“Affordable Housing and Growth Management and Sprawl”
Equity for Some Versus Affordability for Others

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FINAL

Numerous persons were interviewed, and many articles were referenced. The reader should make no assumptions whatsoever that anyone interviewed for this paper endorses or agrees with the recommendations or inferences contained herein.

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Section 1: Magnitude of the Challenge

There is a considerable affordable housing challenge facing America in 2001.[1] Its magnitude is properly appreciated as one characterized by shortage (not enough supply) as well as placement (how many need to get built and where they will go).

Current pattern whereby affordable housing problems precipitates sprawl:

HOT MARKET (sprawl with high job growth activity)

Overall Regional Shortage + Placement (concentrations of poverty households)

SOFT MARKET (sprawl without high job growth activity)

Submarket Shortages + Placement (concentrations of poverty households)

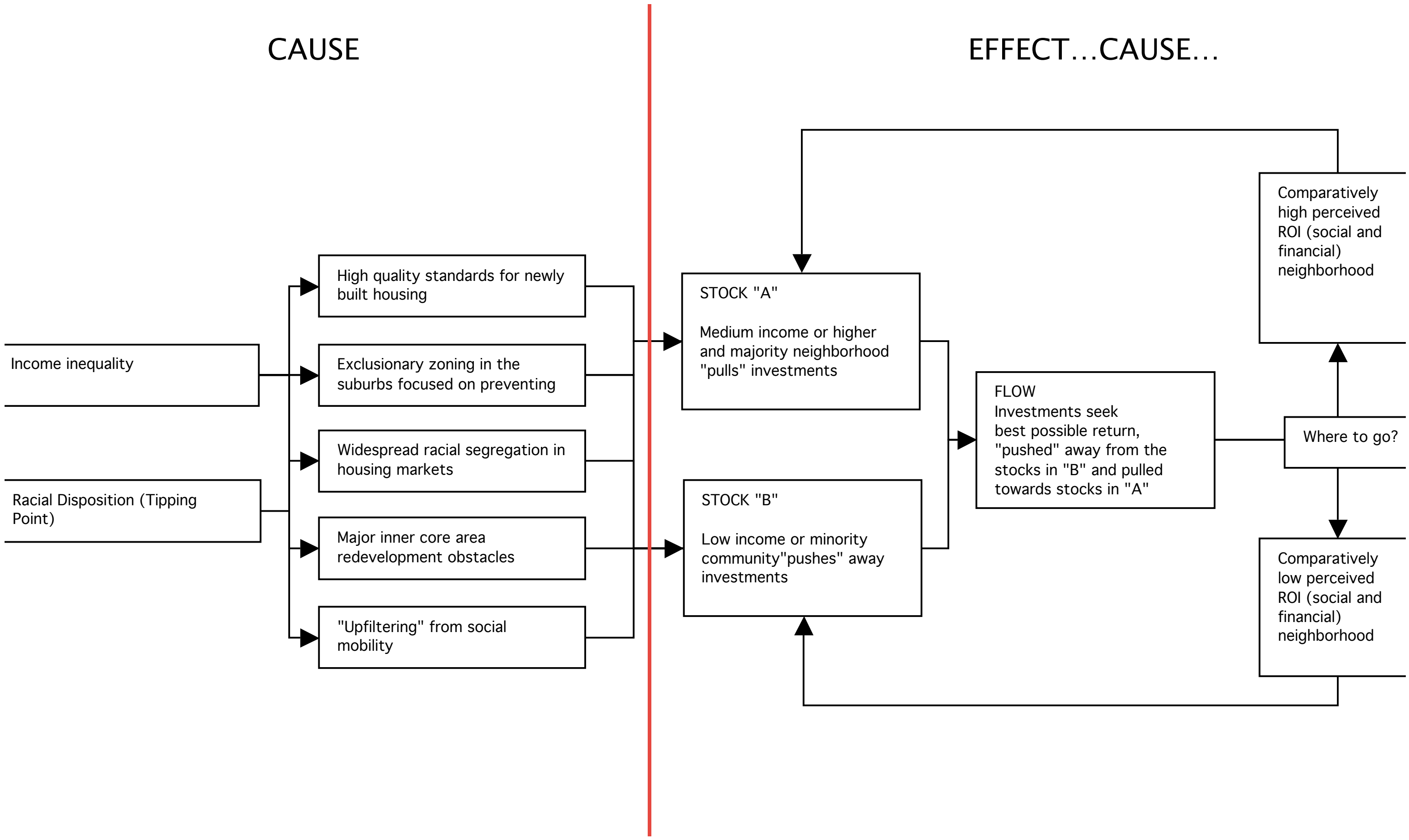
Hot and soft markets alike presently sprawl. Both have the common denominator of incomes determining settlement patterns. Both suffer and benefit from varying degrees of "push" and "pull" among submarkets within a region. Just as the work of neighborhood revitalization is not the work of affordable housing production, the work of affordable housing production is not necessarily the work of combating sprawl, even though housing affordability problems are a major cause of sprawl.

