Report to the New York City Public Advocate: Affordable Housing in New York City

Part Five: Affordable Housing Compendium: Summary: National Affordable Housing Programs

April 1, 2005

Report to the New York City Public Advocate: Affordable Housing in New York City

Part One:	The Context of Affordable Housing in New York City
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1: The New York City Plan:
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OVERVIEW

In order for New York City to remain competitive and to ensure that its record growth can continue, significant housing issues must be addressed.

New York City is the world's second home. Over the last decade, it has been a magnet for people from throughout the nation and across the globe who sought to call New York home. New immigrants and life long residents alike are attracted to this great City for many reasons including, the availability of economic opportunities, the cultural diversity of its communities and the prospects for a better life for themselves and their families.

However, without a concomitant increase in new housing production, the affect of this growth has been the enormous pressures placed on the City's historically tight housing market. While New York City's housing stock is in better condition than it has been in decades, nearly half of all New Yorkers pay more than 30% of their income in rent and hundreds of thousands live in overcrowded conditions.

In order for New York City to remain competitive and to ensure that its record growth can continue, significant housing issues must be addressed. And while we can build on the successes of the past, the new marketplace that we are facing requires new approaches. The City's assets and resources must be deployed more efficiently in order to create new markets for affordable housing, bring housing into the marketplace that has gone underutilized, and leverage new sources of funds to invest in our neighborhoods, which must be sustained for future generations of New Yorkers.

Government can play a pivotal role by reducing the risk to the private and non-profit sectors in the development of new housing and through strategic investments of its funds and resources to ensure the continued vitality of the City's neighborhoods.

[illegible] Street in the Melrose Commons Urban [illegible] Area, The Bronx

Newly constructed homes [illegible] Street in the Melrose Commons Urban [illegible] Area, The Bronx

While the challenges are great, the goals are achievable. Twenty years ago, few people viewing the devastated neighborhoods of Harlem, the South Bronx and Central Brooklyn could imagine the renaissance these neighborhoods have experienced. Few had the vision or the belief that local government had the ability and the capacity to help these communities rise from the ashes of destruction, nor did an infrastructure of committed financial institutions, local community organizations and private entrepreneurs exist. Today the accomplishments speak for themselves—neighborhoods have been revitalized and communities renewed, and a community of housing development professionals awaits new challenges.

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A new vision and a new commitment is now needed to address the severe housing shortage in New York City and again local government, together with partnerships already established, has the ability and the capacity to help. This plan is the beginning of that promise.

INTRODUCTION

Almost from its inception in the early 17th century, New York City had housing problems. Haphazard wood frame construction, clustered without regard to sanitation or a defined transportation system, meant that New Yorkers were ill housed from the earliest period in the City's history. Housing shortages followed periods of real estate expansion and there never was a time in the City's history when all of its population's housing needs were met with safe, sanitary, comfortable and affordable housing.[1]

Even 350 years later, the mythical goal of market perfection persists and frustration about lack of supply of affordable housing continues both in myth and reality. The perception of most New Yorkers – that they pay too much for too little space – is in fact widely reflected in the data of the most recent Housing and Vacancy Survey conducted by the U.S. Census Bureau. That data, contained in Housing New York City 1999, indicates that nearly half of New York's renter households pay more than 30% of their income for rent. Nearly one half million households in fact pay more than half of their income for rent.[2] .

Overcrowding is also a serious problem. From 1996 to 1999, the number of crowded families increased to 75,715, and the number of severely crowded to over 215,000. In addition, the number of doubled-up households increased from 203,000 in 1996 to 221,000 in 1999, an increase of 9.1%.[3] Thus, the common perception of most New Yorkers is well documented in fact.

Although America today is plagued with problems of affordability in the housing market, New York's problems are extreme, with median gross rents substantially above national averages.[4] When the shortage of units is added to the mix of problems, a vacancy rate of just 3.19%, down from 4.01% just three years earlier, it is not surprising that more and more New York households are crowding into spaces too small for their families and paying more than they should for housing.

And yet while there is a well-established housing advocacy community, which is both national and local, the "crisis" in affordable housing is not reflected in

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[1] "As early as 1676 the Common Council approved the right of the City to take control of abandoned and decayed houses and to turn them over to new owners who were willing to build them up or rebuild." New York City, Minutes of the Common Council: 1675-1776 (April 18, 1676), 1:14, quoted in Richard Plunz. "A History of Housing in New York City." (Columbia University Press, 1990), p.2.

[2] U.S. Bureau of the Census. 1999 New York City Housing and Vacancy Survey (487,957 households, or 27.1% of all renter households, pay more than 50% of their income for rent.)

[3] U.S. Bureau of the Census, 1999 New York City Housing and Vacancy Survey. Note: Crowded is defined as more than one person per room and severely overcrowded as more than 1.5 persons per room.

[4] Only San Francisco and Boston have higher median gross rents. Michael H. Schill and Glynis Daniels, "State of New York City's Housing and Neighborhoods: An Overview of Recent Trends, Draft

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a national debate. It is at once the most personal and intimate of public policy issues – affecting how one lives and subject to everyone's personal experience. At the same time it is the public policy issue most affected by the private marketplace, with government's role, at all three levels, often misapplied and commonly misunderstood.

And perhaps most importantly, its constituency is often invisible either by nature of its role in society and lack of involvement in the political process (such as the working poor, homeless, newest immigrants) or because its needs will impact the process in the future (issues related to changing demographics such as an aging population, but also one with a significant population under the age of 18[5]); and the future has a difficult time competing with today's priorities.

Elderly property owners in front of West 71st Street, Manhattan

And finally, the problems we face today of shortages, affordability and crowding are a direct result of the desire of so many people to live here. At the same time the housing stock is in the best physical condition that it has been in since it was first measured in 1965, with only 1% of the housing stock in dilapidated condition.[6] The most deleterious market force for housing, the cost of borrowing and the resulting access to capital, is in fact so low that capital is flowing into the housing stock resulting in increases in property value in nearly every community.[7] Certainly Buffalo or Detroit, cities that continue to lose population and jobs, would be happy to trade their problems for New York's.

Yet the problems of inadequate supply are real and will impact the City's future significantly whether or not we act: the question is how will our future be shaped? Will we maintain healthy moderate and middle-income communities? Will we provide resources for low-income communities to allow a mix of income groups? Will we maintain our critical supply of low-income housing that exists both in public housing and outside of it? And will we be able to provide access to housing for the creative class and the intellectual talent that our City grows itself but also attracts from all over the country and in fact the world?

It is critical to understand the place of housing within the public policy hierarchy, and the role that government, particularly local government, can play. Local government must first ensure that the safety of its citizens is

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[5] There are 1.9 (24.8%) million New Yorkers under 18. U. S. Bureau of the Census. 2000.

"By 2030, experts on the aging say, there will be more than 70 million people in the country 65 or older." Co-op City in the Bronx, with 8,000 people of retirement age, most of whom moved in when the buildings opened in 1968, is becoming a naturally occurring retirement community, or NORC, which are emerging across the country as the baby boom generation moves toward old age. Alan Feuer, "Haven for Workers in Bronx." The New York Times. August 5, 2002. p. A1

[6] U.S. Bureau of the Census. 1999 New York City Housing and Vacancy Survey.

[7] Ingrid Gould Ellen, Michael H. Schill, Scott Susin, and Amy Schwartz, "Building Homes, Reviving Neighborhoods: Spillovers from Subsidized Construction of Owner-Occupied Housing in New York City," Journal of Housing Research. 2001, Volume 12. Issue 2. pp. 185-216. Dennis Hevesi, "City Homeownership Plans Lift Neighborhoods." New York Times. July 30, 2001. Section B. Page 1.

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Government's ole…is key to creating new markets—which will in turn attract private investment—and investing in neighborhoods that cannot sustain adequate private investment on their own.

protected by keeping crime rates low, that the City's children receive an education through the public school system that will ensure they have the skills to pursue a happy and useful life, that the City's transportation system meets its growing needs, that its health is protected through adequate sanitation, and that it is financially solvent so that it can continue to provide its core services effectively.

While housing permeates the everyday life of every citizen, most housing has and will continue to be built by the private market. Government's role is relegated to two primary areas:

- Regulating private market activities, both through land use controls as well as standards which govern construction and maintenance[8]; and
- Providing financial incentives to encourage housing activities that will build or strengthen a private marketplace such as subsidizing home ownership through federal tax benefits, local tax incentives to encourage rehabilitation and new construction and low cost financing for construction and maintenance of housing for targeted income groups.[9]

Government's role in these areas is key to creating new markets—which will in turn attract private investment—and investing in neighborhoods that cannot sustain adequate private investment on their own.

While an overall increase in construction will help to provide units, without government subsidies a range of income levels from the poorest to the middle class will continue to seek housing and be unable to obtain it. In 1999, more than 356,000 households in New York City were living with another household. Of those, 25,776 had less than $20,000 in income and were also severely crowded.[10] While New York City commits more local resources to the development of affordable housing than any other municipality in the nation, we must always look to find new sources of affordable capital for the financing of new affordable housing and continue to effectively leverage private capital.

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[8] There were housing quality standards in New York City starting with The Tenement House Act of 1867. Richard Plunz. "A History of Housing in New York City." (Columbia University Press, 1990), p.22. The creation of systematic enforcement dates from the Tenement House Act of 1901. New York City also had the first zoning law in the Nation in 1916. New York City Department of City Planning.

[9] Since WWII this role was exclusively federal – not until the 1960s and 1970s did State and local government in New York City begin large scale financing (Mitchell Lama, etc) and not until the mid 1980s did the City use general obligation bonds to finance reconstruction of housing. No other city takes on this burden to the degree New York City does.

[10] U.S. Bureau of the Census. 1999 New York City Housing and Vacancy Survey

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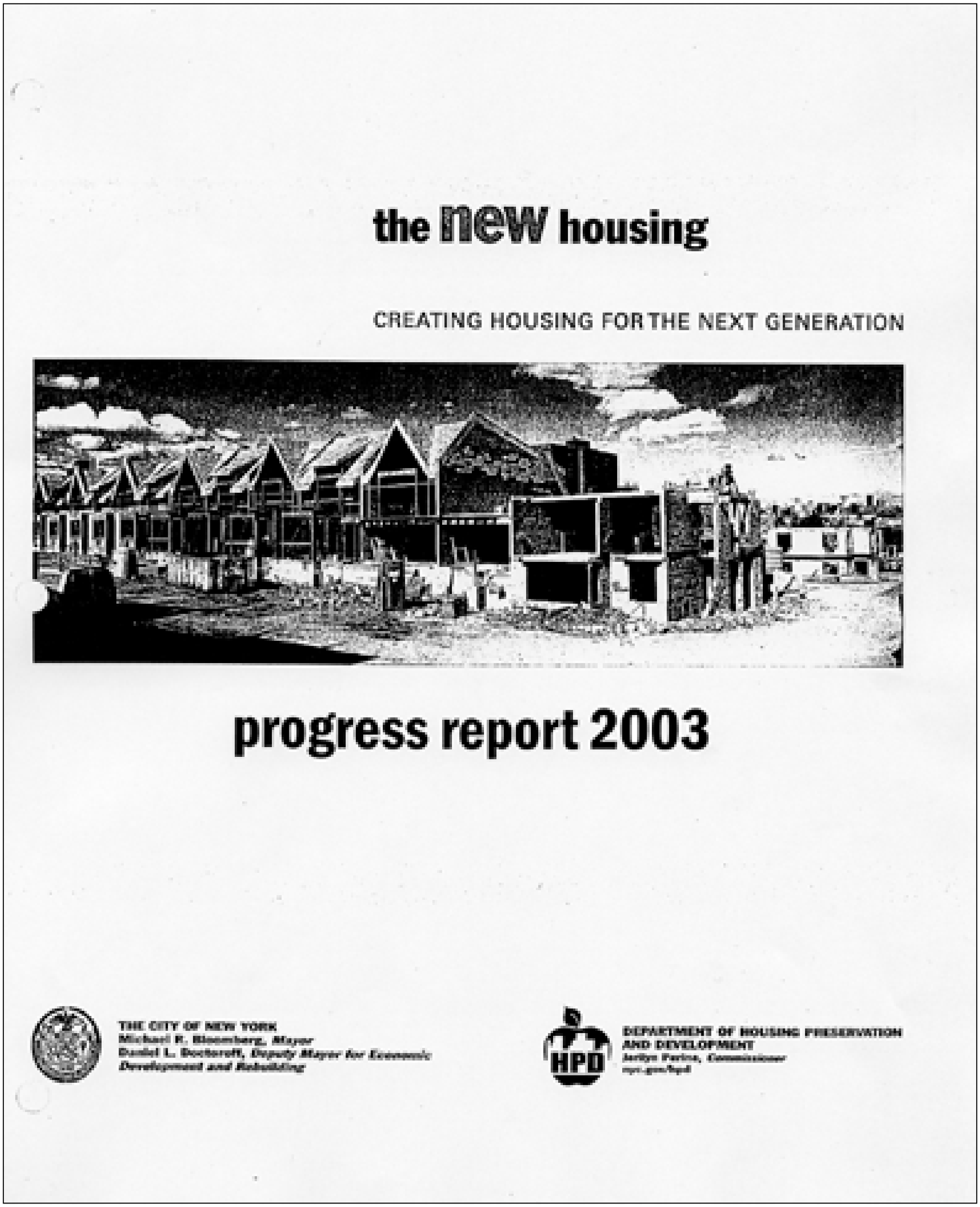

the new housing

CREATING HOUSING FOR THE NEXT GENERATION

progress report 2003

THE CITY OF NEW YORK
Michael R. Bloomberg, *Mayor*
Daniel L. Doctoroff, *Deputy Mayor for Economic Development and Rebuilding*

DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT
Jerilyn Perine, *Commissioner*
nyc.gov/hpd

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Mayor Michael R. Bloomberg

"We're the world's second home – the magnet for people from around the world who want to build better lives for themselves and their families. That new generation of ambitious and hard-working New Yorker deserves just what my parents struggled to achieve and what all parents want for their children: the security that only good homes in safe and stable neighborhoods can provide. Affordable housing is fundamental to our long-term economic prosperity and this commitment demonstrates that in these difficult budget times, the City has found innovative new ways of funding affordable housing."

Mayor Michael R Bloomberg
December 2002

KEY OBJECTIVES OF THE NEW HOUSING MARKETPLACE PLAN:

- Create new markets for affordable housing by strategically investing in new housing construction.
- Increase housing production for the homeless, very low-income, and special needs populations, such as youth aging out of foster care.
- Move aggressively in rezoning plans in communities ripe for residential development throughout the City.
- Jump-start private investment in targeted communities by removing barriers to development.
- Invest in neighborhoods by targeting resources for housing preservation so that homes and apartments are viable for another generation of New Yorkers.
- Increase homeownership opportunities, including first-time homebuyers' down payment assistance.
- Bring vacant housing back to active use by providing low-cost loans to renovate and lease apartments that have long been vacant and off the market.
- Increase collaboration with the private, non-profit and philanthropic community by creating a Neighborhood Investment Advisory Panel.

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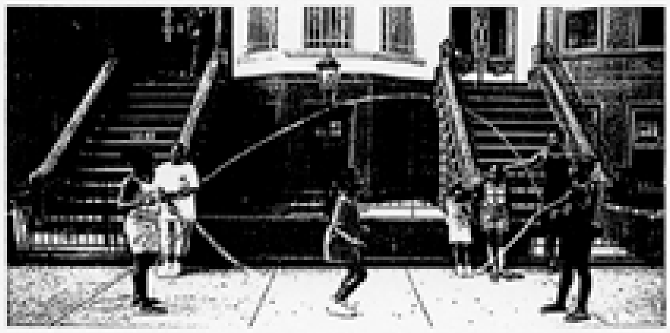
EXECUTIVE SUMMARY

In December 2002, Mayor Michael R. Bloomberg announced *"The New Housing Marketplace: Creating Housing for the Next Generation,"* a $3 billion plan to create and preserve more than 65,000 homes and apartments citywide over the next five years.

We are pleased to report that since the Mayor announced the plan, the City has put into place major new program components and has made significant progress towards meeting our goals.

"Our intention is to maximize affordability of the homes and apartments created through the housing plan whenever possible."



The plan commits to funding the new construction or rehabilitation of 65,000 homes and apartments from fiscal year 2004 through 2008. We're on target. 10,197 units are already in the development pipeline[1] – 1,214 units are currently under construction, and the remaining 8,983 will be in construction by the end of June 2004. The need for preliminary planning, program start-up, and pre-development work in the early years of the plan means the construction pipeline will be 8,549 and 13,250 in the second and third years[2].

- Over the next five years, the New Housing Marketplace plan will create an estimated 66,950 full time construction and construction-related jobs[3].
- Our intention is to maximize affordability of the homes and apartments created through the housing plan wherever possible. We estimate that the funds will enable 46% of the new and preserved units to be affordable to low-income households, 38% of the units to be affordable to moderate-income households, and 16% of the units to be affordable to middle-income households[4].
- We forged an innovative public/private partnership with private banking firms to provide up $200 million over five years for acquisition and pre-development costs, which will encourage residential development in derelict or substantially vacant manufacturing areas. In order to leverage these funds, the City has committed $8 million as top loss reserve for the bank fund in the first year. The New Ventures Incentive Program (New VIP) is a major new initiative to accelerate the construction of up to 10,000 units of new housing over the next five years. In October 2003, four private lenders (Citibank, N.A., Deutsche Bank Trust Company Americas, HSBC Bank USA, and J.P. Morgan Chase Bank) have committed to participate in the first year of this program. These banks will be joined by Fannie Mae, Fleet National Bank, and Washington Mutual, FA.

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[1] *The development pipeline is inclusive of units in all HPD projects targeted for construction start and HDC projects with a closing date by the end of June 2004 (FY04) and the end of June 2005 (FY05). See page 34 in the Financial Reporting appendix for pipeline details.*

[2] *See page 34 in the Financial Reporting appendix for FY05 planned starts.*

[3] *The generally accepted formula is that 1,000 units of housing development creates 1,030 construction and construction-related jobs.*

[4] *In 2003, the Area Median Income (AMI) U.S. Department of Housing and Urban Development for a family of four in New York City is $62,800. Low-income is 80% or less of AMI; moderate-income is 81-99% of AMI; middle-income is 100-250% of AMI.*

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- We're increasing homeownership opportunities, including first time homebuyers' down payment assistance; 242 New Yorkers have graduated from the required Homebuyer Education classes with an HPD-approved counseling agency, and 41 of those are on their way to purchasing their first home. Hundreds more are enrolled in homebuyer education classes. The plan also creates New York City's first employer-assisted housing program. Employer-assisted housing is a retention tool for large employers such as universities and hospitals and a means to make homeownership within the city more affordable for employees. Both are targeted to neighborhoods in the city with lower than average homeownership rates.
- We've expanded special needs housing. In Spring 2004, the City's first Foyer housing program for young adults at risk of homelessness will open. We've increased funding for permanent supportive housing by 79% over the next three years (from $85 to $153 million)[5] in order to expand permanent housing to homeless single adults, homeless families, and youth aging out of foster care. We've also begun three pilots for formerly homeless and low-income families to buy a home.
- In early 2004, the State Assembly and State Senate leadership were presented with legislation to preserve affordable rents for 32,000 Mitchell-Lama apartments by extending rent stabilization. In return, owners would be entitled to real estate tax relief for those apartments that would be newly regulated, and the proposed bill would also provide financial incentives to owners to remain in the Mitchell-Lama program by allowing them to increase their return on equity while maintaining Mitchell-Lama guidelines on tenant income and occupancy.

The *New Housing Marketplace* plan was created in response to the changing needs of our communities. Abandonment, decay, and a large inventory of City-owned properties no longer blight our communities. Today we face increasing demand for housing, a growing population, scarcity of sites suitable for development, and an aging housing stock. This plan is designed to meet these new challenges. *The New Housing Marketplace* plan represents a fundamental change in how HPD and other City agencies are responding to the housing needs of New Yorkers.

5 The sources of the $68 million in increased funding for special needs housing initiatives are federally-funded Housing Opportunities for People With AIDS (HOPWA) and the Mayor's housing plan.

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Reducing the Cost of New Housing Construction in New York City

2005 Update

Jerry J. Salama, Co-Principal Investigator
Michael H. Schill, Co-Principal Investigator
Jonathan D. Springer, Project Director

Furman Center for Real Estate and Urban Policy
The New York University School of Law and
Robert F. Wagner Graduate School of Public Service

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Reducing the Cost of New Housing Construction in New York City

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Preface and Acknowledgments

In 1999, the Furman Center For Real Estate and Urban Policy at New York University's School of Law and Wagner School of Public Service published *Reducing the Cost of New Housing Construction in New York City*. The report, which came to be known as the "Cost Study," immediately garnered significant local and national attention. In 2002, Mayor Michael Bloomberg announced a new housing program for the City of New York. Several of his proposals were attributed to the Cost Study.

In the six years that have passed since publication of the Cost Study, much has changed and much remains the same. New York City and its residents experienced a recession and a terrorist attack that left over 3,000 of its citizens dead and its economy shaken. The housing market, particularly its rental sector, weakened a bit following the destruction of the World Trade Center, but in the past two years has regained much of its former overheated quality. Indeed, neighborhoods which were once unthinkable locales for market rate development such as East New York, Williamsburg and Bedford Stuyvesant today are experiencing substantial interest from private developers.

We are pleased to release this update of the Cost Study. Two of the original authors of the 1999 report – Jerry Salama, an Adjunct Professor at NYU School of Law and a developer of affordable housing in Harlem, and Michael Schill, a former director of the Furman Center and now Dean of UCLA School of Law – are joined in this updated report by Jonathan Springer, a community development consultant and alumnus of the Law School and Stern School of Business. Martha Stark, the third author of the 1999 study, currently serves as New York City's Commissioner of Finance.

Over the past year, the authors have interviewed over 140 members of New York City's housing community including scores of developers, bankers, labor representatives, government officials, architects, attorneys and academics. They have collected new data on the cost of housing development in New York City and have examined what has changed over the past six years. As with the original Cost Study, the authors provide dozens of recommendations for government and the private sector to implement that are designed to bring down the cost of housing development.

The authors would like to thank all of the people they consulted in the preparation of this study (all of whom are listed in Appendix A). In addition, the Furman Center is grateful for the financial support it received from Bank of America, Citibank and the Fannie Mae Foundation. We also thank Ioan Voicu, Rachel Meltzer, Nicholas Bagley, Caroline Bhalla, Erica Tate and Drew Schinzel for their assistance. All of the conclusions and recommendations contained in this report represent the views of the authors, alone, and should not be taken to represent those of the funders, the Furman Center or its Board of Advisors.

Furman Center for Real Estate and Urban Policy
New York University School of Law and
Robert F. Wagner Graduate School of Public Service

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Executive Summary

Housing Affordability Problems in New York City (Chapter 1)

As was the case in 1999, the major housing problem facing residents of New York City in 2005 is the affordability of housing. More than one out of every five renters in the city pay over half their incomes in rent. It is especially problematic that the vast majority of households who experience these severe housing affordability problems earn low incomes. Nevertheless, high housing costs are a significant problem for households throughout the income spectrum. While limited data suggest that housing affordability problems may have moderated a tiny bit for renters from 1999 to 2004, they worsened for owners.

One of the reasons why housing affordability problems are so intense in New York City is the imbalance that exists between the supply and demand for housing. For much of the 1980s and 1990s, the increase in household formation outpaced housing construction. Over the past five years, this imbalance has moderated with population growth rates declining and the number of housing units built each year growing. However, given the strong pent-up demand for housing in the city and the advanced age of the city's existing housing stock, New York City will face a strong challenge over the next decade as it struggles to meet demand with new supply.

The Cost of Residential Construction in New York City (Chapter 2)

The 1999 Cost Study identified the high cost of construction in New York City as the primary culprit in the imbalance of supply and demand. This remains the case in 2005. The cost of housing construction in New York City remains the highest in the nation. According to data from the R.S. Means Company, hard costs of development in New York City are 39 percent higher than the national average and eight percent higher than the next most expensive city, San Francisco. According to these data, from 1999 to 2004, housing construction prices in New York City rose slightly faster than the national average.

To obtain a more detailed picture of the cost of construction, detailed architectural specifications for three residential developments – townhouse, mid-rise and high-rise – were developed and priced for New York City and three control cities – Chicago, Los Angeles and Dallas. Once again, the data suggest that the cost of development in New York City is the highest – between three and eight percent more expensive than Los Angeles, between nine and 13 percent more expensive than Chicago and between 37 and 47 percent more expensive than Dallas. Over the past five years, however, the cost of housing construction in New York City has increased at a slightly slower pace than the cost of development in these other cities.

Labor (Chapter 3)

The major driver of high construction costs in New York City is the cost of labor. In 2003, construction wages in New York City were 52 percent above the national average. Nevertheless, in the years since 1999, the wage premium in New York City compared to other large cities narrowed. Indeed, in 2003, the median hourly construction wage in

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Chicago surpassed New York City. One of the major reasons for the high cost of labor in New York City is the power of its labor unions. The muscle that unions flex in this industry is also reflected in work rules that tend to inflate the cost of development.

- Labor unions and the development community should eliminate inefficient work rules that do not affect worker safety and that have the effect of raising the cost of housing construction.
- Labor unions and the development community should negotiate lower wage rates for development outside the core of Manhattan where rents are significantly lower and for affordable housing. This agreement should also coordinate work hours and paid holidays and allow for a longer workday, greater use of apprentices and minimize overtime requirements.
- Congress should amend the Davis-Bacon Act to require the establishment of a residential wage rate in cities for mid-rise apartment buildings based upon the average of union *and* non-union wages.
- Union and non-union contractors alike should seek to diversify their membership by recruiting more minorities and women to the trades through apprenticeship programs

Availability and Cost of Vacant Land (Chapter 4)

One of the chief reasons why housing is so expensive in New York is the shortage of vacant sites upon which development can take place. From 1998 to 2004, the supply of vacant land in the City decreased by five percent. This shortage is reflected in the rapidly escalating price of vacant land; by one small measure, the median sale price of City-owned vacant land has increased at an annualized rate of 41 percent over each of the last five years.

- The city and state should create an inventory of under-utilized or obsolete state facilities and facilities owned by the private sector and develop incentives for their reuse as housing. For publicly available sites that could be used for housing, the city and state should take steps to transfer properties to the New York City Department of Housing Preservation and Development or responsible private developers.
- The city should also prepare an inventory of privately-owned vacant land that is zoned for residential use.

Brownfields (Chapter 5)

In light of the shortage of land for development of housing, brownfields – land that is or is perceived to be environmentally contaminated – may be an important resource. New York City has a substantial amount of land that fits this designation, but that land had remained fallow because of fears of legal liability. New York State's recently-enacted Brownfield Cleanup Program makes brownfield remediation and development significantly more feasible.

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- The federal government should amend its brownfields programs so as not to require Davis-Bacon wages to be paid for construction.

- The state should amend its newly enacted Brownfield Cleanup Program to (1) increase the value of tax credits but have them apply only to the cost of remediation, not development, (2) make tax credits on properties owned by tax-exempt entities transferable and deductible, (3) permit credits for homeownership projects and (4) provide bonus credits for projects that are consistent with plans submitted by municipalities and community-based organizations.

- The city should (1) remediate city-owned land and fund the costs through land sales proceeds, (2) study the possibility of using a mechanism to transfer properties to responsible third parties such as the one used for *in rem* properties under the Third Party Transfer Program and (3) revamp the New Ventures Incentive Program so that it will assist private developers to assemble tracts of land.

Environmental Regulation (Chapter 6)

New York State and New York City mandate environmental reviews for public actions or grants of discretionary approvals that are required in conjunction with housing development. These environmental reviews can add substantially to the cost of development. In addition, the risk of litigation by community residents who oppose the development on grounds that may have only a tenuous connection to the environment may either chill development or cause the owners to incur substantial costs to buy off potential adversaries.

- Type II actions under the State Environmental Quality Review Act (SEQRA) (i.e. those presumed not to have significant environmental impacts and not to require additional analysis), should be expanded by the New York State Legislature to include housing developements of up to 90 units and government-supported affordable housing up to 150 units.

- New York State should amend SEQRA to limit the definition of "environment" which triggers an environmental review to traditional (ie. physical) conceptions of environmental impacts.

- New York State should reduce the incidence of non-meritorious SEQRA lawsuits by either (1) amending the law to limit standing to only those parties who are truly aggrieved or (2) eliminating the private right of action under the law.

- New York State should reduce the statute of limitations for SEQRA and create an expedited procedure for resolving challenges to housing development.

- The city should increase funding for consultants to perform CEQR reviews for area-wide rezoning efforts.

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Zoning Regulation and Land Use Review Process (Chapter 7)

New York City's zoning resolution is outdated and enormously complicated. Because of this, most new development of any scale requires discretionary approvals which, in turn, implicate SEQRA review and the Uniform Land Use Review Process (ULURP). Instead of beginning the process of drafting a new zoning resolution to accommodate growth into the 21st century as was recommended in the 1999 Cost Study, the city has chosen to concentrate on area-wide re-zonings. In 1999, the Cost Study recommended that underutilized portions of the city that were zoned for industrial uses be rezoned for housing. The city has recently achieved this objective in Hudson Yards and appears on the verge of doing so in several other neighborhoods, including Brooklyn's Greenpoint/Williamsburg. More ominously, the city has also pursued a downzoning strategy in response to the political pressure of community residents in other neighborhoods such as Staten Island and Queens.

- The city should continue the area-wide rezonings that it has begun to permit additional residential development. The city should reverse the dangerous precedent it set in limiting residential uses in commercial districts where housing is usually permitted when it created the special zoning district as part of the recent Hudson Yards rezoning.
- Rather than reduce densities as it has done in several neighborhoods over the past few years, the city should use its zoning powers to increase permitted densities in neighborhoods where appropriate infrastructure and transportation exist.
- The city should reduce parking requirements, particularly for affordable housing developments and for projects catering to elderly households where residents are less likely to own automobiles.
- The state and city should streamline the land use review process by hiring additional staff at the Department of City Planning and by amending the Urban Development Action Area Project (UDAAP) statute to permit expedited disposition of vacant land for development of dwellings with five or more units provided that the project contains affordable housing.

Building Code (Chapter 8)

New York is one of the few large cities in the nation not to follow a model building code. The complexity and outdated nature of the existing 1,000 page code has had a number of impacts including: (1) increasing the cost of development, (2) reducing competition, (3) increasing opportunities for corruption and (4) reducing the opportunity to use cost-cutting improvements in technology. The 1999 Cost Study recommended adoption of a model code. In 2002, Mayor Bloomberg endorsed this idea and set into motion a process by which the city would adopt a model code after making appropriate changes to reflect the unique conditions that exist in New York City (e.g. high density). That process is ongoing.

- The city should proceed expeditiously to adopt the International Building Code with only those modifications that are necessary to reflect the truly unique nature of

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development in New York. It should not allow special interest groups (e.g. city agencies, labor unions, manufacturers) to successfully obtain changes to the law that are unnecessary and that would have the impact of reducing the benefits gained from adoption of the code.

- The city should also adopt the International Fire Code.
- The city should eliminate its materials and equipment acceptance (MEA) process and promote competition among different types of materials and manufacturers.

Permitting Approval Process – The Department of Buildings (Chapter 9)

The 1999 Cost Study described a Department of Buildings (DOB) that was inefficient, ineffective and, in some instances, corrupt. After a series of incidents that took place after the report was published, Mayor Bloomberg announced the appointment of a new commissioner with a mandate to modernize the department. The management of the department has improved in some respects, but much more needs to be done. The Buildings Department is still one of the major drivers of the high cost of housing in New York City rather than an agency dedicated to reducing expense and facilitating development.

- The city should increase and upgrade the staff of the DOB. The culture of the staff which promotes delays because of a pervasive fear of decision-making must also be changed. Finally, staff training and policies should be consistent across the five boroughs.
- The pre-filing of plans should be folded into the plan examination submission process and further automated.
- The DOB should track and make public performance indicators that are tied to meaningful customer service outputs.
- The DOB should create a uniform set of directives that provides definitive rulings on each substantive topic.
- Additional investments in computer systems should be made to automate internal processing functions and make available more records on the web. The successful pilot for handheld devices should be expanded throughout the agency.
- Enforcement must be reorganized to encourage immediate removal of safety violations rather than churning of fees and penalties.
- The process for obtaining a certificate of occupancy should be streamlined and automated. The recent elimination of temporary certificates of occupancy should not be expanded.

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New York City Affordable Housing Development Programs (Chapter 10)

The New York City Department of Housing Preservation and Development (HPD) and the New York City Housing Development Corporation (HDC) together play a critical role in the development of affordable housing in New York City. HPD is most likely the largest municipal producer of affordable housing in the country. The 1999 Cost Study did not consider how HPD and HDC themselves affected the cost of housing built under their programs. This report reviews the efficiency of these agencies in the administration of their programs and recommends ways to optimize the use of resources in connection with new construction of affordable housing.

- HPD's Bureau of Design and Review should limit itself to ensuring that developers comply with the requirements of the zoning resolution, the building code and HPD's design guidelines. Staff should not mandate additional design requirements.

- HPD should create incentives for developers participating in its programs to economize, such as allowing developers to reduce their equity contributions or increase their developer's fee by a portion of the amount they are able to save.

- HPD and its legal staff should coordinate both within the agency and with other agencies to expedite the conversion of construction loans to permanent loans.

- HPD should identify vacant and under-utilized city-owned land and work with the Deputy Mayor for Economic Development and Rebuilding to facilitate transfer to HPD of land for housing development.

- HPD should work with other agencies of city government to identify situations in which the condemnation of private property in close proximity to city-owned land (or the threat of condemnation) would create sufficiently large sites on which to build housing in a cost-effective manner.

- HDC should lower its rates on bonds for affordable housing and allow for more flexible structuring in order to otherwise reduce financing costs.

