SHARED PROSPERITY PARTNERSHIP

How States Can Support Shared Prosperity in Cities by Promoting

Affordable Rental Housing

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This is one of three briefs in the State Policies to Promote Shared Prosperity in Cities series created by the Shared Prosperity Partnership. For additional insights, read the *series framing paper* and two other briefs, *How States Can Support Shared Prosperity by Promoting Human Capital Development* and *How States Can Support Shared Prosperity by Promoting Quality Jobs.*

The Shared Prosperity Partnership—a collaboration of The Kresge Foundation, the Brookings Metropolitan Policy Program, the Urban Institute, and Living Cities— convenes local leaders in select communities across the United States to discuss challenges to inclusive growth and provide data, research, and access to national experts, networks, and financial resources. Nationally, the Partnership elevates promising models through publications and public forums to spark dialogue among practitioners and support evidence-based policy at the state and national levels. The Center for Urban Innovation at the Aspen Institute supports the partnership by connecting leaders from different cities to share common challenges and work together to identify specific actions to advance sustainable prosperity in their communities. Since the partnership's formation in 2018, it has supported locally driven efforts in eight U.S. cities: Arlington, VA; Chicago, IL; Cleveland, OH; Fresno, CA; Kansas City, MO; Milwaukee, WI; Minneapolis-St. Paul, MN; and Memphis, TN.

New technologies, economic shifts, changing demographics and continued racial biases are widening income inequalities and racial disparities in cities across the United States. As a result, economic opportunities are increasingly concentrated among a small share of the population and in a limited number of places (Berube et al. 2018). To combat increased economic and geographic inequality within cities, local leaders are launching new efforts to enable women, people of color and other underrepresented groups to contribute to and benefit from economic growth (Poethig et al. 2018). But local leaders cannot address these issues on their own. In an era of federal withdrawal from investments in communities and the social safety net, state and local leaders must work together to advance shared prosperity. In this series of briefs, we articulate why the issues of affordable housing, job growth and upskilling workers matter to statewide shared prosperity. In addition, we explore how state and local governments can forge more effective partnerships, and we profile states that are leading the way.

In this brief, we discuss how state and local governments can more effectively partner to address rental housing affordability challenges in cities and why these policies could enable more families to prosper.

"THERE IS NOT A SINGLE COUNTY IN THE U.S. WITH AN ADEQUATE SUPPLY OF HOUSING TO MEET THE AFFORDABILITY REQUIREMENTS OF ITS RENTERS WITH LOW INCOMES." (GETSINGER ET AL. 2017)

How Affordable Rental Housing Promotes Statewide Shared Prosperity

Housing quality, affordability, stability and location all have broad impacts on families and communities. While the housing market covers both rental and homeownership units, rental housing has especially pressing affordability challenges and is the focus of increased attention from policymakers at all levels of government.[1]

Cities and counties across the country face serious rental housing affordability challenges as millions of households with low incomes compete for a shrinking number of affordable units. There is not a single county in the U.S. with an adequate supply of housing to meet the affordability requirements of its renters with low incomes (Getsinger et al. 2017), which reflects the high cost of housing relative to household incomes across all market types. Due to an imbalance between demand for and supply of affordable housing, the housing affordability crisis for the lowest income households has worsened, and many higher income renters are also feeling the squeeze (Joint Center for Housing Studies of Harvard University [JCHS] 2019; Poethig 2018). Federal rental assistance only covers one in five households with housing needs and low incomes (Kingsley 2017). Though some state and local governments have increased their efforts to expand the supply of affordable housing, there are still too few units to cover the gap in federal assistance.

Without affordable housing, households are not able to share in the increased prosperity occurring in many of the country's regions. Lack of affordable housing places cost burdens on households, puts households with low incomes and many communities of color at higher risk of housing instability and displacement, limits where families with low incomes can live to neighborhoods with few amenities and poor access to services, and constrains economic growth.

Households across the country spend a considerable amount of their income on housing. Nearly half of all renters in the U.S. are cost-burdened (paying more than 30 percent of their income for housing), and a quarter of all renters are severely cost-burdened (paying more than half of their income for housing; JCHS 2019). When rents go up without comparable increases in income, families must make trade-offs between paying for housing and paying for other expenses like healthcare and investing in their or their children's education (Maqbool, Viveiros, and Ault 2015).