Success in increasing the supply of affordable housing, or in increasing the capacity of low-income households to afford what the market produces, will not necessarily change sprawling settlement patterns since there are many other ingredients at work. Progress on the affordability challenge can be made without any change in settlement tendencies. Likewise, tackling the problem of sprawl can occur wholly independent of the problem of affordable housing.

Public policy at any level must contend with two sets of hard and connected realities.

- The first is the nature of push and pull: how and why low-income neighborhoods **"push"** investments away while exurban communities seem to continually **"pull"** them in.
- The second is the matter of supply and demand – what the characteristics of housing demand are and whether or not there is a truly viable supply of housing to meet it on a continual basis, across a region.

This is the recommended way of understanding the relationship between consumer preference, race and class bias, income distribution, and settlement patterns.[2]

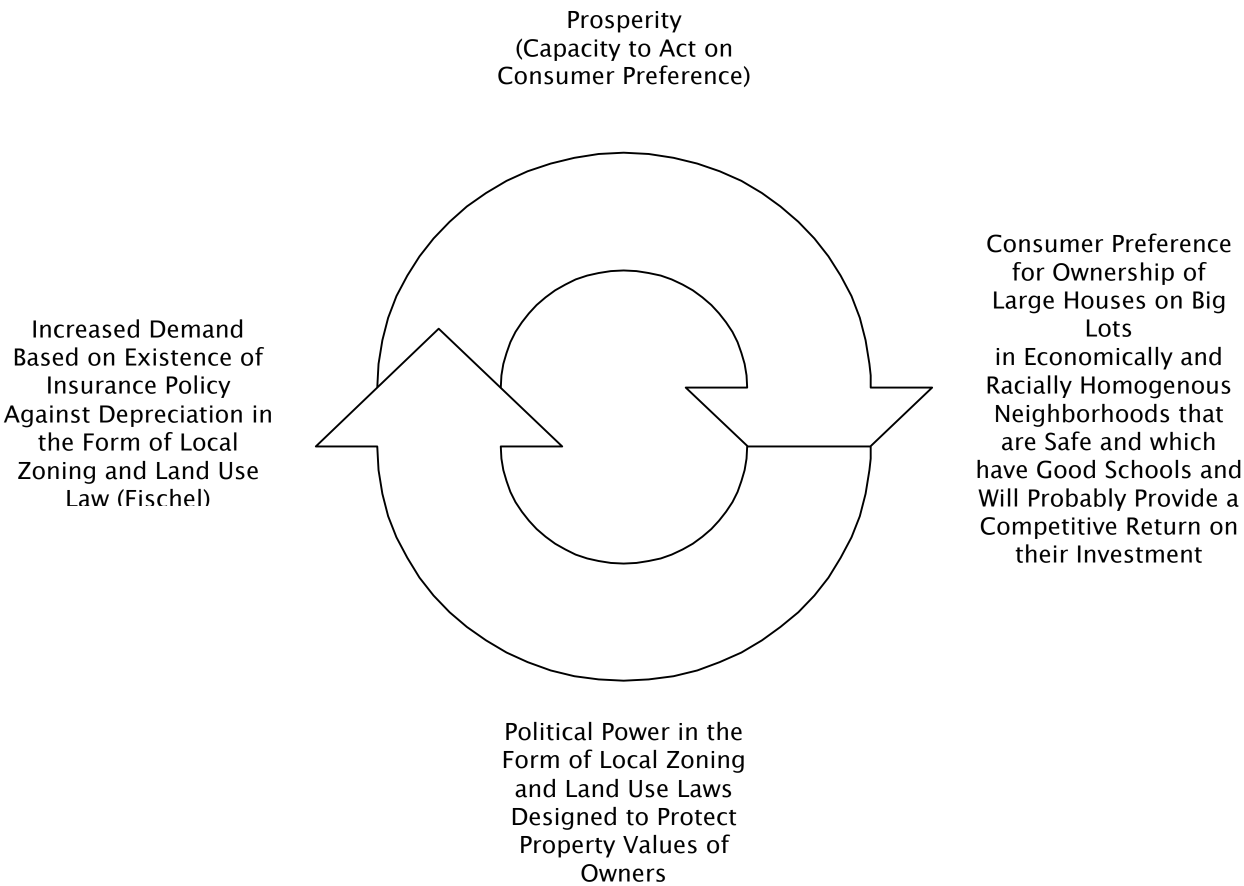


To summarize, income inequality and class and race bias' drive five separate supply tendencies:

- High quality standards for newly built housing
- Exclusionary zoning in the suburbs
- Widespread racial segregation in housing markets
- Major inner core area redevelopment obstacles
- Mobility and filtering

In turn, these create, among the many neighborhoods in any region, two predominant types: those that tend more toward pulling investments, and those that tend more toward pushing them away.

As households consider where to live, they can only live in place or another (Schelling), and so their investment "here" is tantamount to a non-investment "there". This investment behavior (Goetz) reinforces pre-existing neighborhood conditions and tendencies.[3]



Unless public policy addresses the central issue of consumer preference – the overwhelming desire to live in economically and racially homogeneous neighborhoods and communities – nearly every effort at stimulating supply will prove to be ultimately counterproductive to broader regional health and competitiveness. Indeed, housing goals for the middle class have usually been met at the expense of the environment and housing goals for low-income households at the expense of stable neighborhoods. In other words, production enhancements will generate more housing, but may not necessarily make neighborhoods any better.

