

# **RETHINKING LOCAL AFFORDABLE HOUSING STRATEGIES: LESSONS FROM 70 YEARS OF POLICY AND PRACTICE**

## **I. INTRODUCTION**

Since the middle of the 1980s, the nation's affordable housing policies and programs have undergone a profound transformation. After decades of initiatives that were designed by Washington and administered by the U.S. Department of Housing and Urban Development (HUD) and its predecessors, a palpable shift toward state and local control has dominated federal thinking. With the enactment of the Low-Income Housing Tax Credit (LIHTC) program in 1986 and the HOME program in 1990, federal policymakers have essentially devolved responsibility for the design and implementation of affordable housing initiatives to a myriad of state and local housing agencies, the development community, and community groups.

As with other domestic policies, devolution remains a work in progress. Across the nation, state and local government leaders and their partners—in the corporate, civic, real estate, and nonprofit communities—are struggling to implement an array of affordable housing and homeownership programs to better meet the needs of low-income and working families.

This challenge is made more urgent because the affordable housing crisis in the country has worsened despite new housing policy innovations and the strong economy during the 1990s. From 1991—when the economic expansion began—to 1999, the number of families paying more than 50 percent of their income for rent rose by 600,000, an increase of 12 percent. By 1999, these renter families with “worst case housing needs” totaled at least 4.9 million households, a record level (HUD 2001). Not surprisingly, as the economy has slowed, these figures have grown starker. According to the National Housing Conference, more than 4 million working families lived in decent housing but spent more than half of their income for rent or mortgages in 2001. This represented a 30 percent increase from 1999 and a 68 percent jump from 1997 (Lipman 2002).

The affordable housing challenge is further complicated by major market and demographic changes under way that are creating sprawling jobs–housing patterns, redefining individuals' and families' housing needs, and creating stark socioeconomic differences between the country's regions. Specifically, the 2000 census confirms that population and job growth continue to surge in the suburbs, outpacing any growth experienced by central cities. The vast majority of growth in the United States is taking place in the West and South, while communities in the Midwest and Northeast continue to lag behind. The households living in cities and suburbs also are radically changing. Today, one in four suburban residents is a person of color, the result of a major wave of immigration and African-American mobility in the 1990s. And the nuclear family is a shrinking phenomenon, increasingly replaced by young singles and older Americans living alone.

Thus, we are facing a new context for delivering and reforming affordable housing. With increased devolution and a market and demographic restructuring afoot in metropolitan America, the

nation must rethink the location and type of affordable housing and homeownership opportunities to provide to families in need.

This report aims to help state and local leaders meet the modern realities of the affordable housing challenge by looking back at the lessons of the past 70 years of housing policies. Funded by the Knight Foundation, this report has three components.

First, the report articulates a set of seven overarching goals that reflect the array of demands currently being placed on affordable housing programs. These goals, described more fully below, provide a new framework through which state and local leaders should evaluate the effectiveness of affordable housing programs. In the past, many housing programs tried to achieve one or two goals (e.g., provide housing that is affordable) but at the expense of another (e.g., promote economic diversity and housing choice). Although not all housing programs can meet all seven housing goals, this comprehensive set can help state and local leaders think through what kind of community outcomes they want to achieve and what they may get with their current or new housing approaches.

Second, the report reviews the literature on the evolving role and overall performance of major federal and local housing approaches over the past 70 years. Substantial academic and professional literature exists on the success and failure of affordable housing programs in the United States. However, policymakers and busy local practitioners on the frontlines of the issue rarely have the time or inclination to keep up with a sprawling, sometimes complicated, body of research. This review summarizes the most salient findings on the three major approaches to affordable housing: rental housing assistance programs, homeownership policies, and land use and other regulatory approaches. This literature review also evaluates the effectiveness of these affordable housing programs against the seven overarching goals for housing.

To be clear, this report does *not* focus on the details of individual housing programs, such as specific grant limits, loan terms, eligibility requirements, or design standards. Instead, we focus on the broader set of strategic choices confronting local policymakers concerned about addressing housing problems in their communities. Although a lot can be learned from an examination of program specifics and implementation experiences, this information can also distract attention from larger policy choices. Similarly, the literature reviewed here consists primarily of rigorous research studies that empirically examine the effects of various programmatic approaches on people and communities. The review does not include case studies describing the design and implementation of local programs, which typically focus more attention on the mechanics of producing or subsidizing housing units than on their effectiveness in meeting policy goals.

Finally, based on the findings from the literature review, the report extracts lessons from past affordable housing experiences and discusses their implications for today's affordable housing challenges.

In the end, the aim of this project is to help state, local, and neighborhood leaders learn from the trial and errors of seven decades of affordable housing policies to design effective strategies going forward. The body of research on this work is voluminous and therefore too daunting for most leaders to absorb and sort through. Although this project is not the definitive summation of all housing literature, it does pinpoint the most salient findings for today's busy practitioners and policymakers.