"IN MANY CIRCUMSTANCES, HOUSEHOLDS WITH LOW INCOMES LIVE IN AFFORDABLE UNITS, BUT THOSE UNITS ARE OF POOR QUALITY, WHICH AFFECTS RESIDENTS' HEALTH AND WELL-BEING."

High housing costs also can lead to eviction or other forms of residential instability, such as involuntary moves due to rent increases. Displacement prevents residents from benefitting from the increased services and resources in revitalized neighborhoods and disproportionately impacts black and Latinx residents (Richardson et al. 2019). While residential instability is often associated with hot markets where property values and rents are increasing rapidly, instability is symptomatic of a broader set of forces (e.g., individual factors, housing unit conditions and neighborhood dynamics) that are present in all housing markets (Theodos, McTarnaghan, and Coulton 2018). In many circumstances, households with low incomes live in affordable units, but those units are of poor quality, which affects residents' health and well-being.

A lack of quality affordable housing in amenity-rich neighborhoods impacts households' trajectories. Research shows that living in neighborhoods with low crime, good schools and access to jobs yields benefits for parents and children (Chetty, Hendren, and Katz 2016). However, a long history of discrimination and exclusionary land use regulations have created and perpetuated racial and economic segregation and wide disparities in access to opportunities across neighborhoods (Greene, Turner, and Gourevitch 2017). Today, local opposition to new development in amenity-rich neighborhoods reinforces patterns of segregation and concentrated poverty.[2] Recent research shows how segregation negatively impacts local and regional economies, including by lowering incomes and reducing educational attainment (Acs et al. 2017).

High housing costs hamper local and state economies by reducing economic mobility and reducing the amount of money that residents reinvest in the economy. For new residents, high housing costs prevent workers from being able to live near where they work and therefore limit businesses' ability to attract and retain workers (Altali, Hillman, and Tekleab 2017). For existing residents, high housing costs reduce other spending in the local economy (Wardrip, Williams, and Hague 2011). In addition, housing instability begets job instability, as workers with low incomes are more likely to lose their jobs after losing their rental housing (Desmond and Gershenson 2016).

Designing housing and land use policies that increase the supply of affordable housing in all neighborhoods is a key step to reversing these unequal patterns and enabling all residents to access neighborhoods of opportunity. If every household could afford quality housing and every neighborhood had housing units affordable to all income levels, households up and down the economic ladder would receive the education, health and economic benefits they need to thrive (Turner et al 2019).

"LOCAL AND NATIONAL ECONOMIES ARE LESS PRODUCTIVE WHEN WORKERS CANNOT AFFORD TO LIVE NEAR EMPLOYMENT CENTERS." (FURMAN 2015)

Tackling local affordability challenges would also improve statewide and national prosperity. Nationally, the lack of housing supply restricts access to these productive cities, which heightens market pressures, limits worker mobility and impedes economic growth (Hsieh and Moretti 2019). Local and national economies are less productive when workers cannot afford to live near employment centers (Furman 2015), and research shows that unaffordable housing slows local employment growth(Chakrabarti and Zhang 2014). The broad economic impacts of unaffordable housing underscore the need for policy solutions at all levels of government.

How Responsibilities to Promote Affordable Rental Housing are Shared between Federal, State and Local Actors

It is imperative that governments partner across levels of governments and across sectors to create affordable housing that connects residents with opportunities to contribute to and benefit from the local economy.[3] In this section we discuss the unique roles of each level of government as well as areas of shared responsibilities between them.

Federal government

The vast majority of funding for affordable housing comes from the federal government. Current federal housing assistance programs fall into three main, non-mutually exclusive categories: rental housing assistance for tenants, assistance for homeowners, and assistance to state and local governments to pursue various housing strategies (McCarty et al. 2019). Rental housing assistance includes vouchers and public housing units that enable a subset of families with low incomes to pay affordable rents. Approximately 70 percent of federal housing expenditures go towards homeownership, mostly through the mortgage interest and other tax deductions tied to homeownership (Fischer and Sard 2017). The third category of federal assistance, assistance to state and local governments, includes block grants and tax credits. State and local governments are able to use these flexible resources for rental assistance, homeownership assistance or other community development needs.