It is important to focus not on supply alone, but also on demand, to appreciate that the balance between supply and demand and the “push” and “pull” of various jurisdictions is anchored by an unsettling reality: The sum of our development patterns – what we commonly call sprawl – is neither equitable nor economically efficient.[4] The distribution of the benefits of how housing is priced creates forces that can undermine a region’s competitiveness, since no region can long sustain concentrated pockets of grinding poverty and low-income housing without suffering negative effects (traffic congestion, environmental degradation, spatial mismatches).[5] Once a culture of concentrated poverty takes effect, externalities in housing markets lead to prisoner’s dilemmas and Pareto-inferior housing equilibria of segregation as a natural sorting and self-reinforcing mechanism, a point addressed by Moffitt in his review of Gautreaux.[6]

The main reasons for our sprawling development patterns have little to do with poor design and planning, or even inadequate amounts of money, though it may be tempting to see the housing problem in the shadow of the sprawl dilemma and conclude that different designs that impact the second might prove useful in addressing the first. Rather than being reflections of merely outdated design and planning, or bad public policy, our patterns are mainly the result of:

DEMAND (CONSEQUENCES OF CHOICE) CHARACTERIZED BY

- The consequences of race and class choices that overwhelmingly favor homogeneity made by consumers and their elected representative bodies who are not very willing to make different choices.
- Low incomes unable to compete for housing in the market

AND SUPPLY SHAPED BY:

- Land
- Public policies that reinforce current demand tendencies[7]

Prevailing settlement patterns we commonly label sprawl are not a single problem to be addressed by better design and planning. Nor is urban decline necessarily a consequence of sprawl. Contrary to the conventional and contemporary wisdom on the subject, the affordable housing challenge is not one addressed by curbing sprawl even while it is true that making changes to our predominant form of residential settlement can increase livability. Indeed decreasing sprawl is likely to increase livability, which decreases affordability.[8]

At root is the inherent tension between the choices made in a market economy and the consequences of those choices.[9] The individual elements characterizing our settlement patterns are indeed related problems. Finding solutions to them is clearly in the national interest and a legitimate goal of public policy.

