

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

V. PUTTING IT ALL TOGETHER: A SUMMARY OF KEY LESSONS

Until this point, this report has separately reviewed the academic and professional literature on the effectiveness of each of the three broad approaches—rental assistance, homeownership assistance, and regulatory initiatives—in achieving the seven policy goals of affordable housing. This chapter summarizes this evidence, which provides important insights for state and local leaders on how they can evaluate, modify, or design affordable housing strategies.

A. Summary of Lessons by Goals

1. *Preserve and Expand the Supply of Good-Quality Housing Units*

One of the most important tools for increasing the supply of affordable housing is one that is often overlooked by housing experts—land use and other regulations. Regulations have a powerful role in shaping the housing market. In particular, conventional land use and zoning policies and growth controls are often the biggest deterrents to building affordable housing and therefore, if addressed, have the potential for opening up the supply of affordable homes. Traditional land use and zoning policies often exclude low-income and minority households by limiting the supply of affordable housing. They do so by banning the development of new multifamily housing and mobile homes or requiring minimum house or lot sizes, which in turn favors the larger, more expensive homes typically occupied by middle- and upper-income families. Growth controls go a step further by imposing strict limits or bans on housing supply without accommodating projected household growth in the region, which also limits the building of affordable housing and ultimately results in higher housing prices.

The response to these exclusionary practices is inclusionary zoning programs and, more comprehensively, well-designed growth management policies. Inclusionary zoning, which requires inclusion of affordable units in new developments, has been found to be an important tool for expanding the production of affordable housing in jurisdictions where they exist and are enforced. Inclusionary zoning is also inexpensive to administer because it relies principally on the role of the private sector. Three states experienced decreases in their government subsidies for affordable housing in communities that adopted inclusionary zoning programs. Growth management programs can expand the supply of affordable housing if creating affordable housing is explicitly part of the growth management plan. Portland, OR's growth management plan explicitly requires all jurisdictions in the region to meet multifamily housing targets as well as provide their fair share of affordable housing for the region, while being mindful of the household growth projections for the region.

Focusing on regulatory approaches is important because pure housing production programs, while effectively expanding the supply of affordable housing, has not been able to keep up with

increasing needs among underserved and rent-burdened families. Further, while affordable housing production programs add to the supply, they do not always successfully provide decent-quality housing. Building low-cost rental housing is not enough; owners of such housing need to have both the capacity and the resources to maintain and operate them effectively.

HOME and the Community Development Block Grant are the only federal programs that also create affordable homes for ownership, not just rental. Both have been successful in producing and rehabilitating new units but have seen a larger share of total program funds go toward rental housing assistance.

2. *Make Housing More Affordable and More Readily Available*

Most of the literature to date indicates that low-income and working families who can find affordable housing are living in decent conditions but are struggling with the heavy costs of rent or mortgage. Although low supply of affordable housing is a critical issue in some areas, the more common challenge is how to make existing housing, particularly rental units, affordable to the poor and working poor.

The overarching lesson that emerges from analysis of federal rental assistance policies is that achieving affordability is highly dependent upon the depth and duration of federal subsidies. For instance, beyond public housing, Section 8 rental vouchers seem to be the most effective tool for helping low-income residents pay for rental housing. Federal rental vouchers are reliable, renewable subsidies specifically designed to reduce the cost of housing for low-income households. Housing vouchers are also a more cost-effective way to provide affordable housing than production programs. However, not all voucher recipients are successful in finding housing in the private market, and some recipients continue to pay unaffordable rent burdens.

On the other hand, privately owned, subsidized developments tend to produce housing that does not serve the poorest of the poor and is not permanently affordable. For instance, HOME, Low-Income Housing Tax Credits (LIHTC), and other subsidized housing programs that do not provide long-term operating subsidies do not generally produce housing that is affordable to those at the lowest end of the income scale. Although the programs are valuable, households living in HOME and LIHTC developments have higher rent burdens than those living in public housing.

Without subsidies, there are two regulatory approaches that seem to have mixed results in helping to reduce the cost of housing for low-income households. Inclusionary zoning, while producing affordable homes, tends to produce more units for ownership than for rent, and the units are often not affordable to the poorest households. Rent controls, by definition, promote housing affordability by regulating annual rent increases in a jurisdiction and have been found to benefit low-income renters. But rent control is often inefficient because it reduces housing costs for middle- and upper-income households as well as for the poor.

Finally, federal homeownership strategies have been very successful in making mortgage credit more affordable and available to low-income and minority home buyers. But there are some cautions here as well as we think about future approaches.

