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Creative Options for Affordable Housing

A Quick Guide for Activists and Policy Makers

by Jerry Kloby

Housing affordability continues to be a major problem for much of the nation. House prices increased a record 9.4 percent in 2005 (after inflation), and more homebuyers are on precarious footing as interest-only and subprime loans are rising dramatically. Harvard University's Joint Center for Housing Studies predicts more mortgage defaults as a result.¹

Housing costs are eating up more and more of household income, leading to an increase in the number of Americans who are "cost burdened" (paying more than 30 percent of their income for housing). From 2001 to 2004 the number of cost-burdened households increased from 31.3 million to 35 million, and the number of those that are severely cost burdened (paying more than 50 percent of their income for housing) increased to a record 15.8 million. The hardship rate is higher among renters, a reflection of the loss of affordable housing that has been taking place in much of the country for more than 30 years. From 1993 to 2003 the housing stock that is affordable to low-income renters dropped by 1.2 million to a lowly 5.4 million.

Housing affordability is a problem not just because of increasing housing costs but because of low wages. The federal government has not raised the minimum wage since 1997 and, although 20 states and the District of Columbia have passed laws raising the local minimum wage, there are far too many jobs that pay far too little.² Approximately 25 percent of the 133 million workers in the United States earn less than \$10 per hour, and 50

percent make less than \$15.45 per hour. Many Americans live on incomes too low for them to afford the high prices dictated by the housing market.

For example, in New Jersey, where the state minimum wage is \$6.15, the Fair Market Rent (FMR) for a two-bedroom apartment is \$1,085. In order to afford the FMR for a two-bedroom apartment, a minimum wage earner would have to work 136 hours per week, 52 weeks per year. In order to afford this level of rent and utilities, without paying more than 30 percent of income on housing, a one-worker household would have to be earning \$20.87 per hour.³

In addition to affordability, there are two other housing issues of major concern. One is sprawl, the other is racial segregation. For several decades the greatest housing development had been taking place in lower density counties, this trend led to great concern about the loss of open space, increased automobile use, endless shopping malls, cookie cutter architecture, a growing urban/suburban political divide, and similar issues. More recently, many cities have been experiencing a bit of a rebirth. Thirty-one central cities (of the nation's 50 largest metropolitan areas) lost population in the 1970s but of those 31, 16 reversed their decline within the past two decades.

The exodus to the suburbs has often been characterized as "white flight" and the white population in nearly all central cities continues to decrease today. (When the massive Levittown suburb was built in Long Island in the 1950s it was almost all white. In 1960 only 57 out of

65,276 residents were black, and in 1980 just 45 out of 57,045 were.⁴)

A recent study by John Logan of the Lewis Mumford Center for Comparative Urban Research found that residential segregation is still very widespread in the United States. According to the Logan report, the typical white American lives in a neighborhood that is 83 percent white and 7 percent black, and 70 percent of whites live in suburbs compared to 40 percent of blacks. In addition, the Harvard Civil Rights Project found that Asians and Hispanics live in somewhat more isolated settings now than they did in 1990.

Some municipalities lauded for their diversity are still, in many ways, fairly segregated. For example, in Montclair, New Jersey, a town noted for integration and liberalism, 33 percent of the residents are African American but half of them reside in just three of Montclair's twelve census tracts. Conversely, most of the township's white residents live in areas that are over 85 percent white.

Current residential demographic patterns are partly the result of past discrimination in housing (e.g. steering, restrictive covenants, and redevelopment policies that restricted housing for low-income households to certain concentrated areas), and partly the result of more general economic differences. In the United States the median household income of blacks is roughly 63 percent of the white median and current residential patterns are largely a result of these income differences. The redevelopment of urban and suburban areas without making provisions for affordable housing creates a disproportionate burden on black households. It also adds to the burden of senior citizens and others on fixed incomes.

Redevelopment Without Displacement?

Are there instruments that can help us redevelop neighborhoods without displacing the people in need, without sacrificing them for the sake of attracting high-income home buyers and tenants? There are two general ways of addressing the problem of housing affordability. One is to keep the prices low, the other is to take steps to improve the income and assets of lower-income households. Many successful and innovative strategies addressing both of these fronts have been adopted around the nation. Some of them include:

- **Community Land Trusts.** CLTs take real estate off the speculative market and ensure long-term affordability for renters and low-income homeowners.

CLTs are nonprofit corporations created to acquire and hold land for the benefit of a community and provide secure affordable access to land and housing for community residents. They develop housing through renovation or new construction and sell or rent to low-income families and promote neighborhood stability. The Durham CLT in North Carolina, for example, has renovated 109 single-family houses since 1987. The homes sell for less than half the city average and very few have been sold by their original owners.

