most often to help increase the supply of affordable housing, where it is undersupplied or would not otherwise be feasible to build. For this reason, it is typically more effective for inclusionary housing programs to be mandatory as opposed to voluntary, unless the benefits to developers of adding the affordable units are substantial.[68] Well-designed density bonuses, for example, can provide a large enough benefit to developers that there is a financial motivation to build inclusionary housing, without the need for significant direct subsidy. As discussed previously, Austin, TX incorporates inclusionary housing as one of the policy solutions for developing affordable housing in the city, and the policy there is largely voluntary. However, it is notable that, in addition to the aforementioned density bonuses, policies in Austin provide significant benefits in the form of development fee waivers and tax breaks for developers that set aside rental or for-sale housing for low- and moderate-income households.[69]

While density bonuses can prove beneficial across a wide range of jurisdictions, many areas have instead adopted mandatory inclusionary housing programs. For example, the State of Utah, under SB34, mandates that cities must include low- and moderate- income housing plans in their general plans in order to receive state transportation dollars.[70] The policy in Utah provides a unique method for implementing inclusionary housing at a statewide level, because it allows local municipalities to formulate their own policies for reaching housing affordability goals, while ensuring compliance by tying this to a significant source of local revenue.

Finally, states and local agencies can leverage the federal Low-Income Housing Tax Credit (LIHTC) program, which allocates nearly $8 billion annually for governments to offer tax credits for the acquisition, rehabilitation or new construction of rental housing targeted toward lower-income households.[71] States can then supplement these tax credits with mechanisms of their own, such as tax-exempt housing bonds, tax credits of their own, property-tax breaks and income tax liability deductions for development companies. In Washington State, for example, housing developments can limit their tax liability to the value of the land prior to construction for 8 to 12 years, if the project allocates 75% of units to households with 50% of the area median income or less. To ensure that developments can walk a middle path between this program and full market-rate housing, the City of Seattle then passed the Multifamily Tax Exemption (MFTE) that offers a similar tax credit and applies to housing developments offering 20% to 25% of units as rent or income restricted. The tax credit provides relief from property taxes on residential improvements at the property. Through this dual-policy approach, the states can encourage the development of affordable housing throughout the state, while cities with acute affordability issues can bolster these policies.

Key Takeaways:

- Inclusionary housing policies can be either **mandated or incentivized**, although **incentives must be significant to effectively induce the creation of affordable housing**.
- **Density bonus programs also offer a win-win situation**, by requiring little in the way of public subsidies and providing developers the opportunity to benefit financially, or at least to offset the costs, from the public good they provide by producing affordable units.
- State and municipalities should seek to better **align density bonuses and inclusionary housing programs with local market conditions** to ensure that these policies remain **economically and socially viable**.

Minimum Lot Sizes

Across the country, many municipalities and suburban areas require residential properties to be built on a minimum-sized lot. In some cases, these lot size requirements can be multiple acres. These policies represent major barriers to housing density and the production of affordable and accessible housing. In fact, researchers at Tufts University examined minimum lot sizes in Massachusetts and found that these requirements "have an economically significant impact on house prices" and that this increase in costs actually grows over time.[72] In many cases the researchers found that the impact of minimum lot sizes on price exceeded 10%. It was also found that minimum lot sizes were one of the largest reasons that homeowners did not build Accessory Dwelling units, another possible policy pathway to address the affordability crisis.[73] Another study from the Mercatus Center at George Mason University showed a similar impact in Texas, with minimum lot sizes causing homebuyers to purchase more land than they needed, lowering density and increasing costs of housing.[74] Additionally, researchers suggested that while these impacts are most prevalent in large cities, they can arise anywhere minimum lot sizes are binding, which was the case in most municipalities that they analyzed.

These findings suggest that one direct way for municipalities of any size to possibly increase housing supply and improve affordability is through reducing minimum lot sizes. This is especially true in cases where lot sizes may be significantly larger than are necessary, or near areas where increased density would be beneficial, such as retail or transit corridors. However, it is important to note that community stakeholders should be involved in changes of this nature, as they do have the potential to gradually increase density in neighborhoods.