Inclusionary Zoning (Chapter 11)

New York City's current voluntary inclusionary zoning ordinance is flawed for a variety of reasons and has produced only modest amounts of housing. At present, a variety of inclusionary requirements have been proposed for Hudson Yards, which was recently rezoned, and Greenpoint/Williamsburg, which is currently undergoing rezoning. Our analysis of a proposed mandatory inclusionary zoning ordinance suggests that requiring developers to include low- or moderate-income housing in market rate developments is feasible under several different market conditions without chilling housing development. On the other hand, since returns are highly sensitive to required set-asides and the income thresholds of residents, there is a possibility under changed market conditions that an ill-

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designed requirement could either make development of all housing infeasible or substantially reduce the number of units built.

- The city should modify its existing Inclusionary Housing Program to (1) allow the program to be used with 421-a tax abatements, tax-exempt bond financing and the Low Income Housing Tax Credit, (2) allow off-site units to be built at greater distances from the market rate housing, (3) allow affordable units to be managed by responsible for-profit entities and (4) allow rents from affordable units to be used to repay project debt.

- If the city were to adopt a mandatory inclusionary zoning program it should proceed with caution and (1) set program requirements only after carefully analyzing the impact of the requirements on the supply of *both* market rate and affordable housing, (2) implement affordability mandates on a neighborhood-by-neighborhood basis to insure that they are attuned to market conditions, are financially feasible and do not lead to substantially less total housing production, (3) implement a safety valve provision which triggers an automatic modification of the affordability requirements if market conditions change substantially and (4) relax affordability requirements for rental units (versus homeownership) so as to encourage both types of housing.

Taxes and Fees (Chapter 12)

New York City's system of property taxation inhibits the construction of new housing by taxing vacant land at the lowest rate and multifamily housing at the highest rate. In addition, the City and State impose significant taxes on housing developments regardless of their affordability to low- and moderate-income households. Furthermore, various city agencies impose excessive fines and fees on developers during the construction process.

- The State Legislature should authorize New York City to create a special tax class for vacant land in order to tax it at a higher rate.

- The state and city should waive or reduce real property transfer, mortgage recording and sales taxes on affordable housing projects, especially projects where the City or State has provided significant funding.

- The city should reduce permit fees for construction of housing and waive permit fees for affordable housing projects, especially those that are part of an HPD or HDC program.

Scaffold Law/Insurance Premiums (Chapter 13)

The New York State Scaffold Law imposes absolute liability on contractors and owners for falls and other gravity-related personal injuries on construction sites. The law provides that if a construction worker is injured as a result of a contractor's failure to comply with the safety measures prescribed, the contractor cannot introduce evidence of the worker's comparative negligence. New York is the only state in the nation with these liability rules.

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Some observers believe that the Scaffold Law is related to higher insurance losses and insurance rates for contractors.

- The State should amend the Scaffold Law to allow the recovery of injured construction workers to be reduced in proportion to their comparative negligence and the State Insurance Department should ensure that insurance rates are reduced to reflect this cost saving.

Green Building (Chapter 14)

Green building, the practice of creating healthier and more resource-efficient models of construction, renovation, operation, maintenance and demolition of buildings, is just beginning to become commonplace. These practices sometimes entail substantial up-front costs, but may generate long-term benefits. In 2000, New York State enacted a Green Building Tax Credit – the first of its kind in the country – which had its sunset in 2004.

- New York State should reauthorize the Green Building Tax Credit program and draft regulations that provide guidance on how the credit could be passed on to condominium and cooperative apartment buyers.

- The New York State Energy Research and Development Authority should delegate its underwriting to third parties that already underwrite housing construction projects and create "one stop shopping" so that developers can access all green building benefits for which they may be eligible from a single portal.

Corruption in the Construction Industry (Chapter 15)

The existence of corruption in the construction industry has been well documented in court records, investigative reports and the press. Illegal practices which can generate costs for housing developers include solicitation of bribes and embezzlement by union officials, bid rigging, violence threatened by local labor coalitions if they do not receive "no-show" jobs and bribes of municipal employees. The extent of the problem of corruption is hotly contested although some observers believe that the incidence of organized crime infiltration of unions and the construction industry has diminished in recent years as a result of repeated investigations of scandals and well-publicized prosecutions.

- Federal, state and local criminal enforcement agencies should continue to investigate and prosecute corruption in the real estate industry wherever it is found.

- The city should take whatever steps it can to simplify the building process primarily through reform of the Department of Buildings and the adoption of a model building code. The real estate industry and labor unions should follow the recommendations set forth in this Report to simplify and streamline residential development. A more streamlined and simple development process will result in fewer opportunities for threatened delay and extortion.

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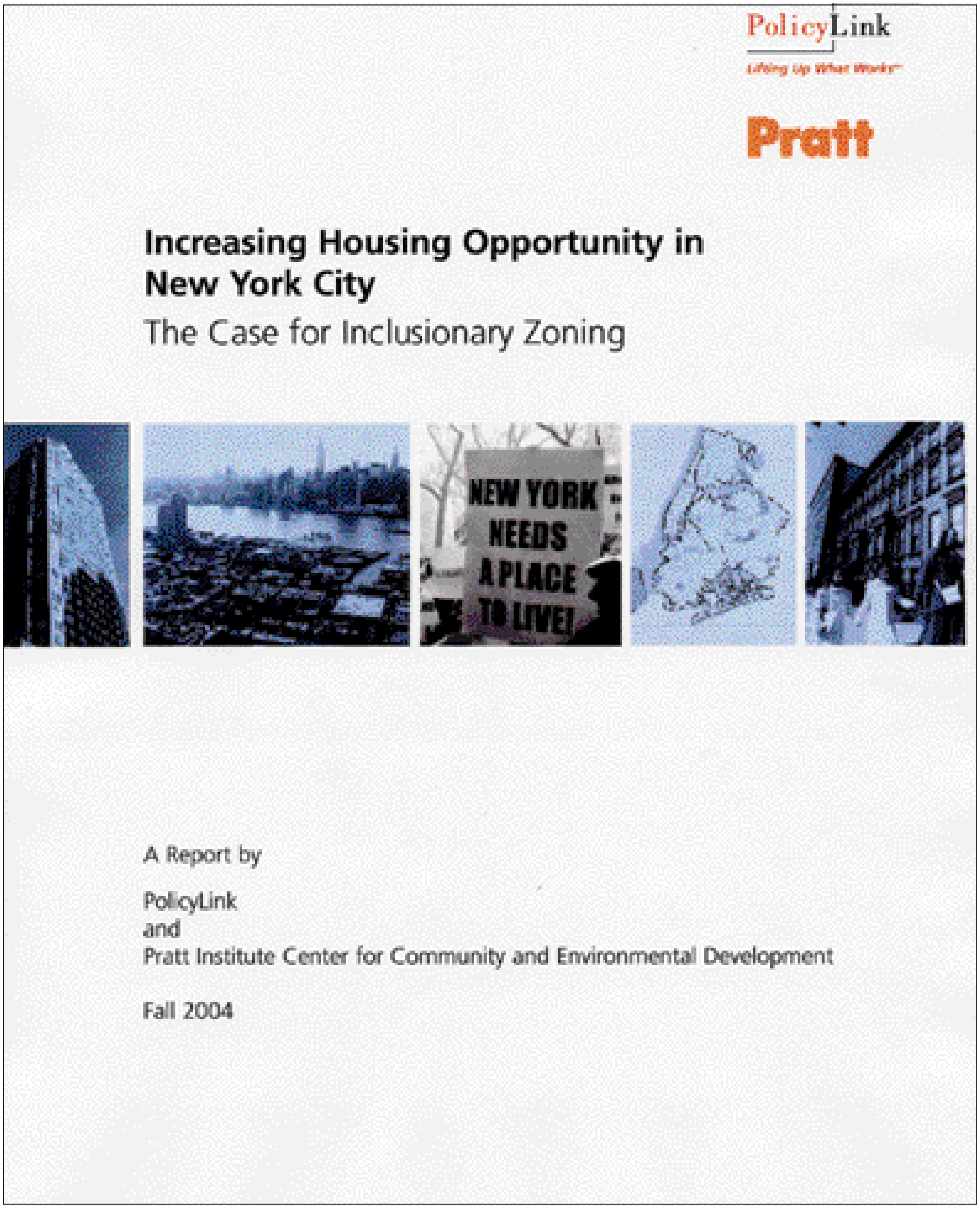

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Increasing Housing Opportunity in New York City

The Case for Inclusionary Zoning

NEW YORK NEEDS A PLACE TO LIVE!

A Report by

PolicyLink
and
Pratt Institute Center for Community and Environmental Development

Fall 2004

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PolicyLink is a national nonprofit research, communications, capacity building, and advocacy organization, dedicated to advancing policies to achieve economic and social equity based on the wisdom, voice, and experience of local constituencies.

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Increasing Housing Opportunity in New York City

The Case for Inclusionary Zoning

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Executive Summary

New York City neighborhoods are about to change dramatically.

The administration of Mayor Michael Bloomberg is undertaking substantial redevelopment plans, neighborhood by neighborhood, which will alter the pattern of growth for generations to come. At the same time, New York City's housing costs have marched dramatically upward, making it increasingly difficult for many New Yorkers to afford housing. The proposed planning changes can either deepen the challenges of affordability, or set a new course toward ensuring a diverse, stable housing stock that serves the needs of the spectrum of New Yorkers.

Inclusionary zoning—setting aside affordable units in new housing developments—offers New Yorkers a tool to guarantee that the benefits of changes occurring in their communities will be fairly shared in the years to come.

New York City's Affordable Housing Challenge

A tight housing market. New York City's population has grown significantly in the last decade. Despite a recent boom, housing construction has been lagging far behind increasing demand. This has pushed up housing prices everywhere, and particularly in "hot" neighborhoods in Manhattan, Brooklyn, and Queens. The lack of housing is marked by extremely low vacancy rates, particularly for lower-rent units, growing waiting lists for subsidized housing, and record-high homelessness.

Affordability diminishing. Incomes of New Yorkers have not kept pace with rising housing costs. The average income for New York renter households grew just 3 percent from 1975 to 1999, but the average rent went up 33 percent. Even with the new financial incentives and subsidy programs introduced by Mayor Bloomberg in late 2002, the demand for affordable units is growing far faster than the supply.

A segregated city. Housing that has been built in the last 15 years has amplified race and income segregation. Most market rate housing has been concentrated in the higher-income neighborhoods of Manhattan and Staten Island, while affordable housing was primarily built in the lower-income neighborhoods of Harlem, the Bronx, and Brooklyn.

Housing is a key element in a family's ability to live in the city. Without new affordable housing in mixed-income communities, low- and moderate-income households will be forced into overcrowded and lower quality housing situations or forced to move out of their neighborhoods.

The Opportunity: Dramatic Neighborhood Redevelopment Plans

The city of New York has significant power to shape patterns of development. Mayor Bloomberg has offered an ambitious set of redevelopment initiatives for New York City that include more than two dozen area-specific plans, in all five boroughs. These plans include: rezoning actions, targeted financial incentives, and public investments in infrastructure, transportation,

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and parks, as well as sports, convention, and cultural venues. The proposed zoning changes will alter the type and density of developments (residential, commercial, and/or manufacturing) allowed in each neighborhood. The four major types of zoning changes being proposed are:

- Rezoning manufacturing areas to allow residential/office use;
- Upzoning business districts to encourage mixed-use (commercial and residential) development;
- Balanced neighborhood rezonings to preserve community context while allowing growth; and
- Downzonings to prevent larger-scale development.

The rezoning of manufacturing areas will transform formerly industrial warehouse and factory land to residential and commercial centers. Business district upzonings and balanced neighborhood rezonings will create new space for housing units in areas with strong market demand. The downzonings will affect substantial land area throughout New York City and threaten to significantly reduce the potential housing built in these neighborhoods.

These redevelopment plans are likely to result in 40,000 units of housing in the next 10 years and as much as 80,000 total units. However, many communities are deeply concerned about the lack of affordable housing guarantees. This analysis estimates that without further action, fewer than 8 percent of the new housing units created in these areas are likely to be affordable to most New Yorkers.

Benefits of Inclusionary Zoning

Inclusionary zoning (IZ) requires or encourages developers to make a percentage of units in new housing developments affordable to low- and moderate-income households. IZ policies have been adopted by hundreds of cities around the country and have produced thousands of units of affordable housing in mixed-income communities. Multiple studies have shown that mandatory IZ programs do not dampen development and are economically feasible for developers and property owners.

Benefits of inclusionary zoning include:

- Producing affordable housing for a diverse labor force;
- Fostering mixed-income communities;
- Insuring affordability in tight housing markets; and
- Stretching scarce public dollars by leveraging market-rate construction.

Recommendations

This report analyzes the housing needs, development opportunities, and market conditions in New York City, as well as the experiences of jurisdictions with IZ programs around the country. The recommendations for New York City are:

Apply mandatory inclusionary zoning to all future neighborhood-wide zoning changes.
Many of the proposed large-scale rezonings create substantial density and land value increases for property owners. The city can and should require that all developers receiving this benefit create some affordable housing units. Evidence from cities coast to coast makes it clear that mandatory IZ programs produce more affordable housing than voluntary ones. For New York City, mandatory IZ should be applied to the rezoning of manufacturing areas, to the upzoning of mixed-use business districts, and to residential areas that are rezoned for more density. Where downzonings limit development, they should be balanced with nearby density increases that contain IZ requirements.

Maximize affordable housing production by offering inclusionary zoning incentives in high-density residential neighborhoods.
In neighborhoods not going through dramatic rezoning, developers should have the opportunity to participate in New York City's voluntary inclusionary program. In particular, the program, which offers developers a modest density increase if they choose to include some affordable housing, should be expanded to wide streets and other appropriate areas within neighborhoods zoned from R6 to R9 (generally three to 17 story buildings).

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The program should also be amended to make it a more attractive option, including combining with public affordable housing subsidies. Implementing a voluntary program will increase the viability of building on small sites.

Design an economically feasible IZ program that allows developers to create affordable housing and make a profit. Developers benefit from inclusionary zoning through non-monetary cost-offsets—usually density bonuses. By utilizing appropriate cost-offsets, the parameters devised for New York City should take advantage of the significant density that will be granted through major rezonings to deliver units at deeper levels of affordability. A mandatory program can be crafted so that developers can achieve their profit targets. While the IZ requirement will be imputed into land costs, property owners will still benefit from zoning changes.

Set income levels for affordable housing eligibility to reflect community housing needs; broaden eligibility by connecting IZ to other affordable housing resources. New York City has a wide array of affordable housing subsidy programs targeted to homeless and low-, moderate-, and middle-income households. An IZ program can be crafted to meet a similar range, and it can be adjusted to meet neighborhood needs. Combining IZ with the Housing Choice Voucher Program (formerly Section 8) and other resources can extend the reach of the program.

Maintain permanent affordability of inclusionary units. New York is currently at risk of losing tens of thousands of affordable housing units as the terms of earlier programs expire. This problem need not be repeated with inclusionary zoning. Because the benefit of greater density is permanent, the program can require long-term affordability for inclusionary units.

Prioritize on-site development of inclusionary units to encourage mixed-income communities. In the neighborhoods where new housing opportunities are being created through rezoning, many residents are concerned about the lack of affordable units. Prioritizing the production of affordable units as part of larger market-rate developments, or nearby in the same community—rather than allowing in-lieu payments or distant off-site units—will help to meet this need and lead more affordable housing opportunity throughout the city.

Draft clear legislation and authorize consistent administrative oversight to manage the IZ program. New York City has a strong history of progressive public policy to create affordable housing, and of high-quality implementation of these programs. The city can build upon this experience, and upon the capacity of its housing and planning departments to establish a program that will succeed.

By adopting these recommendations, the city of New York can guarantee that its redevelopment plans create thousands of units of affordable housing in mixed-income communities throughout the city. Residents, developers, employers, and the city at large will benefit for decades to come from the combination of growth and affordability made possible through inclusionary zoning.

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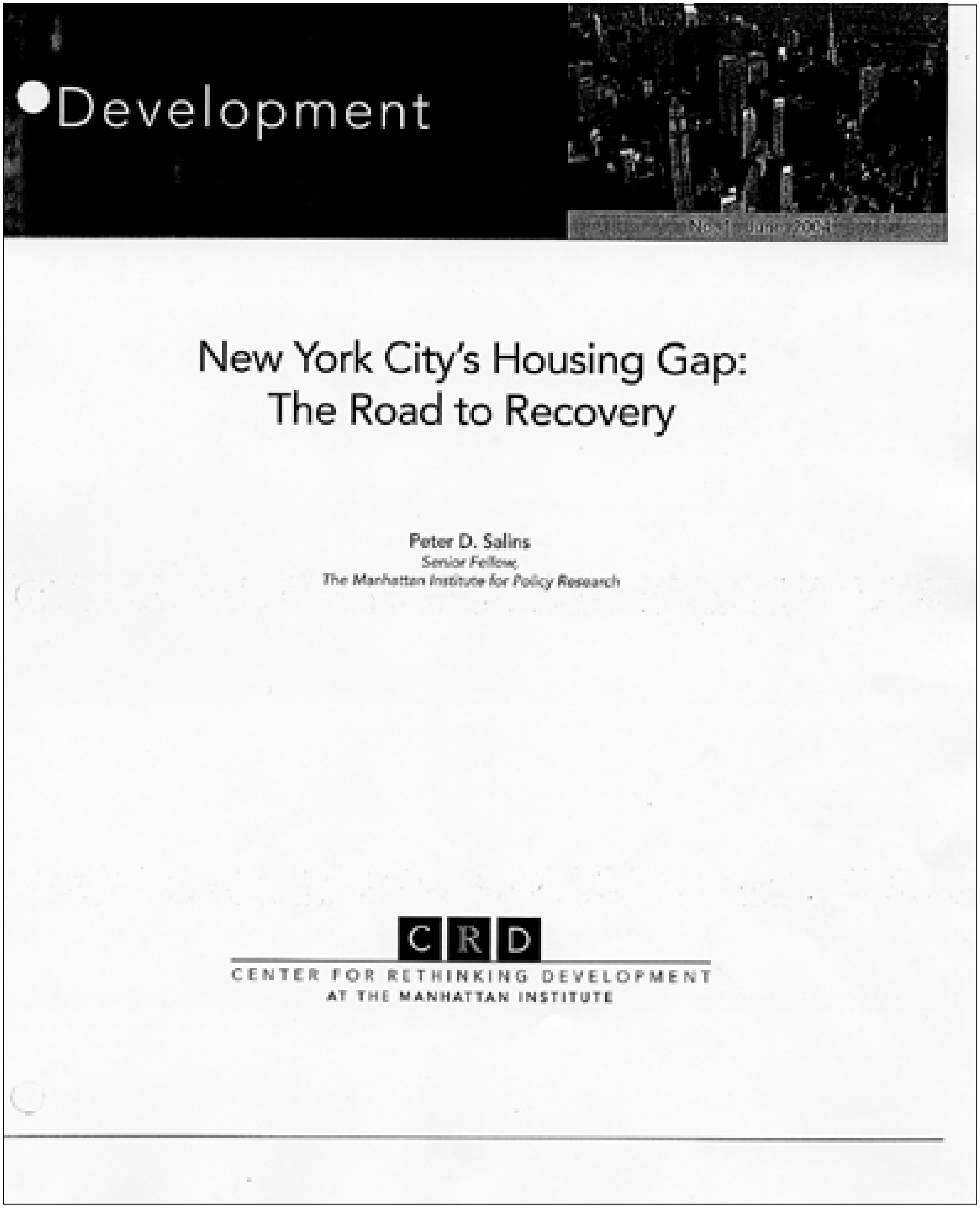
Part Five: Affordable Housing Compendium:
Summary:
National Affordable Housing Programs



Development

No. 1 June 2004

New York City's Housing Gap: The Road to Recovery

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New York City's Housing Gap: The Road to Recovery

Executive Summary

New York City continues to experience a housing gap, i.e. an inability to build enough new housing to supply all of its residents with safe housing and to replace dilapidated housing stock.

Estimates of the housing gap made in prior reports have been adjusted downward to reflect the discovery during the 2000 U.S. Census of 370,000 new residential addresses that were either built during the 1990s or missed during the original 1990 Census. Nonetheless, even adjusting for this windfall, this study finds that the housing gap continued to grow between 1999 and 2002, rising to more than 111,000 units. When the amount of housing needed to replace degraded stock is added to this baseline, the "quality adjusted" housing gap climbs to over 370,000 units.

The core problem facing New York City is that housing production continues to lag well behind population growth, particularly in the outer boroughs. During the period 1999-2002 the housing gap grew by over 51,000 dwellings in Brooklyn; 36,200 in the Bronx; 22,400 in Queens; 8,700 in Staten Island. Although there is evidence that housing production is trending up (from under 9,000 units in 1999 to over 15,000 in 2002) it is still insufficient to keep up with population increase.

Indeed, compared to its peers among American cities, New York's housing market is the least advantageous, with one of the oldest and most expensive housing stocks in the nation. There are a number of forces restraining New York's housing production, but among the most significant are its onerous land use regulations and excessively high construction costs. The study finds that expanding housing production to adequately meet demand and maintain quality will require:

- Streamlining the city's complex zoning regulations
- Harmonizing the city's land use and environmental regulations with those of New York State
- Modernizing the archaic New York City Building Code
- Ending rent regulation

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what's new

- ✔ New York City's economy shrunk by 2.2% in 2003, compared to 3.8% in 2002.
- ✔ The City lost 55,000 jobs in 2003, representing a 1.5% decline from 2002 in the number employed.
- ✔ The unemployment rate increased to 8.4% last year, up from 7.9% in 2002.
- ✔ Staten Island saw the largest jump of the boroughs in its unemployment rate, increasing from 6.5% to 7.4% between 2002 and 2003, a 13.8% jump.
- ✔ Inflation averaged 3.1% in the metro area in 2003, up from 2.6% in the prior year.
- ✔ Inflation-adjusted wages decreased 5.0% in 2002, compared to .7% increase in 2001.
- ✔ In calender year 2003, 38,310 homeless people were staying in municipal shelters, up 10.8% from 2002.
- ✔ The average number of families temporarily sheltered each night increased 14.0%, to 9,203 in 2003, compared to a year earlier. This figure is 50% higher than 2001 levels.
- ✔ The number of non-payment filings in Housing Court decreased 4.0% in 2003, to 318,077.

Introduction

Section 26-510(b) of the Rent Stabilization Law requires the Rent Guidelines Board (RGB) to consider "relevant data from the current and projected cost of living indices" and permits consideration of other measures of housing affordability in its deliberations. To assist the Board in meeting this obligation, the RGB research staff produces an annual *Income and Affordability Study*, which reports on housing affordability and tenant income in New York City's rental market. The study highlights year-to-year changes in many of the major economic factors affecting New York City's tenant population and takes into consideration a broad range of market forces and public policies affecting housing affordability. Such factors include New York City's overall economic condition — unemployment rate, wages, Consumer Price Index and Gross City Product — as well as the number of eviction proceedings and the impact of welfare reform and federal housing policies on rents and incomes.

Summary

For the third consecutive year, New York City's economy still struggled to recover from recession, rising unemployment rates, falling employment levels, and stagnant to declining real wages. The City's Gross City Product declined by 2.2% in 2003, despite growth of 2.2% in the fourth quarter. Unemployment rates also increased for the third year in a row, climbing .5 percentage points to 8.4%. Total employment levels in the City fell to 1998 levels, and both real and nominal wages fell to levels not seen in this decade. In addition, Housing and Vacancy Survey data published last year reveals that the vacancy rate remains well below the 5% threshold, at 2.94% citywide. But despite the poor economy, the number of persons receiving public assistance fell during Fiscal Year 2003, and rose again during the first four months of FY 2004. In addition, the number of homeless in City shelters grew to record numbers, especially among families, while non-payment filings in Housing Court decreased by 4.0%.

Economic Conditions

The City's economy remained mired in a recession for a third straight year in 2003. New York City's Gross City Product (GCP), which measures the total value of goods and services produced, contracted by 2.2% in 2003, after falling 3.8% in 2002, and 1.4% in 2001.[1] Prior to the current recession, the last time yearly GCP declined was in 1991. In contrast, GCP increased at an annualized rate of 6.0% from 1994 through 2000. Although GCP was down for the year, the last quarter of 2003 was the first in 11 in which the City had an upward change in GCP, with an increase of 2.2%.[2] Comparatively, the analogous national number, United States Gross Domestic Product (GDP) has annually increased every year

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NYC Rent Guidelines Board

2004 Income and Affordability Study

April 20, 2004

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2: New York City Housing Studies

E. Affordable Housing for All New Yorkers: A review of Mayor Bloomberg's New Housing Marketplace Plan

Affordable Housing for All New Yorkers:

A Review of Mayor Bloomberg's *New Housing Marketplace* Plan

July 25, 2003

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2: New York City Housing Studies:
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Affordable Housing for All New Yorkers:

A Review of Mayor Bloomberg's *New Housing Marketplace* Plan

EXECUTIVE SUMMARY

Since its launch in May 2001, Housing First! has forged a broad consensus for a 10-year, $10 billion plan that would produce 100,000 new homes and preserve at least 85,000 more. Despite the tragedy of September 11th and the ensuing deterioration of the city's economy, Housing First! has helped keep affordable housing at the top of the public agenda. As a result, Mayor Bloomberg initiated the city's most significant housing initiative since the 1960s: The *New Housing Marketplace* aims to produce and preserve 65,000 units of housing over the next five years.

Nonetheless, New York City continues to experience its most acute housing shortage in more than fifty years. The Bloomberg administration's plan is an important first step in addressing this shortage, but it will not solve the city's housing crisis. The policy brief that follows assesses where we are today and reviews the steps necessary to achieve the Housing First! goal of affordable housing for all New Yorkers.

Analysis of the activities and household income targets in the Mayor's plan shows that:

- The plan moves 1/3 of the way toward Housing First!'s overall goal, and meets 44% of the ten-year preservation goal and 22% of the production goal.
- The city's production initiatives meet 67% of the Housing First! ten-year goal for production of middle-income units and 13% and 17% of the ten-year goals for units targeted to moderate- and low- income households, respectively.
- The city's plan, while increasing capital funds for supportive housing, will still develop only 10% of the 16,000 units needed by New York and includes no provision to expand subsidized assisted living options for the city's senior citizens, as proposed by Housing First!.

In the current budget environment, these are still significant gains. But if New York does not invest more in housing, future generations will fall even further behind, as the city forgoes hundreds of millions of leveraged private dollars and construction-related jobs and income.

The city's recently adopted Ten-Year Capital Strategy for fiscal years 2004-2013 projects a decrease in city capital funds for housing from $4.4 billion to $3.2 billion. While this 27% decrease is partially offset by a new commitment of $500 million from the city's Housing Development Corporation, much more can, and must, be done to ensure New York's future economic prosperity. New York City can take three specific steps now:

- Redirect federal Community Development Block Grant funds to capital programs that will preserve existing units and build additional affordable housing units.

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E. Affordable Housing for All New Yorkers

Housing First! **July 25, 2003**

- Increase the Lower Manhattan Development Corporation's commitment to affordable housing development to at least $293 million as originally proposed by the Mayor in his "21st Century Vision for Lower Manhattan."

- Revisit the unfulfilled Battery Park City funding commitments to affordable housing production.

The city has also acted on administrative, zoning, and regulatory reforms proposed by Housing First! and its members. Notable progress has been made on Building Code reform and improvements to the city's land disposition and planning processes. The administration has taken bold steps to rezone parts of the city to increase land available for residential development.

The city can take several additional actions to bolster and advance these initial steps, including:

- Establish a process for a comprehensive revision of the city's outdated zoning resolution.

- Overhaul existing zoning and tax incentive programs to ensure that there are optimal incentives to create affordable housing within areas targeted for rezoning.

- Ensure that the unrestricted auction of city-owned land is the disposition method of last resort.

Housing First! has played a key role in shaping New York City's housing policies. We will redouble our efforts in this area, while pursuing new solutions to preserve housing and expand the debate to the federal and state governments.

The challenges of housing a vibrant, growing city are formidable. But only through a sustained long-term effort will we be able to ultimately ensure that all New Yorkers have a safe, decent, affordable place to call home.

Affordable Housing for All New Yorkers **Executive Summary**

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NYC Rent Guidelines Board

2003 Housing Supply Report

June 3, 2003

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2003 Housing Supply Report

what's new

- ✔ 18,500 permits were issued for new dwelling units in NYC in 2002, the most since 1985 and a 10% increase over the prior year.
- ✔ The number of new housing units completed in 2002 increased 7.5% over the prior year, to 14,228, the most since 1985.
- ✔ The citywide vacancy rate was 2.94% in 2002.
- ✔ 11.1% of rental housing is overcrowded.
- ✔ City-sponsored residential construction decreased 6% during FY 2002, to a total of 11,830 new housing starts.
- ✔ The city-owned in rem housing stock continued to decline, falling 21% during FY 2002.
- ✔ The number of housing units newly receiving 421-a exemptions increased slightly (2%) in 2002, to almost 5,000.
- ✔ The Attorney General's office reported an 8% increase in the number of co-op or condo conversion plans approved in 2002, to 185 plans containing 5,158 units.

Introduction

The housing market remained strong in New York City, notwithstanding a second straight year of recession. The year 2002 saw a 10% increase in the number of permits issued for new dwelling units, rising to 18,500, the most since 1985. The number of completed housing units grew as well, rising 7.5%. The growth in development has been prompted by the tight housing market, with a citywide rental vacancy rate of 2.94%. Overcrowding remains a problem, with 11.1% of all rental housing considered overcrowded. There was an 8% increase in the number of cooperative and condominium plans approved for conversion or new construction. The number of city-owned vacant and occupied buildings continued to fall through various disposition programs, declining 21% during the 2002 fiscal year. Furthermore, 2002 saw more housing starts under the 421-a Affordable Housing Program, though fewer units were completed this year. The City also saw a slight decrease in publicly-sponsored residential construction in FY 2002, falling 6%. In addition, rehabilitation of residential units under the J-51 tax abatement and exemption program during 2002 decreased by 14%.

New York City's Housing Inventory

New York City differs from most of the nation in many respects, including the fact that most New Yorkers do not own the homes in which they live. According to preliminary results from the 2002 *Housing and Vacancy Survey* (*HVS*)[1], the percent of rental units relative to all dwellings in New York City stood at 65% in 2002, twice as many rental units as the nation as a whole.[2] New York City in 2002 had a total of 3,208,587 housing units, the largest housing stock since the first *HVS* was conducted in 1965.[3]

New York City's housing is dominated by the size of its rental housing stock. In addition, unlike most cities, the bulk of rental units in New York City are rent regulated. Of the 2,084,769 occupied and vacant available rental units reported in the most recent HVS, a third (33%) were unregulated, or "free market." The majority are either pre-war (pre-47) rent stabilized (38%) or post-war (post-46) rent stabilized (13%), and the rest are rent controlled (3%) or part of various other[4] types of regulated apartment units (13%). (See chart on next page.)

The *HVS* also indicated that the New York City housing market remains tight, finding a citywide vacancy rate of 2.94% in 2002, well below the 5% threshold required for rent regulation to continue under state law. Queens had the lowest vacancy rate in the city, at 1.78%, while Manhattan, by contrast, had the highest, at 3.80%. Of the other boroughs, Staten Island's rate stood at 2.43%, the Bronx's at 3.29%, and Brooklyn's at 2.73%.[5]

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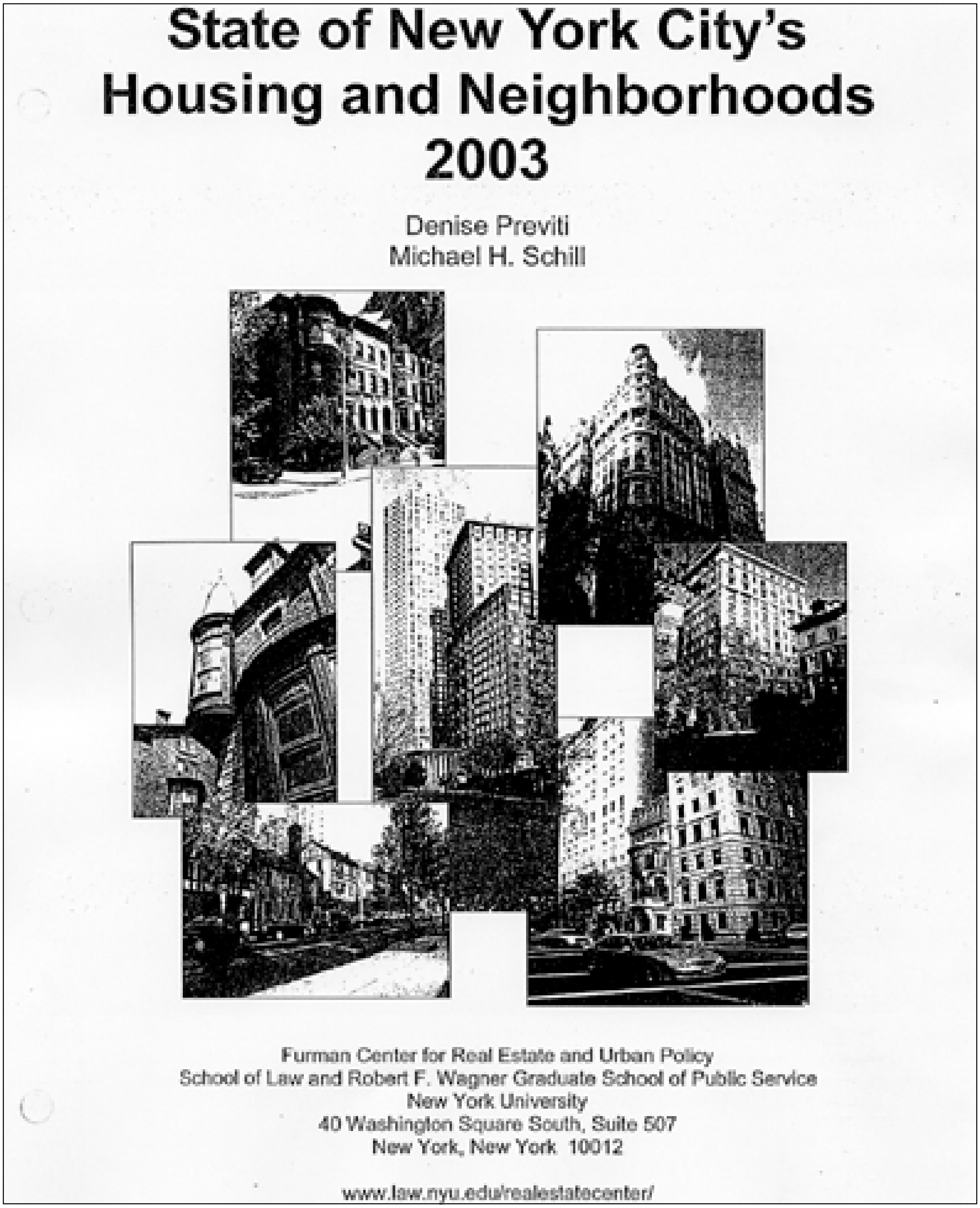

State of New York City's Housing and Neighborhoods 2003

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Introduction

The period 2002-2003 was a mixed one for New York City's housing market. Even as the sales prices of residential buildings continued their upward climb fueled by low interest rates, the recession and the aftermath of 9/11 appeared to show signs of weakening the rental market. Although median monthly rents as reported by the New York City Housing and Vacancy Survey slightly increased between 1999 and 2002, reports of widespread rent concessions by landlords suggest that effective rents may actually have declined at least for some segments of the housing stock. The softening of the city's perennially tight housing market at least in some portions of Manhattan may also have been influenced by the growth of housing supply. In 2002, over 15,000 units of housing were added to the city's housing stock, the highest number of completions in over a decade.