- **Community Development Corporations.** CDCs that develop local properties and offer resident stock ownership opportunities in either the CDC or individual projects, can provide low-income and/or low-wealth residents with a financial share in neighborhood commercial real estate projects carried out by the CDC. CDCs are nonprofit entities established by local stakeholders—residents, business owners, faith-based institutions, service providers—whose goal is to revitalize a selected low- or moderate-income community. CDC commercial real estate developments include shopping centers and mini-malls in urban core areas, occupied by businesses that serve the needs of local residents. Resident ownership gives residents a greater stake and a better understanding, as well as a voice in everything that affects their neighborhoods.

- **Inclusionary zoning.** Typically, these are local requirements that a percentage of new housing be affordable to people of low and moderate incomes. Often developers are given something in return such as zoning variances or density bonuses. Inclusionary zoning can be an important tool for distributing affordable housing throughout a municipality and creating mixed-income communities.

- **Rent stabilization ordinances** can help promote stability by keeping rent increases to a minimum. The best rent control laws do not have vacancy decontrol clauses that allow landlords to raise rents when a tenant moves out. Such clauses give a financial incentive to destabilize a neighborhood. On the other hand, frequent changes of building ownership also contributes to destabilization so it is important to make sure that rent controls are not overly burdensome to landlords. In fact, court decisions require that rent control laws provide landlords with a procedure for claiming “hardship” (generally defined as less than a “fair return” on investments). Without a hardship appeals procedure, a rent control ordi-

nance may be found unconstitutional.

- **Limited Equity Co-ops.** LECs provide renters with a method for acquiring their building. They aim for democratically controlled home ownership opportunities and permanently affordable rates.

- **Housing Trust Funds.** HTFs are created legislatively. They dedicate ongoing revenue streams to increase the supply of affordable housing, and to keep that housing well maintained.

- **Developer Fees.** These fees are often implemented to generate a revenue stream for an affordable housing trust fund. A typical developer's fee might require that all developers contribute to the fund at a rate of 1 percent of the assessed value for new residential developments and 2 percent of assessed value for new commercial developments. In some locales, commercial linkage fees are used for similar ends. These ordinances link new commercial development to the need to provide affordable housing for the people who are likely to work there (they can also be used for other public purposes such as job training and environmental preservation). Linkage fees usually are based on the square footage of new commercial development and range from \$1 per square foot and up. State governments normally have to grant municipalities the authority to establish such fees and many set limits on how high they can be.

- **Living Wage Ordinances.** LWOs promote wages and benefits sufficient to lift workers out of poverty. The implementation of living wages is advanced through local ordinances that require public investment to adhere to living wage guidelines. For example, they may require that hourly pay be sufficient to keep the employee above the poverty line. A typical LWO requires that local government only award contracts to, or subsidize, those employers that pay livable wages. According to ACORN's Living Wage Resource Center, 122 LWOs have been adopted around the nation and they require wages that range from \$6.10 to \$12 per hour.

- **Local hiring requirements.** Municipal and county governments can require first hiring rules for its

subcontractors, assuring that local residents have first priority for new jobs. Similar requirements can be established that pertain to purchasing practices as well.

Other strategies include:

- Giving nonprofit CDCs the right to eminent domain, a court determined right to acquire certain properties for public use or improvement.

- Community mapping to identify key information regarding problem areas and potential neighborhood resources. Also serves to organize and educate.

- Protecting local assets, e.g. historical buildings, cultural organizations, social clubs, public spaces.

- Resident owned financial institutions. These institutions serve to pool the limited resources of lower income residents to make purchasing more effective or to form credit unions with a greater commitment to local needs.

- Local tax incentives. These could include lower property tax rates in designated areas, lower tax rates for residents below certain income levels, tax breaks for landlords who provide housing for lower-income tenants, etc.

Housing is a basic human need but it is also much more. Failure to provide affordable housing erodes communities and impacts on crime, safety, delinquency, and the educational success of our young. Solving the problems of housing scarcity and affordability does more than just provide homes for those who need them, it makes communities more secure and enjoyable places to live.

Notes:

¹ Most of the data for the first three paragraphs is from *The State of the Nation's Housing, 2006*, by The Joint Center for Housing Studies of Harvard University.

² U.S. Department of Labor, www.dol.gov/esa/minwage/america.htm.

³ National Low Income Housing Coalition, www.nlihc.org.

⁴ *New York Times*, Dec. 28, 1997.

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For more information about the policies discussed here, two good resources are the National Housing Institute (nhi.org) and PolicyLink (www.policylink.org).