

# Inclusive Housing Policies in Rising Markets

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The analysis and conclusions in this presentation are solely the responsibility of the authors and do not indicate concurrence by the Board of Governors of the Federal Reserve System.

# Context of inclusive housing

- Demand for affordable housing stems from both housing and labor market pressures.
  - Rapidly rising rents/prices
  - Flat/declining real incomes for many households
- Also reflects federal, state and local policy choices
  - Declining direct federal support for subsidized housing
  - Land use regulations that increase development costs and impede higher density, lower-cost housing
- Some state and local governments are trying new policies to fill the gap.

# Types of state/local policies

## **Zoning/planning requirement**

### Inclusionary zoning

- \* Washington DC metro area (1974-2006)
- \* Massachusetts (1972-2004)
- \* New York City (1987)
- \* San Francisco Bay Area (1973-2006)
- \* Southern CA (1983-2003)

### Statewide "fair share" laws

- \* California: mandatory density bonus (1979)
- \* Massachusetts: Chapter 40B (1969)
- \* New Jersey: Mount Laurel Doctrine (1975)

## **Local financing mechanisms**

- \* Property tax abatement: NYC 421a (1971)
- \* Tax increment financing: CA Redevelopment Agencies (1952-2011)
- \* Shared equity homeownership: Community Land Trusts, Limited Equity Coops

## **Preservation mechanisms**

- \* Expiring use projects: new public/philanthropic subsidies (MacArthur Foundation)
- \* Upward filtering: vouchers, rent controls (NYC, LA)
- \* Downward filtering: enforcement of housing codes

Source: Freeman and Schuetz (2016).

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# How effective are state/local policies?

- Many state and local governments do not consistently document output of affordable housing programs.
  - Limits governments' own ability to assess program effectiveness, as well as academic research.
- Some evidence available from regions with long-standing policies: CA, MA, NJ, NYC and DC metro.
  - Production varies considerably across cities and regions
  - Generally modest, under 0.1% of total housing stock
  - Less than LIHTC production in same states/localities
- Programs of this scale are unlikely to substantially mitigate the need for below-market housing.

# Policy recommendations

- Evidence-based policymaking requires better data and evaluation of existing IZ and state “fair share” programs.
  - What policy design features and implementation strategies are more effective?
  - How do housing market conditions affect program output?
- Monitor performance of new HUD rules
  - Small Area Fair Market Rents (SAFMRs) for housing choice vouchers
  - Affirmatively Furthering Fair Housing (AFFH)
- Changes to local land use regulations
  - Increasing allowable density by right would enable production of smaller, lower-cost housing units.
  - Reducing regulatory burdens of development would slow growth of housing costs across price distribution.
- Maintaining diverse housing stock will require broader public financial and political support.

# Tradeoffs in policy choices

- Is the goal to maximize affordable housing production, or maximize unit/neighborhood quality for fewer households?
- Which types of households are served?
  - Income targeting, local preferences, family size & characteristics
- Who really bears the cost of policies?
  - IZ: developers vs. landowners vs. market-rate homebuyers
  - Direct local subsidies: impact fees, property taxes, transaction taxes
  - Subsidies: federal vs. state/regional vs. local
- What are the implicit costs of not maintaining diverse housing stock?
  - Local/regional labor market implications
  - Reduced expenditures/consumption of non-housing goods
  - Economic, social and physical well-being of families