State government

Over time, the federal government has increasingly provided states with greater flexibility to implement housing policies and programs. As a result, state and local governments have developed their own housing programs and incentives over the past few decades. But even with greater flexibility, the majority of state and local expenditures on housing come from federal sources (Schwartz 2014). Though the bulk of the spending by states is federal dollars, state governments nonetheless have at least three critical roles in encouraging affordable housing.

First, while state spending on housing and community development represents a small share of total state expenditures,[4] this funding fills a critical need, especially as federal funding levels have plateaued since 2013 (JCHS 2020). States provide direct subsidies and assistance for the development of affordable housing, either through housing trust funds, loans or bond issuances. States also administer federal Low-Income Housing Tax Credits (LIHTC) and disperse other federal housing subsidies to smaller municipalities and unincorporated areas. Many states also offer modest tax credits to renters, although most renter tax credit programs are targeted to elderly households or those with low incomes.[5][6]

"STATES CAN REQUIRE CITIES AND COUNTIES TO PLAN FOR ANTICIPATED HOUSING GROWTH AND PROPOSE LOCAL POLICY SOLUTIONS TO HELP FILL IDENTIFIED GAPS."

Beyond funding, states use their regulatory authority as both a stick and a carrot. They can set minimum standards or overrule cities' decisions when jurisdictions do not meet housing goals. Additionally, they can provide additional funding to supplement federal and local programs. State governments oversee – and can sometimes supersede – local policies on land use. For example, states can require cities and counties to plan for anticipated housing growth and propose local policy solutions to help fill identified gaps. States can also use their oversight to adopt and enforce anti-discrimination protections, fair housing laws and tenant protections.

Finally, state governments have additional authority to allocate resources towards housing. For example, states can permit cities to sell or lease excess land to build additional affordable housing units.[7] Doing this magnifies the impact of affordable housing resources, since it means that developers do not have to incur high costs to purchase land. States also provide technical assistance and administer programs to improve affordable housing. For example, through the *Local Initiative Program*, the state housing agency in Massachusetts provides technical support to communities to help developers and municipalities work together to create affordable rental opportunities.[8]

Local government

Local governments derive their authority from states, and local housing policy varies by the authority that states cede to municipalities. Some states only allow municipalities to enact policies expressly allowed by state law, while others grant municipalities greater latitude to enact policies independently of the state (McFarland et al. 2019). This, in turn, has implications for the types of programs and amount of resources that local governments can pursue to address housing concerns (Turner et al. 2019).

Irrespective of how much authority they are granted by the state, local governments play a significant role in regulating land use and providing resources for affordable housing. Jurisdictions often dedicate a mix of local and federal resources to produce and preserve affordable housing. Some cities and counties also directly administer federal housing subsidies and programs, such as Community Development Block Grants and HOME grants. Local governments also have the power to raise additional revenues for housing, and, depending on the state, enact housing-related policies. These revenues often come from local housing trust funds, which use dedicated revenue sources to address local housing priorities. On the policy side, local governments adopt and enforce zoning, land use and building restrictions.

Other sectors

Addressing the shortage of affordable housing in each of the nation's fifty states requires involvement from all sectors. The vast majority of housing in the U.S. is built by private developers and managed by private companies without public subsidy. However, nonprofit developers and community development corporations also play an important role in building and maintaining affordable housing. Philanthropy's role in housing focuses on aggregating capital to increase the scale of housing investments, mitigating the risk of housing-related investments, providing thought leadership, and funding advocacy efforts (Schiff and Dithrich 2017).[9] [10] [11]

Even industries not directly involved in housing are impacted by the shortage as housing affects employers' decisions regarding where to locate, as well as their ability to attract and retain talent, and their workers' productivity (Turner et al. 2019). Employers' contributions to affordable housing can include financing for production and preservation, providing housing for employees and using influence to drive change (University of Chicago 2015).[12] [13]

State Strategies and Solutions to Address Existing Impediments to Affordable Housing

Many states are limiting local governments' authority to enact housing and land use reforms that would address housing shortages.[14] Others are responding to rental housing market challenges by enacting strategies that create proactive and mutually beneficial partnerships with local governments. In both instances, states are leveraging their unique position to innovate new strategies to promote affordable housing and, in turn, advance shared prosperity, as discussed below.

