Rethinking Local Affordable Housing Strategies

Housing Washington 2004
September 21, 2004
Rethinking Affordable Housing Strategies

I. What are the housing challenges in Washington State?

II. What is a winning affordable housing playbook?

III. Where does Washington go from here?
Rethinking Affordable Housing Strategies: An Action Agenda for Local and Regional Leaders

Bruce Katz and Margery Austin Turner

Since the mid-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 in 1986 and the HOME program in 1990, federal policymakers essentially devolved responsibility for the design and implementation of affordable housing policies to a myriad of state and local housing agencies.

As with other federal policies, devolution remains a work in progress. Across the nation, state and local government leaders are struggling to implement federal policies—and to effectively use available resources—in communities with significantly different market conditions, residential patterns, regulatory regimes, and local goals. These leaders—and their partners in the corporate, civic, and real estate communities—routinely ask several questions: What lessons can guide state and local efforts to design and implement effective affordable housing strategies? What affordable housing strategies have proven to be successful? In short, what have we learned from almost seven decades of trial and error in affordable housing policy?
What are the housing challenges in Washington State?
What are the housing challenges in Washington State?

Housing costs are high and continue to rise.

Several factors contribute to the high cost of housing.

Housing challenges vary across and within metro areas.
Washington’s rent and mortgage burdens are among the highest in the country

<table>
<thead>
<tr>
<th>Rent Greater Than 30% of Income</th>
<th>Housing Costs Greater Than 30% of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> California</td>
<td><strong>1</strong> Hawaii</td>
</tr>
<tr>
<td><strong>2</strong> Florida</td>
<td><strong>2</strong> California</td>
</tr>
<tr>
<td><strong>3</strong> New York</td>
<td><strong>3</strong> Nevada</td>
</tr>
<tr>
<td><strong>4</strong> Oregon</td>
<td><strong>4</strong> New Jersey</td>
</tr>
<tr>
<td><strong>5</strong> Washington</td>
<td><strong>5</strong> Washington</td>
</tr>
<tr>
<td><strong>6</strong> Nevada</td>
<td><strong>6</strong> New York</td>
</tr>
<tr>
<td><strong>7</strong> Colorado</td>
<td><strong>7</strong> Florida</td>
</tr>
<tr>
<td><strong>8</strong> Arizona</td>
<td><strong>8</strong> Oregon</td>
</tr>
<tr>
<td><strong>9</strong> New Mexico</td>
<td><strong>9</strong> Washington D.C.</td>
</tr>
<tr>
<td><strong>10</strong> New Jersey</td>
<td><strong>10</strong> Utah</td>
</tr>
</tbody>
</table>

| National Average | 36.85% | National Average | 26.66% |

Source: U.S. Census Bureau, 2000
The average rent for a 2 bedroom apartment in Washington is $788, 16th highest in the country.

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Average Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Colorado</td>
<td>$847</td>
</tr>
<tr>
<td>12</td>
<td>Nevada</td>
<td>$836</td>
</tr>
<tr>
<td>13</td>
<td>Illinois</td>
<td>$823</td>
</tr>
<tr>
<td>14</td>
<td>Virginia</td>
<td>$821</td>
</tr>
<tr>
<td>15</td>
<td>Minnesota</td>
<td>$788</td>
</tr>
<tr>
<td>16</td>
<td>Washington</td>
<td>$788</td>
</tr>
<tr>
<td>17</td>
<td>Arizona</td>
<td>$780</td>
</tr>
<tr>
<td>18</td>
<td>Florida</td>
<td>$742</td>
</tr>
<tr>
<td>19</td>
<td>Delaware</td>
<td>$731</td>
</tr>
<tr>
<td>20</td>
<td>Georgia</td>
<td>$728</td>
</tr>
<tr>
<td>21</td>
<td>Vermont</td>
<td>$717</td>
</tr>
</tbody>
</table>

Source: National Low Income Housing Coalition, 2003
And the median home price in the state has increased over 49% in the last 10 years, from $136,000 to $203,800.
Homeownership rates in Washington consistently lag behind the national average.

Source: U.S. Census Bureau

U.S. (68.3%)
Washington (65.9%)
What are the housing challenges in Washington State?