However the dialogue that this country is engaged in about these problems has been dominated by a tendency to dump all of these concerns into one bucket and claim they are all the result of growth patterns that are "dumb", and thus proclaim that doing the opposite in each case and doing it all together would instead result in better outcomes and can thus be labeled smart growth.[10]

In sum, each of these interests has aligned itself with the planning and design movement presently known as "Smart Growth". Yet it is clear that attainment of legitimate goals of one interest often come at the expense of the achievement of other equally legitimate goals. [11] Efforts to *grow the right way* are full of contradictions. A worthy environmental end comes at the expense of a worthy social end, and so on. The current dialogue implies that in nearly all if not in all cases, every one of these ends can be achieved without coming at the expense of the others. This is not true, and is the second misconception about the relationship between affordable housing and growth management that the Commission may wish to dispel.

A search of the literature and statutes and case studies and anecdotes show in no case does there exist a true and complete and harmonious balancing of all of these worthy ends that does not increase housing costs in some way. Most efforts to *grow in smart ways* do not adequately consider the housing dilemma in the aggregate, nor the decision-making processes individual households go through as they exercise choice in the marketplace influenced as they are by issues of race and class preference and a desire for a competitive return on their investment, nor what happens to housing price when land costs increase without mitigating changes in consumer behavior .

For the few that do (Sacramento, Portland, Lexington, Boulder), there are clearly no unalloyed results. The majority of smart growth efforts are de facto growth control measures that do or would add cost and barriers to the production of housing.[12] In and of itself this does not mean such measures are inherently bad. Quite the contrary, such measures often are implemented to improve the quality of life in a community. A worthy goal, improving the quality of life for some nevertheless means a reduction in affordability for others.

The role the federal government can take in the discussion is fairly limited when compared to the states, and the role the states can take is limited by the degree to which the average consumer's behavior includes a willingness to consider alternative development and settlement patterns than are the present norm. Resistance to the Kemp Report by states not wishing to assert their constitutional authority to shift land use powers to regional bodies shows how hard this is. The case of California – the one state that has adopted so much of the Kemp Commission emphasis on deregulation – illustrates the fact that a state can emphasize the importance of deregulation, and offer incentives to localities in order to encourage deregulation, but that if the state does not insist on shifting authority to regional bodies, it will not happen. The combination of economic expansion and population growth with the retention of zoning and land use authority by local government has been lethal, a veritable double whammy. Consumer preference for large lots and distance from poor communities produces demand that is reflected in inefficient land use patterns. So a state like Pennsylvania which has made no effort to emphasize inclusionary development patterns across a region – the result of which is wasteful and unsightly housing development in Bucks County along Route 202 – winds up no worse off than California, which has made a great deal of inclusionary efforts but all without any teeth. The Consolidated Plan of the Sacramento Regional Council of Governments has all the right distributive housing elements. But without sufficient incentive, the private sector is so far unwilling to develop market housing in distressed neighborhoods or attempt to introduce below market housing in stable ones.

Unless individual consumers are persuaded that it is in their best interest to live in economically diverse communities, they will continue home buying and rental patterns that are the building blocks for sprawl and no amount of "smart growth" maneuvering is likely to produce much in the way of an antidote for sprawl, much less in the way of an antidote for the affordable housing shortage we have. The challenge is a shared versus self-interest prisoner's dilemma. It may be in the region's best interest to reduce concentrations of poverty, but many individual households continue to conclude they are individually better served by being far removed from lower income families.[13]

The building blocks of our settlement patterns – sprawl – are income inequality and the overwhelming desire for residential homogeneity. Dealing with neither while making all manner of design and planning improvements will still result in sprawl. Dealing with both without allocating massive resources in the form of housing subsidy will not address the affordable housing problem. Allocating ample resources for subsidy will not deal with urban decline unless the inner cities are made easier to develop and become more attractive places to live for the middle class household. These distinctions should be made clear.