Perhaps affected by the relatively soft rental market or perhaps by some data comparability issues (see below), problems of housing affordability did not appear to grow in the first couple years of the twenty-first century. Nevertheless, among renters, close to one out of every four households paid over half their incomes for housing, a rent-to-income burden that most would view as crushing.

The recession may also be the source of an up-tick of financial woes among owners of housing in the city. In 2002, the number of mortgage foreclosures that were begun by lenders increased. In addition, and perhaps just as ominously, tax delinquencies rose substantially in virtually all parts of the city.

Housing quality, for the most part, has not suffered as a result of the recession. The incidence of severe maintenance deficiencies and housing code violations did not increase in 2002. Severe crowding also did not increase.

The State of New York City's Housing and Neighborhoods 2003 contains three major sections. The first section documents housing and social conditions citywide, in each of the city's 5 boroughs, and in 59 community districts or 55 sub-borough areas. This section contains 16 chapters with a wide-ranging selection of the latest data available regarding New York City's housing and residents. Chapter 1, Housing Stock, provides information on the number of housing units, homeownership rates, forms of ownership, rental vacancies, and rent regulation. Chapter 2, Housing Creation, covers new units issued certificates of occupancy and the rehabilitation and construction of housing under New York City's Capital Programs. Chapter 3, Housing Values, presents data on monthly rents and exclusive price indexes that describe the price fluctuations of 4 types of housing —condominiums, single family homes, 2-4 family homes, and 5+ unit apartment buildings.

Housing Affordability is the focus of Chapter 4, which provides data on the share of household income that renters and owners spend for housing as well as data on public housing and Section 8 voucher units. Chapter 5, Mortgage Lending, provides a picture of lending activity both for home purchases and housing refinance in the City, including measures of subprime lending. Chapter 6, Mortgage Foreclosures, and Chapter 7, Property Tax Delinquencies, present indicators of economic troubles that may ultimately lead to foreclosure and abandonment of New York's housing stock.

Measures of Housing Quality are presented in Chapter 8. These include maintenance deficiencies, housing code complaints and violations, and severe crowding. Land Use of New York's lot areas is addressed in Chapter 9. Chapter 10, Population, presents newly released population counts from the 2000 United States Census as well as data on household size and length of tenure. Chapter 11, Race and Ethnicity, also presents data from the 2000 Census, as well as other information on Puerto Rican households. Chapter 12 focuses on Immigration, with data on foreign-born people, and the use of foreign languages. Information on Income and Public Assistance is presented in Chapter 13, including median incomes, poverty rates, and public assistance rates. Chapter 14, Business and Employment, presents information on business establishments by sector, labor force participation, and unemployment rates. In Chapter 15, Education, data on teachers' credentials and student performance are presented, as well as educational levels of New York City's adults. Finally, Chapter 16, Crime, presents a snapshot of property and violent crime rates throughout New York City.

New York City's housing community is the largest, most sophisticated, diverse and vibrant in the nation. The second section of the report describes some of the accomplishments of the City's housing agencies and a small number of its vibrant set of nonprofit and profit-motivated housing providers, financial institutions, and intermediaries in creating and rehabilitating housing in the year 2002.

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The focus is on affordable housing. The information presented in this chapter was compiled through conversations with major housing organizations operating in New York City.

Finally, the third section of this report summarizes recent published research on subjects related to New York City's housing and neighborhoods. Topics covered include: homelessness and housing stability; housing attainment, choice, and quality; community development and gentrification; and housing policy and regulation.

The *State of New York City's Housing and Neighborhoods, 2003* presents data derived from the decennial census and the New York City Housing and Vacancy Survey (HVS). In many instances, these data cover years (1990 for the decennial census; 1999 for the HVS) that are earlier than the most current data (2000 for the decennial census; 2002 for the HVS). **Any comparisons across years for indicators based upon these two data sources should be done with caution since each used a different sampling frame.** For a further description of this issue, see the Appendix on Data and Methods.

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National Affordable Housing Programs

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A PROPOSAL TO ENHANCE TAX AND ZONING INCENTIVES FOR NEW HOUSING PRODUCTION

A Policy Paper Produced by CHPC's

Housing Finance Committee
Zoning Committee

Citizens Housing and Planning Council of New York

November 2002

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H. A Proposal to Enhance Tax and Zoning Incentives for New Housing Production

CHPC/Incentives

EXECUTIVE SUMMARY

New York's housing production has been decreasing for decades; during the 1990s new production averaged only 8,250 units per year. With a growing population, the low rate of new construction has resulted in rising housing prices and a proliferation of illegal and substandard dwellings. City government and the public at large would like to see a higher level of housing construction, but budget concerns are likely to constrain housing subsidy programs in future years. It is consequently a propitious time to revisit the city's residential construction incentive programs in order to identify ways of stimulating housing production without direct subsidy.

The city's primary incentive program for new housing construction is the 421-a tax incentive program. This program offers automatic property tax exemptions for up to 25 years for all new multi-family housing built in the outer boroughs and parts of Manhattan. It also offers tax exemptions for new residential buildings built in prime Manhattan locations if low-income apartments are incorporated into the project or financed off-site.

Because in most areas of the city 421-a benefits are as-of-right, almost all new multi-family housing in those areas receive them. In the Manhattan Exclusion Area, where a 20 percent low-income component is required, developers have sought to couple them with tax-exempt financing from a government agency, usually the HFA or the HDC. Under federal law, tax-exempt financing also requires a 20 percent low-income component, so developers are often able to benefit from both programs (in addition to as-of-right Low Income Housing Tax Credits), making both benefits more attractive than they are individually. Since 1986, however, the authority of state and local governments to issue tax-exempt "private activity" bonds has been limited, so they are not always available even to developers who are willing to build "80/20" projects. The intention of this paper is to propose methods of making 421-a more effective as a stand-alone incentive, or to couple it with other benefits that are not constrained by federal law.

As a production incentive, the cost-effectiveness of the 421-a program has often been questioned but never adequately determined. That is because of the difficulty of proving the counter-factual: how much of the housing would have been built without the tax incentives? For buildings that would have been built in any event, the program is obviously not cost-effective: the city foregoes tax revenues that would have been otherwise collected and gets no additional housing for it. On the other hand, if the building would not have been built without the tax incentives, it is extremely cost effective: housing is produced at no public cost and, eventually, new tax revenues are realized. It is unlikely that a conclusive statistical answer to this question will ever be produced.

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Another city incentive program is Inclusionary Housing, which is a zoning rather than a tax incentive. It has seldom been used. Applicable only to R10 zoning districts, it provides floor area bonuses to developers who build or rehabilitate low-income apartments. The bonuses differ depending on whether the low-income housing is rehabilitated or newly built, and on whether it is on-site or off. In the maximum case, the developer may, within the constraints of the maximum floor area that is permitted by law, increase the floor area of a residential project by four square feet for each square foot of low-income housing provided.

Some planners and zoning experts have objected to Inclusionary Housing on philosophical and legal grounds. They argue that density bonuses should only be given in return for public improvements that mitigate the adverse effects of the increased density. In the case of New York's inclusionary housing program, they argue that there is not a clear nexus between the density bonus awarded and the public benefit of low-income housing that is received in return. On the level of planning theory, this objection is legitimate. Inclusionary Housing has nevertheless been adopted in New York, and there appears to be a desire among both the development community and affordable housing advocates to see it energized.

This proposal also considers how inclusionary housing can be made a more effective stand-alone housing incentive. Both the 421-a and Inclusionary Housing analyses are presented, however, with an eye toward their compatibility and potentially mutually reinforcing potential. Other incentive programs, such as 421-b, Urban Development Action Area (UDAAP), and J-51 benefits could eventually be incorporated into a more comprehensive program, although this document does not cover those programs.

Sensible recommendations may facilitate the use of both the 421-a and Inclusionary Housing programs and thereby increase production of housing units without costing city dollars. The following are CHPC's recommendations, which are discussed in detail in the body of this paper:

421-a Partial Tax Exemption Program

- **Change the definition of "Eligible debt-financed project" in 28 RCNY § 6-01 that prohibits projects encumbered by a lien or mortgage from also obtaining 9 percent low income housing tax credits.**

- **Create more flexibility in the on-site program by establishing a sliding scale of set-aside percentages and tenant eligibility limits. Such a sliding scale would allow developers to match the affordability requirements to the specific site, market and financing requirements of their projects. In**

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addition, developers that set aside affordable units in accordance to the following scale might receive tax abatement similar to the benefits offered under the J-51 program.

- Repeal RPTL §421-a (2)(c)(iii) that requires five new dwelling units for every demolished unit in new constructions of more than 20 units. Allow all dwelling units that exceed the number of pre-existing units to be eligible for benefits.

- Repeal the "initial adjusted monthly rent" formula [RPTL §421-a (3)] that applies to all except the affordable units.

INCLUSIONARY ZONING

- Adjust the bonus formulas so that developers can attain the maximum floor area bonus by providing different combinations of low-, moderate- and middle-income affordable units.

- Expand the Inclusionary Housing Program to include R7, R8, and R9 districts on wide streets, with a bonus award cap of no more than 20 percent of the standard allowable floor area ratio.

- Expand the program to incorporate commercial floor area bonuses in mixed-use districts, in exchange for affordable housing provision.

- Remove the restriction barring developments receiving real estate tax exemptions or operating assistance from receiving Inclusionary Housing floor area bonuses.

- Remove the restriction barring the use of rents from affordable units towards the principal or interest owed on any debt other than that incurred from capital improvements to the affordable units.

- Remove the restriction requiring that the affordable units be managed by a non-profit organization.

- Remove the restriction requiring that no single story in a building receiving a floor area bonus contain more than two affordable units unless 80 percent of all stories contain two or more affordable units.

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I. Report of the Citizens Housing and Planning Council on Housing Development in Downtown Manhattan

Part Five: Affordable Housing Compendium:
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Report of the Citizens Housing and Planning Council on Housing Development in Downtown Manhattan

September 19, 2002

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I. Report of the Citizens Housing and Planning Council on Housing Development In Downtown Manhattan

Executive Summary

The Citizens Housing and Planning Council of New York believes that the policy goal of encouraging a mixed-use, commercial/residential/cultural district in Lower Manhattan is even more imperative as the area seeks to recover and rebuild from the terrorist attack of September 11, 2001. This report explores the role of residential development in that recovery process and offers our recommendations regarding residential development in downtown's mixed-use environment. Our principal findings and recommendations are:

- Lower Manhattan remains a critical generator of wealth and jobs for the region and housing development should not preempt that role.
- Of the approximately 100 million square feet of commercial space downtown, approximately 25 million square feet built before the Second World War is suitable for conversion to residential use.
- Given plausible forecasts of future office demand and construction in Lower Manhattan, about 3 million square feet of this older office space could be converted to residential use without impinging on job-creating commercial uses.
- The balance between commercial and residential reuse of older office buildings is effectively regulated by market mechanisms. Any intervention by public agencies should focus on facilitating the conversion of appropriate buildings in existing residential areas.
- The potential for further residential development downtown, including new construction and conversions, is between 4,000 and 8,000 dwelling units.
- Public agencies should create a commercial consolidation program aimed at helping companies relocate from buildings slated for conversion to other space downtown.
- New, unassisted housing development downtown remains economically viable given prevailing development costs and rents in Manhattan, but that housing will be accessible only to households earning $100,000 or more. The use of tax-exempt Liberty Bonds can reduce feasible rents by about 6 percent.
- Liberty Bonds should be used to fashion a more flexible model of mixed-income housing than that allowed through the use of conventional private activity bond financing. Public agencies should not impose restrictions on the use of Liberty Bonds that mimic existing restrictions on private activity bond financing.

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CHPC/Downtown Housing

- Approximately $128 million of federal appropriations for downtown recovery, in conjunction with Liberty Bonds, should be used to create 1,500 apartments for middle-income households earning, on average, 150 percent of the area median income.
- Liberty Bonds, in conjunction with an amended 421-g tax incentive program, should be used to encourage mixed-use conversions where appropriate.
- Public agencies should encourage future conversions in specific areas where residential clusters already exist. If dispersed throughout downtown, the potential for additional housing development is not substantial enough to change the office district tempo of lower Manhattan.
- The neighborhoods identified in this study represent better opportunities for new housing than the former World Trade Center site. Although mixed-use redevelopment, including some residential, may be appropriate, new structures at the site should be primarily for commercial use.

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J. Revitalizing Inner-City Neighborhoods: New York City's Ten-Year Plan

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Revitalizing Inner-City Neighborhoods: New York City's Ten-Year Plan

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Abstract

This article examines the impact of New York City's Ten-Year Plan on the sale prices of homes in surrounding neighborhoods. Beginning in the mid-1980s, New York City invested $5.1 billion in constructing or rehabilitating over 180,000 units of housing in many of the city's most distressed neighborhoods. One of the main purposes was to spur neighborhood revitalization.

In this article, we describe the origins of the Ten-Year Plan, as well as the various programs the city used to implement it, and estimate whether housing built or rehabilitated under the Ten-Year Plan affected the prices of nearby homes. The prices of homes within 500 feet of Ten-Year Plan units rose relative to those located beyond 500 feet, but still within the same census tract. These findings are consistent with the proposition that well-planned project-based housing programs can generate positive spillover effects and contribute to efforts to revitalize inner-city neighborhoods.

Keywords: Community; Development/revitalization; Housing; Neighborhood

Introduction

For the first time in over a decade, policy makers in Washington, DC, are seriously considering creating a new subsidized housing production program. Since the mid-1970s, housing analysts and most government officials have taken a dim view of government interventions to subsidize housing construction, preferring instead to use demand-side programs such as housing vouchers (Olsen 2001). However, one theoretical advantage of production programs that is often overlooked is that they may help eliminate negative externalities created by deteriorated housing and, in some instances, generate positive spillover effects. Up to now, relatively few studies have explored whether this theoretical advantage of production subsidies is actually borne out by the facts, and the results of the studies that have been done typically are inconclusive.

Over the past 15 years, New York City has engaged in the largest municipally supported housing production program in the history of the United States. Announced in 1985 by former Mayor Edward I. Koch (1985), this commitment of over $4 billion to build or renovate

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more than 100,000 housing units over a five-year period has grown today to over $5 billion and 182,000 housing units. The Ten-Year Capital Plan, a misnomer for a program that already has lasted over 14 years, encompasses a wide variety of programs to stimulate the production or rehabilitation of housing, many of which evolved over time in the face of political and economic constraints. In this article, we will examine this unprecedented program, describing the types of housing produced, where it was sited, and its impacts on the city's neighborhoods. We particularly focus on whether Ten-Year Plan production subsidies generated positive spillover effects.

In the first part, we maintain that production programs like the Ten-Year Plan are in theory more likely than demand-oriented programs, such as housing vouchers, to generate positive spillover effects in distressed neighborhoods. We then go on in the second part to recount the history of the Ten-Year Plan in an effort to describe how it came into being and to provide a comprehensive picture of the housing that was produced, the neighborhoods in which it was located, and the households that it served. In the third part, we examine the question we alluded to earlier, namely whether housing built under the Ten-Year Plan generated positive externalities for the neighborhoods in which it was located. While we do not directly test whether the spillover effects associated with the Ten-Year Plan are greater than those that might be generated by housing vouchers, our results do suggest that this theoretical advantage of production programs may indeed be real.

Production programs and neighborhood spillovers

After a lively debate in the late 1980s and early 1990s (for example, Apgar 1990; Weicher 1990), most housing policy analysts have come to favor housing vouchers as the nation's main approach for delivering housing assistance to low- and moderate-income households. Among the virtues of housing vouchers relative to programs that subsidize developers directly are their greater efficiency and cost-effectiveness, the choice they allow recipients, and the generally superior neighborhoods in which assisted families ultimately settle.[1] Nevertheless, production subsidies may have one comparative advantage over vouchers: such programs may be better suited to achieving targeted neighborhood revitalization objectives.

[1] The literature on the advantages of vouchers is voluminous, and we summarize it in Ellen et al. (2002). For recent cost comparisons between vouchers and production programs, see U.S. General Accounting Office (2002).

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WESTCHESTER COUNTY AFFORDABLE HOUSING NEEDS ASSESSMENT

FINAL REPORT

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30 MARCH 2004

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EXECUTIVE SUMMARY

This report presents the findings of a detailed study of Westchester County's affordable housing need for the years 2000 to 2015. Working with the Westchester County Housing Opportunities Commission (HOC), the Center for Urban Policy Research (CUPR) analyzed data from the 2000 US Census as well as other sources to identify Westchester County's existing affordable housing need and to forecast future need. CUPR used the income, housing conditions, and housing expenditures of households identified in the *U.S. Census Public Use Microdata Sample (PUMS-5%)* to determine existing affordable housing need. Future affordable housing need is a result of the projected growth in households within particular income categories.

Income-constrained Households in Westchester County in the Year 2000

This report analyzes three household income groups—50% or less of household median income, 50-80% of household median income, and 80-100% of median household income. Although information is provided for all three income groups, only the first two are included in the final need determination. The inclusion of the third group (80-100% of median household income) in the analysis is intended to demonstrate that finding affordable housing in Westchester can be problematic even for households earning close to the county median in income.

According to the *U.S. Census PUMS* data, Westchester County contained 335,244 households in 2000. Using the median household income for Westchester County ($83,100) published by the US Department of Housing and Urban Development (HUD) in 2000, CUPR determined that 94,336 households earned less than 50 percent of the county median and 59,001 households earned between 50 and 80 percent of the county median.

- *Thus, for the purposes of this study, the total income-constrained population (i.e., the target population) from which affordable housing need is determined is 153,337 households.*

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Existing Affordable Housing Demand—2000

Working with the HOC, CUPR identified three housing conditions as being indicative of existing affordable housing demand—households living in deficient conditions, households living in overcrowded conditions, and households paying too large a percentage of their income for housing. The first condition refers to housing units that have insufficiencies relating to suitability for habitation, such as: age, fuel source, lack of complete plumbing, or kitchen facilities. Using the *U.S. Census PUMS* data, CUPR determined that:

- *2,481 low- and moderate- income households in Westchester County occupied deficient housing*

The second housing condition refers to households in which the ratio of persons to rooms exceeds 1.01, a number used by HUD as in indication of crowding. Recognizing that some deficient housing units might also be crowded, CUPR only included overcrowded households that were not deficient in its analysis. In addressing overcrowding as a housing issue, it should be noted that the creation of one new affordable unit has the potential to create more than one satisfied affordable household. That is, as an overcrowded household moves into a unit of appropriate size, the original unit is left to address another household's needs. Thus, in determining final need, about fifty percent of the crowded households will require the creation of new housing units.

- *14,274 low- and moderate-income households not living in deficient conditions occupied overcrowded housing in Westchester County; CUPR estimates that the number of additional housing units required to meet this demand is 7,273*

The third condition of affordable housing demand, cost burden, was identified as those rental households paying over 30% of income for rent and those owner households paying over 30% for housing costs. Again, CUPR considered only those income-constrained households that were neither in deficient nor crowded conditions to avoid double counting.

- *72,259 low- and moderate-income households not living in deficient or overcrowded conditions were found to be cost-burdened in Westchester County*

While cost burden is an important issue for many Westchester households, it can be alleviated through policy interventions other than housing unit creation (financial assistance) and, thus, is not included in the final determination of housing need.

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In addition, the number of homeless households, supplied by Westchester County, is included in the existing demand for affordable housing. In 2000, there were 677 homeless households.

- *Total existing demand is 10,431 units, consisting of 2,481 deficient units, 7,273 overcrowded units, and 677 homeless households.*

Projected Affordable Housing Demand—2000-2015

Projected affordable housing demand is defined as the net increase in low- and moderate-income households between the year 2000 and the year 2015. CUPR forecast the growth in these households using population projections from New York State and household formation (or headship) rates and income projections computed by CUPR.

- *Projected affordable housing demand between 2000 and 2015 is 8,652 units*

Projected Affordable Housing Supply—2000-2015

CUPR projected an increase in the supply of housing available to the income-constrained population to meet existing and future need. For existing need, this comes primarily from secondary sources (filtering, conversions, etc.) and amounts to 3,502 units. For future need, this is public and private housing supply netting out what was delivered in response to the prior need projection. This amounts to 4,813 units.

- *Through 2015, of a total affordable housing demand of 19,083 units, primary and secondary sources of affordable housing supply are projected to provide for 8,315 target population households*
- *Through 2015, 10,768 existing and projected target population households will constitute housing need that is projected not to be met through primary or secondary sources of housing supply. Our projections indicate that this unmet need is represented by 6,252 existing and 3,839 future low- and moderate-income households, plus 677 existing homeless households.*

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Westchester County Affordable Housing Need

The total affordable housing need for Westchester County to the year 2015 is summarized in the table below.

Existing Demand (2000)	
Deficient Units	2,481
Crowded Units	7,273
Homeless	677
Total Current Demand	10,431
Future Demand (2000-2015)	
New Low-, and Moderate-Income Households	8,652
Total Affordable Housing Demand	**19,083**
Future Supply (2000-2015)	
Primary Sources	3,483
Secondary Sources	4,832
Total Affordable Housing Supply	8,315
Total Affordable Housing Need	
Total Demand – Total Supply	**10,768**

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CHAPTER 1: INTRODUCTION

The Center for Urban Policy Research (CUPR) has conducted a study of the affordable housing need in Westchester County and produced the following report. The assessment was conducted based upon a methodology agreed to by the Westchester County Housing Opportunities Commission (HOC) and CUPR, and laid out in the report. The goal of the study was to determine the existing and projected affordable housing need for the period of 2000-2015. CUPR completed a similar study for Westchester County in 1993, the results of which helped the county design and implement an affordable housing development plan. It is our hope that the present report will be as useful to Westchester County.

OUTLINE OF THE REPORT

In the following chapter, CUPR sets out the methodology for determining existing and future affordable housing demand. We first discuss the characteristics of the target population, the county's low- (<50% of median), moderate- (50-80% of median), and middle-income households (80-100% of median). These households together represent what we have called the "income-constrained" population of Westchester County. Although we analyze all three income groups, the middle –income group is reported for informational purposes only and is not included in the final need determination. Thus, the low- and moderate-income groups represent the target population of households for purposes of this study.

Through our discussions with the HOC, we defined existing demand to include four groups of income-constrained households in the year 2000:

1) Those households in physically deficient housing units,
2) Those households in overcrowded housing units, and
3) Those households paying too great a share of their income in housing costs.
4) Homeless households

The third category of affordable housing need, cost burden, can be addressed through policy interventions that do not necessitate the creation of new affordable housing units and therefore is not considered in the final need determination, but presented for informational purposes only.

Projected demand is defined as the net increase in income-constrained households between the years 2000 and 2015. The number and selected characteristics of each of these groups is detailed in Chapter 2. More detail on the households that comprise current demand is

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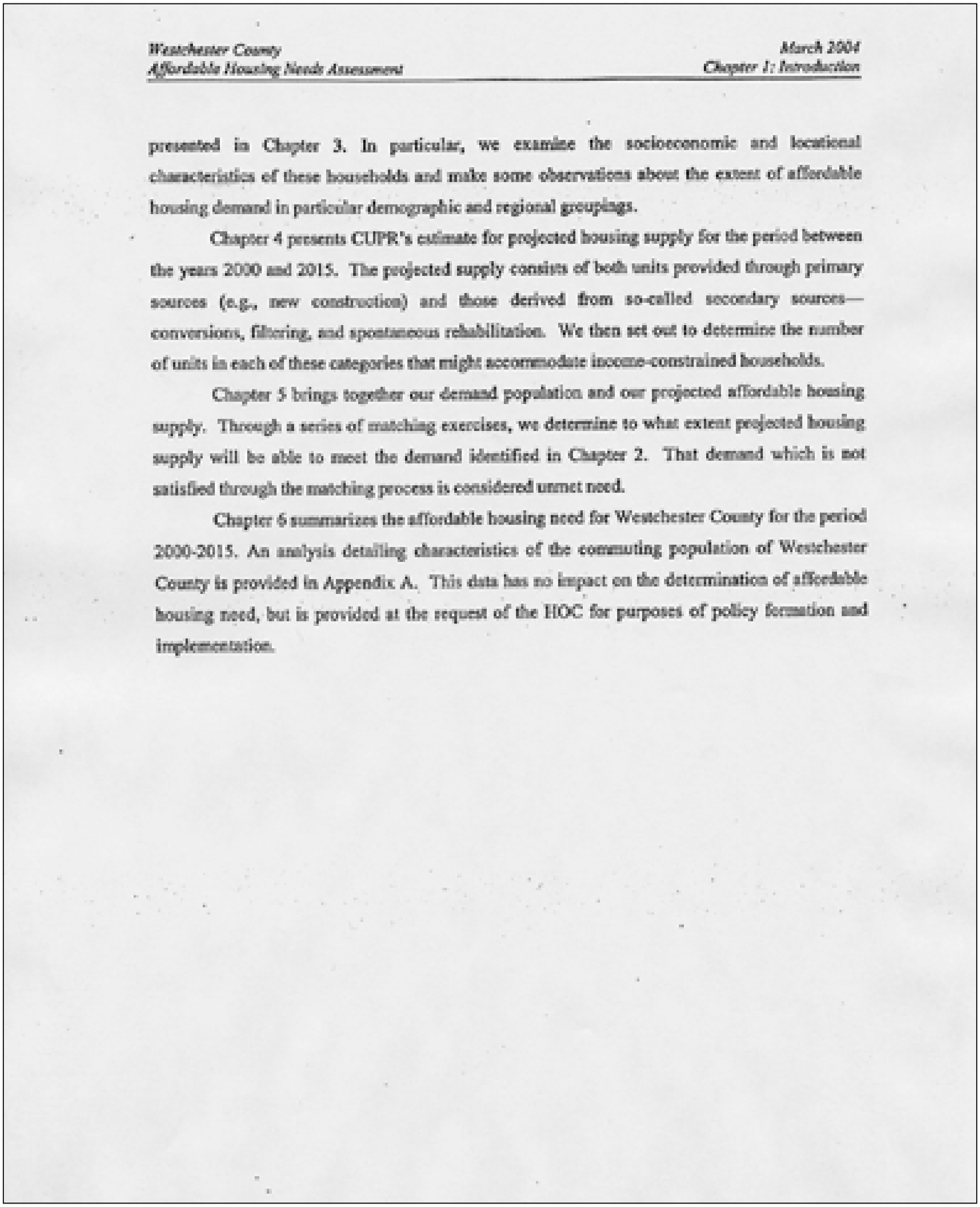

presented in Chapter 3. In particular, we examine the socioeconomic and locational characteristics of these households and make some observations about the extent of affordable housing demand in particular demographic and regional groupings.

Chapter 4 presents CUPR's estimate for projected housing supply for the period between the years 2000 and 2015. The projected supply consists of both units provided through primary sources (e.g., new construction) and those derived from so-called secondary sources—conversions, filtering, and spontaneous rehabilitation. We then set out to determine the number of units in each of these categories that might accommodate income-constrained households.

Chapter 5 brings together our demand population and our projected affordable housing supply. Through a series of matching exercises, we determine to what extent projected housing supply will be able to meet the demand identified in Chapter 2. That demand which is not satisfied through the matching process is considered unmet need.

Chapter 6 summarizes the affordable housing need for Westchester County for the period 2000-2015. An analysis detailing characteristics of the commuting population of Westchester County is provided in Appendix A. This data has no impact on the determination of affordable housing need, but is provided at the request of the HOC for purposes of policy formation and implementation.

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CHAPTER 2: EXISTING AND PROJECTED DEMAND FOR AFFORDABLE HOUSING

INTRODUCTION

This chapter sets forth a methodology for measuring existing demand for affordable housing in the Westchester County, placing that methodology squarely within the context of more than fifty years of work by the U.S. Bureau of the Census and federal housing programs to arrive at definitions of housing need. We ask what proportion of the total number of households in the Westchester County can be classified as low, moderate, or middle income; and we ask what proportion of these income-constrained households are living in deficient or overcrowded housing, or bearing an excessive housing cost burden. To answer these questions requires rigorous specification of the definition of "low income," "moderate income," and "middle income" and of "deficient housing," "overcrowded housing," and "housing cost burden"—terms that at first glance may seem self-explanatory but upon deeper reflection are quite complex.

We first measure the magnitude of housing need generated by *existing* (2000) low-, moderate-, and middle-income households in deficient or overcrowded housing or experiencing housing cost burden. We then estimate the *growth* in demand in the region through the year 2015. We use the *U.S. Census Public Use Microdata Sample (PUMS)* to determine existing demand for the year 2000. The methodology used to measure projected demand begins with projections of county population growth for 2000 to 2015, translates these population projections into estimates of *household* growth rates (since it is households that consume housing units), and then determines the proportion of projected household growth that will be of low, moderate, or middle income.

In sum, this chapter sets forth the magnitude of existing (2000) and projected (2000 to 2015) demand for affordable housing in the Westchester County. This specification of demand sets the stage for any subsequent attempt at amelioration: it is the critical initial building block that documents the scale of the issue. Only when the magnitude of demand has been rigorously and systematically defined can the effort required to meet that demand be assessed and a workable plan formulated. We now turn to the identification of existing housing demand in 2000.

EXISTING (2000) DEMAND FOR AFFORDABLE HOUSING

The *U.S. Census Public Use Microdata Sample (PUMS)* provides estimates of household and housing characteristics based on a detailed survey of 5 percent of the total population. We use

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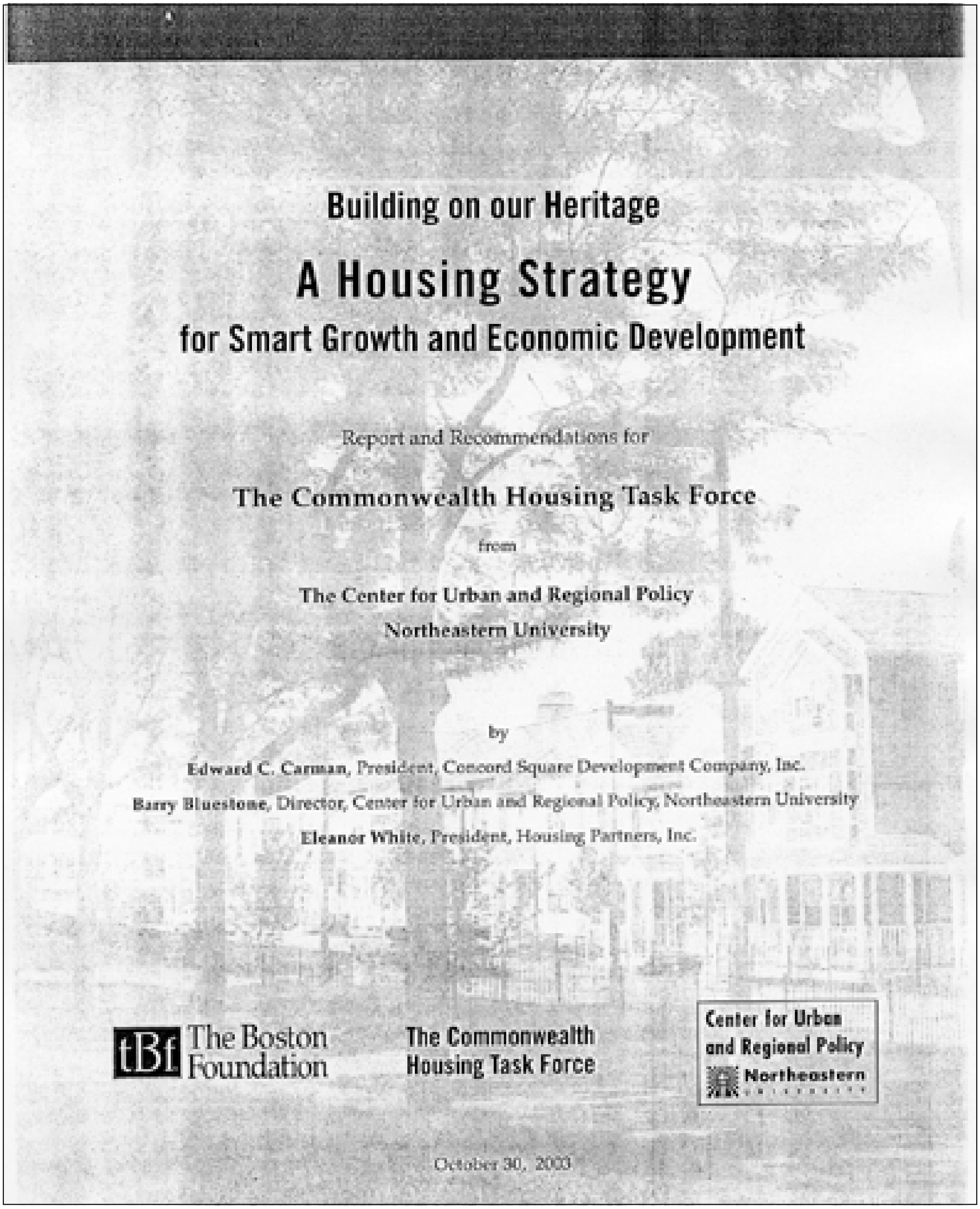

Building on our Heritage

A Housing Strategy

for Smart Growth and Economic Development

Report and Recommendations for

The Commonwealth Housing Task Force

from

The Center for Urban and Regional Policy

Northeastern University

by

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tBf The Boston Foundation

The Commonwealth Housing Task Force

Center for Urban and Regional Policy Northeastern University

October 30, 2003

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Executive Summary

The Commonwealth of Massachusetts has a housing problem. Despite the recent weakness in the economy, housing continues to be excessively expensive for its citizens, for the adult children of families who already live here, and for workers and their families who wish to move to Massachusetts to find or take jobs. For businesses who are hiring, the high cost of housing poses a potentially serious barrier to attracting workers from outside the state. Home prices continue to escalate so that as of June 2003 the average sale price exceeded $400,000.[1] In a recent poll of representative citizens, 25 percent of the respondents expressed a wish to relocate to a less expensive area.[2]

The Commonwealth Housing Task Force is an ad hoc group that has been meeting since 2001 to develop solutions to this problem. Its members represent housing organizations, the business community, organized labor, the Urban Land Institute, The Boston Foundation, Citizens Housing and Planning Association ("CHAPA"), academic institutions, elected and appointed officials, and many others. Its co-chairs are Jerry Rappaport, Jr., President of the New Boston Fund; Eleanor White, President of Housing Partners, Inc. and CHAPA; Larry DiCara, Partner at Nixon Peabody; and Thomas Hollister, President of Citizens Bank, Massachusetts and Chairman of the Greater Boston Chamber of Commerce. Paul Grogan, President and CEO of the Boston Foundation, served as the convener of this Task Force.