The following section outlines the seven affordable housing goals and the three broad affordable housing approaches that form the foundation of this comprehensive review.

## **A. Goals of Affordable Housing Policy**

This study presumes that the ultimate goal of an effective affordable housing policy should be *housing that supports and promotes healthy families and communities*.<sup>1</sup> This overarching goal involves seven more specific policy objectives, which overlap with one another but are all prerequisites for healthy families and communities.

### **1. *Preserve and expand the supply of good-quality housing units.***

First, an effective affordable housing policy should preserve and expand the supply of good-quality housing units in order to ensure the availability of decent housing for low- and moderate-income people. This is the most obvious objective of an affordable housing policy. For some, it may seem like the only objective. At any rate, a quality program should increase the stock of housing units that low- and moderate-income residents can afford and ensure that the quality of these units is adequate. Programs that build new units, improve substandard units, and prevent the deterioration and loss of existing affordable units all serve this policy objective.

### **2. *Make housing more affordable and more readily available.***

Expanding the number of affordable units is not the only way to address the housing needs of low- and moderate-income people. A complementary goal is to make existing housing more affordable and more readily available. For example, programs that supplement what families can afford to pay for rent, or that provide down payment assistance to first-time home buyers, help make existing housing stock more affordable. In addition, programs that combat discrimination or help families search for housing in the private market can make the affordable housing that already exists more accessible.

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<sup>1</sup> Although healthy communities constitute a fundamental goal of a good housing policy, this report does not address community development initiatives per se. Clearly, community development policies need to work hand-in-hand with housing policies. But in this research effort, we focus exclusively on housing policies, with considerable attention to their impact on communities.

**3. *Promote racial and economic diversity in residential neighborhoods.***

Housing policy is about more than just affordable shelter; it is also about the health and vitality of neighborhoods and access to neighborhoods of choice for low- and moderate-income households. When low-income households are clustered in poor or distressed neighborhoods, their access to educational, economic, and social opportunities is severely limited. Thus, to be truly effective, affordable housing policies should promote racial and economic diversity in residential neighborhoods so that poor and minority households are not isolated from social, educational, and economic opportunities. Successful programs allow households to make meaningful choices about the kind of neighborhoods in which they want to live.

**4. *Help households build wealth.***

For most middle- and upper-income households in the United States, homeownership is the primary mechanism for accumulating wealth. Consequently, most efforts to promote homeownership among underserved populations are designed not only to expand access to affordable housing but also to help households build wealth through ownership of decent housing in thriving neighborhoods.

**5. *Strengthen families.***

In addition to providing basic shelter, housing can profoundly affect the well-being of families. For example, programs to remove (or cover) lead-based paint can protect children's health. Eligibility rules for public housing may discourage unwed fathers from living with their children. Rent policies may encourage (or discourage) residents from working and earning more income. And housing developments that offer child-care facilities and after-school programs may encourage parents to work and help families become more self-sufficient. At a minimum, affordable housing programs should "do no harm" to the families that depend on them. At best, they should strengthen families by protecting their health, encouraging family stability, and promoting income growth and self-sufficiency.

**6. *Link housing with essential supportive services.***

Linking supportive services to housing programs is another important objective, since some people cannot take advantage of affordable housing opportunities without such aid. For example, a household with a physically disabled member might need a housing unit with wheelchair accessibility or on-site staff who can provide occasional assistance. A frail elderly couple might need daily meals and health monitoring. And many homeless individuals and families face multiple barriers to finding and sustaining themselves in permanent housing. Providing adequately for low- and moderate-income households with special needs calls for programs that link housing with essential supportive services for individuals and families who need extra help.

## 7. **Promote balanced metropolitan growth.**

A final policy goal involves the way housing policies affect and take part in the composition and growth of communities and metropolitan areas. Housing policies determine where affordable housing is located, how well it is maintained and preserved, and where new housing (in all price ranges) is built. Housing policy fails if it contributes to the decline of older, inner-city neighborhoods or if it does not create housing opportunities near centers of job growth. Thus, an effective housing policy should promote balanced metropolitan growth that strengthens existing neighborhoods and ensures that affordable housing is available throughout a metropolitan area.

Some might argue that this combination of seven overlapping objectives makes affordable housing policy a lot more complicated than it needs to be. But housing is important to Americans primarily because of its interconnections with the composition and health of communities, access to educational and employment opportunities, and opportunities for wealth accumulation. In other words, recognizing that housing is about more than affordable shelter should help raise the profile of housing policy locally, linking it to goals and priorities of people who are concerned about education, the environment, working families, and community well-being.