State Strategies and Solutions to Address Existing Impediments to Affordable Housing	
Provide financial assistance and incentives to help cities expand or preserve affordable rental housing options	Reduce regulatory barriers that limit or increase development costs
Address local opposition to development	Adopt laws that enable fair and equitable housing access
Protect tenants with low incomes from displacement and substandard conditions	Support local planning and needs assessments

Strategy: Provide financial assistance and incentives to help cities expand or preserve affordable rental housing options

- **THE CHALLENGE:** Existing resources do not provide an adequate response to the magnitude of the housing shortage.
- **HOW STATES CAN RESPOND:** State leaders can provide financial assistance for the preservation and production of affordable rental housing. These resources go beyond the allocation of federal housing tax credits, which are the predominant way that states currently provide financial resources, to include direct subsidies (either through housing trust funds or other mechanisms), technical assistance and financial incentives. This assistance often goes towards specific purposes, such as supporting local jurisdictions' efforts to provide housing for residents experiencing homelessness. These resources should come from a stable funding stream that is not susceptible to large year-over-year variations in funding levels.[15]
- **INNOVATIVE EXAMPLES FROM STATES:** Almost every state has a housing trust fund, although there is wide variation in how, and how much, states allocate towards the funds. State housing trust funds are especially important resources for smaller cities and rural areas. For example, South Dakota's Housing Opportunity Fund allocates 70 percent of its resources to municipalities with populations of 50,000 or less.[16] Washington DC's Housing Production Trust Fund provides gap financing for projects affordable to households with low to moderate incomes.[17]

Strategy: Reduce regulatory barriers that limit or increase development costs

- **THE CHALLENGE:** New housing production takes too long and is too expensive.
- **HOW STATES CAN RESPOND:** Many state and local housing regulations serve legitimate purposes, like environmental protection and health and safety. But others are unnecessarily onerous or have the effect of excluding development from certain neighborhoods. State policymakers can eliminate these regulations to lower the costs of housing construction. Reforms can also shorten the approval timeline for new development, enabling developers to produce more housing in less time.
- **INNOVATIVE EXAMPLES FROM STATES:** Some states have focused on increasing density and lifting exclusionary zoning practices. For example, Oregon eliminated single-family zoning to alleviate the state's housing shortage (see case study below). A recently enacted bill in Utah requires cities to adopt housing and land use reforms in order to qualify for state transportation dollars.[18] The bill is hailed as a potential model because it preserves local flexibility in determining which policies to pursue.[19]

Strategy: Address local opposition to development

- **THE CHALLENGE:** Local opposition can block much-needed affordable housing.
- **HOW STATES CAN RESPOND:** New housing developments, including those with affordable rental housing, often face local opposition. Often referred to as NIMBYism (short for "not in my backyard"), local residents oppose new development and density as a way to protect the existing "character" of their neighborhoods. NIMBYism is often motivated by objections to racial integration and has the effect of excluding people of color and low-income households from accessing amenity-rich neighborhoods. Local opposition often delays planned housing construction, which leads to increased costs that can threaten to derail projects. Instead of engaging in reactionary and combative tactics, states can empower cities to override local opposition. This can include granting automatic approvals to projects that comply with local zoning regulations, thus sidestepping lengthy and costly reviews.
- **INNOVATIVE EXAMPLES FROM STATES:** Massachusetts Chapter 40B streamlines development review processes in municipalities where fewer than 10 percent of total units are affordable to households with low to moderate incomes. In those communities, developers also have the option to appeal local zoning board decisions to a state committee, which can override the local denial (Williams, Sturtevant, and Hepner 2017). In Connecticut, *HOMEConnecticut* is a partnership between the state and local jurisdictions in which municipalities create affordable housing in designated growth locations, and the state offers financial incentives when units are built.[20]