First, numerous studies have shown that the Community Reinvestment Act (CRA) has effectively changed the behavior of covered lenders to provide greater services and more loans to low-income and minority households and neighborhoods, particularly since the strengthening of enforcement in the 1990s. Given these successes, the main caution today is that CRA has been covering a progressively smaller base of mortgage lending activity than in the past. In 2000, less than one-third of all home purchase loans were made by CRA lenders, compared with 36 percent in 1993. Arguments have been raised to modernize CRA to meet the rapid changes in the financial services industry.

Second, mortgage market innovations, like underwriting liberalization and new loan products, have clearly expanded low-income households' abilities to qualify for mortgage credit and buy homes. However, research suggests that even the most aggressively liberal products have reached practical limits. Absent income- and wealth-creating strategies, not all renters are ready for homeownership.

Third, technological innovations, like automated underwriting and technology-supported risk-based pricing, have also expanded affordable lending by reducing the costs of extending credit and increasing the number of eligible borrowers. Automation has also removed human bias from the application of underwriting criteria, which critics argued led to discrimination. The one downside to automated underwriting is that the heavy reliance on credit scoring tends to place credit-constrained households at a disadvantage.

Last, homeownership education and counseling programs have had mixed results in helping to reduce the number of mortgage loan foreclosures and defaults among lower-income borrowers.

3. *Promote Racial and Economic Diversity*

Low-income and minority households have been long limited to neighborhoods with few job opportunities, good schools, and strong, stable families. In general, federal housing policies and regulations have helped fuel those patterns. The new strategies to reverse these trends and promote greater neighborhood diversity have made good progress. However, the evidence to date suggests that these programs have achieved more economic diversity than racial integration.

Both the public housing and LIHTC programs have been found to concentrate low-income residents in high-poverty, high-minority neighborhoods. Minority residents of public housing are especially disproportionately concentrated in high-poverty census tracts. The exception is public housing complexes with mostly white residents, which tend to be located in majority-white, lower-poverty neighborhoods.

The recent transformation of public housing through the HOPE VI program and the expansion of rental vouchers were designed in part to address the debilitating consequences of concentrated poverty. Although HOPE VI is too new to evaluate on this score, one of its primary objectives is to create mixed-income developments. Section 8 vouchers have broadened recipients' access to housing choice in the private marketplace. The result is that voucher users are more likely than public housing residents to live in diverse neighborhoods. But vouchers have been more effective in deconcentrating poverty than promoting racial and ethnic diversity. For instance, public housing residents who receive rental vouchers tend to move to neighborhoods that are less distressed than their original neighborhoods, but those neighborhoods tend to be clustered with other Section 8 recipients and have high numbers of minorities and moderate levels of poverty.

Regulatory policies have also had a mixed record in both cementing segregation in some communities and promoting diversity elsewhere. For instance, some existing zoning and land use regulations, such as low-density zoning and building permit caps, can keep low-income and minority residents from living in more homogeneous suburban communities. However, other regulations, like inclusionary zoning, have promoted economic and racial diversity by expanding the availability of affordable housing in growing neighborhoods.

And homeownership and mortgage credit programs have facilitated economic diversity but have done little to promote racial integration. Some evidence from 2001 Home Mortgage Disclosure Act data show that increased availability and affordability of mortgage credit have enabled large percentages of low-income households to locate to the suburbs and to middle-income tracts. However, minority households tend to own homes in the central city. Some advise that advancing mortgage access is more effective in promoting racial and economic diversity than developing housing in poor neighborhoods because it enables residents to move to better neighborhoods.

4. *Help Households Build Wealth*

One of the most significant benefits of housing is its wealth creation potential. Homeownership programs provide the most direct way to help lower-income and minority households build wealth. In fact, home equity represents 61 percent of household wealth for blacks and Hispanics, compared with 44.5 percent for whites.

This is not to say, however, that owning a home guarantees wealth accumulation. Wealth building through home equity depends heavily on the location of the owned home; the costs of maintenance, utilities, and property taxes; and the timing of the purchase and sale of the home. Those who purchase homes in growing, vibrant communities are more likely to see the value of their home increase than those who buy homes in stagnant, declining, or racially segregated neighborhoods. Minority households, irrespective of income, are also less likely to move up in housing (e.g., advancing to a second or third home)—and thus up the wealth ladder—than white households.

Zoning and land use regulations can directly affect wealth building through inclusionary zoning programs providing considerable opportunities for first-time home buyers of modest means. And because the development of these units is tied to market-rate housing in economically healthy neighborhoods, inclusionary zoning can help lower-income households own homes with market value, and thus wealth-building, potential.

On the other hand, exclusionary zoning or traditional regulations can help middle- and upper-income households grow assets in their homes by preventing the location in their neighborhoods of affordable homes and other types of development that are thought to undermine property values.