The Task Force recommends that:

1. **The state provide financial and other incentives to local communities that pass Smart Growth Overlay Zoning Districts that allow the building of single-family homes on smaller lots and the construction of apartments for families at all income levels.**
2. **The state increase its commitment to fund affordable housing for families of low and moderate income.**

This report, prepared for and submitted to the Commonwealth Housing Task Force, describes a proposed initiative that uses the concept of Overlay Zoning Districts to direct higher density growth into Smart Growth locations. Communities that voluntarily participate in the new housing program will be substantially rewarded for their participation. The program is designed to allow the Commonwealth to increase funding for affordable housing, to reduce development sprawl, to increase the amount of open space, and to enhance opportunities for historic preservation and neighborhood revitalization. This strategy builds on the unique heritage of all our communities.

The program is designed to allow the Commonwealth to increase funding for affordable housing, to reduce development sprawl, to increase the amount of open space, and to enhance opportunities for historic preservation and neighborhood revitalization.

Background: There is a high price to be paid for the state's housing shortage. The housing crisis in the Commonwealth is not just an affordability issue for low and moderate-income families, but also an economic issue that affects the well-being of all residents of the state.

The human capital of the area – a unique and essential asset because of Boston's high tech businesses and its educational, research, and medical institutions – is being compromised because young scientists, engineers, doctors, and business people find it difficult to afford, even with substantial salaries, the purchase price on homes that meet their family needs. Therefore, an increasing number choose not to come to Massachusetts and seek jobs in other regions of the country. The future economic expansion for the Commonwealth is therefore at risk

At the same time, land-use regulations and building patterns are pushing housing further out from Boston and the employment centers. The typical new home is

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a substantial single-family house built on a large lot far from city centers and mass transit. The quality and character of the New England countryside is in jeopardy from accelerating sprawl.

This occurs despite the fact that many people want just the opposite. The housing most in demand by homeowners and renters is located in the densest developed neighborhoods in the state. Per square-foot prices for both home purchase and rental are the highest in the Back Bay, Beacon Hill, Cambridge, and other in-city locations.

In other parts of the country, particularly in the Midwest and the South, housing prices have tracked the inflation rate in construction costs. This does not happen in Boston and other East and West Coast built-up, urbanized areas where housing prices have escalated at rates double and triple the rate of underlying inflation. Economists agree that an imbalance of supply and demand causes these escalations. Not enough housing is being built to meet the demand, and as a result, housing markets in such areas come into balance only by means of substantial price increases.

This report concludes that neither a "lack of land", a shortage of competent developers, nor a lack of financing can account for the shortfall of construction experienced throughout Boston. None of these factors exists here. Instead, the report identifies restrictive zoning as the root cause. It further concludes that a primary reason for this is the adverse impact on town finances from new housing development. *Therefore, the report believes that addressing the lack of housing production requires producing an adequate supply of land zoned for housing by changing the underlying fiscal constraints facing local communities.*

The Recommendation for Producing More Housing and Moderating Housing Costs

This report proposes that the state enact legislation that will reward communities for passing Overlay Zoning Districts in Smart Growth locations. All communities in the state will be eligible to participate on a voluntary basis. Smart Growth locations are those near public transit stations, town centers, and underutilized industrial, commercial and institutional buildings and sites.

The proposed incentives to communities are:

- Density Bonus Payments upon passage of the Districts equal to $2,000 for each apartment unit and $3,000 for each single family home that is allowed in the District
- State assumption of 100% of the cost of providing K–12 education for each child in public schools living in a new housing unit built in the District
- Priority for receiving capital investments from the state for infrastructure improvements.

In order to be eligible for the above incentives, we recommend that Overlay Zoning Districts allow mixed-use development with a density for apartment buildings of at least 20 units per acre, and for single-family homes of at least 8 units per acre. They would encourage the development of housing on infill lots and the conversion of underutilized commercial, industrial, and institutional sites or properties.

Each District would also require that in all projects containing more than 12 units, 20 percent of the units be affordable to those with incomes at 80% of median income.

All communities in the state will be eligible to participate on a voluntary basis. Planning Boards can ensure that what is built in a District will be compatible with the character of the immediate neighborhood.

Communities will be encouraged to include design standards in the provisions of the Overlay Zoning Districts such that the Planning Board will be able to ensure that what is built in the District is compatible with and reflects the character of the immediate neighborhood. It is further recommended that the state Department of Housing and Community Development (DHCD) be designated to administer the specifics of the program and review the overlay district and accompanying build-out analyses produced by municipalities desiring to participate in this new housing program.

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The State Legislature is considering reforms to Chapter 40B, the legislation that allows developers to override local zoning ordinances under certain conditions. Once this legislative work is completed, it is anticipated that the Commonwealth Housing Task Force will propose ways in which Overlay Zoning Districts can be integrated with the new provisions of Chapter 40B. The success of the recommendations in this report depends upon the continued existence of a strong Chapter 40B.

Projection: This report estimates that implementing the Overlay Zoning District program is likely to result in the construction of 33,000 new housing units – both market rate and affordable – within the Overlay Zoning Districts over the next ten years. Of this amount, approximately 19,000 units will be the construction of incremental new units in the Commonwealth. (The remaining 14,000 units are ones that we project would have been constructed by developers, but in areas outside of Overlay Districts.) In addition, provisions in this report will support the production of an additional 10,000 units of affordable housing outside Overlay Districts.

> …after building 33,000 new units in Overlay Zoning Districts, the annual increased schooling cost of this new initiative is estimated to be only 2.1% of the 2001 state reimbursement for school expenditures

The net increase in production should be sufficient to moderate housing price inflation in the Commonwealth to the point where housing price increases will not appreciably exceed the increase in family incomes. Over time, this will provide housing more in line with what families can afford. Moreover, the units "transferred" into the Districts around transit stations and near town centers from other locations will help reduce congestion and urban sprawl and will preserve valuable open space.

It is assumed that to stimulate and accommodate the 33,000 new units, zoning for 50,000 units must be put in place during the next ten years.

It is estimated that the cost to the state for the Density Bonus Payments for the new zoning will start at $11 million and grow to $14 million per year by the tenth year. The additional state costs for public schooling is estimated to start at $3 million in the second year and rise to approximately $60 million by the tenth year. To put this $60 million number in context, ten years from now, after building 33,000 new units in Overlay Zoning Districts, the annual increased schooling cost of this new initiative is estimated to be only 2.1% of the 2001 state reimbursement for school expenditures under Chapter 70 ($3.0 billion).

Further, building in Overlay Zoning Districts is expected to generate state revenues from two sources. First, from the sales and income taxes paid pursuant to the construction. Second, from tax revenues created by new jobs from business expansion attributable to increased housing affordability. When these revenues are offset against the costs of this program, and excluding the funding required for increased housing affordability, the net cost to the state over ten years will be approximately $110 million. This amount is approximately twice the $50 million that the Governor has proposed be appropriated to provide incentives to communities to increase housing production, but is spread over a 10 year period and is expected to generate significantly more housing construction.

The Recommendations for Housing Affordability:

The Commonwealth has a wide array of programs to assist with affordability for its citizens, as well as a highly developed delivery system of state agencies and non-profit and for profit developers. Still, the affordability problem is not being met in the state. Recent studies name Massachusetts as the least affordable state for housing in the United States.[3]

This report recommends that in order to increase housing affordability for those earning up to 80% of the median income, as well as to assist the least well-off citizens of the Commonwealth, state funding for affordability assistance should be increased by $670 million over the next ten years. A portion of this amount would be utilized within the Districts; the majority of the amount would be utilized outside the Districts. To offset these costs, it is recommended that

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surplus state land be sold during this period in the amount of $400 million.

The specific recommendations of this report include:

1. Maintain or increase the allocation for housing under the Private Activity Bond Cap at the current level.
2. Gradually increase the housing portion of the State Annual Bond Cap from its current level of 9.1% to 15%
3. Gradually increase annual state outlays for housing to $120 million. In the next decade this will add about $670 million for housing affordability
4. Sell surplus state property, with a priority for housing and mixed use (where appropriate). Use the funds for increasing state assistance for housing affordability.

In order for the State to be successful in selling surplus land in the amount of $400 million over the next ten years, it is recommended that:

1. all disposition responsibilities be delegated to the Division of Capital Asset Management and Maintenance ("DCAMM"),
2. dispositions take place pursuant to an auction system, and
3. auctions occur prior to obtaining necessary local approvals.

These proposals offer an avenue for dramatically changing future development patterns of the Commonwealth.

Conclusion: These proposals offer an avenue for dramatically changing future development patterns of the Commonwealth. Instead of sprawl, communities can choose to have development take place in already built-up areas, in ways that are consistent with the quality and character of their surroundings. Communities will be able to extend and revitalize their town centers and build new neighborhoods that have the charm of traditional New England communities. This housing strategy builds on the heritage of the Commonwealth.

Smart Growth locations are those near public transit stations, town centers and underutilized industrial, commercial, and institutional buildings and sites.

It is believed that encouraging local communities to pass Overlay Zoning Districts will result in a substantial increase in land zoned for apartments and single-family homes on small lots. The increase in zoned land will allow land costs to go down and reduce the costs of development, allowing housing markets to clear efficiently at more modest prices. If implemented, the recommendations in this report will substantially lower one of the critical barriers to further economic development in the state and provide for affordable housing specifically targeted to help Massachusetts households that are struggling on low and moderate incomes.

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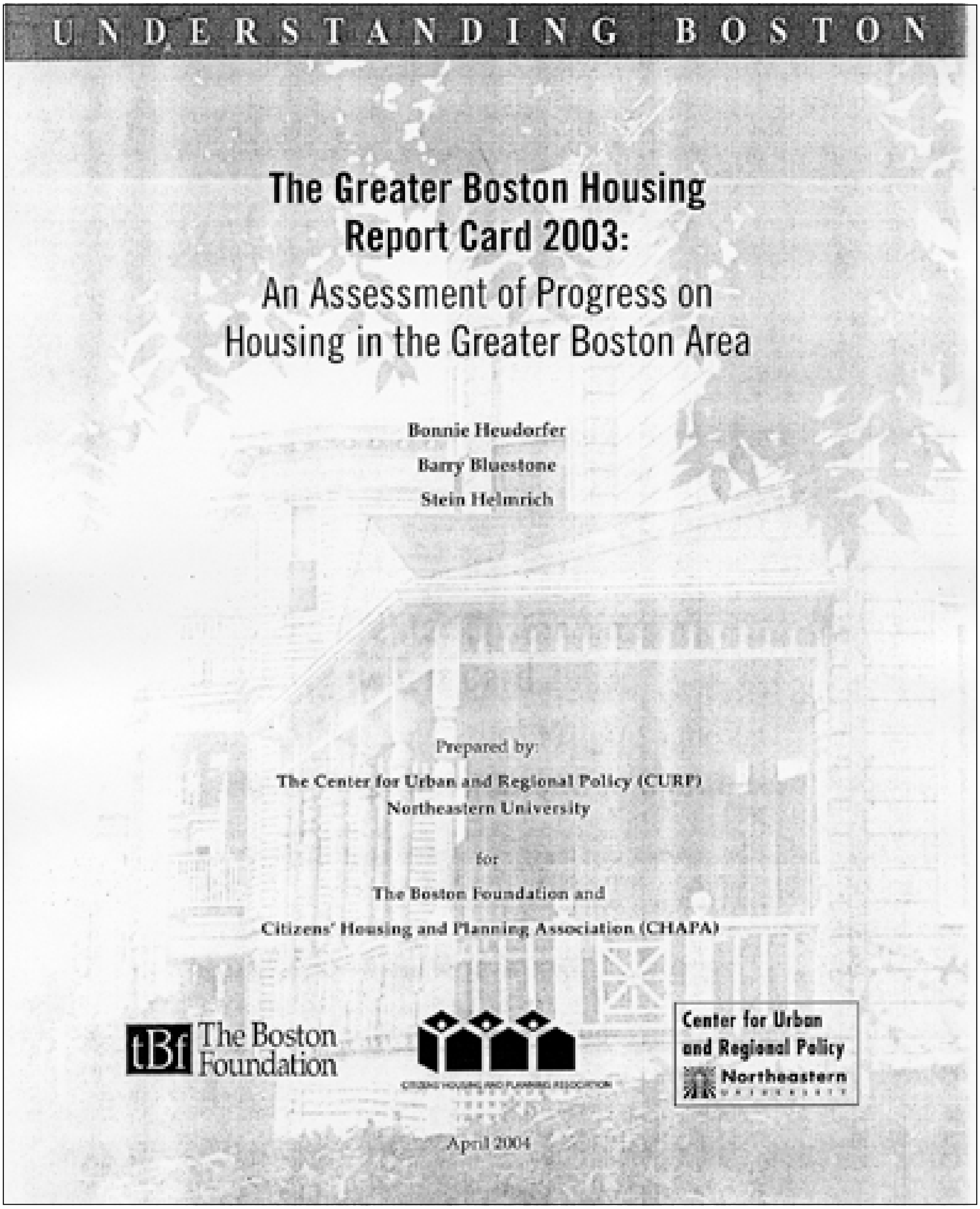

UNDERSTANDING BOSTON

The Greater Boston Housing Report Card 2003:

An Assessment of Progress on Housing in the Greater Boston Area

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Executive Summary

Two and a half years of a weakened economy, a decline in the number of renter households in the region, and a welcome increase in the production of multi-family housing has had the predictable effect of reducing rents modestly throughout Greater Boston. But the reductions in rent are so modest compared with the enormous run-up between 1998 and 2001 that rent has become "unaffordable" to the median income renter household in an increasing number of municipalities in the region.

As for owner-occupied housing, a reduction in the pace of single family production over the past year plus an increase in sales due to low mortgage interest rates (allowing some renters to become homeowners) has led to a further erosion in vacancy rates and a consequent rise of 9.6 percent in the median house price in Greater Boston in 2003. The only apparent impact of the general economic slowdown and a decline in the overall number of households in the region is that the rate of appreciation has fallen from the 14.4 percent experienced in 2002.

Now, depending on the strength of a recovering economy, we can expect rents and home prices to increase again in 2004 and 2005, as they did during the extraordinary 1998-2001 period when rents rose by nearly 7 percent a year and housing prices skyrocketed by approximately 50 percent in just three years. This is due to the fact that even with the economic slowdown, a reduction in the number of households, and an increase in multi-family rental production, rental vacancy rates have not yet exceeded what is considered a normal 6 percent level. Worse yet, the vacancy rate for owner-occupied housing has slipped to just 0.6 percent, well below a normal 2 percent rate. Any substantial uptick in the economy could lead to increased housing demand that would push these rates still lower, spurring another round of sharp price increases.

In light of these findings, we conclude that unless there is a concerted effort to increase housing production beyond even the improved level achieved in 2003, more and more households will be priced out of the market or will end up paying an exorbitant share of their incomes to cover rent or mortgage. Ultimately, this trend might be self-correcting, if firms find it too difficult to recruit workers in such a costly market and the economy stagnates as a result. But this is, of course, a socially costly way to "resolve" the housing crisis.

Key Findings

Economic and Demographic Change in the Region

The Boom Years – From the beginning of 1995 through December 2000, employment increased by 321,000 in the Boston MA-NH Metropolitan Area (Boston PMSA) to a total of nearly 2.1 million. Unemployment declined from 4.7 percent to just 2.2 percent. The strong economy added to household income and attracted workers into the region.

During the decade between 1990 and 2000, the total number of households in the Boston region increased by 129,265 or an average of nearly 13,000 per year. Over the same period, only 91,567 units of new housing were produced – leading to extremely low vacancy rates in both owner-occupied and rental housing.

Recession Aftermath – The economy was in recession in 2001, but even with a return to modest GDP growth, the number of jobs in Greater Boston continued to decline between December 2000 and August 2003. By the end of this period, there were nearly 165,000 fewer jobs in the Boston PMSA labor market area. The unemployment rate rose to 5.3 percent.

With the weakening of the regional economy, household growth not only slowed but temporarily reversed. Between 2000 and 2002, the U.S. Census *American Community Survey* estimates that the number of households in the Boston PMSA actually declined by more than 7,000. While the number of homeowner households increased by more than 13,000 – spurred, in part, by record low mortgage interest

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rates – this gain was offset by the loss of more than 21,000 renter households, presumably through out-migration or doubling up.

The weak economy and decline in the number of households, combined with the completion of over 8,000 rental units over the past five years, has added to the stock of vacant rental housing.

Economic Upturn – Although the evidence is quite fresh and the short-term forecast uncertain, it appears that the regional economy began to recover last fall. Between August and December 2003, total employment in the Boston PMSA increased by more than 17,000 and the official unemployment rate has fallen back to 4.5 percent.

The recent data plus national trends suggest that the rest of 2004 and 2005 will be years of more rapid growth – with potential implications for housing prices and rents in Greater Boston.

Rents, Home Prices, and Housing Affordability

The weakening local economy through mid-2003 and the net decline in the number of households temporarily reduced pressure on the housing market (especially the rental market), but the impact on prices and rents has been modest.

Median Rent for Existing Renters – For similar sized apartments, typical rents paid by existing renters have declined by about 10 percent since 2000. The median monthly rent paid for a 900 square foot apartment in 2000 was $1,565. It dropped to $1,439 in 2001 and to $1,410 in 2002. This represents a decline of 9.8 percent over two years. For the period between August 2002 and August 2003, the decline in rents was more modest. Rents for the highest priced apartments fell by 2 percent, while those in lower cost units were essentially unchanged. All of this, however, follows an increase in rent of 63 percent between 1995 and 2000.

Median Advertised Rents – The median advertised rent for a 2-bedroom apartment in the City of Boston was $1,500 in 2003, down from a peak of $1,700 in 2001 and $1,550 in 2002. This represents a decline of 11.8 percent over two years.

Of the twenty towns and cities surrounding Boston (including Boston), 16 experienced a decline in advertised rents between 2001 and 2003. The declines varied from as little as 4 percent in Malden, to a few municipalities – including Medford, Melrose, and Watertown – that experienced better than a 10 percent decline in rents. But these declines followed steep increases between 1998 and 2001 that ran as high as 67 percent in Winchester, 63 percent in Revere, and 55 percent in Everett. In general, rents have fallen the least in lower income communities.

Rental Affordability – In most communities in 2003, advertised rents required a smaller share of renter household income relative to 2001. But in 16 of 20 Boston area communities, advertised median rents still exceeded 30 percent of that community's estimated median renter income. This was only a slight improvement over 2001, when median rents were "unaffordable" to median renter households in 18 of these communities.

Despite the recent decline in median rents, 43.3 percent of renter households in the Boston PMSA were paying more than 30 percent of their income in rent in 2002, up from 40.3 percent in 2000. More than one in five renter households (21.5 percent) were paying more than half their income for housing. This was up from 18.4 percent in 2000.

Home Prices – Unlike rents, home prices continued to rise right through this period of recession and weak economic growth. In 2003, the median sales price of existing single family homes in the Boston PMSA rose to $343,000 from $273,400 in 2001 and $313,900 in 2002. This represents an increase of 25 percent over 2001. Since 1997, the median price of the typical single family home has doubled.

Home Ownership Affordability – As a result of the continuing increase in single family home prices, in 2003 the median income homebuyer could afford to purchase a median priced home in only 70 of the 161 communities in Greater Boston. This is down from 95 communities in 2001 and 149 communities in 1998.

In 2003, first-time homebuyers – defined as households earning 80 percent of a community's median income – could afford a house priced at 80 percent of the median for homes sold in their community in only 13 of 161 municipalities in Greater Boston. This was down from 43 such communities in 2001, and 116 in 1998.

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More than three in ten homeowners in Greater Boston (30.4 percent) were paying over 30 percent of their income for housing in 2003, compared with 26.6 percent in 2000. One in eleven homeowners (9.1 percent) paid more than half of their income for housing, up slightly from 8.9 percent in 2000.

New Housing Production

In 2003, the region witnessed a 22 percent increase in the number of new housing units permitted as construction commenced on developments that had long been in the pipeline.

Overall Production – Preliminary year end estimates indicate that a total of 11,700 housing units were permitted in all of Greater Boston in 2003, up from 9,520 in 2002 and 9,701 in 2001. Moreover, there was a shift in production from single family homes to multi-family production.

- Single family production declined to 6,087 from its recent high of 8,639 in 1998 and 6,313 in 2001.
- The permitting of multi-family units, however, increased significantly. For buildings with 2-4 units, 1,033 permits were granted in 2003, up from just 686 in 2001. For buildings with 5 or more units in them, the total number of permitted units in 2003 reached 4,581, up sharply from 2,702 in 2001. This was the highest level of production of units in larger multi-family buildings since 1989.

Nonetheless, total permit numbers remain well below the peak years of the 1970s and 1980s when more than 20,000 permits per year were issued.

Affordable Housing Production – Within the new housing developments, there was an increase in the number of affordable units (those restricted to occupancy by households with incomes of no more than 80 percent of area median income). The number of affordable owner-occupied units more than doubled to 535 in 2003 from 259 in 2001; the number of affordable rental units increased by 23 percent to 1,436 from 1,164.

Vacancy Rates – With the decline in the number of households in Greater Boston and an increase in the number of units produced, rental vacancy rates increased significantly from 2.4 percent in 2000 to a more normal rate of 6.0 percent in late 2003. This rise in rental vacancies was a key factor in the softening of rental prices during the past two years, especially at the high end of the market.

However, homeowner vacancy rates continued to decline from 1.0 percent in 1999 to 0.7 percent in 2001 and now to 0.6 percent in 2003. The extreme shortage of owner-occupied housing helps to account for the continued increase in the price of single family homes in the region.

Urban Sprawl – There is also evidence that homebuyers are moving further from Boston to find affordable homes. In 2003 single family home sales in the 54 cities and towns that constitute the Massachusetts Association of Realtors Greater Boston region – where the average single family home price topped $500,000 last year – increased by only 3 percent over 2002 levels, and remain well below the peak levels reached in the late 1990s. Further from Boston, in the Northeast and South Shore regions (and, beyond the focus of this report, the Central and Southeastern regions), 2003 sales were up by more than 7 percent over 2002 to near record highs. Condominium sales likewise reached new record levels in 2003, in every region of the state.

Affordable Housing Production

The improvement in affordable production owes much to the role of Chapter 40B and the Affordable Housing Trust Fund.

Production under Comprehensive Permits (Chapter 40B) – Total production of housing under 40B comprehensive permits increased to 3,256 units in 2003, up from 1,739 in 2002, 755 in 2001 and 710 in 2000. This represents nearly a quadrupling in production under 40B in just three years.

With the increase in 40B developments, there has been a corresponding increase in the number of affordable units created, from 169 in 2001 to 543 in 2002 and 964 in 2003.

Use of Affordable Housing Trust Fund – The number of new housing units produced with the assistance of The Affordable Housing Trust Fund has also increased from 648 in 2001 to 876 in 2002 and 1,046 in 2003. Nearly three-quarters of these units are affordable.

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State and Federal Funding

Total combined spending by the state and federal government has remained essentially flat since 2001 ($565 million in 2001, rising incrementally to $567 million in 2002, and up 3 percent in 2003 to $583 million), but the overall numbers mask significant cuts in the funds available to increase new housing supply.

- Total spending from state sources on housing programs, from both operating and capital budgets, dropped by more than 17 percent between 2001 and 2002, and nearly 5 percent between 2002 and 2003 to $188 million, the lowest level it has been since 1995.
- The total federal contribution has risen from $301 million in 2001, to $317 million in 2002, to $383 million in 2003, a 27 percent increase over two years. However, the bulk of the federal increase is for existing rental assistance contracts, not for new housing production.
- State funds now support only 35 percent of the combined state/federal commitment to housing, down from 45 percent just two years ago.

How Much More New Housing Do We Need to Produce?

The September 2000 *New Paradigm* report indicated a need to boost production from roughly 8,400 housing units per year to 15,600 – an increase of 85 percent – if rents and housing prices were to moderate to the point where they were more in line with the general rate of inflation. Extrapolating this number to the entire Greater Boston region of 161 towns and cities covered in this report suggests a total production goal of close to 18,000 per year – compared with the 11,700 permitted in 2003. Do we still need 18,000 per year?

The answer is a qualified "yes." If the economy does not recover, if jobs continue to leave the state, and if the number of households does not grow, then continuing the current production levels should ultimately result in a regime of modest annual increases in rent and home prices. The 2003 production level, if maintained over four to five years, should come close to eliminating the existing 26,000 unit shortfall in housing units.

BUT, assuming an economic recovery and assuming that Census Bureau projections of household growth are roughly correct for 2005 through 2010, the region will still need to build approximately 18,000 units per year in order to keep rental vacancy rates where they are now, boost owner-occupied housing vacancy rates to the normal 2 percent range, and add on top of this enough housing for an expected increase of 100,000 new households. The math is simple: 100,000 new households (+ 26,000 needed housing units to meet vacancy targets) divided by 7 years (2004-2010) yields 18,000 new units per year between now and 2010. The annual shortfall in housing production is therefore approximately 6,300 – the difference between the 18,000 annual housing production target and the 11,700 permitted in 2003P. This suggests that between this year and 2010, we still have to find a way to build more than 44,100 units *above* current production levels in order to assure a continued moderation in housing prices and rents. Moreover, we will need to find a way to produce this new housing in the locations where people want to live and at prices they can afford.

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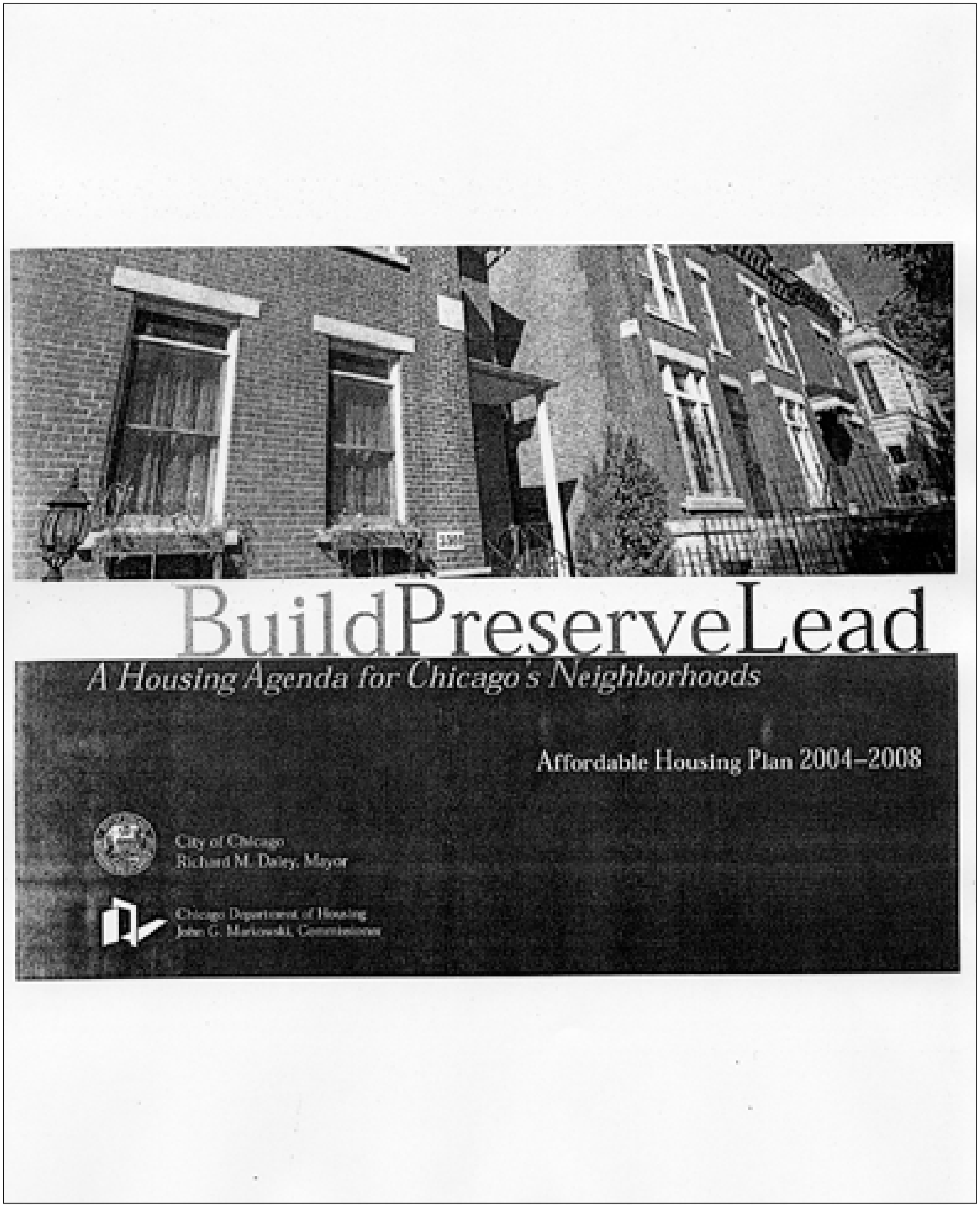

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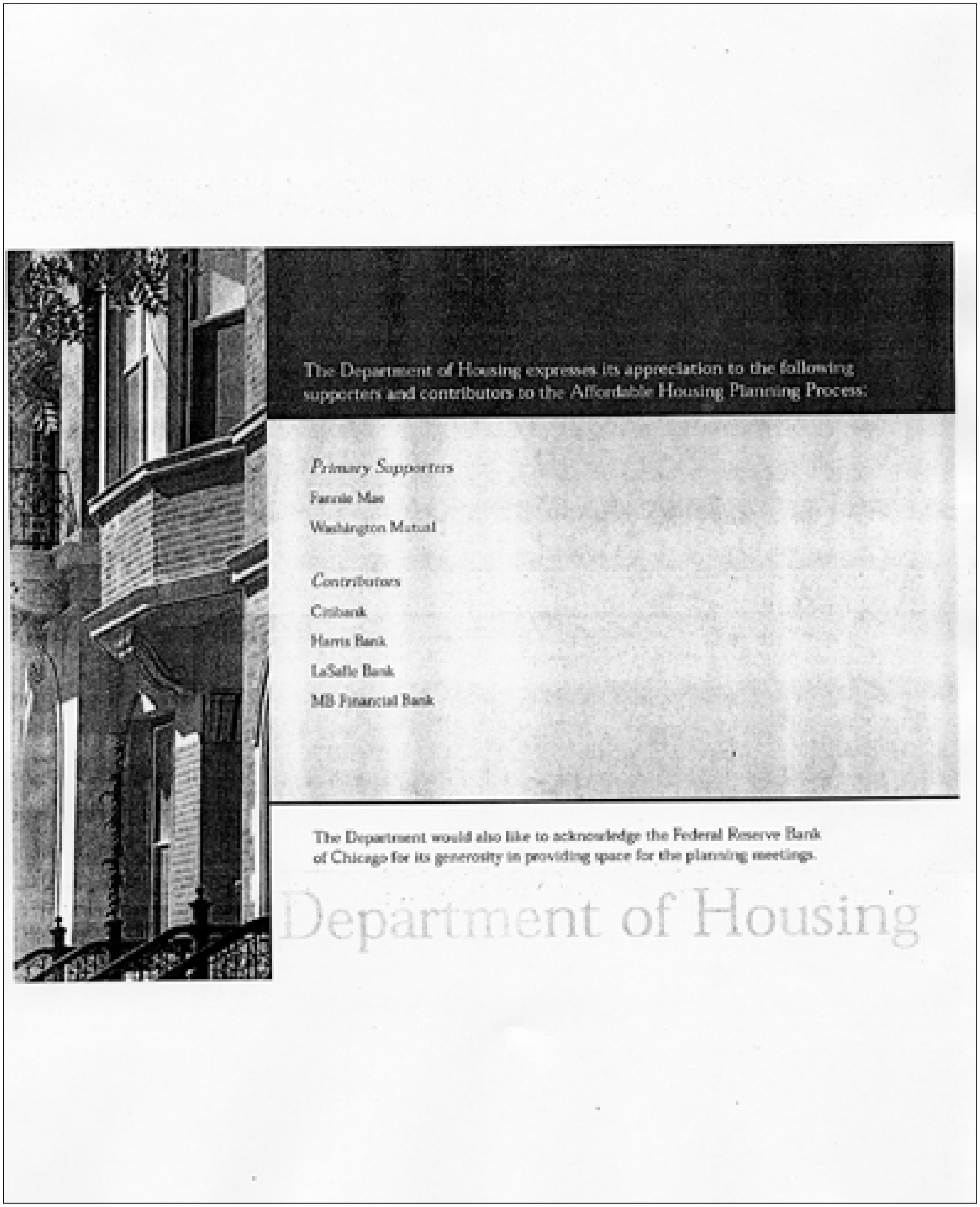

The Department of Housing expresses its appreciation to the following supporters and contributors to the Affordable Housing Planning Process:

Primary Supporters

Fannie Mae

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The Department would also like to acknowledge the Federal Reserve Bank of Chicago for its generosity in providing space for the planning meetings.