Housing costs are high and continue to rise

Several factors contribute to the high cost of housing

Housing challenges vary across and within metro areas
Washington’s desirability boosts housing prices

According to America's Best Cities and States: The Annual Gold Guide to Leading Rankings, Seattle ranked 11th among cities while Washington state was fifth among states.
The state’s high tech economy also creates a “hot” real estate market

- The economic boom of the 1990s raised employment and homeownership in most areas, but also drove up rents more than one and a half times faster than inflation (HUD, 2000)

- “New economy housing markets are… faster and more extreme versions of traditional housing markets” (Landis, Elmer, and Zook, 2001)

- A high-tech presence significantly contributes to critical housing problems for low and moderate income renters and owners (Quercia, Stegman, and Davis, 2001)
“A high-tech presence significantly contributes to critical housing problems for low and moderate income renters and owners”

- High-paying tech jobs going to highly educated people
  - Raises housing prices
  - Low income households and those with less education see their incomes fail to keep up with inflation

- Developers in fast-paced, high-tech economies have focused on the high end market
  - Leaves fewer choices for low and moderate income households

(Quercia, Stegman, and Davis, 2002)
For many families, wages are insufficient to keep pace with housing costs. In Washington, 86 hours must be worked per week at minimum wage to affordably rent a 2-bedroom apartment.

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Hours Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>Wisconsin</td>
<td>90</td>
</tr>
<tr>
<td>27</td>
<td>Vermont</td>
<td>88</td>
</tr>
<tr>
<td>28</td>
<td>New Mexico</td>
<td>87</td>
</tr>
<tr>
<td>29</td>
<td>Rhode Island</td>
<td>87</td>
</tr>
<tr>
<td>30</td>
<td>Missouri</td>
<td>86</td>
</tr>
<tr>
<td>31</td>
<td>Washington</td>
<td>86</td>
</tr>
<tr>
<td>32</td>
<td>Indiana</td>
<td>85</td>
</tr>
<tr>
<td>33</td>
<td>Kansas</td>
<td>83</td>
</tr>
<tr>
<td>34</td>
<td>South Carolina</td>
<td>82</td>
</tr>
<tr>
<td>35</td>
<td>South Dakota</td>
<td>82</td>
</tr>
<tr>
<td>36</td>
<td>Tennessee</td>
<td>81</td>
</tr>
</tbody>
</table>

Source: National Low Income Housing Coalition, 2003
A renter in Washington needs to make over $15/hour full time to be able to affordably rent an average 2-bedroom apartment at fair market value.

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Wage Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>42</td>
<td>Colorado</td>
<td>$16.29</td>
</tr>
<tr>
<td>41</td>
<td>Nevada</td>
<td>$16.08</td>
</tr>
<tr>
<td>40</td>
<td>Illinois</td>
<td>$15.83</td>
</tr>
<tr>
<td>39</td>
<td>Virginia</td>
<td>$15.79</td>
</tr>
<tr>
<td>38</td>
<td>Minnesota</td>
<td>$15.16</td>
</tr>
<tr>
<td>37</td>
<td>Washington</td>
<td>$15.15</td>
</tr>
<tr>
<td>36</td>
<td>Arizona</td>
<td>$15.00</td>
</tr>
<tr>
<td>35</td>
<td>Florida</td>
<td>$14.26</td>
</tr>
<tr>
<td>34</td>
<td>Delaware</td>
<td>$14.06</td>
</tr>
<tr>
<td>33</td>
<td>Georgia</td>
<td>$14.00</td>
</tr>
<tr>
<td>32</td>
<td>Vermont</td>
<td>$13.78</td>
</tr>
</tbody>
</table>

Source: National Low Income Housing Coalition, 2003
The supply of affordable housing is not keeping pace with demand

<table>
<thead>
<tr>
<th>County</th>
<th>Affordable Housing Demand (Need)</th>
<th>Current Supply of Affordable Units</th>
<th>Shortage of Affordable Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>King</td>
<td>55,089</td>
<td>45,117</td>
<td>9,972</td>
</tr>
<tr>
<td>Pierce</td>
<td>27,053</td>
<td>10,363</td>
<td>16,690</td>
</tr>
<tr>
<td>Snohomish</td>
<td>14,796</td>
<td>425</td>
<td>14,371</td>
</tr>
<tr>
<td>Spokane</td>
<td>16,297</td>
<td>7,772</td>
<td>8,525</td>
</tr>
<tr>
<td>Yakima</td>
<td>7,353</td>
<td>1,721</td>
<td>5,632</td>
</tr>
<tr>
<td>Statewide</td>
<td>195,751</td>
<td>98,427</td>
<td>97,324</td>
</tr>
</tbody>
</table>

Source: Washington Center for Real Estate Research
I What are the housing challenges in Washington State?