There is much debate about the role of growth management in driving up housing prices, which can potentially push homeownership out of the reach of low- and moderate-income households. One recent literature review found that market demand, not land constraints due to growth boundaries, was responsible for increases in home prices. It further showed that home prices can increase in housing markets with any kind of regulatory environment, traditional or growth management. Thus, regardless of market conditions or home price changes, growth management programs that mandate the provision of affordable housing throughout a metropolitan area is more effective in serving low- and moderate-income households than are conventional regulatory policies. Other studies, however, show that regulations can drive up home prices by 10 percent or more, and that “strict” regulatory environments can reduce homeownership by as much as 10 percent.

Finally, rental assistance programs generally do not directly build wealth, although they may enable recipients to save for homeownership by reducing their rent burdens. There have been programs that allow public housing residents to purchase their units, but residents are generally only interested in owning units in developments that are attractive and high quality.

5. *Strengthen Families*

Families are strengthened when they live in safe, stable, and affordable housing environments and neighborhoods that provide economic and social opportunities. Homeownership, more so than rental housing assistance, is often linked with strong families. Homeownership results in improved housing conditions and increased self-esteem from achieving homeownership. Both of these benefits create a strong home environment for raising children; as home conditions improve, so do children’s cognitive outcomes and behaviors. Homeownership can also provide families a stable place in the community that can greatly enhance their social and neighborhood ties, which in turn can improve child outcomes. Homeowners also acquire financial, organizational, and social skills as well as a sense of responsibility that may be transferred to their children. However, all of these gains in homeownership can be negated if the home is located in a distressed neighborhood or if the homeowner experiences fear, anxiety, and insecurity about making mortgage payments.

Low-income renters with housing vouchers who move to low-poverty neighborhoods also benefit from positive family outcomes. Studies of Chicago’s Gautreaux program confirm that voucher recipients who moved to middle-income, white suburbs were more likely to have jobs and to have

children who were less likely to drop out of school (and more likely to enroll in college) than other public housing residents. Also, public housing residents participating in Moving to Opportunity programs and Section 8 voucher recipients were both able to reduce their dependence on welfare and find employment and job training programs when they moved out of their high-poverty neighborhoods. Despite these successes, however, some families who move out of their original neighborhoods experience stress from leaving behind their friends and families.

Although there is little literature on the role of public housing and other federal rental production programs on the overall well-being of families, there is a growing body of evidence that welfare recipients who live in assisted housing have an easier time finding and maintaining jobs than those without housing aid.

Finally, housing market regulations do not directly aim to strengthen families, although inclusionary zoning can have the indirect effect of providing lower-income families with opportunities to live in better neighborhoods.

6. *Link Housing with Essential Supportive Services*

Meeting the needs of disabled, elderly, or homeless households and individuals has generally been the responsibility of a specific set of initiatives. Programs serving disabled and older Americans are almost exclusively rental housing programs that come with a wide range of services. Although few studies have evaluated the effectiveness of these programs, some have found that most residents are satisfied with the quality and affordability of their housing. However, a recent survey of federally assisted elderly developments found that only 27 percent provided meal programs or some form of supportive services, and only 50 percent had service coordinators on staff.

Two important findings emerge from studies of the value of supportive housing for the homeless. First, some research has found that homeless persons who used such housing and services ultimately had fewer hospital stays and fewer uses of hospital and mental health services. Second, comprehensive, supportive housing programs for homeless people with severe mental illness were found to reduce the costs to cities and states for providing other piecemeal services, such as overnight shelters, medical and mental health services, and use of jails and correctional facilities.

Although less directly than supportive housing, homeownership strategies can provide support for elderly and disabled owners in two ways. First, the disabled and aging communities have promoted policies to ensure that their target populations remain in independent living conditions as long as possible. The availability of home-based services may increase the chances for older and disabled persons to remain in homeownership. Second, reverse mortgage products enable elderly homeowners to convert their housing equity into cash to pay for in-home care and other health care needs.

Finally, regulatory policies have little impact on the goal of linking housing with supportive services, unless they explicitly prohibit or limit the development of housing designed for people with special needs.

7. *Promote Balanced Metropolitan Growth*

In general, the nation's affordable rental housing (both existing and new) and homeownership opportunities are often located in central cities and distressed neighborhoods, or in far-flung communities near the suburban fringe. The result is that low- to moderate-income families are either concentrated near the core of a metropolitan area, or must move to distant communities, adding to the fiscal and land use pressures of sprawl. In both cases, housing choices near job growth centers or other neighborhoods in the metropolitan area are limited. And the effectiveness of rental vouchers, which are dependent upon true housing choice in a metropolitan area, are undermined when the suburbs lack adequate supplies of rental housing.

