



Leaders at the Core of Better Communities

## ICMA Management Perspective

October 2007

# Housing Affordability

### Issue Demands Big Picture Thinking, Long-Term Planning

In many communities across the country, the issue of housing affordability has evolved into a complex set of challenges. After years of approaching it strictly as a matter of finding ways to house the poor, some local government managers now spend as much time thinking about how to ensure that their communities have enough housing for entry-level teachers, police officers, and other essential workers living on moderate incomes.

In some metropolitan areas, middle-income and working-class residents who don't already own a home have been priced out of the communities where they work. This lack of workforce housing affects overall quality of life, as more residents spend more time commuting long distances to their jobs.

For local leaders who want to promote mixed-income communities, the trend has fueled growing interest in policies such as inclusionary zoning, in which local governments require residential developers to include in their projects some portion of homes afford-

able to moderate-income residents. While inclusionary zoning typically stirs controversy among developers, cities and counties have built support for these programs by agreeing to density bonuses and other incentives. By allowing developers to build more homes than the zoning otherwise allows, they offset the costs of requiring them to build the affordable housing, enabling them to earn more off of the same patch of land. In essence, they get "free land."

Housing experts expect interest in inclusionary zoning to continue to grow in markets with rising home prices and strong demand for workforce housing. "The interest is spreading rapidly," noted David Rusk, an urban policy consultant who has extensive experience with inclusionary zoning. "You're seeing more and more regions of the country look to inclusionary zoning as something they would like to consider."

In the meantime, while home sales have slowed significantly and home prices in many areas have moderated, the current real estate dynamics in many American communities pose another concern. The heightened focus on workforce

housing comes, ironically, at a time when home ownership has reached record levels, with nearly seven out of ten American homes now being owned by those who live in them. But there are signs of trouble. As interest rates have risen, buyers cannot afford as much as they could a few years ago. And the number of people who spend more than 30 percent of their income on housing is growing, hitting a record 37.3 million households in 2005, according to the "The State of the Nation's Housing 2007," a report by the Joint Center for Housing Studies at Harvard University.

In addition, many who bought homes during the recent real estate boom are seeing their monthly mortgage costs rise substantially. During the first half of the decade, low interest rates and intense demand boosted prices, with people rushing to buy homes before prices got too high. As home prices appreciated at a faster rate, the use of subprime adjustable rate mortgages grew. Many of these loans, which often went to higher-risk borrowers, started out with very low teaser rates. That enabled some buyers to stretch their budgets beyond what they could sus-

tain over the long term. In a strong real estate market, those buyers figured they could always refinance or sell at a profit when their rates reset. The problem is that the market has changed.

With housing prices softening and interest rates rising, many of these borrowers face problems as they try to refinance their homes before their mortgages reset to higher rates. Some already are losing their homes, with the rate of delinquencies and foreclosures having increased significantly since 2006. The trend likely has only

just begun to unfold, with many subprime mortgages scheduled to reset to higher rates in coming months. “Absolutely, it will be a critical issue in the next year,” said Jeffrey Lubell, executive director of the Center for Housing Policy, the research arm of the National Housing Conference, a national nonprofit group that promotes affordable housing policies and programs. “It will get worse before it gets better.”

Local governments can assist struggling homeowners by encouraging them to contact their lenders, and by working with lo-

cal churches and nonprofit groups that residents trust to help provide counseling, Lubell said. He also pointed to the NeighborWorks Center for Foreclosure Solutions, a new initiative created to provide outreach and counseling to homeowners who are at risk.

On the broader issue of housing affordability, Lubell’s organization is developing an online guide to highlight state and local government best practices. He noted that any effort to increase workforce housing should begin with a big picture assessment of a community’s housing needs, and a review of the local market. In most cases, he added, local government managers will want to adopt and integrate multiple strategies and tools to effectively increase the availability of housing for working families.

“There is no magic bullet,” Lubell said. “If there is any one thing you really need to do, it is to develop a comprehensive strategy.”