Strategy: Adopt laws that enable fair and equitable housing access

- **THE CHALLENGE:** People of color and those with low incomes face serious barriers to accessing affordable housing due to discrimination.
- **HOW STATES CAN RESPOND:** States can add tenant protections to prevent discrimination and enable equitable access to all neighborhoods. They can also strengthen or better enforce the federal fair housing laws that seek to protect against discrimination on the basis of race, color, religion, sex, familial status, national origin or disability. States can provide further safeguards, including preventing landlords from discriminating against renters' sources of income. This would require landlords to equally accept housing vouchers, child support and any other legal funds in lieu of requiring cash for monthly rent payments (Cunningham et al. 2018).
- **INNOVATIVE EXAMPLES FROM STATES:** After the U.S. Department of Housing and Urban Development suspended implementation of its Affirmatively Furthering Fair Housing (AFFH) rule, the state of California passed a bill that requires the state, cities, counties and public housing authorities to administer housing and community development resources in such a way that promotes desegregation (AB-686). As part of the legislation, these entities must conduct analyses and measure AFFH progress as part of their existing planning processes (National Housing Law Project 2019). Additionally, several states, including Maine, New Jersey and Vermont, have added source of income protections that prevent landlords from discriminating against tenants with vouchers, emergency rental assistance, or other government provided payments (Poverty and Race Research Action Council 2019).

Strategy: Protect tenants with low incomes from displacement and substandard conditions

- **THE CHALLENGE:** Tenants with low incomes face housing instability and displacement pressures.
- **HOW STATES CAN RESPOND:** States should protect tenants while also addressing underlying issues related to substandard housing and slum landlords. States can provide safeguards, including strengthening anti-eviction protections for renters, regulating rent increases, and abolishing other predatory practices by landlords. The goal of these policies is to reduce residents' risks of displacement.
- **INNOVATIVE EXAMPLES FROM STATES:** Oregon passed statewide rent control legislation that limits rent increases to 7 percent each year.[21] New York state recently passed a suite of rental regulations requiring landlords to provide tenants with notices of planned rent increases, criminalizing unlawful evictions, and prohibiting landlords from discriminating based on a tenant's history in housing court.[22] New York state also channeled resources from a legal settlement to invest in local code enforcement programs and rehabilitate substandard housing.[23]

Strategy: Support local planning and needs assessments

- **THE CHALLENGE:** Local housing plans often lack accountability.
- **HOW STATES CAN RESPOND:** States can require cities to meet current housing demand and plan for future growth by conduct housing needs assessments. These assessments consider demographic and economic changes and provide cities with information on the size of the gap between housing supply and demand, where the gap is most pronounced, and for which income levels. These assessments allow city and state agencies to incorporate the assessment's findings into future planning decisions.
- **INNOVATIVE EXAMPLES FROM STATES:** The state of California requires that all local governments adopt housing plans that form the basis of that jurisdiction's housing policy. Jurisdictions develop plans every 5-8 years that are intended to focus local government attention on housing needs, on identifying land sites, and on policies that could make it easier or less expensive to provide housing (Lewis 2003). The state's Department of Housing and Community Development determines housing needs by income and calculates future growth by income. The state then allocates a "fair share" to every jurisdiction, and the jurisdiction must lay out strategies to meet projected demand (Williams, Sturtevant, and Hepner 2017). Notably, because only a minority of jurisdictions met their targets, California then enacted Senate Bill 35 in 2017 to provide streamlined review of housing projects in cities that do not meet their Regional Housing Needs Assessment goals.[24] Similarly, a longstanding law in Minnesota, the Metropolitan Land Planning Act (MLPA), includes statutory authority to compel local governments to include a fair share of affordable housing in each affected jurisdiction (Hamilton 2018). The state law provides the authority and the framework for the city of Minneapolis to eliminate single-family zoning citywide because that reform was part of the city's Minneapolis 2040 plan, which the city is required to submit in accordance with the MLPA.[25]

Case Study: How Leaders in Oregon are Successfully Increasing Affordable Housing

The Oregon state legislature recently enacted the country's most ambitious legislative package regarding housing and land use. In February 2019, Governor Kate Brown signed a statewide 7 percent cap on rent increases (Senate Bill 608). But realizing that rent regulations would not solve the underlying problem of high housing costs, Oregon's legislature also sought to increase supply.[26] A subsequent bill, HB 2001, eliminated single-family zoning in most jurisdictions within the state. In cities with more than 25,000 residents, the bill allows duplexes, triplexes and fourplexes on land previously restricted to single-family houses. In cities with between 10,000 and 25,000 residents, the bill requires single-family zones to allow duplexes.