Housing costs are high and continue to rise

Several factors contribute to the high cost of housing

Housing challenges vary across and within metro areas
The entire state faces a rental housing challenge: No county has a ratio of affordable housing units to extremely low income renter households over .74.
Homeownership is also unaffordable throughout the state: Very low income owners’ average housing cost burdens are at least 50% in every county.
But challenges vary

Differences in income levels, poverty rates, and housing costs mean that the nature and extent of the housing challenge differs across the state.
Household incomes in Washington metro areas vary across the state

In metros like Seattle, high incomes drive up the cost of housing

Median HH Income for the 25 West Coast Metro Areas
Source: U.S. Census Bureau, 2000
While poverty rates for the state are relatively low, some metros fall behind.

In metros like Yakima, high poverty rates also make housing unaffordable for many.

Poverty Rates for the 25 West Coast Metro Areas
Source: U.S. Census Bureau, 2000
The Seattle metro area: Looking closer
Although the Seattle/Tacoma metro’s overall poverty rate is low, concentrated pockets of poverty still exist.

People experiencing high or extreme levels of poverty are found in these neighborhoods within the Seattle metro area.

Individual poverty rates by census tract
Source: U.S. Census, 2000
Minority populations are also concentrated in this region

Percent of Non-White individuals
Source: U.S. Census, 2000

Neighborhoods with a majority of non-white individuals are found here

- Less than 10%
- 10%-24.9%
- 25%-49.9%
- 50%-74.9%
- More than 75%
Strong markets versus weak markets: Seattle and Spokane

Median household income is much lower in Spokane

- Seattle/Tacoma: $50,733
- Spokane: $37,308

And poverty rates are much higher in Spokane

- Seattle/Tacoma: 8.5%
- Spokane: 12.3%

Source: U.S. Census, 2000
Strong markets versus weak markets: Seattle and Spokane

High incomes in the Seattle metro area are not enough to make homes affordable for most families.

And low home prices in Spokane are not enough to compensate for low incomes in the metro area.

<table>
<thead>
<tr>
<th>Metro</th>
<th>Median Sales Price</th>
<th>Median Family Income</th>
<th>Affordable for median income families</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seattle</td>
<td>$234,000</td>
<td>$77,900</td>
<td>63.1%</td>
<td>133</td>
</tr>
<tr>
<td>Spokane</td>
<td>$125,000</td>
<td>$46,600</td>
<td>66.1%</td>
<td>126</td>
</tr>
<tr>
<td>U.S. Average</td>
<td>$160,000</td>
<td>$54,400</td>
<td>64.8%</td>
<td></td>
</tr>
</tbody>
</table>

Result: Both metros are among the worst in the country in terms of home affordability.

Different markets, same problem

Strong Market
(Seattle)

Weak Market
(Spokane)

High Demand for Affordable Housing
Rethinking Affordable Housing Strategies

I. What are the housing challenges in Washington State?

II. What is a winning affordable housing playbook?

III. Where does Washington go from here?
Seven principles for success

1. Make Policy Goals Explicit
2. Tailor Housing Strategies to Local Market Conditions
3. Housing Markets are Regional
4. Income Policy is Housing Policy
5. Regulatory Policy Makes a Difference
6. Race Matters
7. Implementation Matters
Principle One: Make Policy Goals Explicit

The main goal should be housing that supports healthy families and communities
Principle One: Make Policy Goals Explicit

1. Preserve & expand housing stock
2. Make housing affordable and available
3. Promote racial & economic diversity
4. Help households build wealth
5. Strengthen families
6. Link housing with supportive services
7. Promote balanced metropolitan growth
Principle Two: Tailor Housing Strategies to Local Market Conditions

<table>
<thead>
<tr>
<th>Goal</th>
<th>Strong Market (Seattle)</th>
<th>Weak Market (Spokane)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preserve and Expand Stock</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Make Housing Affordable</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Promote Diversity</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Help Build Wealth</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Strengthen Families</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Link Supportive Services</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Promote Balanced Metro Growth</td>
<td>7</td>
<td>2</td>
</tr>
</tbody>
</table>

*Priorities vary depending upon the type of market*
Principle Three: Housing Markets are Regional

Example: The Seattle metro area

The Seattle suburbs have increased by over 250,000 more people than the city.