Land use and other regulatory policies are the ticket for increasing the availability of affordable housing throughout a metropolitan area. Inclusionary zoning expands the supply of affordable homes in the suburbs and in market-rich neighborhoods, often creating economically diverse, but not necessarily racially diverse, communities in the process. State or regional fair share housing laws that mandate affordable housing in all jurisdictions in a community have been found to be effective in creating affordable housing in suburbs where none existed previously.

Well-designed growth management policies anticipate and plan for growth at a metropolitan scale while ensuring that future growth is environmentally and fiscally sustainable, promotes economic prosperity, and benefits all residents, including low-income households and persons of color. Thus, well-designed regulatory regimes include as a priority the provision of sufficient affordable housing throughout a metropolitan area. Portland's growth management plan is often held up as a model because it requires every suburban city and county to adopt plans that allow for higher densities and for at least 50 percent of new housing to be multifamily or attached single-family/townhouse units.

However, some regulations undermine the goals of promoting balanced metropolitan growth and true regional housing choice. They include exclusionary land use and zoning policies designed at the local, rather than regional, level. California is an example of a state with a high number of local governments that have adopted growth controls with the explicit goal of limiting the housing supply and thus excluding new residents.

B. *Summary of Lessons by Matrix*

These collective findings show that while rental housing assistance programs, homeownership assistance programs, and regulatory tools all have the potential to advance the larger goal of promoting healthy families and communities, some of their specific programmatic approaches can advance one goal over another. Exhibit 4 combines the summary tables in Chapters

2 through 4. This matrix provides a quick synopsis of the performance of each program type and can be used as an easy reference for those thinking about how different programs might be combined to achieve specific policy objectives. For instance, if the major policy objective is to promote racial and economic integration, reading that row across the three major housing strategies will identify which one(s) can be expected to best achieve this particular goal. In many cases, it may be a combination of the three strategies that will advance the goals.

Exhibit 4: Effectiveness of Housing Programs by Policy Goals

	Rental Housing Assistance		Homeownership Assistance			Land Use and Regulations
	Supply-Side Production	Demand-Side Vouchers	Supply-Side Mortgage Credit	Demand-Side Homebuyer Tax Policies and Assistance	Supply-Side Production	
Preserve and Expand the Supply of Good-Quality Housing Units	Yes—rental stock has been expanded, though more units need to be produced	Somewhat—may encourage landlords to maintain existing housing	Maybe—but impact is indirect	Maybe—but impact is indirect	Yes—primary goal of these programs is expanding owner-occupied stock	Mixed—some programs expand supply while others limit new affordable construction
Make Housing More Affordable and More Readily Available	Yes—but affordability depends on size and duration of subsidies	Yes—primary goal is affordability; success depends on households' ability to find units	Yes—but impact is indirect	Yes—enhances buying power, but depends on price of housing stock	Yes—primary goal of these programs is affordability and access	Maybe—rent control may moderate rent increases in tight markets
Promote Racial and Economic Diversity in Residential Neighborhoods	Rarely—depends on where new units are located, and who is eligible to occupy them	Possibly—if recipients can find units in diverse neighborhoods	Possibly—depends on locational decisions of buyers	Possibly—if recipients can find units in diverse neighborhoods	Possibly—depends on the location of units produced and local economy	Mixed—some reforms can expand affordable housing in affluent communities
Help Households Build Wealth	Generally not—though lower rents may lead to increased family assets	Generally not—though lower rents may lead to increased family assets	Yes—but depends on house price appreciation and individual borrower circumstances	Yes—but depends on house price appreciation and individual borrower circumstances	Yes—but depends on house price appreciation and individual borrower circumstances	Mixed—some programs provide wealth-building opportunities while others do not
Strengthen Families	Possibly—but little literature exists to confirm programs' ability to strengthen families	Possibly—but less impact if units are located in distressed neighborhoods or occupancy rules discourage family unification	Yes—but less impact if units are located in distressed neighborhoods	Yes—but less impact if units are located in distressed neighborhoods	Yes—but less impact if units are located in distressed neighborhoods	No
Link Housing with Essential Supportive Services	Sometimes—when units are designed in conjunction with effective supportive services	Generally not	No	Probably not—unless services are explicitly linked with assistance	Probably not—unless services are explicitly linked with assistance	No
Promote Balanced Metropolitan Growth	Rarely—depends on where the new units are built	Possibly—depends on recipients' ability to find units in suburban areas and close to job opportunities	Unclear—depends on general population's locational choices	Unlikely—though possible if recipients can find units in suburban areas and close to job opportunities	Rarely—the location of units thus far has generally not promoted balanced growth; however, neighborhoods have benefited from homeownership	Mixed—zoning and regulatory reforms can promote affordable development in all jurisdictions, though some do not