Key Takeaways

- Minimum lot size requirements have the propensity to **lower density and increase the costs of housing across municipalities of various sizes** and can therefore be detrimental to communities.
- Municipalities should **reexamine minimum lot size requirements** within their jurisdictions to ensure they allow for adequate density in the hope of producing a greater supply of housing.
- Local stakeholders and communities should be consulted to build a coalition of support for zoning changes.

Up-Zoning/Rezoning

Up-zoning and rezoning policies involve the conversion of existing low-density parcels to allow for higher-density, or the rezoning of commercial zones to residential or mixed use. Some of these policies are related in outcome to the density bonus policies discussed previously, but generally, these initiatives focus more specifically on underlying zoning regulations that can be modified to support the development of new housing over time.

The most straightforward of these methods is to allow for the development of higher-density housing development on single family parcels. Minneapolis, MN took this policy pathway, and in 2018 moved to allow for duplexes and triplexes, in what were formerly single family zones, and eliminated minimum parking requirements for these developments.[75] This simple move, which passed in a 12-2 vote, is expected to help increase density across a city that is largely made up of single family housing and suburbs. The plan also promotes the existing character of neighborhoods by not necessarily advocating for large apartment complexes, but instead allows for a reasonable increase in housing units in all neighborhoods. By removing the parking requirement, the city also significantly decreased the cost developers may face when constructing new multifamily housing units, while promoting the use of public transit and carless forms of transit. Policies like this also allow for the free market to decide where density is needed and most feasible, instead of limiting development to certain areas. This creates the potential to increase the supply of housing overall, without giving heavy incentives to or overburdening developers. In turn, increasing the supply of housing helps relieve supply-demand imbalances, without specifically targeting subsidized or affordable housing, and support affordability more broadly. However, that is not to say that the city does not promote higher-density development near transit, which was also part of this program.

Another fairly straightforward policy option is to make more undeveloped or underdeveloped parcels available to housing development. These include unused public lands, underutilized school zones, parking lots and old manufacturing/industrial zones that are no longer in use.[76] By opening these lands to housing development, cities can receive a double benefit of increasing tax revenues on existing parcels and increasing the supply of housing in an area. Policies like this one are especially relevant in the current state of the market, as many large regional malls struggle with a shift to e-commerce and the effects of the COVID-19 pandemic. These malls, in coordination with, or with the encouragement of municipalities, could potentially convert large plots of land to single or multifamily housing tracts, with little effect on previously existing neighborhoods. These developments may then help breathe new life into malls by providing a new customer base to serve, or entirely replace malls in areas where they are obsolete. In addition, by unlocking these areas to a clearly underdeveloped property type—housing—municipalities may be able to provide stimulus in local economies in times of economic crisis, without the need for large budget expenses. Cities can also use these rezoning moves as an opportunity to designate areas for affordable housing, implement density bonuses or inclusionary housing policies, or establish land trusts or shared-equity programs. In these scenarios, the benefit of rezoning can be greatly enhanced. Several California examples help to demonstrate both potential avenues to pursue in terms of up-zoning and rezoning, as well as the potential challenges of adopting statewide initiatives.

California SB 1385, a bill aimed at implementing a policy of this nature, did not make it out of committee in the mid-2020 session of the legislature, but was reintroduced for the 2021-2022 legislative session. Progress on policies like this one should continue, even if the amount of political capital required is large. It is also important for policies in this vein to be tailored to local and regional needs, and not to overcompensate to the point of dissuading the development of commercial properties in their own right. Yet, the rezoning of underutilized areas remains a low-cost option for municipalities to undertake in the pursuit of affordable housing.

It is important to stress the opportunity to increase housing supply and improve affordability through increased zoning near transit hubs and in employment/retail corridors. Assembly Bill 2923 in California, which is now in force, requires a minimum zoning density on agency-owned land in close proximity to Bay Area Rapid Transit Stations (BART).[77] The bill also helped lower the cost of development by eliminating vehicle-parking requirements, and instead requires one bicycle parking slot per unit. The policy is aimed at increasing the supply of housing near one of the largest transit systems in the region. Again, this policy provides a strong benefit for local municipalities, by taking advantage of underutilized, publicly-owned property to increase the supply of housing, while reducing car use in the region. Another bill, Senate Bill 50, would have expanded these rules to include more sites near transit stations, but it did not pass. Other states continue to increase incentives for transit-oriented developments, but it is important that these developments also support affordability and allow for an appropriate density to support the overall supply of housing in each region. These policies may also enable multiple municipalities within a region to work together in some capacity, and to recognize that policies in one jurisdiction can have impacts and benefit on large areas—steps that can be quite challenging to achieve in practice.