Population increase, 1990-2000
Source: Living Cities Census Series
The resulting growth looks like this:

Source: US Census data, Neighborhood Change Database

1970
Persons per Census tract

Downtown Seattle
The resulting growth looks like this:

1980

Downtown Seattle

Persons per Census tract

Source: US Census data, Neighborhood Change Database
The resulting growth looks like this:

- **1990**
  - Persons per Census tract

Source: US Census data, Neighborhood Change Database

Downtown Seattle
The resulting growth looks like this:

Source: US Census data, Neighborhood Change Database

Downtown Seattle
Policy Response: Housing markets are regional—Housing policies should be, too

- Do not cluster affordable homes in low-income neighborhoods, especially in the core

- Enable low-income households to live closer to employment centers and better schools

Aim for this… …instead of this
Principle Four: Income Policy is Housing Policy

Those claiming the earned income tax credit in Washington have increased markedly in recent years.

Source: EITC Interactive Site, The Brookings Institution’s Metropolitan Policy Program
Income Policy is Housing Policy

Percent of filers claiming the EITC varies widely across Washington

Percent of filers claiming the EITC, Tax Year 2001

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Data</td>
<td>15 - 20%</td>
</tr>
<tr>
<td>0 - 5%</td>
<td></td>
</tr>
<tr>
<td>5 - 10%</td>
<td></td>
</tr>
<tr>
<td>10 - 15%</td>
<td></td>
</tr>
<tr>
<td>20 - 30%</td>
<td></td>
</tr>
<tr>
<td>30 - 40%</td>
<td></td>
</tr>
<tr>
<td>&gt; 40%</td>
<td></td>
</tr>
</tbody>
</table>

THE BROOKINGS INSTITUTION
Income policy is housing policy

- Local leaders can impact household incomes and, by extension, housing affordability

- Raise the incomes of working families through earned income tax credit, nutrition assistance, health care, and child care

*Think of affordable housing as workforce housing*
Principle Five: Regulatory Policy Makes a Difference

- Building Codes
- Zoning Ordinances
- Rent Controls
- Development Fees
- Land Use Regulations
- Design Requirements
- Subdivision Requirements
- Parking Requirements
Policy Response

- Eliminate or moderate regulatory barriers to affordable housing production
  - Identify and get rid of regulations that are exclusionary or unnecessary

- Provide incentives for private developers to produce more affordable housing
  - Create inclusionary housing policies to improve supply of affordable housing
Principle Six: Race Matters

Percent of non-Asian minority elementary students by school
Source: Metropolitan Area Research Corporation
Race matters

• Implement policies that do not reinforce patterns of segregation and discrimination

• Be aware that “color blind” policies may not work as intended if segregation and ethnic inequalities are ignored
Principle Seven: Implementation Matters

Housing policy needs to be implemented in an integrated, accountable and sustainable fashion

Integrated

Accountable

Sustainable
Implementation matters

• Housing programs should connect directly with other neighborhood interventions (e.g., schools)

• Hold implementing agencies accountable through performance measures

• Economic integration is the principle vehicle for sustainability
Set clearly defined performance measures

Example:

<table>
<thead>
<tr>
<th>Goal</th>
<th>Short-term Indicator (1-5 years)</th>
<th>Long-term Indicators (5-20 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preserve and Expand Affordable Housing Stock</td>
<td>Number of units built or rehabbed</td>
<td>Number of units affordable to range of incomes</td>
</tr>
<tr>
<td></td>
<td>Number of units improved or upgraded</td>
<td>Number of physically deficient units</td>
</tr>
<tr>
<td></td>
<td>Share of units affordable for range of incomes</td>
<td>Number of overcrowded housing units</td>
</tr>
</tbody>
</table>
An example of integrated affordable housing policy: Murphy Park of St. Louis, Missouri

Murphy Park Development replaced the original George L. Vaughn High Rises

- Partnered with corporate and philanthropic groups to improve the local school
- Aimed to increase economic diversity to promote sustainable economic performance
- Included townhouses, garden apartments, and single-family homes

Murphy Park, Today  
George L. Vaughn High Rises, 1995
An example of integrated affordable housing policy: Murphy Park of St. Louis, Missouri

The Results

• Performance at the local school dramatically improved, with the percent of students reading at their grade level rising from under 20% to 60%

• The developers were successful at attracting a much more economically integrated community

• The median household income rose by 18 percent between 1989 and 1999, compared to four percent regionally

• Private investment in the form of residential and commercial development has since located in the surrounding area
Rethinking Affordable Housing Strategies

I. What are the housing challenges in Washington State?

II. What is a winning affordable housing playbook?

III. Where does Washington go from here?
Washington needs to connect housing policy to core state priorities