Moreover, experience from the past 70 years teaches us that focusing narrowly on only one or two housing policy objectives can produce disappointing results. Past programs that were primarily intended to produce low-cost rental housing, for example, often contributed to racial segregation. They created concentrations of poverty that undermined the vitality of surrounding neighborhoods and cultivated living environments that were sometimes destructive for the families and children they were intended to serve. Balancing the seven objectives introduced here is critical to the ultimate goal of creating housing that not only is affordable but also supports healthy families and communities.

Finally, broader thinking among policymakers can help to resolve one of the central controversies in the debate over housing policy goals and strategies: the question of whether housing assistance should be focused on *places*—improving housing and other conditions in the neighborhoods where poor people live—or on *people*. In the latter case, housing assistance programs would seek to help poor people move out of distressed neighborhoods and into communities that offer better living conditions and opportunities. We believe that an effective housing policy can and should do *both*—improve housing conditions in poor neighborhoods, encourage reinvestment in these neighborhoods by households of all income levels, *and* open up opportunities for poor families to move elsewhere if they wish.<sup>2</sup> The seven policy objectives

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<sup>2</sup> Related to the long-standing debate about targeting “people versus places” are assumptions about the value of neighborhood stability. Neighborhoods in which many residents remain and invest over the long term have many important strengths, but they can also foster fear of change and resistance to diversity. Conversely, high rates of mobility are sometimes seen as indicators of instability and disruption, but they can also reflect freedom of choice, access to wider social and economic opportunities, and openness to diversity. Thus, it would be a mistake to assume that stability is always desirable or that mobility is necessarily a problem.

articulated here reflect this balanced resolution to the long-standing argument over people versus places.

## **B. Elements of a Local Housing Strategy**

Housing programs in the United States are tremendously diverse. Since the New Deal era, federal, state, and local governments have designed and implemented innumerable variations on programs to produce affordable housing, subsidize rents and mortgage costs, encourage homeownership, and make housing more accessible. These diverse programs can be grouped into three basic categories.

**Rental assistance programs** take two basic forms. *Supply-side* rental programs focus on producing and maintaining housing units that are earmarked for occupancy by low- and moderate-income households. Examples include the public housing program, the LIHTC program, and local grants or low-interest loans for nonprofit organizations that build or rehabilitate affordable rental housing. The second type of rental assistance program focuses on the *demand side* and directly helps low-income renters obtain decent rental housing. Examples include housing vouchers, short-term assistance to households threatened with eviction, and programs that help low-income renters search for affordable housing in the private marketplace. Some rental assistance programs provide targeted social services and supports in conjunction with housing to serve residents with special needs, such as homeless people, seniors, and people with disabilities.

**Homeownership assistance programs** seek to expand access to homeownership, and—like rental programs—can include both supply-side and demand-side approaches. Supply-side homeownership programs subsidize the production, rehabilitation, or improvement of for-sale housing units, often by nonprofit organizations. Demand-side programs, which are much more common, include low-interest loans, homeownership counseling, and down payment assistance programs that help make homeownership more affordable and accessible. In addition, many of the federal government’s most effective homeownership initiatives have focused not on housing units *per se*, but on the availability and cost of mortgage financing.

**Land use and regulatory initiatives** are frequently overlooked in discussions about affordable housing policy, but their potential impact is greater than that of more conventional housing programs because they influence the location, characteristics, and costs of housing in the private market. Examples of regulatory and governance initiatives that potentially play an important role in affordable housing policy include state and local land use regulations and building codes, “fair share” plans, inclusionary zoning regulations, growth controls, and “smart growth” initiatives.

Each of these programmatic categories has the potential to promote one or more of the seven policy goals introduced earlier. Of course, some program approaches primarily advance one goal over others, and in many cases, the effectiveness of a particular programmatic activity depends on how it is designed and carried out. It is important to note that few, if any, of the programs discussed in this report were *explicitly* designed to advance all seven of our housing policy

objectives. Nonetheless, as local policy makers, practitioners, and advocates attempt to design housing strategies that work, they need to know how well these programmatic approaches can be expected to perform across the board, so that they can align outcomes with the set of activities most likely to produce the desired results.

This report's next three chapters focus on each of the three broad affordable housing approaches in turn. Each chapter includes these components: 1) an overview of the housing challenge in that category, 2) a brief history of important programmatic developments, 3) a summary of the available evidence of the effectiveness of key programs in contributing to the seven housing goals, 4) analysis of the implications of these findings for local action, and 5) a review of gaps in the research. Chapter 5 synthesizes the key conclusions from the previous three chapters on the role of various rental, homeownership, and regulatory policies in meeting the housing objectives. The report concludes with discussion of what lessons can be drawn from the past seven decades of housing policy and how policymakers might use this information to craft locally relevant housing strategies.