



Issue Fact Sheet

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ADDRESSING THE NATION'S AFFORDABLE HOUSING SHORTAGE

The 2002 Millennial Housing Commission report identified affordability as the “single greatest housing challenge facing the nation.” Unfortunately, little progress has been made on the affordability crisis in the intervening years. If anything, the problem has gotten worse, trapping a growing number of working families who used to be able to count on the availability of safe, decent housing. According to Harvard University, 35 million households spend 30 percent or more of their income on housing, a common definition of affordability. To find affordable housing, many workers are being pushed farther and farther from their jobs, something that is no longer tenable in this era of sky-high fuel costs.

In a perfectly functioning market, housing providers would simply increase production to meet this tremendous demand. But housing is not a perfectly functioning market. Regulatory barriers as well as high land and construction costs and local impact fees make it virtually impossible for the private sector to build, rehabilitate and operate apartments at rents that are affordable to these workers in any mid- to large-size metro area.

Ultimately there will be no single solution to this problem. We need to harness the power of the private sector to produce and preserve affordable housing. To do that, we need to eliminate regulatory barriers and outdated zoning and land-use policies, enact market-based density bonuses, and restore much-needed balance to our national housing policy.

An Unbalanced National Housing Policy

For decades, the federal government has put too much emphasis on owning a house. We are now paying a very dear price for this “homeownership at any cost” housing policy. It is time to restore balance to our housing policy, acknowledging the important role rental housing plays in creating healthy communities. Apartments are uniquely qualified to solve our affordability problems. Not only do they provide homes within reach of our workforce, they also use municipal infrastructure more efficiently, help preserve green space, and reduce auto traffic and air pollution. Nationally, the U.S. can save over \$100 billion in infrastructure costs over 25 years by growing compactly, money that can be used by localities to solve their housing challenges.

Suggested Solution: The meltdown in the housing market has opened the eyes of many policymakers in Congress and at the state and local levels. As a result, the Housing Stimulus Law passed in July 2009 had a good balance between incentives for ownership and incentives for rental housing. We need to ensure that future housing legislation is similarly balanced. For example, Congress should enact pending legislation that would increase the loan limits for FHA-insured new construction multifamily loans to enable the program to work in higher-cost urban areas where demand for affordable housing outstrips supply.

Outdated Zoning and Land-Use Policies

Many local zoning regulations predate World War II and actually require low-density development with segregated uses. But demographics are changing; no longer does everyone seek a single-family house in the suburbs. According to the Urban Land Institute, “for the first time, there are more single-person households (26.4 percent) than married-couple-with-children households (23.3 percent)” and, “The groups growing the fastest, people in their mid-20s and empty nesters in their 50s, are the groups most likely to look for an alternative to low-density, single-family housing.”

In fact, Professor Chris Nelson at the University of Utah’s College of Architecture and Planning modeled future demand for various types of housing and he predicts that there could be a surplus of 22 million large-lot houses (built on more than one-sixth of an acre) within 20 years—that’s roughly 40 percent of the large-lot houses in existence today.

Suggested Solution: Reform local zoning and land-use policies to allow for higher population densities as well as to permit mixed-use development. Local governments must recognize that many citizens prefer rental housing and allow zoning regulations to reflect this preference.

Inadequate Density Bonuses

Density bonuses allow developers to build more units on a given site than local zoning regulations would normally allow. In theory, this brings down the per-unit cost of each unit so the developer can make some portion of the units in the property more affordable. But in practice, density bonuses are rarely sufficient to cover the cost of the affordable units.

The longer density bonuses are used in a jurisdiction, the less effective they become. There are two reasons for this. First, they typically do not keep up with land and construction costs. Second, once density bonuses are written into a jurisdiction's zoning law, land sellers take them into consideration when calculating the value of a parcel of land. They know how many units a developer can build including the density bonus and they base their sales prices on that calculation. More units means a higher sales price. So the bonus that was meant to help offset high land costs is now pushing land costs even higher and wiping out the value of the bonus.

Suggested Solution: Density bonuses need to be reevaluated regularly and readjusted based on current economic conditions in order to maintain their value. And when they are included as a part of an inclusionary zoning policy, there should be some flexibility to allow developers to build affordable units elsewhere or to pay a fee into an affordable housing fund. But the single most important step a municipality can take is to provide additional tax abatement to the density bonus units to make them affordable.

NIMBYism

Community involvement in the development process is a good thing, but too often neighborhood activists aren't interested in improving a development proposal; their ultimate goal is to push affordable housing out of their neighborhood. So we applaud HUD's efforts to reform regulatory barriers to affordable housing.

Suggested Solution: Educate local elected officials about the benefits of rental housing, more compact development and mixed-use development so they will have the knowledge and the courage to stand up to NIMBY activists who oppose new apartment construction for their own narrow self-interests.

Exit Tax

Under current tax law, when owners/investors sell a property, they have to pay capital gains tax and depreciation recapture taxes on any gain. Many properties cannot generate a high enough sales price to cover these "exit taxes." This places properties with lesser economic value at risk of deterioration because the owners have no incentive to invest additional funds in a property with little or no cash flow. As a result, many owners simply opt to hold on to the properties until their death, at which point no taxes will be assessed on the depreciated gain (and the possible capital gain above that) because the property's basis will be "stepped-up" to the current market value.

Suggested Solution: Congress needs to approve legislation to preserve affordable housing by providing broad exit tax relief to owners of apartment properties who transfer their properties to new owners who have the capital for and the commitment to renovation and modernization.

Section 8 Program

For decades, Section 8 vouchers have provided housing assistance to struggling families. But the program has been plagued with inefficiencies and onerous bureaucratic requirements that discouraged private owners from accepting Section 8 vouchers. If the housing needs of America's low- and moderate-income families are going to be met, it is imperative that we improve the Section 8 program.

Suggested Solution: Section 8 must be reformed to be more "transparent" so that the cost of renting to voucher-holding residents is comparable to the cost of serving unsubsidized residents. Duplicative regulatory requirements should be eliminated. The funding mechanism should be based on leasing and costs from the most recent 12 months, and participation should be voluntary, not mandatory. Also, as lawmakers continue to seek solutions to the foreclosure crisis, they should not make permanent temporary provisions that require the new owner of a foreclosed property to be subjected to the Section 8 contract of the prior owner. Such action would discourage investment in rental housing at a time when the nation's demand for rental housing outstrips supply and is rising as a result of the recession.

Public-Private Partnership: New Resources

It takes a public-private partnership to figure out how to produce more affordable workforce housing, and NMHC is committed to being part of the solution by creating concrete tools for investors, developers and local officials. This

summer we launched a new online **Workforce Housing Resource Center**. The Center offers a comprehensive library of affordable housing resources, including toolkits for developers and localities and case studies of successful developments.

Most importantly, it features an interactive **Project Estimator** to estimate whether a proposed affordable housing development is financially viable given a proposed set of incentives and subsidies. The Estimator is designed to help local officials understand the economics of housing and why some incentives work better than others depending on the locality.

The NMHC Project Estimator produces a realistic analysis of different incentives to illustrate which ones meet the developer's needs as well as the community's goals. The Workforce Housing Resource Center, which NMHC makes available to the public at no charge, is located at www.nmhc.org/goto/workforcehousing.

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