One final area that requires more research is that of form-based codes. Form-based code regulations zone areas for design/style/density rather than by use (retail/office/residential). This allows developers to adapt projects to what is most needed in an area and create mixed-use spaces that fit the style of a neighborhood. This may allow areas that currently lack zoning for housing, to bring residential space to market in places with access to jobs and retail offerings. Examples of form-based code are relatively limited, but San Rafael in the San Francisco Bay Area provides one larger scale example. This policy pathway is likely most viable for communities with more dense urban cores, or with areas in close proximity to major transit corridors.

Key Takeaways:

- Up-zoning is a policy pathway that can be implemented at a wide variety of levels, and can **substantially increase the ability of cities, regions and states to increase housing densities at little direct cost to governments**.
- Municipalities, local governments and public agencies should look to **assess their land holdings to find underutilized public lands** that can be zoned for housing development, without adversely affecting environmental goals.
- **Underutilized commercial zones** should be reevaluated for their use as housing developments, especially in areas that **may provide benefit to nearby businesses and residents**.
- Up-zoning and rezoning policies should **emphasize increased density in job, retail and transit corridors** but should **not be limited only to large cities**.
- Above all, zoning changes should be implemented **responsibly and with careful consideration for the character of existing neighborhoods and communities. It is critical to ensure that a broad coalition of stakeholders is involved** to ensure zoning changes truly benefit communities.
- These policies can potentially be used to bolster local economies and government revenues, while increasing the supply of housing without significant upfront budget outlays.

Expedited Permitting

The permitting approval process is one of the most oft-cited reasons for delays in development, and it can incur high costs for developers. In a survey conducted by JCHS, permitting and regulatory approval was rated the number one barrier by homebuilders in 2019 and was the second largest barrier for multifamily developers.[78] Developers of both single and multifamily homes also expressed that the problem was larger in metropolitan areas than non-metro areas. However, regardless of city size, it is important for municipalities to maintain efficient and fair permitting practices. This is critical, as other research suggests that a greater share of approved applications and faster application times were associated with elevated levels of permitting. In fact, a one-unit increase in the share of single family homes approved (compared to prior years) was associated with a 25.1% increase in single family permitting and a 17.7% increase in total units permitted (study conducted with data from California cities from 2010 to 2017).[79] This research coincides with the idea that for developers, time is money, and carrying costs of land can become significant over long periods of time. With faster approval times, developers can consistently produce housing with lower construction costs, which would allow for lower housing costs over time. For these reasons, cities and states should look to make permitting processes more streamlined for developers and ensure no permitting processes are excessively expensive or difficult.

One of the most longstanding policies on expediting permitting and encouraging new development is in Massachusetts. Mass. Chapter 40B, enacted in 1969, seeks to increase housing production by putting some limits on the extent of local government sovereignty in the permitting process in cases where cities have not produced sufficient affordable housing. Specifically, if less than 10% of a community's existing housing stock is deemed affordable, developers can elect to pursue a state-level expedited permitting process, which largely bypasses local approvals, if the proposed project includes a substantial number of new affordable units.[80] The law gave zoning boards of appeal (ZBAs) the ability to approve housing developments that include 20% to 25% of units, which are affordable to those with 80% of the median income, for a period of 30 years.[81] A significant benefit of this law, outside of the explicit benefits, was the power it gives to developers in bargaining with local zoning agencies, by providing a path of recourse for a project that serves the public interest, but may have otherwise been denied due to local opposition. The state added Chapter 40R in 2004, which expanded the role of the state in local permitting. This chapter eliminates the need for multiple permits, by making dense, mixed-use development allowable by right and sets minimum densities for areas near transit and other smart-growth locations.[82] This includes a provision for starter-home districts with four homes per acre, where at least 20% are affordable to households making 100% of the area median income. This addition to 40B creates a very strong policy that expedites permitting, incentivizes transit development and gives assistance to first-time homebuyers. Overall, these bills create a regulatory framework that gives developers recourse, when attempting to move forward with housing projects that can benefit the goals of the state and increase the supply of both market-rate and affordable housing in areas that are undersupplied.

