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)

### 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