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A Housing Agenda for Chicago's Neighborhoods

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Prologue

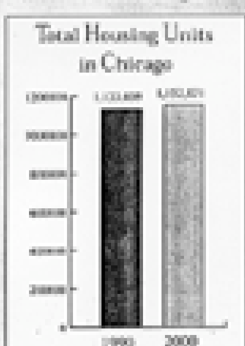
Amidst prosperity, a continuing need for affordable housing

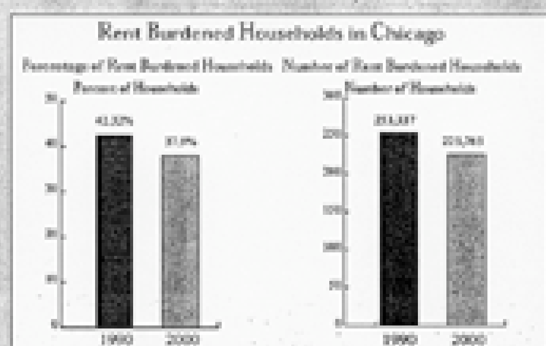
Chicago is stronger and healthier than it has been in decades, with a renaissance in its neighborhoods, a booming central city, and a large and diverse economic base. At the center of a $333 billion regional economy, Chicago is a "comeback city," a clear leader among older urban areas as it rebuilds its downtown core and its older neighborhoods.

In the 1990s, Chicago reversed a 40-year decline in population by adding more than 100,000 residents and showing a net gain of 20,000 housing units. Neighborhoods all around the city showed signs of renewal, from townhouse and high-rise construction in the near Loop areas to large new developments and in-fill construction in communities that had long been dormant.

Economic prosperity has fueled increased homeownership. The city added 47,000 new homeowners in the 1990s as the homeownership rate increased from 41 percent to 44 percent. The largest increases were among Latino households, where the number of homeowners rose more than 30,000 between 1990 and 2000, and African American households, where the number of homeowners rose more than 11,000.

In cities throughout the country including Chicago, home values are rising. However, Chicago remains the third most affordable of the 10 largest U.S. cities, according to the National Association of Home Builders. On the rental side, the proportion of households experiencing a "rent burden" of 30 percent or more of their income fell from 42 percent of rental households in 1990 to 38 percent in 2000.





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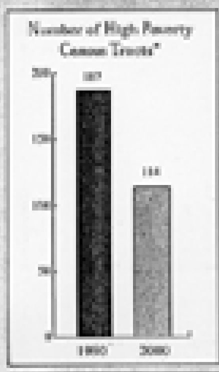
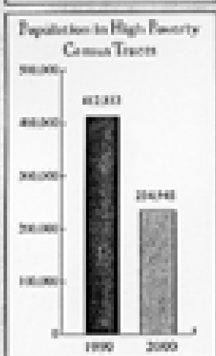
Decline of Concentrated Poverty in Chicago Metropolitan Area





*A High Poverty Census Tract is a tract with a poverty rate of 40 percent or more.

A powerful economy

Chicago is the hub of a thriving metropolis with an extremely diverse economy that supports more than 4.1 million jobs. Large employment concentrations in financial services, manufacturing, food processing, communications, construction, and transportation stabilize the region's economy and make it the third largest in the country.

The huge Chicago job base serves as a magnet for immigrants from around the world, which adds further vitality to the economy and increases the diversity of a population that is already remarkable for its mix of races, ethnicities, and cultures. In the 1990s, the city of Chicago had a net gain of nearly 160,000 foreign-born residents, with especially rapid growth of the Latino population, which reached 754,000, or 26 percent of the city's residents.

While the city grew, it also became more balanced economically. The 1990s showed a dramatic 30 percent decrease in the number of high-poverty census tracts in the Chicago area as poor neighborhoods and their residents benefited from a strong economy and progressive public policies. The number of people living in high-poverty census tracts in the Chicago area dropped by nearly 170,000, according to a study by the Brookings Institution.

Dynamic housing needs

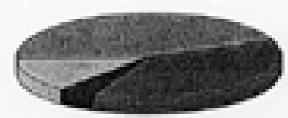
Driven by these powerful demographic and socioeconomic trends, the housing market in the city of Chicago and the metropolitan region is changing rapidly. On the north lakefront and near downtown, demand is so strong that nearly every lot is filled or has a building planned for it. In some neighborhoods, an influx of immigrant families has caused dramatic population gains, and a number of neighborhoods with little or no recent private sector development are experiencing major housing reinvestment. Homeownership rates are rising; however, rental housing continues to constitute a majority of the housing stock.

The demand for housing comes from a broad range of household types, including young singles, families just starting out, people with disabilities, working families, empty-nesters, and senior citizens. The population over the age of 60 in Chicago was estimated at 400,000 in 2000 and is expected to reach 480,000 by 2020.

Despite the many signs of vitality in the local economy and housing market, the city shares with other urban areas a number of challenges that must be addressed:

- Affordability–Housing costs remain high for many households. More than 225,000 households pay more than 30 percent of their income on rent, and 73,000 homeowners pay more than that on their mortgages.
- Aging housing stock–Approximately 438,000 units of Chicago's housing are more than 60 years old. Ranging from single family homes to large apartment buildings, these structures require ongoing investment to avoid decay and the possibility of demolition.
- Diverse housing needs–Different types of housing are needed to serve Chicago's residents, including senior housing; supportive housing for people at risk of homelessness and those with special needs; affordable rental housing for working families of all sizes; and inexpensive homeownership housing.

Age of Chicago Housing Stock



Age of Housing Stock	Number of Units
0–10 Years	33,842
11–30 Years	144,258
31–60 Years	318,470
More than 60 Years	438,203

- Limited resources–Public funding is limited at all levels of government. To maintain or expand production of affordable housing, existing programs must use funds efficiently and new funding sources must be created.

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A Leader in Housing

The City has responded to these challenges with innovative programs and strategies, attracting national attention with its use of financial resources, as well as its bold plan to transform public housing developments into mixed income communities.

In some neighborhoods where housing costs are rising, Department of Housing efforts have been focused on maintaining affordable housing opportunities. In others, Department programs seek to spur economic activity and community development through investments in affordable housing.

The following approaches have been central to the City's 1999–2003 affordable housing plan and will continue to be fundamental strategies for 2004–2008:

- Housing production–Chicago uses tax credits, tax exempt bonds, federal funds, and tax increment financing districts to build multifamily rental housing; from 1999 to the end of 2003, the City will have helped preserve or create 23,380 rental units. New Homes for Chicago spurs new construction in redeveloping neighborhoods and provides purchase subsidies to households with moderate incomes; it produced nearly 1,200 homes between 1999 and 2003. The Chicago Partnership for Affordable Neighborhoods is creating 170 affordable units in higher-cost neighborhoods through voluntary set-asides by developers.
- Preservation–The city's large existing stock of affordable housing makes it both practical and economical to preserve that housing for long-term affordability. Among the City's preservation programs are the Troubled Buildings Initiative, which acquires and turns over buildings to new owners; the Historic Chicago Bungalow Initiative, which encourages investment in those homes that typify many Chicago neighborhoods; several home repair and rehab programs; and programs such as Mark-to-Market that preserve and extend affordability of project-based Section 8 properties.
- CHA Plan for Transformation–The Department of Housing has made a major commitment to the development of new mixed income communities on and near the sites of Chicago Housing Authority developments. An effort to rebuild and modernize the nation's third largest public housing system, the CHA Plan for Transformation will replace or rehabilitate 25,000 units of public housing and will create new communities. The Department will continue to commit substantial resources to the transformation of CHA.
- Homelessness–The City's supportive housing strategy was first unveiled in 1999, when the Mayor announced four new single room occupancy (SRO) developments offering supportive services, including job training services and substance abuse treatment. This initiative created 380 units and preserved 3,000 SRO units by financing targeted building improvements. In 2003, the Mayor announced a plan to end homelessness, which was developed by the Chicago Continuum of Care, a network of homeless providers and advocates. The intent of the plan is to shift the focus from providing temporary shelter to moving people quickly into permanent housing and providing social services to address the problems that caused them to become homeless. To support this plan and build on the

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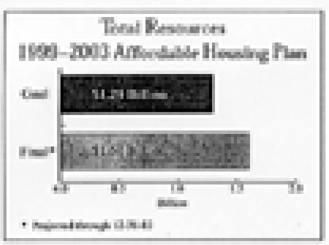

success of the first supportive housing initiative, the City and other financing partners announced a five year, $100 million strategy to combat homelessness through the creation and rehab of supportive housing units.

- Outreach to all Chicagoans–The need for affordable housing exists among a wide range of populations—including young working families, seniors, and individuals—of all races and ethnicities. The Department is committed to meeting the needs of all populations and uses its wide network of delegate agencies as well as written materials in English, Spanish, and other languages as appropriate to reach all Chicagoans.

- Accessibility–Together with the Mayor's Office for People with Disabilities, the Department strives to maximize opportunities for accessibility. The Department has established aggressive standards in single family and multifamily construction and rehab and strives to incorporate universal design in all of its programs.

- Energy efficiency–Through programs such as Green Homes for Chicago and Green Bungalows, the Department is working with the Department of Environment to establish affordable, energy efficient designs for rehabilitation and new construction. In all of its developments, the Department emphasizes energy efficient systems that conserve energy and reduce operating costs.

- Policy initiatives–The Department advocates at the local, state, and federal levels for improvements in public policies to support affordable housing. In recent years, Chicago has been a leader in the creation of regulations and legislation on predatory lending and on county level changes in property tax assessments to lower the costs of providing affordable rental properties. At the federal level, the Department regularly advocates to protect and increase existing levels of federal funding. Most recently, the Department participated in a national effort to protect the Low Income Housing Tax Credit program from legislation that would have significantly decreased its value.

Exceeding five year goals

Since 1994, the Department has operated under successive five year plans, under which the Department allocates its resources and reports its activities to the City Council on a quarterly basis. The two previous plans, developed in 1993 and 1998, laid out ambitious goals for creating and preserving affordable housing in a rapidly changing city. Both plans led to expanded opportunities for homeownership, new rental housing, and supportive policies at the local, state, and federal levels.

Under Mayor Richard M. Daley's administration, since 1989, the City has invested more than $3 billion in local, state, and federal funds to create, improve, and maintain more than 100,000 houses and apartments. It has created 3,800 units for seniors, provided assistance to 9,300 single room occupancy (SRO) units (three-fourths of the city's SRO stock), and helped promote and support homeownership for 12,000 households.

The five year plan for 1999–2003 set a goal of investing $1.3 billion in housing programs, of which $150 million would be raised from new or expanded sources. It sought to support more than 28,000 affordable units of housing, with a particular emphasis on serving households earning less than 60 percent of the area median income. All of these goals have been exceeded.

- Exceeding the City's resource commitment–By the end of 2003, total commitments to housing programs will reach $1.6 billion, more than $300 million over the goal. The Department exceeded its resource commitment through expanded use of tax credit equity, creation and use of the state Donations Tax Credit, and aggressive use of tax-exempt bonds, tax increment financing, and donated city owned land. (see chart on left).

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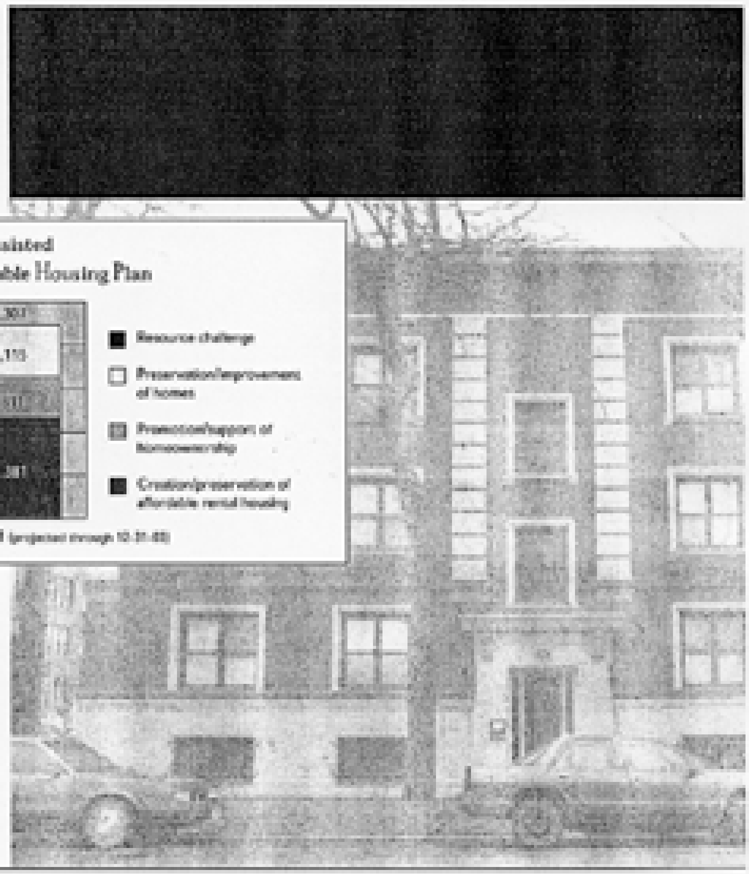
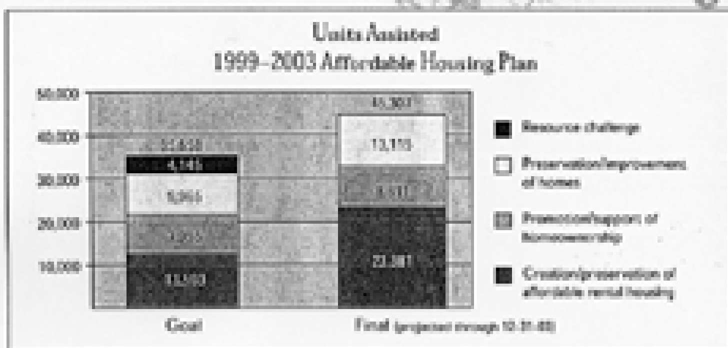
- Supporting more than 45,000 units–Creation and preservation of rental housing will reach 172 percent of the goal, or more than 22,000 units. City support of homeownership will reach 8,800 households, or 111 percent of the goal. And the city will help preserve or improve more than 13,000 homes, which is 132 percent of the goal.





- Targeting the neediest populations–More than 80 percent of the units served by City programs have been for households earning less than 60 percent of the area median income ($45,250 for a family of four); nearly half are for households at or below 30 percent of the median income (generally under $20,000). Rental production has been especially targeted, with 86 percent of all units serving households with incomes less than one-half of the area median ($37,700 for a family of four).

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CITY OF LOS ANGELES
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LOS ANGELES INCLUSIONARY HOUSING STUDY
EXECUTIVE SUMMARY

BACKGROUND

What is Inclusionary Housing?

Inclusionary housing programs require residential developers to provide a percentage of total units at below market rents or sales prices in conjunction with the market-rate units in the project. Inclusionary housing is used by approximately 110 communities in California to increase the production of housing affordable to very low, low and/or moderate income households.

Why Now?

In recognition of the critical shortage of affordable housing in the City of Los Angeles, and the importance of affordable housing to the overall local economy and livability of the City, Los Angeles policymakers commissioned David Paul Rosen & Associates (DRA) to examine inclusionary housing as one of the strategies the City can pursue to meet its affordable housing needs.

What Effect Has Inclusionary Housing Had on Housing Production in Other Communities?

DRA compiled data on annual housing starts over a twenty-year period in California to determine if inclusionary housing programs negatively affect housing production. For the period 1981-2001, DRA reviewed annual new construction residential building permit figures for 28 cities – with and without inclusionary housing programs – located in Los Angeles, Orange, San Diego, San Francisco, and Sacramento counties. DRA also analyzed housing start data for the State of California for the same period. The analysis includes separate tabulations for single family and multifamily housing starts.

The annual housing start data were then compared to passage of the 1986 Tax Reform Act (which significantly reduced favorable tax treatment for the construction of investment property), and key economic indicators: the prime rate, the 30 year mortgage rate, the unemployment rate, and area median home price.

An analysis of these data shows that for the jurisdictions surveyed, adoption of an inclusionary housing program is not associated with a negative effect on housing production. In fact, in most jurisdictions as diverse as San Diego, Carlsbad, and Sacramento, housing production increased, sometimes dramatically, after passage

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of inclusionary housing ordinances. Rather, increases and decreases in housing starts most closely track the unemployment rate. While in no case did the adoption of an inclusionary housing program slow housing production, the 1986 Tax Reform Act clearly was associated with a sharp decline in housing starts in most California communities.

Chart 1 summarizes building permit figures over time for the State of California. Chart 2 shows the figures for the City of Los Angeles, and Chart 3 displays trends in the City of Carlsbad (one city with inclusionary housing program). (All 28 charts are included in the full DRA report.)

APPROACH AND METHODOLOGY

Why This Study?

Inclusionary housing imposes a prospective cost on development which can be partially to completely offset with economic incentives and alternative compliance options. DRA conducted an economic analysis which measures the cost of alternative inclusionary requirements against the value of incentive "packages" to offset costs or otherwise provide incentives to market-rate housing. This analysis will assist policymakers in making informed decisions about inclusionary housing for Los Angeles.

DRA analyzed the potential impact of alternative inclusionary housing requirements and incentives based on how housing actually gets built in Los Angeles today. The cost to build market-rate housing in Los Angeles today was carefully analyzed with the help of a panel of housing developers active in the current Los Angeles market. The study process used a group of for-profit and nonprofit developers to review, revise and validate assumptions about development costs, and to provide assumptions on developer profit and overhead. This collaborative process (detailed in Appendix A of the DRA study) produced the economic assumptions, development prototypes and incentives used in the study. Ten housing prototypes were developed in conjunction with the developer group, representing typical rental and owner housing currently or prospectively being built in Los Angeles.

Table ES-1 describes the six rental housing prototypes used in the economic analysis. Table ES-2 describes the four owner housing prototypes analyzed.

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D. City of Los Angeles Inclusionary Housing Study

4: Major United States Cities

Los Angeles

E. City of Los Angeles Inclusionary Housing Implementation Policies, Practices, and Program Administration

Part Five: Affordable Housing Compendium:
Summary:
National Affordable Housing Programs

City of Los Angeles

Inclusionary Housing Implementation Policies, Practices, and Program Administration

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June 4, 2003

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Inclusionary Housing Implementation Policies, Practices, and Program Administration

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4: Major United States Cities
Philadelphia
F. A Philadelphia Housing Trust Fund: Ensuring a Future of Affordable Housing and Neighborhood Revitalization

Part Five: Affordable Housing Compendium:
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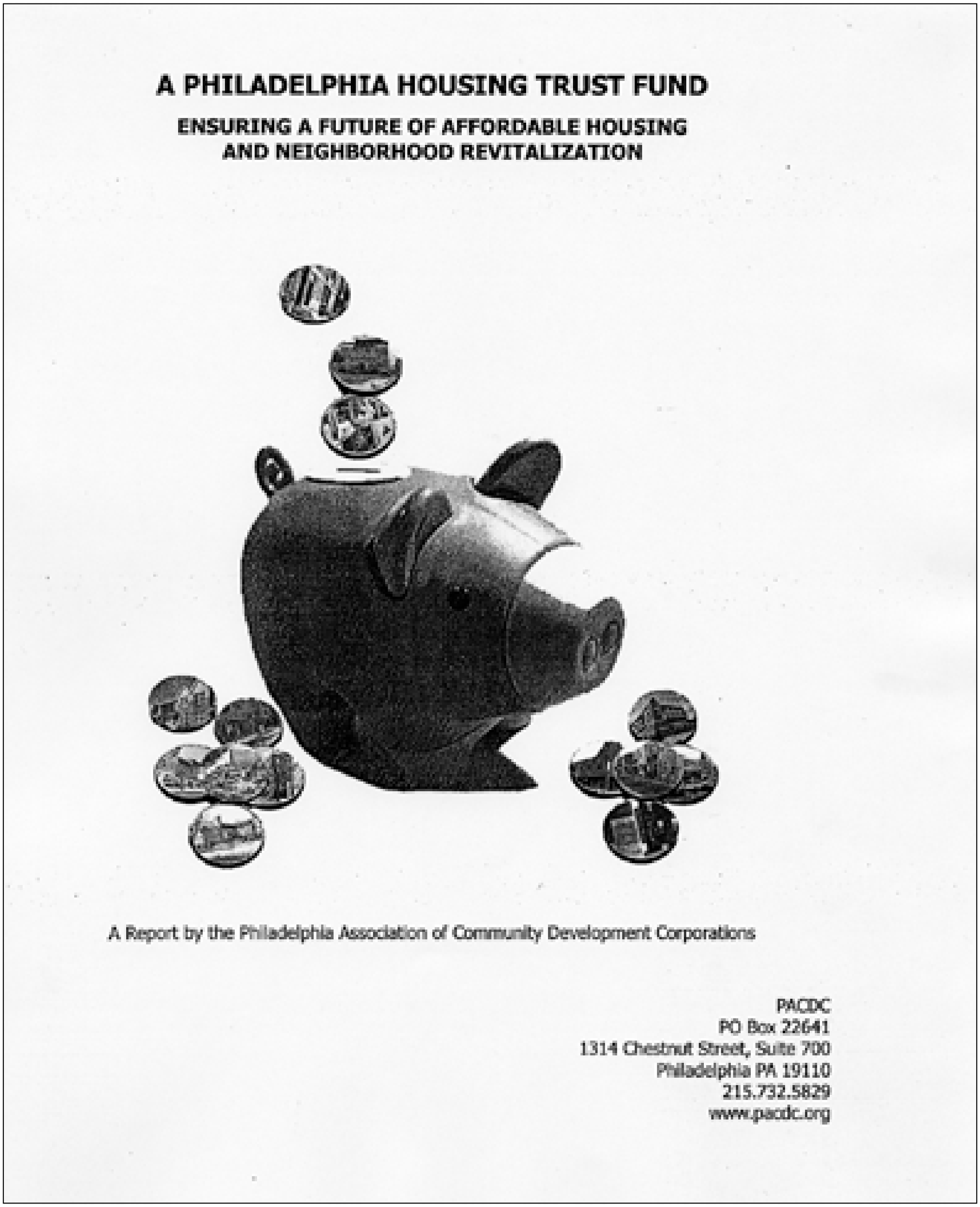
National Affordable Housing Programs



A PHILADELPHIA HOUSING TRUST FUND

ENSURING A FUTURE OF AFFORDABLE HOUSING AND NEIGHBORHOOD REVITALIZATION

A Report by the Philadelphia Association of Community Development Corporations

PACDC
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Philadelphia PA 19110
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4: Major United States Cities: Philadelphia
F. A Philadelphia Housing Trust Fund

A PHILADELPHIA HOUSING TRUST FUND: ENSURING A FUTURE OF AFFORDABLE HOUSING AND NEIGHBORHOOD REVITALIZATION

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F. A Philadelphia Housing Trust Fund

Executive Summary

The Philadelphia Association of Community Development Corporations proposes the creation of a $20 million per year Philadelphia Housing Trust Fund to:

- **create affordable housing to meet the needs of low and moderate income Philadelphians;**
- **provide housing investment to revitalize distressed neighborhoods; and**
- **leverage additional outside resources.**

A **Housing Trust Fund** is a dedicated source of revenue, set aside to address the housing needs of a community. The first Housing Trust Funds were established in the late 1970's, and there are now over 275 nationwide, raising more than $750 million annually to meet local housing needs. Of the seven largest cities in the country, three have Housing Trust Funds, and only Philadelphia and Houston do not invest substantial local resources in housing production. Philadelphia has historically relied almost exclusively on federal funding to support housing, particularly housing production. Declining federal support and inadequate state support have left us increasingly unable to address increasingly severe housing problems.

A Philadelphia Housing Trust Fund will **bolster the City's Neighborhood Transformation Initiative**. NTI is an important and proactive move by the City to invest in neighborhood revitalization by clearing blight, preserving neighborhoods, acquiring property, and laying the foundation for redevelopment. In the second year of NTI, it is becoming increasingly clear that additional resources are required in order to build on the vacant property being prepared for redevelopment. The Housing Trust Fund will provide the resources needed for the City to achieve its housing goals.

The Philadelphia Housing Trust Fund's primary mission will be to support **housing production** – both rehabilitation and new construction – by non-profit community development organizations, including partnerships with for-profit developers. At least $15 million will be invested annually in housing production, split evenly between rental and homeownership housing. The Trust Fund will support mixed-income homeownership housing for households at up to 115% of area median income (AMI), with one-third of homeownership funds set aside for homebuyers with incomes below 50% of area median. Rental housing will be affordable to households below 50% of area median income, with approximately half of these dollars earmarked for units affordable to households under 30% of area median income. This investment will allow Philadelphia to **increase housing production by 80%**, and will **leverage more than $50 million annually** in outside public and private resources that would not otherwise come to Philadelphia.

Supporting **housing preservation** will also be an important purpose of the Housing Trust Fund. At least $5 million per year will be designated for housing preservation programs, with a portion targeted around existing or new developments or to neighborhoods where a community-based-organization is working on a broader revitalization strategy. As many as 1,000 homeowners will be aided each year.

The Housing Trust Fund will be administered by existing City housing agencies, with Trust Fund revenues coordinated with other housing and community development funding, to maximize impact. To ensure accountability and flexibility, an **Oversight Board**, with representation from community members and housing advocates, will monitor funding decisions and periodically review Trust Fund guidelines.

Potential sources of revenue to support the Philadelphia Housing Trust Fund include:

- joining 51 other counties in Pennsylvania's highly successful Optional County Affordable Housing Trust Fund Program by adding a $30 surcharge to deed and mortgage recording fees to raise up to $5.5 million per year;
- tapping the City's recent windfall from the real estate transfer tax by dedicating 10-15% of transfer tax revenues to the Housing Trust Fund, raising up to $14.9 million per year; and
- using proposed increases in state Housing and Redevelopment Assistance appropriations (up to $5 million per year).

Together these sources could raise over $25 million annually in new resources for housing.

Philadelphia Housing Trust Fund Proposal Page 1

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2003-2004 ACTION PLAN
City and County of San Francisco

Program Year: 7/01/03-6/30/04

Mayor's Office of Community Development
Mayor's Office of Housing
San Francisco Redevelopment Agency
C /o MOCD, 25 Van Ness Avenue
San Francisco, CA 94102

(415) 252-3100
TDD (415) 252-3107

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G. 2003-2004 Action Plan

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G. 2003-2004 Action Plan

I. INTRODUCTION TO THE 2003-2004 ACTION PLAN

A. General Background

The 2003-2004 Action Plan presents the City and County of San Francisco's priorities and specific activities to address the housing and community development needs of low income San Franciscans and addresses the goals established in its 2000 - 2005 Consolidated Plan. The Action Plan is submitted to the United States Department of Housing and Urban Development annually and constitutes an application for funds under four different federal programs:

- Community Development Block Grant (CDBG);
- Emergency Shelter Grant (ESG);
- HOME Investment Partnership (HOME); and,
- Housing Opportunities for People with AIDS (HOPWA)

For more than two decades, San Francisco's community development efforts have assisted the development of lower income communities and served low and moderate-income persons. This year's program strives to do the same in the midst of the continuing effects of welfare reform challenges, extremely low housing vacancy rates and ongoing federal funding cuts for domestic programs. Both public and non-profit agencies dedicated to serving San Francisco's low- and moderate-income residents are facing increased pressure to address growing needs with less funding. The past year has been a roller coaster year of turbulent events. Non-profit agencies have labored to survive in the wake of an economic upswing that was witness to 100-300% increases in non-profit space rental costs, and an equally dramatic decline economic downturn where internet companies abandoned office space and practically overnight, corrected the shortage in office space for non-profits. Last year, we emphasized the need to better ensure long-term stability for the non-profit organizations that provide the critical community development activities needed by San Franciscans. Our commitment remains this year. In addition, local non-profits are faced with diminished options for fundraising as typical long-term funders are reducing or eliminating grant-making programs in this year of slow economic activity.

As in past years, this year's program was developed with the understanding that CDBG, ESG, HOME and HOPWA funds are merely four of numerous funding sources and efforts by various City Departments to address the needs of our lowest income communities and individuals. In many instances CDBG may be the most flexible funding source available for particular efforts. For example, CDBG assistance can take many forms, such as support for capital projects, direct program funding, or provision of technical assistance and/or planning resources. Thus, in developing this year's program, the importance of integrating CDBG and ESG funding with broader citywide efforts was recognized.

Extensive efforts were made to coordinate priorities and funding with existing resources to best meet critical needs, fill identified gaps and otherwise be well utilized.

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2003-04 Action Plan
City and County of San Francisco

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The Plan's priorities are discussed below but necessarily revolve around the issues of affordable housing, economic development and employment/workforce development. In meeting these priorities, the Mayor's Office of Community Development (MOCD), the Mayor's Office of Housing (MOH), and the San Francisco Redevelopment Agency (SFRA), the Departments responsible for administration of these funding sources, are moving to utilize their financial and human resources more strategically and effectively than ever before. The key is improving the partnership between and support for community-based non-profit organizations and other entities providing community development services to low- and moderate-income San Franciscans, leveraging all available resources and ensuring there are clear outcomes for all of the City's investments.

The 2003 Action Plan includes approximately 200 distinct CDBG-funded programs and pools providing services such as housing development, public space improvement, workforce development, neighborhood centers, child care, small business technical assistance and entrepreneurship development, and planning. An additional 22 ESG-funded programs will provide services specifically targeted at the needs of the homeless. HOME funds will primarily be directed towards new housing construction, acquisition and rehabilitation activities. HOPWA funds will be used for housing acquisition, rehabilitation and construction, rental assistance and supportive services for persons with AIDS/HIV.

B. Lead Agency

MOCD remains the lead agency responsible for submitting the Action Plan. MOCD and MOH work closely to administer San Francisco's CDBG, ESG and HOME Programs. Both maintain a close working relationship with the San Francisco Redevelopment Agency, the agency responsible for the three-county HOPWA Program.

C. Citizen Participation/Public Input in the Development of the 2003-2004 Action Plan

Public Input

The development of the 2003 Program began in the Fall of 2002 with public hearings conducted by the Citizens Committee on Community Development (CCCD).[1] These hearings were held to collect citizen input on housing and community development needs for their neighborhoods and for the City as a whole. The CCCD also took into consideration the priorities originally established in the Continuum of Care Plan for services to the homeless and the Enterprise Community neighborhood plans, as well as the strategic planning done as part of the Empowerment Zone application process. The CCCD also incorporated both the local systems responding to welfare reform and the Mayor's focus on neighborhood strategies.

A listing of proposed projects included in this year's Action Plan was made available to the community on March 18, 2003. On April 8, 2003 the draft 2003 Action Plan was made

[1] This advisory body, appointed by the Mayor, includes a broad cross section of the community and is charged with assisting the Mayor's Office of Community Development with identification of community needs and formulating program priorities.

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2003-04 Action Plan
City and County of San Francisco

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available to the public for a 30 day public review period. Several comments were received and appear in Appendix D to this document. The CCCD held a public hearing on the CDBG, ESG, HOME and HOPWA for the public and interested organizations on the proposed listing of funded projects for the upcoming year on March 24, 2003. The Board of Supervisors' Finance Committee held a hearing and received public testimony in April, 2003, and the full Board of Supervisors approved the 2003-04 CDBG, HOME, ESG and HOPWA programs in May, 2003.

The Comprehensive Housing Affordability Strategy (CHAS) Advisory Committee

The City's Comprehensive Housing Affordability Strategy (CHAS) Advisory Committee is charged with the responsibility of advising the Mayor on affordable housing planning, development and preservation planning, identifying and recommending solutions to problems in the City's housing delivery system, and producing and monitoring the City's long range and annual plans for affordable housing, including this Action Plan for 2003-04.

Membership of the CHAS Advisory Committee includes senior staff representatives of all City Departments and Agencies that play a role in planning or developing affordable housing or housing related services and it includes representatives of community-based provider and advocacy networks and coalitions. The CHAS Committee meets monthly and is coordinated and staffed by the Mayor's Office of Housing.

The activities and programs to address priority housing needs in 2003-04 that are described below have been recommended by the CHAS Advisory Committee. This committee will provide on-going oversight and advice regarding implementation and refinement of the housing element of the Action Plan during the course of the year.