### Housing Affordability Resources

**The Center for Housing Policy**, the research affiliate of the National Housing Conference, has published a handbook on promising state and local housing policies and is developing an online guide for state and local leaders. The Center is researching promising state and local housing policies for working families to be featured in the online guide. To learn more, go to <http://www.housingpolicy.org/Moreinfo.htm>.

**NeighborWorks America** is involved in a variety of housing-related work, including its Campaign for Home Ownership, designed to help moderate-income Americans buy a home. For information, go to <http://www.nw.org/network/home.asp>. The group also is working to preserve homeownership amidst rising foreclosure rates. To learn more, see <http://www.nw.org/network/neighborworksprogs/foreclosuresolutions/default.asp>.

**Inclusionary Zoning** resources and expertise are available at the following organizations: Policy Link at [www.policylink.org](http://www.policylink.org)—contact Kalima Rose, senior director, Affordable Housing Team, at 510.663.2333 or [info@policylink.org](mailto:info@policylink.org); Innovative Housing Institute at [www.inhousing.org](http://www.inhousing.org)—contact Patrick Maier, executive director, or David Rusk, board member, at 410.332.9939 or [housinginfo@ihibalto.org](mailto:housinginfo@ihibalto.org); Business and Professional People for the Public Interest (BPI) at [www.bpichicago.org](http://www.bpichicago.org)—contact Adam Gross, director of Regional Affordable Housing Initiative, at 312.641.5570 or [info@bpichicago.org](mailto:info@bpichicago.org).

**KnowledgePlex** provides a broad spectrum of information related to affordable housing and community development. In addition to news stories, its Web site includes links to research, case studies, best practices, scholarly articles, and other material published by partner organizations such as NeighborWorks, the Urban Land Institute, Fannie Mae, and the American Planning Association. Go to: <http://www.knowledgeplex.org/>.

**The Joint Center for Housing Studies at Harvard University** conducts research on housing markets and economic, demographic, and social trends, producing an annual report used by public policy makers and the private sector. See “The State of the Nation’s Housing 2007” at <http://www.jchs.harvard.edu/son/index.htm>.

### Zoning for the Workforce

In any strong real estate market, getting developers to build moderately priced housing can be very difficult. When demand is high, home buyers bid up prices as they compete for what is available. The economic reality is that as long as there are buyers for homes at higher prices, builders have little motivation to build and sell at a lower price. And the political reality is that it is very difficult to change that equation.

For policy makers, it often becomes a question of how to align the regulatory process and incentives to achieve an otherwise elusive goal. For local governments, both are closely tied to zoning and development approvals. To



These homes were built on the same street in a mixed-income neighborhood in Montgomery County, MD. The houses look similar from the curb, but the single-family home on the left was priced at the “market-rate,” while the house on the right is actually a duplex, a “moderately priced dwelling unit” built to meet the county’s inclusionary zoning requirements to boost the availability of affordable housing. *Photos by David Rusk*

increase the supply of homes affordable to those earning a modest income, cities and counties have to devise the prototypical “win-win” solution. They have to meet community needs by ensuring that the moderately priced homes get built, but they don’t want to design a program that achieves that takes too big a toll on the bottom line for builders.

Rusk, the inclusionary zoning expert and a former mayor of Albuquerque and New Mexico state legislator, has participated in a number of local efforts to adopt inclusionary zoning, including a successful campaign in the City of Baltimore. In many ways, what happened there reflects both the current context for inclusionary zoning—the burgeoning need for workforce housing—and the lessons that have been learned.

It was only in recent years that the phrase “workforce housing” became a regular part of any discussion about affordable housing. The term typically refers to homes that are affordable to someone who works full-time but

earns less than the area median income. Many municipal employees, health-care aides, firefighters, and others who do jobs that are essential in any community are likely to fall into this lower half of the income spectrum. In a housing context, the word “workforce” generally refers not to the poor or even the working poor necessarily, but to someone with less money to spend than most.