Another state bill, House Bill 2003, requires state agencies to evaluate cities and metropolitan areas to determine future housing needs by housing type and income level. Cities must estimate their future housing needs every 6-8 years, adopt housing production strategies to meet their estimated housing needs, and submit those strategies to the State Department of Land Conservation and Development. The bill provides technical assistance resources to help cities with implementation, and also expands the state's statutory authority to compel local jurisdictions to comply with statewide land use planning goals (HB 2003). Additionally, the bill compels cities to permit affordable housing on residential land they own.[27]

Other bills in the Oregon legislative package include House Bill 2002, which requires properties participating in federal housing programs to give advance notice if they do not intend to renew their contract and allocates $25 million into an affordable housing preservation fund (HB 2002), and House Bill 2006, which provides housing resources for families with low incomes along with domestic and sexual assault survivors.[28] As a whole, this legislative package includes components that allow for greater production of housing, provide mechanisms to preserve existing housing, and protect renters from rent increases.

Oregon's legislative package, although expansive and potentially impactful, did raise tensions between the state government and local jurisdictions. In their testimony to the state legislature, the League of Oregon Cities asserted that the new bills create more work for cities without sufficient financial support (Doyle 2019). In particular, HB 2001 diminishes local zoning controls without providing cities with funding to build out the infrastructure to support increased density.[29] These concerns are important, and states that implement similar reforms should think critically about how to resolve these issues. For example, states could pair zoning reforms with more funding for infrastructure upgrades, technical assistance and enhanced data capabilities. By doing so, states can preserve local authority while also creating a regulatory and statutory environment that produces better housing outcomes.

Conclusion: The Role of the State in Promoting Shared Prosperity with Affordable Housing

The creation and preservation of affordable rental housing, especially when those units are located in amenity-rich neighborhoods, enables all households to share in the increased prosperity occurring in our country's cities. But city leaders are not always in the best position to address inequalities or meet the housing needs of families with low incomes, either because they face political pressures to exclude affordable rental housing or they do not have the resources to produce affordable housing at scale. Without state involvement, local jurisdictions are unlikely to produce enough housing to meet regional needs, and the location of affordable housing may perpetuate existing patterns of racial and economic segregation (Infranca 2019; Lemar 2019). States can play an important role in overcoming local incentives and constraints that lead to an undersupply of affordable rental housing units. States can provide resources, technical assistance and rulemaking that raise the minimum requirements for housing preservation and production.

Where possible, states and cities can leverage their strengths to create effective, collaborative policy solutions.[30] Local communities should determine which housing solutions work best in their jurisdiction, and states should provide sustainable and ongoing financial resources and technical assistance to help jurisdictions comply with state affordable housing goals (ULI 2017). By doing so, states can strike a balance between empowering local communities to creatively meet state housing goals and imposing requirements on them.

In addition to empowering local governments to address housing shortages, states can use their authority to promote racial equity. Because many states set housing goals that jurisdictions must meet, state governments can exert a strong role in enforcing fair housing and fair share housing requirements. Local housing policy often reflects the interests of whiter and wealthier neighborhoods and deemphasizes the need for multifamily housing and affordable housing (Einstein et al 2019).[31] These exclusionary policies and decisions concentrate affordable housing in areas of poverty, which can have damaging effects on the economic mobility of residents. Enforcement of fair housing and fair share housing requirements promote the development of housing in a range of locations and at a range of affordability levels. Enforcement of these efforts works best when there is buy-in from local, regional and state actors.[32] State actions like these enable housing resources to be allocated in a way that creates more opportunities for residents.

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Endnotes

1 While this brief focuses on affordability challenges in the rental housing market, states also play a crucial role in improving access, affordability and equity in homeownership, primarily through affordable lending programs administered by state Housing Finance Agencies (Moulton, Record, and Hembre 2018).

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