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San Jose
H. Five-Year Housing Investment Plan: Fiscal Years 2002/3-2006/7

Part Five: Affordable Housing Compendium:
Summary:
National Affordable Housing Programs

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

FIVE-YEAR HOUSING INVESTMENT PLAN

FISCAL YEARS 2002/03 – 2006/07

Prepared by The City of San José Housing Department
October 3, 2002

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H.Five-Year Housing Investment Plan

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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H.Five-Year Housing Investment Plan

INTRODUCTION

Santa Clara County, in the heart of Silicon Valley, has enjoyed enormous economic success in recent years due to the booming Information Technology (IT) industry. While the recent economic downturn may have stabilized housing prices to some extent, the lasting effects of significant regional job growth over housing construction during the last five years have resulted in sharply increased housing costs. The 2002 median household income in Santa Clara County, at $96,000, is the third highest median income in the nation.[1] Housing prices continue to be significantly higher than other parts of the State and nation. While high-tech workers generally enjoy high incomes, many workers in the support/service industries continue to earn lower- and moderate-incomes, and the gap between income and housing affordability continues to widen.

In the City of San José 2001 Community Survey, respondents were asked to identify the most serious issue facing San José residents that the City government needed to address. Of the forty concerns raised by survey respondents, affordable housing ranked second, at 15%, after traffic congestion (20%). Other housing related concerns, such as homelessness and housing condition, were also noted among respondents.

San José faces important challenges in providing affordable housing for all socioeconomic segments of its population, given the highly competitive housing market and limited public dollars. This Five-Year Housing Investment Plan (FYHIP) outlines the approach the City plans to take during the next five years – from Fiscal Year 2002-03 through Fiscal Year 2006-07 – to meet these challenges.

> *"Although San José has led the region in the creation of housing that is so critically needed in the Silicon Valley, we must do more...to develop more homes in our city so that we can ensure the continuing economic prosperity and quality of life for the residents in our community."*
>
> *– Mayor Ron Gonzales*

This FYHIP contains the following major sections:

- **Partnerships in Housing** – This section describes the coordinated efforts among various internal and external partners of the City.
- **Housing Market Analysis** – This section provides an overview of City demographics and current and projected housing needs in San José.
- **City Housing Policies** – This section describes San José's current housing-related policies and summarizes the performance of each of these policies since 1995.
- **Recent Housing Efforts** – This section explains the City's innovative efforts to address housing concerns, including unique partnerships and collaborations.

Five-Year Housing Investment Plan 1 FY 2003 – FY 2007

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H.Five-Year Housing Investment Plan

- **Funding Sources** – This section enumerates the various funding resources available to achieve the City's affordable housing production goals.
- **The Next Five Years** – This section outlines the City's plan for addressing affordable housing needs.
- **Implementing Actions** – This section enumerates specific tasks the City will undertake to address key housing issues or concerns during the next five years.

The FYHIP is consistent with the two major housing plans that govern the housing goals and policies established by the City Council: the 2000-2005 Consolidated Plan -- required by the federal government -- and the 2001-2006 Housing Element, which is a State-mandated report. The Consolidated Plan outlines the City's strategy to address its housing and community development needs. Developed through a collaborative process, the Consolidated Plan provides a unified vision for the City's various housing and community development actions. The 2001-2006 Housing Element is a component of the San José 2020 General Plan. The Housing Element sets forth the City's housing goals, policies, and programs for seven-year increments based on information contained in the Consolidated Plan.

This Plan is also consistent with the federally required Analysis of Impediments to Fair Housing Choice, as well as the City's Homeless Plan, which is a companion document to the FYHIP. This FYHIP is intended as a resident's guide to the City's housing policies and production goals, providing a concise summary of the City's actions towards achieving its vision for meeting the City's housing needs established.

Endnotes:

[1]After Stamford-Norwalk and Danbury, both in Connecticut.

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H.Five-Year Housing Investment Plan

4: Major United States Cities
Washington D.C.
I. Expanded Housing Opportunity in Washington DC: The Case for Inclusionary Zoning

Part Five: Affordable Housing Compendium:
Summary:
National Affordable Housing Programs

PolicyLink

Expanding Housing Opportunity in Washington, DC

The Case for Inclusionary Zoning

A PolicyLink Report

Fall 2003

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I. Expanding Housing Opportunity in Washington D.C.

Executive Summary

Washington, DC is emerging from a long period of decline, thanks to private and public investments that are reinvigorating the city. This new prosperity, however, is not without a downside. Dramatic investments in once neglected neighborhoods have brought new benefits to some District residents, while others are being priced out of their homes. The challenge facing the nation's capital is how to strike a balance between growth and opportunity.

Connecting the two in a city as racially and economically diverse as the District will require innovation. In the next ten years, Mayor Anthony Williams seeks to attract 100,000 new residents to the District, hoping that the taxes they pay will contribute to the quality of city life. But high housing costs make it difficult for people to move to the District, as well as for current residents to stay. Ways must be found to make housing affordable across the wide range of income levels in Washington, DC.

Inclusionary zoning (IZ) is a tool that can put a good place to live within the reach of a broad cross-section of District residents. IZ requires developers to make a percentage of housing units in new residential developments available to low- and moderate-income households. In return, developers receive non-monetary compensation—in the form of density bonuses, zoning variances, and/or expedited permits—that reduce construction costs.

DC's Affordable Housing Challenge

Many District families pay too much for housing. Incomes have not kept pace with housing prices; from January 1999–March 2003, the sale price of homes rose four times faster than income, and the price of rentals rose three times faster. A household in DC would need to earn $85,052 to afford to purchase the average home, and $72,160 to afford the average rental. Yet, the median household income is $52,300. More than 35 percent of renters and 24 percent of homeowners are paying more than they can afford for housing.

Where families live can be just as important as how much they pay. Residents in poor neighborhoods typically are isolated from livable wage jobs, quality education, adequate health services, and protection from crime. The 2000 Census revealed an increase in high poverty neighborhoods in the District, partly attributed to lower income residents being displaced from once affordable neighborhoods into poorer ones. Inclusionary zoning has the potential to change this dynamic by producing more affordable housing units in developments throughout the District. With thoughtful planning and administration, inclusionary zoning can result in mixed-income communities that provide access to economic and social opportunity.

Benefits of Inclusionary Zoning to DC

For almost 30 years, cities and jurisdictions throughout the United States have been using inclusionary zoning principles to make affordable housing possible. In the Washington, DC, metropolitan area alone, by July 2003, IZ programs had produced over 15,000 units of affordable housing. IZ can contribute to a housing climate that is attractive to new residents and supportive to existing residents by:

- Creating mixed-income communities;
- Producing affordable housing that attracts a diverse labor force;
- Connecting residents in high poverty neighborhoods to opportunity; and
- Designing consistent regulatory guidelines for developing affordable housing.

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I. Expanding Housing Opportunity in Washington D.C.

Recommendations

This report analyzes the experiences of jurisdictions in the US to offer recommendations for Washington, DC in designing a proactive IZ program that can support growth and ensure affordability.
The recommendations are:

- **Adopt a mandatory inclusionary zoning policy.** Evidence from jurisdictions coast to coast makes it clear that mandatory inclusionary zoning programs produce more affordable housing than voluntary ones. Washington, DC, which has been considering a voluntary program, should adopt a mandatory policy given the clear benefits of this approach.

- **Design an IZ program that allows developers to contribute to affordable housing and make a profit.** Developers benefit from inclusionary zoning through non-monetary cost-offsets—such as density bonuses and fast track permitting. The District of Columbia should plan an IZ program that delivers a "double bottom-line" by creating cost-offsets that allow developers to profit, while developing affordable housing for low- and moderate-income wage earners.

- **Establish income targets for the policy that reflect the affordable housing needs of the community.** Inclusionary zoning can be structured to meet affordable housing needs at various income levels. Since the District has affordable housing needs across a range of income levels, tiered income targets (e.g., half of all units at 50 percent Area Median Income (AMI), half at 80 percent AMI) would help meet these various needs.

- **Reach extremely low-income families by packaging inclusionary units with other affordable housing resources.** The affordable housing created through inclusionary zoning programs can meet the needs of residents with the lowest incomes (30 percent of AMI or less) by linking it with HUD Housing Choice Vouchers Program (formerly known as Section 8). Coupling IZ with homebuyer assistance can put ownership units within reach of low and moderate income households.

- **Deliver the most housing units by applying inclusionary zoning to the majority of residential development.** Approximately 85 percent of the District's residential development is occurring in developments of ten or more units, so regulation should apply to all developments this size or larger.

- **Require long-term affordability.** IZ programs that mandate long-term affordability agreements—30 years is common—ensure that housing opportunities are sustained into the future. With housing prices rapidly escalating and limited land available for new development, a District IZ program must include long-term affordability protection.

- **Achieve more equitable distribution of affordable housing by limiting the use of alternatives.** While jurisdictions may offer developers alternatives such as fees in lieu of development or off-site construction, on-site development best develops mixed-income communities and minimizes race and income segregation. Given the increase in high poverty neighborhoods in DC, the District should minimize the use of these alternatives.

- **Maximize IZ impact through clear legislation and consistent administration.** The District's enabling legislation should be clear about the obligations of developers and the administrative agency, appoint the public agency (e.g., Housing and Community Development) best suited to administer IZ, and empower it with the necessary resources.

Many factors make it a critical time to implement a mandatory inclusionary zoning policy in the District. Those factors include: renewed residential investment, an escalating housing market, increasing housing cost burdens on residents and newcomers, increased displacement, and an ambitious mayoral plan to attract 100,000 new residents. The District can make a major stride toward meeting its goals for growth and affordability by committing to one of the most effective tools in the affordable housing toolkit—inclusionary zoning.

Full report available on-line: www.policylink.org

4: Major United States Cities: Washington D.C.
I. Expanding Housing Opportunity in Washington D.C.

Introduction

Washington, DC stands at a crossroads. After a long period of decline, our nation's capital is undergoing an economic renaissance. Significant public and private investment is flowing into communities and dramatically improving once neglected neighborhoods. While the District is enjoying growing prosperity, it also faces the indisputable challenge that whole segments of its population are being left behind. Many DC residents are not benefiting from the revitalization that is underway, and increasingly find themselves priced out of their homes. The District can build on its recent growth by putting policies in place that tie growth to opportunity for the broadest possible spectrum of residents.

"Development is generating tension and uncertainty about the future among people who fear gentrification of the city will force them out, will be bad for them."
—Alice Rivlin, Brookings Institution[1]

The current administration must implement policies that strike this balance between growth and opportunity. Mayor Anthony Williams has set a goal to attract 100,000 new residents to the District over the next ten years as a way to increase the tax base and strengthen the fiscal health of the District. However, there is broad community recognition that reaching the 100,000 new residents goal must occur simultaneously with efforts to strengthen opportunity for residents currently living in the District who are in danger of being forced out.

"Nothing opens the door to opportunity like the door to a home."
—Mayor Anthony Williams, inaugural address January 2003

The key to reaching both objectives lies in the creation of a residential growth strategy that includes affordable housing as its centerpiece. A commitment to affordable housing will help the District increase its base of taxpayers without displacing existing residents—a key element of sustained growth.

The District's development dynamics and its residential-growth focus make inclusionary zoning an important affordable housing policy for the nation's capital. Inclusionary zoning (IZ) requires private developers to set aside a percentage of housing units in new residential developments—both ownership and rental units—to be affordable to low and moderate income families. Hundreds of communities across the country have utilized IZ to promote housing affordability and foster mixed-income communities.

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This report explores the promise of inclusionary zoning.

Part one considers the relevance of inclusionary zoning for the District. This section:

- Reviews the District's affordable housing need;
- Provides a brief overview of IZ policy and its use nationally;
- Offers some of the potential benefits that could accrue to the District if IZ is adopted; and
- Projects the potential affordable housing production levels that the District may be able to realize through inclusionary zoning.

Part two of the report analyzes the experiences of other jurisdictions and presents recommendations for the District of Columbia to consider as it develops its own inclusionary zoning policy. These recommendations include:

- Adopt a *mandatory* inclusionary zoning policy;
- Design an IZ program that allows developers to contribute to affordable housing *and* make a profit;
- Establish income targets for the policy that reflect the affordable housing needs of the community;
- Reach extremly low-income families by packaging inclusionary units with other affordable housing resources;
- Deliver the most housing units by applying inclusionary zoning to the majority of residential development;
- Require long-term affordability;
- Achieve more equitable distribution of affordable housing by limiting the use of alternatives; and
- Maximize IZ impact through clear legislation and consistent administration.

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I. Expanding Housing Opportunity in Washington D.C.

5: National Affordable Housing Studies
A. Housing Supply and Affordability: Do Affordable Housing Mandates Work?

Part Five: Affordable Housing Compendium:
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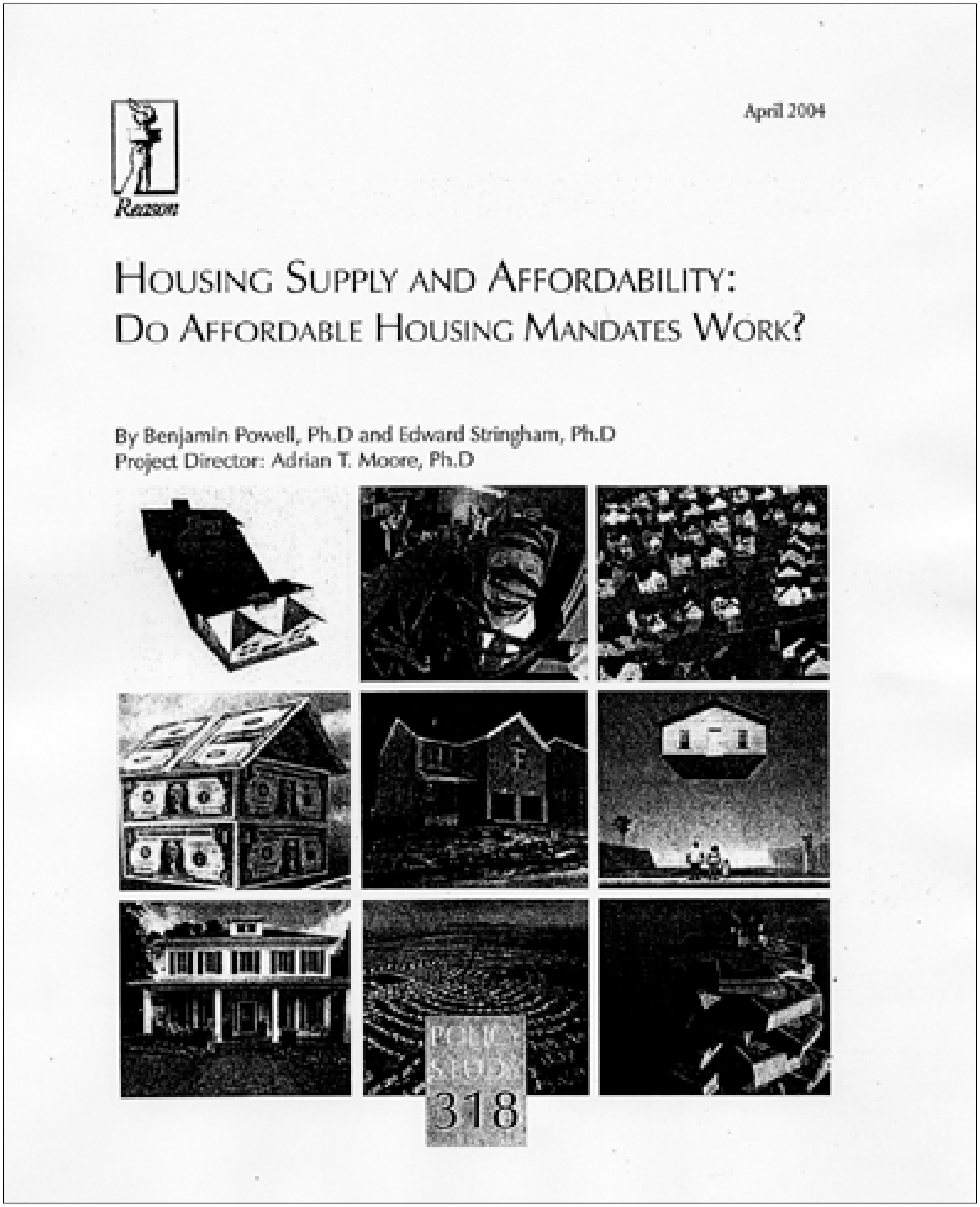
National Affordable Housing Programs



Reason

April 2004

HOUSING SUPPLY AND AFFORDABILITY:
DO AFFORDABLE HOUSING MANDATES WORK?

By Benjamin Powell, Ph.D and Edward Stringham, Ph.D
Project Director: Adrian T. Moore, Ph.D

POLICY STUDY 318

5: National Affordable Housing Studies:
A. Housing Supply and Affordability

Policy Study No. 318

Housing Supply and Affordability: Do Affordable Housing Mandates Work?

By Benjamin Powell, Ph.D. and Edward Stringham, Ph.D
Project Director: Adrian T. Moore, Ph.D

Executive Summary

California and many urban areas nationwide face a housing affordability crisis. New housing production has chronically failed to meet housing needs, causing housing prices to escalate. Faced with demands to "do something" about the housing affordability crisis, many local governments have turned to "inclusionary zoning" ordinances in which they mandate that developers sell a certain percentage of the homes they build at below-market prices to make them affordable for people with lower incomes.

The number of cities with affordable housing mandates has grown rapidly, to about 10 percent of cities over 100,000 population as of the mid-90s, and many advocacy groups predict the trend will accelerate in the next five years. California was an early leader in the adoption of inclusionary zoning, and its use there has grown rapidly. Between 1990 and 2003, the number of California communities with inclusionary zoning more than tripled—from 29 to 107 communities—meaning about 20 percent of California communities now have inclusionary zoning.

Inclusionary zoning attempts to deal with high housing costs by imposing price controls on a percentage of new homes. During the past 20 years, a number of publications have debated the merits of inclusionary zoning programs. Nevertheless, as a recent report observed, "These debates, though fierce, remain largely theoretical due to the lack of empirical research."

This study attempts to fill the research void. In this paper we use data from communities in the San Francisco Bay Area region to evaluate the effects of inclusionary zoning and examine whether it is an effective public policy response to high housing prices. We chose the Bay Area because inclusionary zoning is particularly prevalent there; today more than 50 jurisdictions in the region have inclusionary zoning. These communities have various sizes and densities with different income levels and demographics, so they provide a good sample to tell us how inclusionary zoning is probably working nationwide.

5: National Affordable Housing Studies:
A. Housing Supply and Affordability

These are our findings:

Inclusionary Zoning Produces Few Units

Since its inception, inclusionary zoning has resulted in few affordable units. The 50 Bay Area cities with inclusionary zoning have produced fewer than 7,000 affordable units. The average since 1973 is only 228 units per year. After passing an ordinance, the average city produces fewer than 15 affordable units per year.

Inclusionary zoning cannot meet the area's affordable housing needs. At current rates, inclusionary zoning will only produce 4 percent of the Association of Bay Area Governments' estimated affordable housing need. This means inclusionary zoning will require 100 years to meet the current five-year housing need.

Inclusionary Zoning Has High Costs

Inclusionary zoning imposes large burdens on the housing market. For example, if a home could be sold for $500,000 dollars but must be sold for $200,000, the revenue from the sale is $300,000 less. In half the Bay Area jurisdictions this cost associated with selling each inclusionary unit exceeds $346,000. In one fourth of the jurisdictions the cost is greater than $500,000 per unit, and the cost of inclusionary zoning in the average jurisdiction is $45 million, bringing the total cost for all inclusionary units in the Bay Area to date to $2.2 billion.

Inclusionary Zoning Makes Market-priced Homes More Expensive

Who bears the costs of inclusionary zoning? The effective tax of inclusionary zoning will be borne by some combination of market-rate homebuyers, landowners, and builders. How much of the burden is borne by market-rate buyers versus landowners and builders is determined by each group's relative responsiveness to price changes.

We estimate that inclusionary zoning causes the price of new homes in the median[1] city to increase by $22,000 to $44,000. In high market-rate cities such as Cupertino, Los Altos, Palo Alto, Portola Valley, and Tiburon we estimate that inclusionary zoning adds more than $100,000 to the price of each new home.

Inclusionary Zoning Restricts the Supply of New Homes

Inclusionary zoning drives away builders, makes landowners supply less land for residential use, and leads to less housing for homebuyers—the very problem it was instituted to address.

In the 45 cities where data is available, we find that new housing production drastically decreases the year after cities adopt inclusionary zoning. The average city produced 214 units the year before inclusionary zoning but only 147 units the year after. Thus, new construction decreases by 31 percent the year following the adoption of inclusionary zoning.

In the 33 cities with data for seven years prior and seven years following inclusionary zoning, 10,662 fewer homes were produced during the seven years after the adoption of inclusionary zoning. By artificially lowering the value of homes in those 33 cities, $6.5 billion worth of housing was essentially destroyed.

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Considering that over 30 years inclusionary zoning has only yielded 6,836 affordable units, one must question whether those units are worth the cost in terms of fewer and higher-priced homes.

Inclusionary Zoning Costs Government Revenue

Price controls on new development lower assessed values, thereby costing state and local governments lost tax revenue each year. Because inclusionary zoning restricts resale values for a number of years, the loss in annual tax revenue can become substantial. The total present value of lost government revenue due to Bay Area inclusionary zoning ordinances is upwards of $553 million.

Price Controls Do Not Address the Cause of the Affordability Problem

Price controls fail to get to the root of the affordable housing problem. Indeed by causing fewer homes to be built they actually make things worse. The real problem is government restrictions on supply. From 1990 through 2000, the Bay Area added nearly 550,000 jobs but only about 200,000 new homes. The California Department of Finance recommends 1.5 new jobs per new home—the Bay Area produced only 55 percent of the suggested amount of housing.

Supply has not kept up with demand due to artificial restrictions. One recent study found that 90 percent of the difference between physical construction costs and the market price of new homes can be attributed to land use regulation.

The solution is to allow more construction. When the supply of homes increases, existing homeowners often upgrade to the newly constructed homes. This frees up their prior homes for other families with lower income. Inclusionary zoning restricts this upgrade process by slowing or eliminating new construction. With fewer new homes available, middle- and upper-income families bid up the price of the existing stock of homes, thus making housing less affordable for everyone.

Conclusion

Inclusionary zoning has failed to produce a significant number of affordable homes due to the incentives created by the price controls. Even the few inclusionary zoning units produced have cost builders, homeowners, and governments greatly. By restricting the supply of new homes and driving up the price of both newly constructed market-rate homes and the existing stock of homes, inclusionary zoning makes housing less affordable.

Inclusionary ordinances will continue to make housing less affordable by restricting the supply of new homes. If more affordable housing is the goal, governments should pursue policies that encourage the production of new housing. Ending the price controls of inclusionary zoning would be a good start.

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Policy Study No. 318

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A. Housing Supply and Affordability

Part I

Introduction

The number of cities with affordable housing mandates has grown rapidly, to about 10 percent of cities over 100,000 population as of the mid-90s, and many advocacy groups predict the trend will accelerate in the next five years.[1] California was an early leader in the adoption of inclusionary zoning, and its use there has grown rapidly. Between 1990 and 2003, the number of California communities with inclusionary zoning more than tripled—from 29 to 107 communities—meaning about 20 percent of California communities now have inclusionary zoning.[3]

A large concentration of cities with inclusionary zoning laws is in the San Francisco Bay Area, which also consistently rates as the country's least affordable region for housing. The median home price in the area is upwards of $560,000 and prices for new housing are even higher.[4] Such high prices affect all but the wealthiest families' chances of owning a home. Of metropolitan areas with more than one million residents, San Francisco, San José and Oakland respectively rank 1, 2, and 4 as the least affordable areas in the nation (Table 1).

Table 1: Least Affordable Metropolitan Areas in the Nation

Metro Area	Least Affordable Metropolitan Areas	Share of Homes Affordable for Median Incomes	Family Income
San Francisco, CA PMSA*	1	9.2%	$86,100
San José, CA PMSA	2	20.1%	$96,000
San Diego, CA MSA	3	21.6%	$60,100
Oakland, CA PMSA	4	23.9%	$74,500
Los Angeles-Long Beach, CA PMSA	5	34.4%	$55,100
Orange County, CA PMSA	6	37.7%	$75,600
Sacramento, CA PMSA	7	43.7%	$57,300
Portland-Vancouver, OR-WA PMSA	8	46.6%	$57,200
Boston, MA-NH PMSA	9	48.2%	$74,200
Riverside-San Bernardino, CA PMSA	10	49.6%	$50,300
New York, NY PMSA	11	49.9%	$62,800
Miami, Fl PMSA	12	58.1%	$48,200
Denver, CO PMSA	13	59.8%	$69,900
Bergen-Passaic, NJ PMSA	14	61.5%	$78,900
Newark, NJ PMSA	15	61.1%	$78,700

Source: Data are from the "Housing Opportunity Index: First Quarter 2002" (Washington, D.C.: National Association of Homebuilders). *PMSA and MSA are census designations meaning, respectively, Primary Municipal Statistical Area and Municipal Statistical Area.

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Faced with demands to "do something" about the region's housing affordability crisis, many local governments in the Bay Area have turned to inclusionary zoning ordinances. In response to the crisis, the number of Bay Area jurisdictions with inclusionary zoning has proliferated from just a handful in the early 1970s to more than 50 in 2004.

Inclusionary zoning is a name for artificially lowering the price, and therefore the value, on a percentage of new homes. Builders and subsequent owners are forced to sell the homes so that they are "affordable" to specific income levels.

The price controls are set using different formulas so that the "inclusionary" units will be affordable to either "Very Low," "Low," or "Moderate" income households, or some combination thereof. "Very Low" income is most often classified as up to 50 percent of county median income, "Low" as 50-80 percent of median, and "moderate" as 80-120 percent of median. The percent of units targeted as inclusionary units varies by jurisdiction, ranging from 5 to 25 percent of the new homes constructed in a project. Typically, the inclusionary units must be constructed within the project and be of the same size and quality as the market-rate units. Some jurisdictions exempt small developments while others require builders to pay an in-lieu fee for developments of 10 homes or fewer to get out from under the price controls. Still others allow in-lieu fees for projects of all sizes. Ostensibly, some jurisdictions also offer incentives for compliance. These can take the form of "density bonuses" (giving builders the option to increase the density of their developments in return for making more of the units affordable), fast-track permitting (speeding up the process of issuing permits for new development), fee waivers, or exemptions from growth controls. In a few voluntary inclusionary programs, incentives are offered in exchange for a builder committing to sell at the price-controlled rates. But most inclusionary zoning programs are mandatory, requiring all builders to participate.

The proliferation of inclusionary zoning raises important public policy questions:

- Is it effective—does inclusionary zoning lead to a substantial increase in affordable housing production?
- Is it efficient—how do inclusionary zoning's costs compare to its benefits?
- Is it equitable—does inclusionary zoning fairly apportion the cost of providing affordable housing?

These questions have not been adequately addressed. During the past 20 years a number of publications have debated the merits of inclusionary zoning programs. Nevertheless, as the 2003 report *Inclusionary Housing in California: 30 Years of Innovation* observed, "These debates, though fierce, remain largely theoretical due to the lack of empirical research."[3] Without knowing the economic and other real-world consequences of inclusionary zoning, policymakers have difficulty assessing the merits or faults of inclusionary zoning.

This study attempts to fill the research void. In this paper we use data from communities in the San Francisco Bay Area region to evaluate the effects of inclusionary zoning and examine whether it is an effective public policy response to high housing prices. We chose the Bay Area because inclusionary zoning is particularly prevalent there; today more than 50 jurisdictions in the region have inclusionary zoning. We include in our analysis the 182 cities, towns, and Census-defined places[4] in the nine Bay Area counties: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma. These communities are various sizes and densities with different income levels and demographics, so they provide a good sample to tell us how inclusionary zoning is probably working nationwide.

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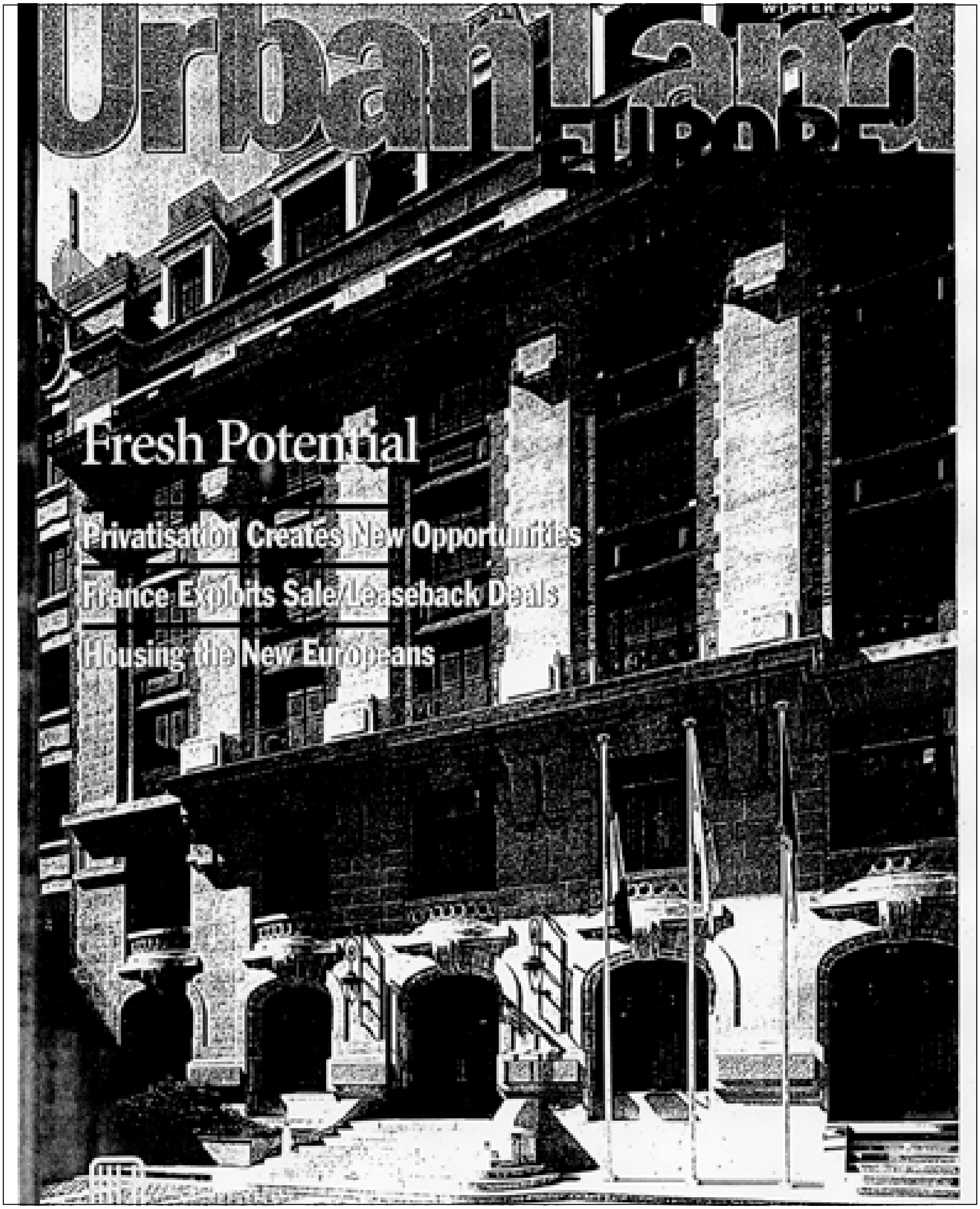

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B. Europe Looks for Housing Solutions

Europe Looks for Housing Sol

ANDREW GOLLAND AND MICHAEL OXLEY

Recent changes in the growth and structure of households, combined with emerging public policy frameworks and housing market performance, provide European developers and housing investors with a range of new opportunities.

Growth in the number of households has been significant over the past 20 years, with most of the 15 European Union (EU) countries experiencing an increase of around 20 percent (see Figure 1). Data from the European Commission show that in most European countries—but notably Germany, Austria, and Italy—the population is expected to

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utions

grow 5 to 6 percent by 2020. Such growth presents a serious challenge to providers across the full range of housing supply, including speculative private home-builders, housing associations, local authorities, and urban regeneration agencies. At the same time, housing providers are faced with declining household size and an increase, in particular, in the proportion of single-person households. Average EU household size fell from 2.9 persons per household in 1980 to 2.5 persons in 2001, and the proportion of single-person households increased from 22 percent to 30 percent over the same period. In many countries, including Denmark, Finland, Germany, and Sweden, about 40 percent of the households have only one person. Remarkably, in most countries, at least half of all households are made up of two or fewer persons, and in many northern European countries, this share rises to nearly 70 percent.

The changes to the population profile present significant challenges to housing developers. A key issue recognised in the search for solutions is housing choice and the extent to which it is necessary to provide smaller households with smaller housing. This, in turn, ties into the question of how best to meet housing needs in the context of a sustainable agenda and the requirement to use development land efficiently.

For those providers primarily interested in market housing, the trends are encouraging. Over the past 20 years, several countries, including the U.K., France, the Netherlands, and Spain, have shifted their tenure profile in favour of owner occupation, which has now become the dominant form of housing occupation in all European countries except Germany (see Figure 2). This has provided a signal for developers to increase the supply of ownership and market housing.