During the current decade, as the number of strong real estate markets increased substantially, the outlook for workforce housing started to decline even in cities that had been desperate to lure middle-class residents back after decades of abandonment to the suburbs. Baltimore, which approved its inclusionary zoning program in June 2007, fits that description. After losing one-third of its population in the latter half of the 20th Century, the city has benefited from an ongoing wave of redevelopment since the late 1990s, one that has spurred a great deal of residential construction but little that is affordable to moderate-income resi-

dents. A couple of years ago, the city started to consider the idea of inclusionary zoning, which was pioneered by the affluent Washington, D.C., suburb of Montgomery County, Md., in the early 1970s.

The City Council created a task force to study the concept, which has been adopted by a number of cities around the country, from Madison, Wis., and Davidson, N.C., to Denver and Boston. Rusk, who served on the city’s task force as an inclusionary zoning expert, recalls spending hours working with developers to calculate the impact of different “cost offsets” on their bottom line. He also remembers influential community groups working closely with developers such as Struever Bros. Eccles & Rouse, a major developer that was represented on the task force.

Rusk noted that some nonprofit group representatives visited the Maryland General Assembly in Annapolis during the legislative session to lobby on behalf of multi-family housing developers, who were not going to benefit from many of the incentives the

task force had proposed to prevent workforce housing requirements from hurting developers' bottom lines. They succeeded in getting lawmakers to approve property tax abatement as a way to offset costs for multi-family projects.

"You can't just look at the need," Rusk said about the key lessons learned in efforts to use inclusionary zoning to expand workforce housing. "You have to look at the realities on the builders' side, and work with the builders."

He shared other advice about these policies, which have been employed by communities as diverse as Irvine, Calif., Fairfax County, Va.; and Burlington, Vt., to create mixed-income neighborhoods, including:

- **Inclusionary zoning must be mandatory**, or it will not yield a significant increase in workforce housing. "You shouldn't even waste your time with a voluntary ordinance," Rusk said.
- **Inclusionary zoning should apply to a broad spectrum of workforce income levels.** Montgomery County, which has seen

**At ICMA's Restoration 2007 Conference** in New Orleans, Louisiana, in May, Wells Fargo Home Mortgage presented an interactive discussion of the issue of housing sustainability and affordability. In the session, Wells Fargo officials discussed tools, resources, and strategies that local government leaders can use to expand and support home ownership in their communities, with a focus on the unique challenges faced by Gulf Coast communities after Hurricane Katrina.

This publication is an outgrowth of the discussion at the Restoration session, and was made possible through the support of Wells Fargo, an ICMA Strategic Partner.

more than 12,000 moderately priced dwelling units built under its program, achieves that goal by having its public housing agency buy one-third of the MP-DUs and make them available to low-income families.

- **Any campaign to implement inclusionary zoning requires broad-based support.** Elected officials will face "not in my backyard" opposition to density increases for builders, designed to offset their costs in producing some affordable homes. The best way to counter this NIMBY reflex is by promoting good design and educating the public about the

essential workers who need this moderately priced housing.

Another important lesson relates to the recent experience of Baltimore, which adopted inclusionary zoning only after the city's task force spent about a year and a half working with community groups and developers to build consensus and develop a program. It's important not to wait too long before doing the research and public education to develop a program and build support for it. "Typically, communities are not moved to adopt inclusionary zoning until they're in trouble," Rusk said.

## About ICMA

ICMA is the premier local government leadership and management organization. Its mission is to create excellence in local governance by developing and advancing professional management of local government worldwide. ICMA provides member support; publications, data, and information; peer and results-oriented assistance; and training and professional development to about 9,000 city, town, and county experts and other individuals and organizations throughout the world.



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## About Wells Fargo

Wells Fargo, a diversified financial services company and ICMA Strategic Partner, is the largest retail mortgage provider in the US and the second largest overall mortgage lender, with a variety of products and services designed to expand home ownership. The company in 2006 developed its "Steps to Success" program, giving customers direct access to credit education specialists. And the Wells Fargo Housing Foundation provides funding to build or rehabilitate homes for low- to moderate-income home buyers and supports homebuyer education and counseling, post-purchase counseling, and foreclosure prevention.