While already important factors, permitting efficiency and innovative land use will only become more important as the COVID-19 pandemic continues, and eventually subsides. Temporary demand-side weakness because of job losses could prevent development from moving forward in cities where housing is chronically undersupplied.

In these cities, new construction is very much needed to address larger housing availability and affordability challenges. Hence, it is critical for state and local governments to take steps to meet this crisis head on.

Possible Response to the COVID-19 Crisis

- Governments, both municipal and state, should make efforts to support local planning departments to bolster the permitting process.
- Planning departments should be given the tools to move review processes and inspections online, utilize rainy day funds to keep permitting offices operating and ensure funds that are going unused, due to activity shifts during the pandemic, are directed towards these goals.
- Extend the permitting and entitlement process for projects that are approved and underway, allowing developers impacted by COVID to regroup and keep projects in the pipeline instead of forcing them to be scrapped in the face of market uncertainty.

Key Takeaways

- Permitting can sometimes be an arduous process for developers, and one of the easiest things that municipalities can often do is to **streamline existing programs to support increased permitting and applications**.
- **For developers, saving time saves money**, and potentially, reduces housing costs. To this end, **ensuring that permitting processes are efficient and consistent is critical**.
- **States may need to become involved** to ensure that permitting processes are not overly taxing on developers, **in the interest of ensuring continued housing development**.

Summary and Recommendations

This paper analyzed a wide range of topics and policy pathways from across the country. From down payment assistance to neighborhood revitalization, community land trusts, density bonuses and permitting reform, organizations and all levels of government are involved in actions to support housing affordability, with the goal of remediating the current affordability crisis the nation faces. While no one of these actions is a silver bullet to solve the current crisis, governments and policymakers should look for a combination of policies that best fits the needs of their communities and local housing markets. Many of the policies in this report are complementary and can support and even bolster the effectiveness of other policies. Using this framework, advocates should focus on legislative plans that can leverage a range of policies, aimed at the challenges that different types of households face, to best support affordability in their communities.

Any new policy pathways regarding housing should also include responsible development that supports social equity and positive social determinants for residents. Where possible, policies should seek to prioritize development near high-density transit corridors that provide access to retail and job centers throughout the local region. Additionally, policymakers should also look to increasing transit access in residential areas where greater density would be beneficial, and where it would be supported by communities. New housing policies should also strive to ensure that housing is not built in a vacuum, and that residential zones are equitably served by grocery stores and other services. These goals can help to support equity in housing policy and developments. Finally, it is critical for local, state and private organizations to conduct further research into ways of promoting housing equity and tackling the affordability crisis in a holistic manner.

Beyond the policy-focused themes, the main takeaway of this report for policymakers is that wide-ranging action is urgently needed at all levels of government to support the millions of households who struggle with the ever-increasing costs of housing. It is especially important to focus on low- and moderate-income households, who have been left behind during the last decade, burdened by debt or living in markets where the growth in housing costs far outstripped income growth, making the dream of homeownership unattainable for many. Progress towards these goals will only be made through greater affordability across the housing spectrum. Only then, will households have the ability, resources and opportunities to pursue the path of homeownership and the American dream.

In addition to these goals, it is critical to gain community support for housing affordability programs to ensure that obstructions from community leaders or special interest groups are limited. 'NIMBY-ism' was a persistent problem for many decades, although in recent years it has subsided somewhat, as more communities have started to recognize the severity of the affordability crisis and embrace the importance of increasing housing production. However, while people often support the idea of increasing development, especially subsidized housing for low- and moderate-income households, in theory, many would prefer it was not built in their own neighborhood. This mentality is misguided, and it is the responsibility of all communities to provide support for housing affordability in their regions. In turn, this can make it possible for more households, previously unable to afford a home, to transition to homeownership, which can help stabilize communities and allow for wealth creation in a population that has largely been unable to do so in recent years. Both of these outcomes can help support a wide range of communities, well-off and struggling, urban and rural, young and old, and regardless of race. Ultimately, however, none of this can be achieved without leadership and a willingness to embrace the need for widespread action to address the crisis of housing affordability in cities all around the nation. For this reason, in order to truly supply housing affordability, it is critical to implement a cohesive network of policies including innovative financial mechanisms, efforts to increase the supply of housing and mechanisms to reform or revamp current zoning and permitting policies at all levels of government.

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