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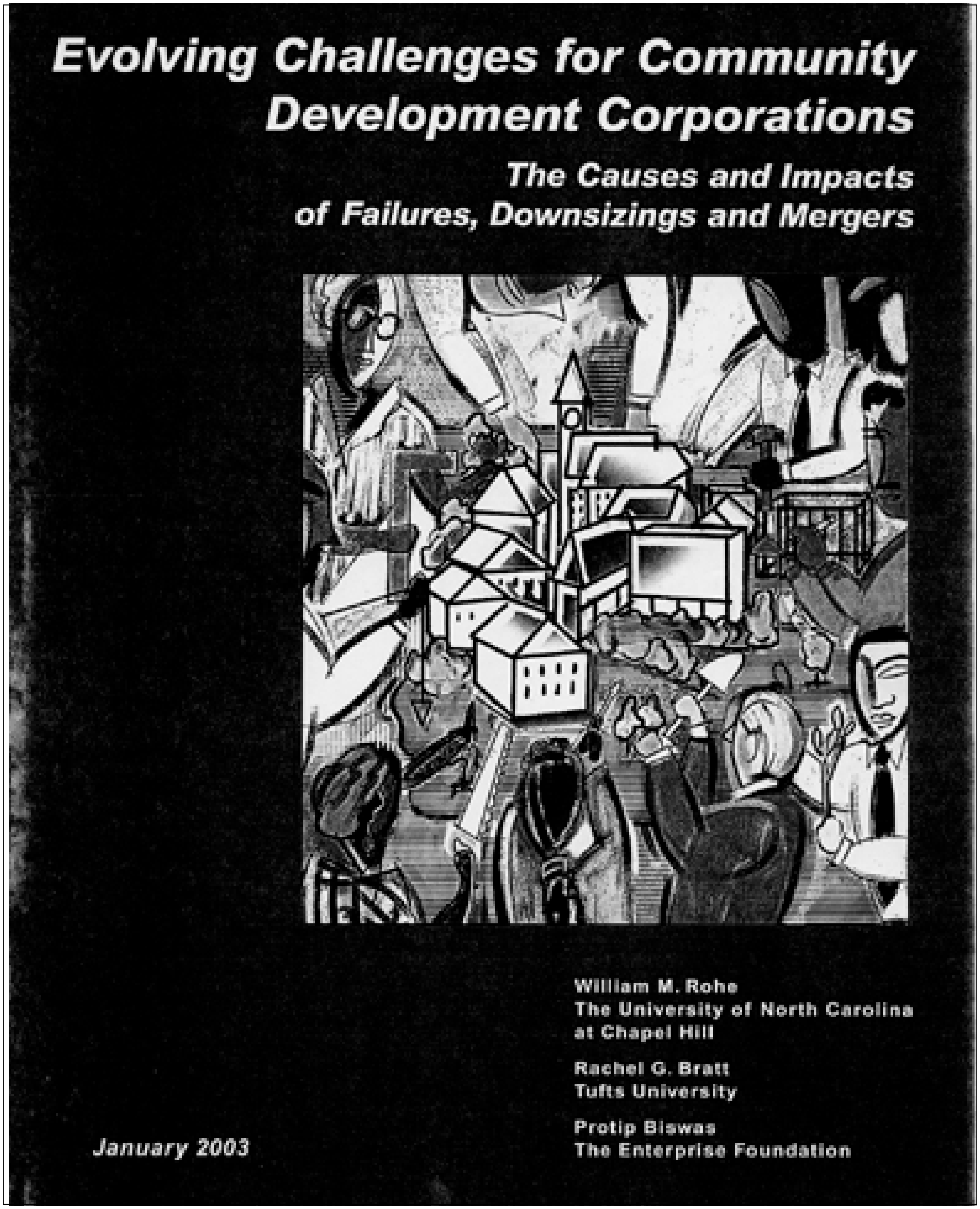

Evolving Challenges for Community Development Corporations

The Causes and Impacts of Failures, Downsizings and Mergers

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EVOLVING CHALLENGES FOR COMMUNITY DEVELOPMENT CORPORATIONS: THE CAUSES AND IMPACTS OF FAILURES, DOWNSIZINGS, AND MERGERS

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EVOLVING CHALLENGES FOR COMMUNITY DEVELOPMENT CORPORATIONS: THE CAUSES AND IMPACTS OF FAILURES, DOWNSIZINGS AND MERGERS

William M. Rohe, Rachel G. Bratt, and Protip Biswas

EXECUTIVE SUMMARY

Community development corporations (CDCs) are key vehicles for providing better housing and promoting community development in low- and moderate-income neighborhoods. These organizations, however, face a variety of challenges to their continued viability. In recent years many have failed, downsized, or merged with other organizations. This study represents the first systematic analysis of CDCs that have failed, downsized, or merged. By analyzing the experiences of six organizations—two that failed, two that downsized, and two that were the product of a merger—we identify the factors that contributed to these organizational changes and the impacts on the communities served. The study also recommends ways for both CDCs and their supporters to address the challenges they face and reduce the prevalence of downsizing and failure.

In recent years, CDCs have become increasingly important actors in many low- and moderate-income communities. In neighborhoods where the loss of private businesses has often been endemic and where private and even public investment may be extremely low, CDCs provide housing and create jobs and economic opportunities for residents. As key engines of community growth and revitalization, CDCs have been the subject of considerable study, and their continued viability and productivity are widely viewed as important in efforts to improve deteriorated neighborhoods and their residents' opportunities.

Over the past 30 years, much attention has been paid to the growth in the number of CDCs. The widely cited National Congress for Community Economic Development surveys, for example, have shown a near-doubling in the number of CDCs between 1988 and 1999. Recently, however, several large, well-respected CDCs have failed or been drastically downsized, and others have merged with different organizations. One of the most dramatic examples of a CDC failure is Indianapolis's East Side Community Investments, which had been one of the nation's largest and most celebrated CDCs. Between the early 1990s and 1997 it went from a staff of 115 to a staff of 6 and in October 2001 it finally went out of business.

These incidents led us to ask several questions:

1. Are CDC failures, downsizings, and mergers isolated instances, or are they part of a more general pattern among CDCs across the country?

2. What are the contextual and organizational factors that lead to CDC failures, downsizings, and mergers?

EVOLVING CHALLENGES OF COMMUNITY DEVELOPMENT CORPORATIONS

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3. How do CDC failures, downsizings, and mergers affect the communities served?

4. What policies and other actions are needed to respond to failures, downsizings, and mergers among CDCs?

Given the nature of the research questions, we chose a systematic case study approach. We began by identifying a large number of CDCs that failed, downsized, or merged and systematically selected six CDCs for careful study:

- Failed organizations
  1. Community Development Corporation of Wisconsin (CDCW) in Milwaukee
  2. Whittier Housing Corporation (WHC) in Minneapolis

- Downsized organizations
  1. Oak Cliff Development Corporation (OCDC) in Dallas
  2. Advocate Community Development Corporation (ACDC) in Philadelphia

- Merged organizations
  1. Albina Community Development Corporation (Albina) in Portland
  2. Slavic Village Development (SVD) in Cleveland

To learn more about the factors contributing to CDC failure and downsizing, we also selected comparison organizations for the two organizations that failed and the two that downsized. We hoped that studying those organizations would help clarify the reasons why CDCs fail or downsize.

Three-day site visits were made to each city to conduct interviews with key informants, including the CDCs' current and former executive directors, other staff, and board members. City officials, representatives of local intermediary organizations, and others were also interviewed. Relevant documentation, such as letters and reports, was collected during the visits.

Prevalence of Failures, Downsizings, and Mergers

On the question of whether the failures, downsizings, and mergers of the CDCs we studied are isolated phenomena, our results suggest that they are not. In fact, they are prevalent across the country. Although we were unable to conduct a census of organizations experiencing those changes, through a series of telephone calls, we were able to compile a list of 103 organizations that had reportedly experienced one of these changes within the past three years. Of those, 46 organizations had failed, 41 had experienced a significant downsizing, and 16 had been part of mergers. This indicates that CDC failures, downsizings, and mergers appear to be widespread and deserve the attention of researchers, policy makers, and CDC intermediaries.

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Causes of Failures, Downsizings, and Mergers

We found that both contextual and organizational factors contribute to CDC failures, downsizings, and mergers.

Contextual Factors

Six specific contextual factors were identified. First, changes in local housing markets raised new challenges for several CDCs. Weakening demand for CDC-owned or -managed housing played an important role in the two CDC failures studied, while a strong market made it difficult for organizations in one of the mergers studied to acquire property for development. CDCW in Milwaukee, for example, experienced weakened demand for housing in its primary target area; this weakening was at least partially responsible for higher than expected turnover and vacancy rates in CDCW's rental housing. This contributed to financial problems and, ultimately, to the organization's failure.

Second, the growth in the number of CDCs played an important role in the organizational changes studied. Over time, this growth has led to increased competition for the limited public, foundation, and private resources available. Increased competition for funding was identified as an important factor in the downsizing of both OCDC in Dallas and ACDC in Philadelphia. Competition for funding was also identified as important in the two mergers studied. CDC funders in both Portland and Cleveland wanted to reduce the number of CDCs vying for their limited dollars.

Third, changes in local city policies were found to have profound, often unanticipated effects on all but one of the CDCs studied. In two instances, the processes for distributing city-controlled funds were changed, leading to cuts in funding available for CDC-sponsored housing developments. In Milwaukee and Minneapolis, neighborhood groups were given a larger say in the allocation of city housing and community development funds. Because the development of affordable housing was not a high priority among these groups, these changes led to sharp cutbacks in funding for CDC-sponsored developments.

Fourth, intermediaries and other local funders of CDCs were found to pressure CDCs to take certain actions, although they often provided financial support to assist CDCs in taking those actions. The mergers in Cleveland and Portland, for example, came about largely because local funders joined with their cities to put pressure on CDCs to merge. This raises questions about when and how intermediaries and other funders should intervene in CDC affairs.

Fifth, in several cities the lack of local support groups—also known as trade associations—limited communication between CDC directors and local funders, and among a city's CDC directors. The lack of CDC trade groups in Milwaukee, Minneapolis, and Dallas was cited as a factor contributing to the failure or downsizing of the organizations studied there. Many interviewees felt that trade groups were needed, both to share information among CDCs and to ensure that CDCs are effectively represented in the political process.

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Finally, the level of trust among key actors played an important role in both failures, one downsizing, and both mergers. In Portland, for example, a lack of trust among the CDCs involved in the merger contributed to decisions to cease merger talks.

Organizational Factors

Six organizational factors were also identified as contributing to the changes studied. First, the breadth of missions of the organizations studied played an important role in both failures, one downsizing, and both mergers. Organizations with a narrow mission were vulnerable to changes in both community needs and funding priorities. In Dallas, for example, OCDC's exclusive focus on constructing single-family homes left it vulnerable to a shift in funding from homeownership to multifamily rental housing.

Second, overreliance on a single source of funding was said to have contributed to one failure and both downsizings. CDCW in Milwaukee, for example, was heavily dependent on the city for financial support, and much of that support was tied to the production of housing units. Thus, a slowdown in housing production led to serious funding cutbacks. Similarly, a large percentage of OCDC's revenues came from an in-fill housing program funded by the city. When that contract was not renewed, the organization was forced to downsize substantially.

A third organizational factor involved internal management problems, which were cited as contributing to both failures, both downsizings, and one merger. In particular, problems in project management and property management were identified. Project management problems included inaccurate financial projections leading to cost overruns, overly optimistic underwriting assumptions, inadequate cost control and accounting systems, and poor-quality construction. Property management problems included inadequate tenant screening and eviction procedures, inadequate maintenance of properties, and lack of social support services for tenants. CDCW in Milwaukee experienced both types of management problems: it experienced cost overruns on many of its rehabilitation projects, and tenant screening and eviction procedures were said to be inadequate.

Fourth, a lack of staff or board capacity undermined the performance of and support for both failed CDCs, both downsizings, and one merger. Turnover in executive directors contributed to the problems experienced by WHC in Minneapolis and ACDC in Philadelphia. Many organizations found it difficult to retain experienced staff because city agencies and private sector companies paid substantially higher salaries. In addition, poorly balanced or passive boards of directors contributed to several organizations' decline. In some instances, such as with OCDC in Dallas, the board included very few community residents, and this cost the organization dearly when it needed community support to lobby for continued city funding. In other instances, such as in Milwaukee, the board did not adequately monitor the CDC's financial health and did not react in time to save it.

Fifth, communication problems played an important role in the organizational changes experienced in both failures, both downsizings, and one merger. These problems included poor communication between executive directors and their boards, between executive directors and funders,

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between executive directors and city officials or politicians, and among CDC supporters. In Milwaukee, the lack of communication between the executive director and the board, as well as among the city's various CDC supporters, was said to have contributed to CDCW's demise.

Finally, lack of community support for various CDC activities was identified as an important factor in both failures and one downsizing. For example, vociferous community opposition to the Whittier Alliance's focus on providing rental housing for very low income households led to the creation of WHC and contributed to the city's decision not to provide the new organization with funds to develop additional housing. In Milwaukee, CDCW had not developed strong community support, so there was very little community response when the city decided to cut the organization's funding.

Impacts of Failures, Downsizings, and Mergers

Turning to the question of the impacts of failures, downsizings, and mergers on the communities served, our results suggest that CDC failure and downsizing can have a variety of negative effects. Those effects vary depending on the community context and the characteristics of the organizations involved.

Five types of negative impacts were identified. First, the experiences in Milwaukee, Dallas, Philadelphia, and Portland indicate that failure and downsizing can undermine both public and private sector confidence in CDCs as effective providers of affordable housing and other services. The failure of CDCW in Milwaukee, for example, led both city officials and private lenders to look for ways to involve the private sector in the production of affordable housing. The loss of confidence in CDCs was particularly likely when the failed or downsized CDCs were prominent organizations in their local areas.

CDC failure and downsizing were also found to negatively affect the production of affordable housing, resulting in more households having to live in substandard housing, pay very high proportions of their incomes for housing, or both. At its height, CDCW was producing 150 units of affordable housing per year. After it failed, this production was lost, and there was no evidence that other organizations were making up for it.

The loss of existing affordable housing was also a frequently cited effect in selected cities. Again, the most dramatic example of this was Milwaukee, where the failure of CDCW resulted in approximately 100 units being sold to investor/owners, some of whom were described as "slum landlords." The loss of affordable housing units was more likely when private financial institutions, rather than public or nonprofit organizations, held the first mortgage.

CDC failure and downsizing were also found to contribute to neighborhood instability. Both the downsizing of OCDC in Dallas and the failure of CDCW in Milwaukee left many properties vacant and boarded up for extended periods of time, negatively affecting the quality of life—and, some suggested, real estate values—in the area. This effect was more likely if the failed CDC owned a large number of units within a small geographic area.

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Finally, CDC failure and downsizing sometimes led to fear, confusion, and distress among the inhabitants of the properties involved. When, for example, WHC in Minneapolis decided to dissolve, residents did not know whether they would have to move out of their homes, and tenants had to live in properties that were inadequately maintained. Poor communication with tenants only added to resident fear and distress.

In contrast to the largely negative impacts of CDC failure and downsizing, the stated effects of CDC mergers were largely positive. They included an increase in organizational capacity, greater ease in fund raising, and the reintroduction of community organizing.

Recommendations

The results of our study led us to offer the following recommendations:

CDCs and their support communities should develop strategic plans and revise them periodically.

Two of the major contextual factors that we identified as leading to problems for CDCs were changes in local housing markets and growth in the number of CDCs. Strategic planning that involves local CDCs, funders, and policy makers can help all involved anticipate and respond to those changes.

Narrowly focused CDCs should consider diversifying the types of activities provided, the geographic area served, the clientele of the housing units developed, and the sources of funding.

Diversification makes an organization less vulnerable to changes in both funding priorities and community desires. The decision to diversify, however, should be approached cautiously and involve both residents of the original target area and the local CDC support community. The full set of potential benefits and risks should be weighed, and the timing and speed of any diversification should be carefully considered.

CDCs should work hard to maintain the support of residents in the communities they serve.

A lack of community support for various CDC activities was identified as an important factor in the failure or downsizing of three of the organizations studied. The boards and staffs of CDCs need to work hard to ensure that their activities have widespread community support.

CDCs need to work closely with local social service agencies to ensure that the tenants in CDC properties receive the support services they need.

Given that tenants of affordable housing developments often need social services, CDCs should work with local social service agencies to see that they receive those services. CDCs do not

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necessarily have to directly provide the services, but they should be prepared to make referrals to other appropriate service organizations.

Citywide support and trade organizations should be created in cities where they do not exist.

Any city with multiple CDCs should create and nourish two types of support organizations. First, CDC support groups are needed to facilitate communication and coordination among the often numerous funders and technical assistance providers that operate in cities. Second, CDCs should organize trade associations to share knowledge, coordinate activities, collaborate on projects, and advocate for their interests.

CDCs and their support communities should enhance mutual trust through participation in collaborative projects.

The level of trust and extent of prior collaboration among key actors played an important role in the organizational changes that occurred. Joint projects and other forms of collaboration should help foster trust among CDCs and between CDCs and the public, nonprofit, and private members of the local support community.

City policy makers should assess the impacts of proposed policy changes on CDCs and involve them in those decisions.

Changes in city policies had significant, often unanticipated effects on all but one of the CDCs studied. Thus, when city policy makers propose policy changes that would affect the distribution of funds for affordable housing, they should analyze those changes carefully to understand their effects on the financial health of local CDCs.

Adequate core operating support for CDCs should be provided.

Because CDCs are rarely able to break-even, let alone make a profit, the basic funding for CDC operations needs to be provided by external sources, such as city and state funders and private foundations. In view of the hazards that can be created by an overreliance on a single funding source, both funders and CDCs should seek creative solutions to this dilemma.

The CDC support community, in collaboration with CDCs, should develop realistic performance standards for CDCs and assist them in achieving those standards.

Funders should not be expected to carry indefinitely an organization that is not functioning well. Rather than precipitously reducing an organization's support, however, funders should provide the organization with lead-time to plan for funding reductions or increase continued support. Taking care not to overwhelm the CDCs' own agendas with a heavy-handed approach, funders need to work with CDCs to create realistic performance standards.

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The CDC support community should provide additional opportunities for staff and board training to increase retention.

Although there are a number of national initiatives focused on increasing CDC capacity, additional help is needed. CDC supporters must better understand the types of assistance needed and commit to providing high-quality training programs and consulting.

CDCs and their support communities should maintain open communication lines and respond quickly to problems as they develop.

Communication problems played an important role in the organizational changes experienced in five of the six cases studied. It is important to identify and acknowledge problems as they arise and not allow them to fester.

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D. Rewarding Ambition: Latinos, Housing and the Future of California

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Research Reports

Rewarding Ambition: Latinos, Housing and the Future of California
Joel Kotkin (author), Thomas Tseng (author), Erika Ozuna (project director)
September 2002

About the Authors | Executive Summary | Introduction | California's New Rising Majority | A Crisis of Supply | Looking Ahead | Footnotes | Appendix | Acknowledgements | Project Sponsors | Contact Information | Download PDF File

EXECUTIVE SUMMARY

California has long been the land of dreams, luring people from across the country and increasingly from throughout the world. A good job, an education, and, most of all, possession of one's own piece of this vast and varied state was part and parcel of what drove people here.

Yet today that very dream is threatened by what, for millions of Californians, is a closed door. Much of the blame lies, ironically, with the success of the state, a booming economy that created billions in new wealth and opportunities, turning California into the world's fifth largest economy. California's growth engendered a massive increase in the cost of housing, with prices, particularly on the coast, reaching levels well beyond the reach of most state residents. As a result, despite the good economic times, homeownership in some areas, such as Los Angeles, actually declined in the 1990s.[1]

Not all the problems, however, can be blamed on markets. Changes in the state's tax structure have provided little incentive for communities to build more housing; indeed, the current tax system, dependent largely on retail sales, encourages the development not of homes for families, but malls for shoppers. At the same time, tough environmental laws and often a powerful anti-growth lobby make the construction of new housing, particularly in the low- and moderate-level varieties, almost impossible. As a result, California home construction in the past decade lags far behind that of other periods of demographic and economic growth.

Almost all potential middle- and working-class home buyers have been affected by the soaring prices. Yet arguably the group most impacted — and almost certain to feel the sting most acutely — is Latinos, who represent a plurality of California new households.[2] Strongly work-oriented and family-centric, Latinos are natural home buyers, with a strong, demonstrated cultural affinity for investing their earnings into residential real estate. Yet increasingly they face growing obstacles to purchasing homes, often being forced to crowd several families into one residence or to move to the extreme periphery of our major urban centers.

If not addressed forcefully, this gap in affordability could create a potentially dangerous break with our state's tradition. Earlier waves of migrants to California — from the homesteaders, to the Depression-era "dust bowl" refugees, to the post-World War II generation — all found a California that could reward their hard work with the prospect of owning a home. Latinos, the predominant new wave of the late twentieth and early twenty-first centuries, would become the first major group to find themselves, through no fault of their own, excluded from owning their piece of the California dream.

The implications of this failure could be severe. A largely new population, eager to share the California dream, may become discouraged, alienated, and politically detached. Possible conflicts between a class of permanent renters and homeowners, particularly with racial overtones, would not bode well for the state or its future. Worst of all, the inability to own homes would force many of the most industrious immigrants and second-generation Latinos out of the state, leaving behind vastly weakened communities.

What is urgently needed, then, is a strong commitment, both by the private and public sectors, to address this potentially dangerous situation. Although discrimination is still a factor inhibiting homeownership among Latinos,[3] many of the barriers are more aptly described as economic or cultural and ultimately best addressed through policies that increase the supply and access to housing to moderate-income people.

The economic issues are perhaps the most paramount. Effort should be made by private, nonprofit, and public agencies to extend credit to working- and middle-class Californians who include many of those in the roughly two-thirds of households statewide that cannot afford a median-price home.[4] This would by definition aid Latinos who represent the largest proportion of moderate-income residents and potential home buyers.

Cultural issues need to be addressed largely by the private sector. Our survey results show a powerful proclivity on the part of Latinos to purchase homes through Spanish-speaking or Latino-oriented agencies. Developers also need to be more sensitive to the kinds of housing products that work for Latino families.

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But, ultimately, much of the solution lies in Sacramento and in the varied communities of this state. Until tax and fiscal policies are enacted that encourage localities to build housing — as opposed to retail developments — there will be little incentive for them to do so. Only further out peripheral areas would be developed except for the highest cost housing, something that would not address the most critical need and would accelerate sprawl. And in the end, the state and its communities must recognize that housing is a critical part of the state's infrastructure — just like roads, transit, water, or power systems. Housing is the fundamental thing that roots Californians to the state and allows companies to tap labor markets critical to their growth. Housing for Latinos is not about one sector or one ethnic group; it is about the very essence, the future of California for us all.

Report Findings include:

- Latino home buyers purchase more than one in five homes sold in California.

- More than one-half of all homes purchased in California by Latinos are in the five-county Southern California region, predominantly in Los Angeles County.

- Nearly two-thirds of U.S.-born Latinos in California are homeowners, whereas less than one-third of Latinos born outside the U.S. own their own homes. - Most of California's Latino homeowners

are recent owners — 44 percent have owned their homes for fewer than five years, and more than 70 percent of their current residences are a first-time home purchase.

- Family considerations are the strongest motivation behind purchasing a home, followed by owning the home as a financial investment.

- In purchasing their homes, the top challenges among California's homeowners were "finding the right home" and "understanding the home-buying process." Across the board, foreign-born Latinos faced the greatest challenges in purchasing their homes.

- Foreign-born Latino homeowners in California devote a considerably greater amount of their income to mortgage payments than U.S.- born homeowners. An average of 43 percent of their household income is spent on the monthly mortgage, compared to 32 percent among U.S.-born.

- The vast majority of the Latino renting population are immigrants; 80 percent were born outside the U.S. — 66 percent in Mexico.

- Nearly one-half of all Latino renters pay more than 30 percent of their monthly income in rent; more than one-third pay more than 40 percent.

- Among renters who previously attempted to purchase a home, the top two reasons for being declined are: "bad credit/no credit" and "insufficient income for down payment/no money."

- Overall, Latino renters are very optimistic about their likelihood of purchasing a home at some point in the near future — nearly 70 percent are confident they can purchase a home within five years.

- Most prospective Latino home buyers hope to purchase a singlefamily home — more than half of them are looking for a home of $150,000 or less with a down payment of $10,000 or less.

- More than 65 percent of potential home buyers prefer to conduct the home-buying process in Spanish — 78 percent prefer to work with a Latino real estate agent and 63 percent prefer to deal with a Latino lender representative.

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A Crisis of Supply | Looking Ahead | Footnotes | Appendix | Acknowledgements | Project Sponsors |
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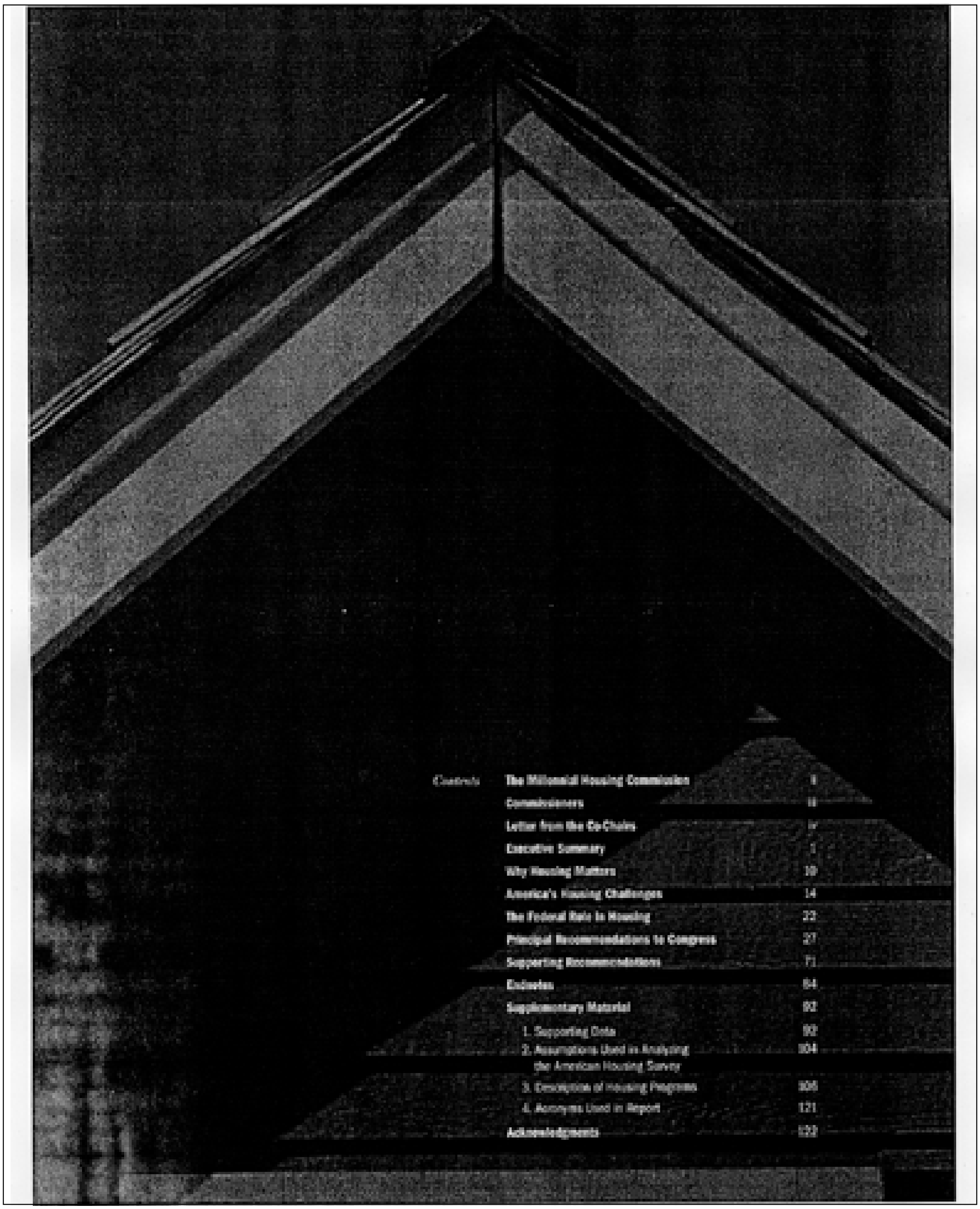

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Executive Summary

Housing is most Americans' largest expense. Decent and affordable housing has a demonstrable impact on family stability and the life outcomes of children. Decent housing is an indispensable building block of healthy neighborhoods, and thus shapes the quality of community life. In addition, the housing sector provides a major stimulus to the nation's economy, consistently generating more than one-fifth of gross domestic product. Better housing can lead to better outcomes for individuals, communities, and American society as a whole.

In short, housing matters. This is why the federal government has long sought to expand the country's housing supply. Federal support for housing has taken many forms over the years: grants; subsidies on mortgage debt; direct payments to landlords on behalf of low-income citizens; the provision of liquidity and stability to the housing finance system through Federal Housing Administration mortgage insurance; the creation of the Federal Home Loan Banks, Fannie Mae, and Freddie Mac; and housing-related tax code measures, such as mortgage interest and property tax deductions, accelerated depreciation, tax-exempt mortgage financing, and Low Income Housing Tax Credits.

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Federal support for the housing sector has been tremendously successful for most households. America's homeownership rate is a remarkable 67.5 percent. Direct federal assistance for rental housing now reaches 4.8 million low- and moderate-income families who cannot afford housing in the open market. The nation's housing stock is the envy of the world. More than one million additional affordable rentals are assisted through tax credits and block grants.

For many poor households, however, federal efforts have been less than successful. The most significant housing challenge is affordability, growing in severity as family incomes move down the ladder. In 1999, one in four—almost 28 million—American households reported spending more on housing than the federal government considers affordable and appropriate (more than 30 percent of income). Even working full time no longer guarantees escape from severe housing affordability problems. In 1999, one in eight lower-income working families earning at least the full-time equivalent of the minimum wage reported spending more than half their incomes on housing.

The gap between the available rental supply of units affordable to the poorest households and the demand for them stood at 1.8 million in 1999. Because they could afford nothing better, 1.7 million lower-income households lived in severely inadequate housing, placing their health and safety at risk. Finally, despite the 1990s homeownership boom, black and Hispanic homeownership rates in 2001 lagged the homeownership rate of whites by almost 27 percentage points.

Federal support for the housing sector has been insufficient to cover growing needs, fill the gaps in availability and affordability, preserve the nation's investment in federally assisted housing, and provide sufficient flexibility to craft local solutions to problems. For example, multifamily production in the 1990s was approximately half of its level in each of the previous two decades. As a result of this and the shift toward production of more expensive apartments, rentals affordable to low- and moderate-income households fell by 9.5 percent between 1985 and 1999, further thinning the supply of affordable housing. Federal efforts have often not provided sufficient cash flow and incentives to insure proper physical maintenance or continued affordability when relatively short-term subsidy arrangements expire. Many federal programs fail to reflect state-to-state variations in housing needs and costs, and they fail to motivate proper planning—planning that relates housing to educational and economic opportunities, as well as to transportation.

At the opening of the new millennium, the nation faces a widening gap between the demand for affordable housing and the supply of it. The causes are varied—rising housing production costs in relation to family incomes, inadequate public subsidies, restrictive zoning practices, adoption of local regulations that discourage housing development, and loss of units from the supply of federally subsidized housing. Rural areas and Native American lands present especially difficult environments for affordable housing because of the higher costs of providing infrastructure and the dearth of well-paying jobs. And despite civil-rights and fair housing guarantees, the housing shortage hits minorities hardest of all.

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America's housing challenges cannot be described with statistics alone; they must be understood as a quality-of-life issues as well. Fundamental to the American Dream is somewhere to call home—a safe and welcoming "anchor place" where families are raised and memories are formed. Furthermore, housing must be viewed in the context of the community in which it is located. Improvements in housing need to be linked to improvements in schools, community safety, transportation, and job access.

Success in federal housing policy needs to be evaluated not just according to the number of housing units produced but also in terms of whether the housing produced improves both communities and individual lives. Federal housing assistance programs need to be reformed so that non-elderly, able-bodied people living in assisted housing have a personal responsibility, as do others, to contribute to society as well as accept its help. It is time for America to put these quality-of-life considerations on a par with cost considerations and make housing programs work to improve communities and individual lives.

In light of its mandate from Congress, the Millennial Housing Commission sought answers to some basic questions in seeking to address the nation's housing challenges:

- What is the importance of housing, particularly affordable housing, to the nation's infrastructure?
- Is the nation getting the housing outcomes it expects and desires for individuals, families, and communities? Are there better ways to meet these needs?
- How can the nation increase private-sector involvement?
- Are existing housing programs living up to their potential? Which need reform or significant restructuring?
- What are the critical unmet housing needs? Are new programs necessary to address these needs?

In the search for answers to these questions, the Commission held five public hearings, conducted numerous focus group meetings, commissioned papers, and solicited input on policy positions and program recommendations from a myriad of individuals and organizations. The consistent ideas expressed in these various forums were:

- Affordability and lack of decent housing are a growing problem, particularly for low-income families.
- Housing must be financially and physically sustainable for the long term.
- Housing issues are predominantly local issues, and programs must reflect the variations from state to state and community to community.
- Housing exists in a broader community context, and programs must consider the relation and impact of housing on education, economic opportunity, and transportation.
- Private-sector involvement in the production of affordable housing must be increased.
- Mixed-income housing is generally preferable to affordable housing that concentrates and isolates poor families.
- Consistent enforcement of the nation's fair housing laws is a vital part of making housing a part of the ladder of economic opportunity.
- Congruence among existing housing programs is essential.
- Homeownership counseling is necessary to make homeownership programs work well for low-income families.

These ideas are reflected in the Commission's recommendations to Congress.

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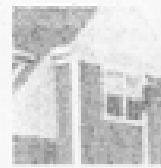

This is not a report about specific funding levels, nor does it lay out quantitative goals. Instead, this report presents a new vision for the nation's housing. The Millennial Housing Commission's vision can be stated quite simply:

to produce and preserve more sustainable, affordable housing in healthy communities to help American families progress up the ladder of economic opportunity.

To achieve this goal, the Millennial Housing Commission recommends that the links between housing and the community in which it is located be strengthened, that authority and responsibility for making decisions about housing remain in the hands of state and local governments, that the role of the private sector in producing affordable housing be enhanced, and that the goals of sustainability and affordability be placed on equal footing so that continued affordability is no longer the enemy of proper physical maintenance. All affordable housing needs to be designed, financed, and managed to be sustainable over the long term.

These policy principles underpin all of the Commission's recommendations to Congress. The recommendations made in this report also rest upon the assumption that every part of the housing, real estate, mortgage, and community development industries must operate without regard to race, color, national origin, gender, disability, family status, or religion.

A summary of the Commission's 13 principal recommendations follows. These recommendations are divided into three categories: new tools, major reforms of existing programs, and streamlining of existing programs. The policy principles of strengthening communities, devolving decision-making, involving the private sector, and ensuring sustainability inform all of the recommendations. The recommendations derive from nearly a century of experience. They represent lessons learned and a reaffirmation of the importance of housing to the nation as a whole, its communities, neighborhoods, families, and citizens.

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New Tools

Enact a new homeownership tax credit.

The Commission recommends a state-administered homeownership tax credit, modeled on the successful Low Income Housing Tax Credit for rental housing. States would be able to use this flexible credit, under a qualified allocation plan, for two purposes. In qualified census tracts, where the cost to build or rehabilitate a unit will be greater than the appraised value of the completed home, states may use the credit to offset the developer's total development cost. A credit used in this manner would thus serve a community development purpose in addition to providing a new unit at a cost to the buyer that reflects local market conditions rather than the otherwise prohibitively high cost of development. Or, states may allocate the credit to lenders who in turn provide lower-cost mortgages to qualified buyers. In either form, the credit will extend the benefits of homeownership to low-income households and the communities in which they choose to live.

Support preservation with a broad system of tools, beginning with exit tax relief.

The stock of affordable housing units is shrinking. Some properties are in attractive markets, giving owners an economic incentive to opt out of federal programs in favor of market rents, and many owners have done so. Other properties are poorly located and cannot command rents adequate to finance needed repairs. In general, properties with lesser economic value are at risk of deterioration and, ultimately, abandonment, unless they can be transferred to new owners. To remove an impediment to transfer, the Commission recommends that Congress recognize and authorize "preservation entities," organizations that would acquire and own such properties and commit to the preservation of existing affordability. The Commission further recommends that Congress enact a preservation tax incentive to encourage sellers to transfer their properties to such entities. Subject to state housing finance agency oversight, an owner who sells to a preservation entity would be eligible for exit tax relief.

Provide capital subsidies for the production of units for occupancy by extremely low-income households.

This new tool would address the multiple problems of housing inadequacy that bear most heavily on extremely low-income (ELI) households, most of whom report paying well over half their incomes for housing costs. The most dramatic problem is the severe shortage of available units. No production program currently serves these households, and a significant portion of existing units that would be affordable to some of these families is occupied by higher-income households spending less than 30 percent of their incomes on housing. The capital subsidy would be used to produce new units and/or preserve existing units for ELI occupancy, eliminating debt on the units—and thus removing the debt service component from the household's monthly rental payment. No more than 20 percent of the units in any one development would have ELI occupancy restrictions. This program would thus result in more and better-quality units for ELI households and a degree of deconcentration of poverty.

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Enact a new mixed-income, multifamily rental production program.
In most housing markets, an increase in the housing supply would be beneficial because it would lower rents at all price levels. Scarcity begets higher rents. The Commission therefore recommends a new multifamily production program with modest federal targeting requirements that, because of its relative simplicity, would attract private capital to produce multifamily rental housing. The essence of this recommendation is to take the limits off of states' ability to issue tax-exempt debt for specific housing and community development purposes. States may choose to allocate the resource via an allocation plan in order to target production to specific areas, such as those characterized by employment and other opportunities that would be particularly beneficial to the low-income families residing in the rent-restricted units.

Facilitate strategic community development by empowering state and local governments to blend funding streams.
State and local leaders have trouble coordinating affordable housing activities with transportation, economic development, employment, training, childcare, and educational activities, because funding for such purposes is delivered through separate federal-to-state funding streams. To facilitate the combined use of such funds in support of comprehensive neighborhood redevelopment, the Commission recommends that Congress authorize governors to set aside up to 15 percent of federal block grant funds received. Funds could be combined and used for specific projects developed with the support of local government(s). Funds would be used for the same purposes as they were intended (e.g., job training, childcare, transportation, housing, social services), but in support of comprehensive neighborhood redevelopment. Localities would undertake a comprehensive planning process with meaningful public input to create a holistic development strategy for a particular neighborhood. Projects selected would benefit from consolidated review and decision-making. Governors would have limited authority to waive federal regulations that interfere with the combined use of funds.

Major Reforms to Existing Programs

Transform the public housing program.
Public housing agencies (PHAs) are encumbered by federal regulations that undermine local decision-making authority and make it difficult for PHAs to provide quality housing to low-income families. For example, the centralized system of public housing funding—wherein funds flow to PHAs as a whole and not to individual properties—makes it difficult for PHAs to finance needed capital improvements through the private markets. Meanwhile, federal funding for such activities has fallen short by approximately $20 billion to date. To transform the program, the MHC recommends a gradual transition to a project-based approach, with subsidies flowing to specific properties based on the rents that units would command after any needed renovation. This transformation would enable PHAs to rehabilitate properties using funds

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borrowed in private markets. If feasible, obsolete properties could be repositioned using the HOPE VI program. The recommendation also addresses troubled agencies, the program's overly complicated rent structure, and the disproportionate regulatory burden on small PHAs.

Revitalize and restructure the Federal Housing Administration within HUD.
Revitalizing and restructuring FHA is an urgent priority for congressional action. FHA's multifamily insurance is an indispensable tool for stimulating housing production, and its single-family insurance extends homeownership opportunities to low-income families and minorities. FHA's potential, however, is limited by its outmoded structure and confining statutes. The Commission therefore recommends that Congress restructure FHA as a wholly owned government corporation within HUD, governed by a board chaired by the HUD Secretary. Such a structure would enable FHA to adapt its programs to evolving markets without relying on Congress to legislate each change, and it could be accomplished with no substantial budget impact. It would also enable FHA to invest in technology, leading to increased efficiency and reduced risk, and to attract and compensate staff at competitive levels, securing the skills needed to manage its nearly $500 billion mortgage insurance program. Equally important is that under such a restructuring the FHA would remain with HUD and would be an effective force for the production and preservation of affordable housing. The Commission also outlines recommendations intended to provide FHA with more flexible multifamily and single-family operations. If Congress chooses not to restructure FHA, the MHC recommends that its proposed improvements be implemented within the current FHA organization.

End chronic homelessness.
Homeless families and individuals generally fall into two categories: the transitionally homeless and the chronically homeless. Transitionally homeless households need adequate housing, first and foremost, while those who are chronically homeless confront health or substance abuse problems in addition to extreme poverty. With its capital subsidy for units targeted exclusively to extremely low-income households and its recommended improvements to public housing, vouchers, and the HOME and Low Income Housing Tax Credit programs, the Commission believes that the tools needed to end transitional homelessness will be available. For the chronically homeless, permanent supportive housing, which combines housing with intensive rehabilitative and other social services, is needed. The Commission recommends the elimination of chronic homelessness over a 10-year period by the creation of additional units of permanent supportive housing and the transfer of renewal funding for such units to HUD's Housing Certificate Fund.

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Over time, establish a work requirement linked to housing assistance.

As with other "means-tested programs," a household qualifies for housing assistance based on its income. Housing programs that set rents at a percentage of household income create a disincentive to increase income through work or marriage and a powerful barrier to household movement up the ladder of economic opportunity. The Commission recommends several measures to move assisted families up and out of assisted housing units, over time, through a combination of work requirements and supportive services, enabling them to increase their incomes and freeing up the housing units for other, currently unassisted families. In addition, the Commission recommends continued experimentation with and changes to the rent structure of public and assisted housing to reduce the disincentives to work and marriage.

Streamlining of Existing Programs

Expand and strengthen the housing choice voucher program.

The voucher program serves 1.6 million households and is for the most part highly successful. In some markets, however, program administration and regulatory complexity create an effective disincentive for private owners to accept voucher-holding tenants, especially when owners can instead rent to unsubsidized tenants. The Commission recommends increased authority for local program administrators to change payment standards in response to market conditions, and, recognizing the versatility of the program, it proposes measures to match voucher holders with services that complement efforts to embrace employment and other opportunities. Additional recommendations strengthen and enforce the requirement that owners of housing produced with federal assistance accept voucher-holding households—including extremely low-income households, for whom the Commission recommends a special type of voucher—in all cases subject to a local cap to encourage deconcentration of poverty. Finally, the Commission asserts that the voucher program is distinctly worthy of additional funding in substantial annual increments.

Reform the HOME and Low Income Housing Tax Credit programs, and increase funding for HOME.

The HOME and Low Income Housing Tax Credit programs are both highly successful. Outdated rules and regulations, however, inhibit their potential for production and preservation activities, particularly those that would provide new or rehabilitated units affordable to the lowest-income households. The Commission recommends elimination of these rules and of programmatic complexities that burden project developers and owners. In the case of the tax credit, the Commission recommends elimination of uncertainties that can spoil investor appetite. To support the efforts of former welfare recipients, the Commission calls for a change to the tax code to allow states to use Temporary Assistance to Needy Families (TANF) funds for one-time grants to tax credit properties. The grants would be used to reduce the rents on particular units, which

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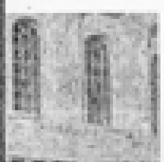

would be occupied by working poor, including former welfare, households. For the HOME program, the Commission recommends substantially increased appropriations.

Improve the Mortgage Revenue Bond program.
State housing finance agencies (HFAs) issue Mortgage Revenue Bonds (MRBs) and use the proceeds to generate single-family mortgages. A statutory provision known as the "10-year rule" limits HFA use of scheduled repayments and mortgage prepayments and has resulted in substantial lost mortgage volume to date. This provision should be repealed immediately. In addition, as long as income limits are enforced, the Commission recommends repeal of purchase price limits, as well as restrictions that limit eligibility to first-time homebuyers and restrictions that apply in some states and limit eligible Veterans. These measures combined will help to ensure that HFAs maximize the public benefit associated with bond issuance in the interest of promoting homeownership for low-income families.

Revise federal budget laws that deter affordable housing production and preservation.
Budget laws inhibit the U.S. Department of Housing and Urban Development (HUD) from entering into contracts requiring more than one year's funding. As a consequence, HUD cannot offer the owners of multifamily housing multiyear contracts for rental assistance, and owners cannot obtain financing on the terms most advantageous for capital investment in the affordable housing stock. As a practical matter, Congress has never failed to appropriate funding to renew existing contracts for rental assistance. The Commission recommends, therefore, that funding for rental assistance be moved to the "mandatory" category of federal expenditures, so that private-sector lenders will be willing to finance repairs. The MHC suggests alternate measures that would have the same effect.

In addition to the principal recommendations described above, the Millennial Housing Commission endorsed a number of supporting recommendations: increase funding for housing assistance in rural areas; increase funding for Native American housing; establish Individual Homeownership Development Accounts to help more low-income households buy homes; allow housing finance agencies to earn arbitrage; exempt housing bond purchasers from the Alternative Minimum Tax; undertake a study of Davis-Bacon Act requirements; address regulatory barriers that add to the cost of housing production; streamline state planning requirements for community development programs; expand the financing options for small multifamily properties; foster a secondary market for development and construction lending; launch a demonstration project for comprehensive community development; improve consumer education about home mortgage lending; improve the access of manufactured home buyers to capital markets; affirm the importance of the Community Reinvestment Act; and affirm the importance of the government-sponsored enterprises.

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F. Federal Housing Programs: What They Cost and What They Provide

Part Five: Affordable Housing Compendium:
Summary:
National Affordable Housing Programs

GAO

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

July 18, 2001

Congressional Committees

Subject: Federal Housing Programs: What They Cost and What They Provide

This letter provides our interim response to a mandate in the Quality Housing and Work Responsibility Act of 1998 (P.L. 105-276) requesting that we compare the total per-unit costs of various housing assistance programs, taking into account qualitative differences in the housing and services provided. We previously briefed your office on our key interim findings (see enc. I). This letter summarizes these findings and discusses several of the policy issues they raise.

In fiscal year 1999, the federal government provided housing assistance to about 5.2 million renter households[1] at a cost of about $28.7 billion in budgetary outlays and tax credits. During the same year, almost 9 million very-low-income renter households who qualified for housing assistance did not receive it because of other budgetary priorities and constraints. This year was not unusual: The federal government has never provided housing assistance as an entitlement for all households that qualify for aid. Instead, the Congress has traditionally appropriated funds for assisting a specific number of new households each year, as well as for renewing assistance for those households already served by various federal housing programs.

Of the $28.7 billion in federal housing subsidies provided in fiscal year 1999, over $15 billion supported housing units developed under production programs that no longer receive appropriations to produce new or rehabilitated units. While maintaining the inventory of units produced under these inactive programs is an important goal of federal housing policy, our analysis for this report focused, as requested, on six programs that continue to increase the number of households assisted by the federal government: the housing voucher program, which is the largest source of federal funds for housing assistance, and five production programs, which currently receive federal funds to produce new or rehabilitated units.[2] Of these production programs, the Low-Income Housing Tax Credit program is by far the largest, accounting for over 80 percent of the new units produced in 1999. The six programs we analyzed are as follows:

Housing Voucher – supplements tenants' rental payments in privately owned, moderately priced apartments chosen by the tenants.
Low-Income Housing Tax Credit – provides tax incentives for private investment in the production of new and rehabilitated affordable housing units consistent with state-determined housing priorities.

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[1]Of these 5.2 million renter households, 4.3 million have very low incomes (50 percent or less of area median income) and 900,000 have low incomes (51 to 80 percent of area median income).
[2]This analysis does not include the HOME program because HOME funds are often used in conjunction with other housing programs, including the ones covered in this analysis.

GAO-01-901R Costs and Characteristics of Federal Housing Assistance

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HOPE VI – revitalizes severely distressed public housing, funds community and supportive services, and promotes mixed-income communities.
Section 202 – develops supportive housing for the elderly.
Section 811 – develops supportive housing for persons with disabilities.
Section 515 – develops family and elderly housing in rural areas, sometimes including space for community-based supportive services.

In this letter and enclosure, we compare the total per-unit costs of providing housing under these six programs and, for each program, identify the share of the total per-unit cost borne by the federal government; the assisted household; and other sources, including state and local governments and private organizations. Finally, we compare the types of housing and services provided and the populations served under the six programs. Our cost comparisons for these six programs focus on national averages. More detailed information on total per-unit costs in seven local markets appears in enclosure I.

To make comparisons, we collected detailed information on each of the six housing assistance programs, focusing on costs and housing characteristics. Because there is no central database on most of these housing programs, we contacted federal agencies, local housing authorities, and a private research firm to construct our database.[3] In addition, we visited representative properties in several metropolitan areas to observe qualitative differences in the housing and services provided under each of the programs. We also interviewed property managers and developers. To construct cost estimates that are comparable across the six programs, we accounted for differences in the structure and timing of the subsidies in each program. For all six programs, we estimated the first-year costs and 30-year life-cycle costs.[4] Interviews with housing finance experts confirmed the reasonableness of our methodology.

Comparative Cost Analysis

In summary, production programs are more expensive than housing vouchers. Nationally, we estimate that the total per-unit costs for housing production programs are from 32 to 59 percent greater than for housing vouchers in the first year and from 12 to 27 percent greater over 30 years – the life cycle we assumed for units of similar size (see table 1).[5] Our findings were similar for seven local housing markets but were limited to

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[3] City Research, an urban economics research firm in Boston, analyzed the tax credit program using a national database it constructed for a previous study.
[4] Life-cycle cost is the total cost of owning, operating, and maintaining a property over its useful life. In this analysis, we assume a useful life of 30 years.
[5] We used two approaches for calculating these percentages, both of which enabled us to control for general location (metro or nonmetro) and unit size (number of bedrooms). In both cases, we used vouchers as the benchmark for our cost comparisons because the voucher program is the largest federal housing assistance program. Under the first approach, we adjusted average voucher costs for comparability with the general location and average unit size for each of the production programs. The results of this approach appear in table 1. Under another approach, we compared costs across six programs for units in the same general location with the same number of bedrooms. For example, we found that in metro areas the first-year costs of tax credit, Section 202, and Section 811 one-bedroom units were about 136, 141, and 138 percent greater, respectively, than the first-year costs of one-bedroom voucher units. Ideally, we would have controlled more fully for structural amenities (e.g., square footage of unit, parking, and common areas) and

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the tax credit, Section 202, and Section 811 programs – the only programs for which we had sufficient local market data (see enc. I).

Table 1: Total Production Program Cost as a Percentage of Total Voucher Cost

Program	First year	Life cycle (30 years)
Low-Income Housing Tax Credits	132%	116%
HOPE VI[a]	159	127
Section 202	146	119
Section 811	138	112
Section 515	142	125

[a]HOPE VI costs include only housing-related construction costs.

Source: GAO analysis of federal, state, local, and private databases.

Our cost estimates for the production programs are conservative because they are not adjusted to reflect the property tax abatements that localities often provide for affordable housing. In addition, our HOPE VI estimates do not include any funding for capital reserves; for the other four production programs, the adequacy of the capital reserves to meet future capital needs is unknown. Historically, however, housing production programs have underfunded capital reserves. On the basis of very limited information, we estimate that these omissions could increase our total costs estimates by around 10 percent.[8]

Average costs can mask considerable variation in the costs of individual properties developed under the same program. For example, the tax credit program has produced in the same area some units that cost about the same or less than vouchers and other units that cost about twice as much. To understand this wide variation in per-unit costs, more work needs to be done on the determinants of development costs and the current cost containment guidelines.

The federal government provides the bulk of the subsidies for all the housing assistance programs (see table 2). When vouchers serve households of similar average incomes in units with the same average number of bedrooms as production programs, we estimate that the federal cost of serving households under the production programs is from 49 to 65 percent greater than it would be under vouchers. We estimate that the federal life-cycle cost is from 15 to 38 percent greater than under vouchers.

neighborhood characteristics (e.g., crime rate and quality of public services such as schools), but these data were not available for most of the programs.

[8]Industry officials suggest that an annual set-aside of $300 to $600 per unit would be required to meet future capital needs. The 1999 American Housing Survey estimates the national average property tax rate is $11 per $1,000 in property value. If these averages were applied to a worst-case scenario, under which significant tax abatements and no payments to reserves were made, the first-year cost would be understated by about 10 percent. This scenario is most applicable to our data for the HOPE VI program, which include no funding for capital reserves and virtually no allowances for property tax payments. Under the other four production programs, many projects fund capital reserves and pay full property taxes. For these programs, our potential understatement of costs is likely to be less than 10 percent.

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Table 2: Federal Cost of the Production Programs as a Percentage of the Federal Cost of Vouchers

Program	First year	Life cycle (30 years)
Low-Income Housing Tax Credits	150%	119%
HOPE VI[a]	162	124
Section 202	165	125
Section 811	149	115
Section 515	150	138

[a]HOPE VI costs include only housing-related construction costs.

Source: GAO analysis of federal, state, local, and private databases.

Across the six programs, the federal government and tenants pay the majority of the total costs of federal housing assistance programs. Tenants contribute between 18 percent (HOPE VI) and 46 percent (tax credits) of the total housing costs in the first year. In general, households that pay a smaller percentage of the per-unit costs either have smaller incomes or live in units that are costlier than average (or both conditions apply, as often happens for HOPE VI). Conversely, households that pay a higher percentage of the per-unit costs typically have higher incomes or are allowed to pay a larger percentage of their income for rent (or, again, both conditions apply, as happens for the tax credit program). State and local governments and private sources, on average, provide 10 and 14 percent for the tax credit and HOPE VI programs, respectively, and smaller contributions (2 to 6 percent) for the other production programs. These sources do not contribute to the voucher program.

Observations

If costs were the only consideration, our estimates would suggest that the production programs should be replaced with vouchers. However, in many markets, production programs are the only sources of new affordable rental units, and use restrictions will keep those units affordable for decades to come, limiting the impact of market forces on the supply of affordable units. Additionally, there are substantial differences in the housing and services provided under each of the production programs that must be considered. For example, under the Section 202 and Section 811 programs, the elderly and disabled often receive services not easily provided in private housing. These services can be particularly important for older, frailer elderly or for those with more severe disabilities, for whom housing vouchers are probably not a reasonable alternative. As the nation's population ages, production programs for the elderly may become an even more important part of national housing policy. Finally, in many urban areas, the production programs have formed an integral part of an overall community development strategy, as is a goal of the HOPE VI program. As a matter of public policy, the benefits of increasing the supply of affordable units, providing additional services for special needs populations, and revitalizing distressed communities must be weighed against the alternative benefits of serving more households at a lower average cost through the provision of vouchers.

Agency Comments

We provided a draft of this report to HUD, the U.S. Department of Agriculture, and the National Council of State Housing Agencies for their review and comment. Noting that the report is an interim product and does not contain a detailed discussion of our methodology, the agencies and the Council said they would wait to comment on our approach until they have reviewed our final report. However, they raised several broad

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issues, including whether we had sufficiently considered the difficulty of using vouchers in certain markets, appropriately estimated the extent to which replacement reserves are underfunded, and adequately accounted for the benefits of the newer, often higher-quality housing and services provided by the production programs compared with vouchers. HUD also suggested that we provide an additional life-cycle analysis over a shorter time period – such as 15 years – in part because projecting costs 30 years into the future involves too many uncertainties. We recognized the importance of these and other issues raised by the agencies and the Council and took them into account in developing our methodology and analysis. While we provided some additional discussion of these issues in this interim report in response to the comments received, we will reserve detailed explanations for our final report. The agencies and the Council offered additional technical comments and clarifications, which we incorporated as appropriate.

We are planning to issue a more detailed analysis of the costs and characteristics of federal housing assistance programs later this year. It will expand on the information provided in this report. We performed our work from January 2000 through May 2001 in accordance with generally accepted government auditing standards.

If you have any further questions, please call me at (202) 512-7631. Key contributors to this report were Dennis Fricke, Daniel Garcia-Diaz, and Elizabeth Eisenstadt. External consultants Denise DiPasquale and Jean L. Cummings, City Research, and Edgar O. Olsen, Department of Economics, University of Virginia, also contributed to this report.

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Enclosure

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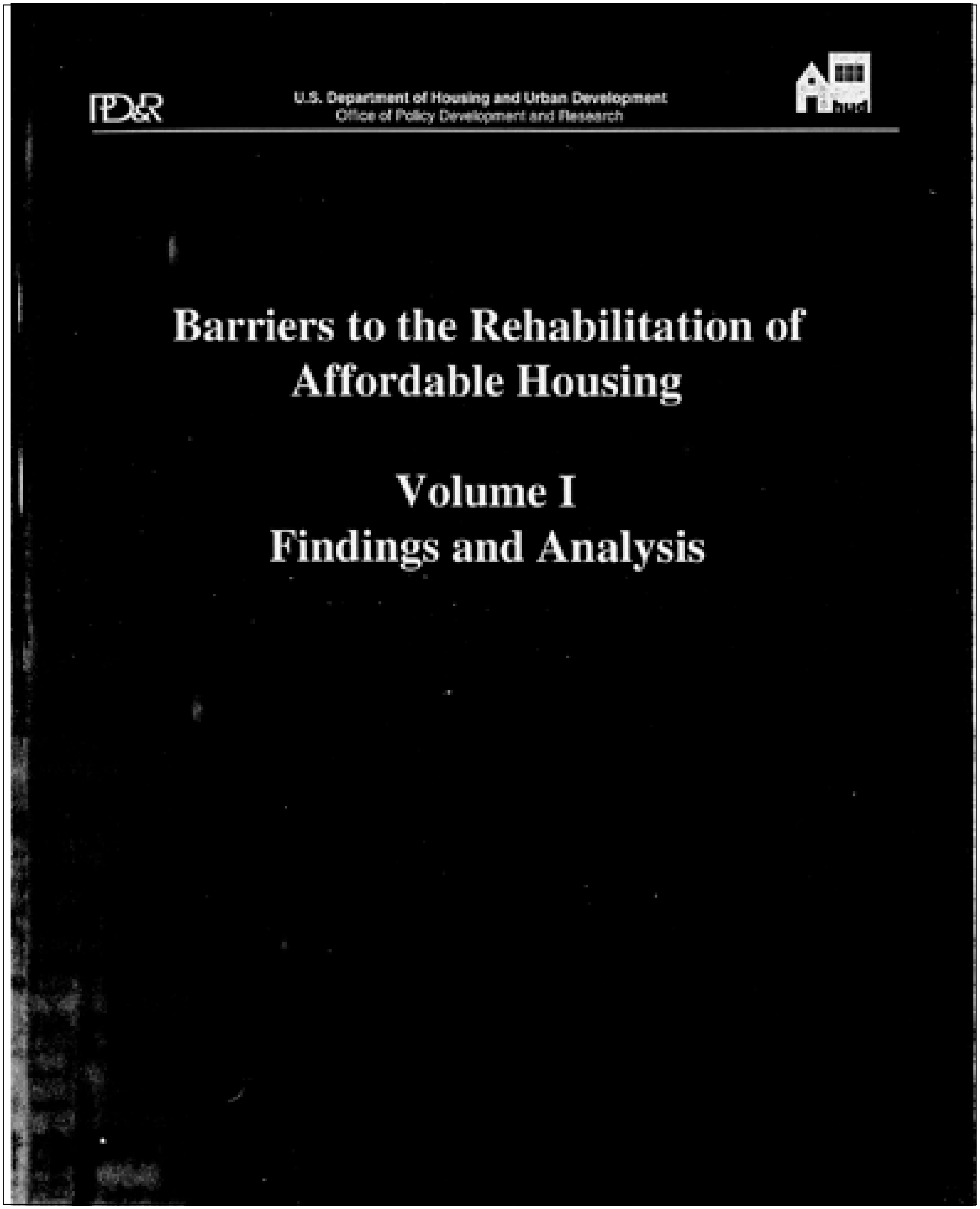
Part Five: Affordable Housing Compendium:
Summary:
National Affordable Housing Programs



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Office of Policy Development and Research

Barriers to the Rehabilitation of Affordable Housing

Volume I
Findings and Analysis

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EXECUTIVE SUMMARY

The rehabilitation of affordable housing (hereinafter rehab or renovation) faces many barriers. It is concerned inherently with existing, typically older buildings, making the rehab process less predictable and in many ways more challenging than new construction.

Rehab faces a major economic barrier, namely the gap that often exists between the costs of renovation and the financial resources available for those buildings requiring improvement. Of the $623 billion in rehab needed nationwide—a conservative estimate—$227 billion, or about one-third, is unaffordable without some measure of subsidy or other means of support (e.g., using "sweat equity" or staggering the improvements over time).

Accomplishing rehab also is a challenge. The development process can entail difficulties in acquiring properties, estimating costs, dealing with restrictive land-use requirements (e.g., limitations on mixed use and adaptive reuse), and other issues. The construction phase involves assembling qualified tradespeople and abiding by myriad codes regulating asbestos, construction, fire safety, energy efficiency, historic preservation, lead paint, radon, and so on. Although development and construction requirements are essential for the public's welfare and in many respects foster rehab efforts (e.g., historic designation often encourages upgrading), they can be challenging. For example, trying to retrofit off-street parking in a building undergoing rehab (sometimes mandated by land-use regulations) or ensuring that a building meets all new-construction standards (sometimes mandated by the building code) are significant difficulties.

The rehab barriers are of a diverse nature and encompass economic constraints, professional inadequacies, regulatory and programmatic problems, and miscellaneous other issues. Furthermore, the specific incidence of the barriers varies by jurisdiction and project type. For instance, the building code can be a major problem in one city where archaic provisions prevail, but only a minor issue in a community that enjoys more flexible codes and code administrators.

The barriers to rehab are far from insurmountable. The roughly $150 billion of renovation done annually in the United States attests to this. The public and private sectors are working together on many fronts to resolve lingering issues. More rehab-friendly building code regulations have been adopted in New Jersey, Maryland, and other states. Banks have become more receptive to financing renovation. There are promising collaborations between the public sector and industry that are improving the collection of data on rehab so that it can be better understood. Nonetheless, many challenges remain.

The U.S. Department of Housing and Urban Development (HUD) contributes to rehab through subsidies, regulations, technical assistance, and in other ways. Its Community Development Block Grant (CDBG) and HOME programs alone assist in the renovation of about 200,000 units annually. HUD's sponsorship of the National Applicable Recommended Rehabilitation Provisions (NARRP) has helped foster regulatory reform concerning renovation's construction standards. Potential HUD assistance in the future includes encouraging local adoption of the NARRP, reducing the "costs" of HUD subsidies from ancillary requirements (e.g., discouraging local jurisdictions from effectively raising minimum standards when subsidized renovation is undertaken), and monitoring how the new lead-based paint regulations, which will be fully implemented in April 2001, affect affordable rehab.

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INTRODUCTION TO THE CASE STUDIES

Our study of the barriers to the rehabilitation of affordable housing relied on multiple sources of information and data. These included the existing literature; the study's resource group, often contacted by telephone; and technical analyses, such as a review the low-income housing tax credit's (LIHTC) qualified allocation plan (QAP) criteria. Our analysis also drew from the research team's considerable rehab experience.

The multiple sources provided an extensive base of information on the barriers to affordable-housing renovation; however, the sources had limits as to the amount and nature of information that could be covered. For example, because of time and other constraints, the telephone discussions with the resource group were not suitable for ascertaining the numerous modifications to, or evolution of, a specific rehab program. In addition, the telephone discussions did not allow for the face-to-face rapport that encourages a rehab developer or lender to give a candid, introspective evaluation of the problems encountered. Accordingly, the study included a series of case studies to assess the experiences of those doing rehab on a day-to-day basis. This volume describes the purpose of the case studies, details the case study organization, and provides, in Chapters 6 through 11, an account of each investigation.

PURPOSE OF THE CASE STUDIES

The purpose of the case studies is to add qualitatively to our understanding of the barriers to affordable-housing rehab. Over and above the information obtained from the telephone discussions, literature, and other sources, the case studies provide an in-depth and "real world" look at the hurdles faced by rehab projects.

The resource group nominated many candidates for the case study investigations. The 11 programs chosen for study were selected on the basis of the following considerations:

1. *Problems.* The cases chosen all achieved considerable measures of success in their renovation activities, but they also had to overcome myriad problems. We focus on the hurdles that were encountered.

2. *Strategic range.* As described in volume 1, barriers to affordable-housing rehab can be grouped substantively into economic, development, construction, and occupancy hurdles. The 11 cases selected for the in-depth examination were chosen so that there was a representation of examples of a majority of the types of barriers. We also sought variety in the types of specific major issues encountered. Thus, some case studies predominately involve the building code, others historic preservation issues, and yet others lead-paint challenges.

3. *Range of institutions.* In selecting institutions for investigation the research team sought variety in type, size, and geographic location.

4. *Availability.* The candidates were asked whether they would be willing to participate in the on-site case studies.

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Although we sought a variety of case studies, there is still a limited range. Only one investigation involved a local, private remodeler. The cases also lack rural representation. Study resources inhibited the ability to expand the case study range.

The 11 case studies are listed below by location, name of organization, and the major barriers considered.

Case Study Location	Topic/Organization	Barriers Considered
State of Massachusetts	Article 34	Progress and limitations of statewide rehab-sensitive building code; issues concerning historic preservation, seismic, and accessibility provisions
New Haven, CT	NHNHS	Secretary of Interior Standards; pilot program for flexible standards
Trenton, NJ	Isles	Barriers confronting nonprofit, including building code issues ("old" New Jersey building code)
Trenton, NJ	Capital City Redevelopment Area	Rehab issues ("old" code) involving reuse of upper-story space
Chester, NJ	Asdal, Inc.	Rehab issues confronting remodeler and benefits of New Jersey's new, rehab-sensitive building code
South Brunswick, NJ	Rural farmhouse conversion to cultural center	Rehab issues confronting reuse; highlights sensitive administration of New Jersey's "old" code
Miami, FL	Little Haiti Housing Association (LHHA)	Many issues confronting a nonprofit rehabilitating houses in Little Haiti
Chicago, IL	Varied	Issues confronting adaptive mixed use
Memphis, TN	Varied	Survey of range of issues confronting adaptive reuse and mixed-use rehabilitation
Seattle, WA	Varied	Barriers to rehabilitation in a "hot" real estate market, including analysis of the impact of growth management
Los Angeles, CA	Varied	Issues confronting rehabilitation of masonry buildings; benefits and limitations of moderate rehabilitation

CASE STUDIES: FIELD PROTOCOL AND ORGANIZATION

All of the 11 case studies were prepared or overseen by the research team. Two of the case studies were commissioned by the National Trust for Historic Preservation. Bradford White conducted the Chicago case study for the Trust, and Stephen Turgeon conducted the Memphis investigation. The Los Angeles analysis was commissioned by the Enterprise Foundation. The remaining eight case studies were conducted by Rutgers University (with Robert Kuehn assisting Rutgers in the Massachusetts analysis). All of the Rutgers case studies were prepared by Dr. David Listokin and/or Dr. Barbara Listokin of the Center for Urban Policy Research.

To ensure a consistency, a field protocol was developed that would be followed by all those administering the case studies. The protocol also specified the following organizational framework for the case study write-ups:

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1. *Summary of findings*. This opening section provides a synopsis of each case study's major findings.

2. *Background*. This section sets the context for each case study and includes such considerations as the history of the organizations (e.g., Isles or LHHA) or legislation (e.g., Massachusetts's Article 34 or New Jersey's new rehab code) studied and an overview of the city or state setting.

3. *Rehab description*. Where applicable, information is provided on the scale and nature of the rehab activity.

4. *Barriers to housing rehab*. This section presents the barriers as illustrated in the case studies. The hurdles are presented following the analytic framework shown in summary exhibit 1 in the executive summary in volume 1: the economic barriers are presented first, followed by the hurdles to effecting renovation at the development, construction, and occupancy phases.

CASE STUDY FINDINGS

Although we conducted 11 case studies, only six are presented in this volume because of space limitations. The six, which are geographically dispersed, are Article 34 (Massachusetts), NHNHS (Connecticut), Isles (New Jersey), LHHA (Florida), Chicago (Illinois), and Seattle (Washington). All eleven case studies, however, are drawn from in the synthesis chapter (Chapter 2). The findings from the 11 case studies are also summarized in exhibit I.1.

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