It is important to consider all of the tools available to create more affordable housing, and all of the tools available to distribute it more "smartly" throughout regions.[14] No tool is likely to address one set of problems without running the risk of causing or exacerbating another. For this reason regions and not localities are in the best position to determine precisely which tools for their area are likely to produce the regional outcomes desired, and that regions and not localities are in the best position to decide how much of one worthy goal to trade off in working towards another.

Anthony Downs suggests that “sprawl is not a market problem at all – it is a governmental interference problem.” To the degree that government *is* the people, sprawl can be seen as a “people interference problem”. If the Commission opts to try to address sprawl, which Downs recognizes is a regulatory problem, it must provide enough of a carrot for states and locales to shift a great deal of power to regions, in whose best interest are more inclusionary land use and zoning rules.

If the Commission opts to try to address the housing production problem as mainly one needing regulatory changes, it may unintentionally communicate that it views sprawl, which is a problem of regulations, and housing as one in the same.

The Commission is urged to see four complimentary views together.

- Downs has described sprawl very well, and shown there to be no empirical connection to urban decay of our affordable housing problems. The issue is consumer preference and the regulations imposed by local government reflecting them.
- Galster has described the relationship among neighborhoods and how they compete for investments, and the resulting impacts in terms of density, continuity, concentration, compactness, centrality, neutrality, and diversity.
- Landis has described the connection among poverty, population, and production shortage as not a design problem at all, but an economic one. The root problem is inadequate incomes.
- Chris Nelson and others have shown the problem of shifting. One jurisdiction adopts controls to preserve its own standards, and demand is ultimately satisfied within the region someplace else.

Section 2: Affordable Housing Connection to Sprawl

Several factors together have contributed to what is an affordable housing dilemma nationwide. Among them:

Supply Constraints	Demand Impositions
Consumer Preferences for -Economically Segregated Neighborhoods -Racially Segregated Neighborhoods -Low Density Residential Development -Auto-Oriented Residential Development	Increasing Population
Reduced federal supports for housing since 1980	Increasing Prosperity
Prevailing land use regulations and municipal zoning ordinances (demand shifting and supply reducing).[15]	

The result is a coming together of important national trends with highly localized battles for the disposition of property. While affordable housing problems have resulted from this nexus of national and local trends, so too have a range of other issues come to the surface that are increasingly interrelated: congestion, air quality, transportation, use of natural land resources, livability. Current practice and policies push demand from the cities and pull it to the edge until today's edge becomes tomorrow's inner ring. Thus has the demand increased for better city and regional planning, better more suitable neighborhood design and architecture, and a framework of statutes suitable to the times that encourages the private sector to be as responsive as possible to consumer preference and the growing demand for housing.[16]

While individual households for three quarters of the country have benefited directly from roughly $160B (national annual) in tax considerations to homeowners (and others indirectly), settlement patterns as a whole appear to account for tremendous loss of GRP (Gross Regional Product) in those areas experiencing job growth without sufficient housing starts.[17] Consequently, there is not only the challenge of generating enough affordable housing to meet demand in total, but the challenge of determining where it will go within regions, in what density, form, and arrangement, and of course, who will pay, and in what form the payment will turn out to be.

The affordable housing shortage also has changed dramatically in the past 25 years. This was once a shortage primarily of quality housing for the poorest of the poor. Now housing affordability problems that are the effect of demographic changes and inadequate incomes have in common sprawl problems that are the effect of consumer preference. In 2002, the affordable housing problem is really a shortage of stocks for working households near employment centers, most who solve their housing problems by commuting longer distances to jobs from less costly, increasingly far away homes.[18] Of course this in turn reveals a conundrum for working households. To reduce housing costs or access housing costs that are affordable, a household commutes long distances, and in the process must contend with the additional expense of a second or third car, fuel for transportation, and time lost in the commute process.

Contributing to this situation is the political minefield shaped by a complicated spectrum of interests, a minefield made all the more dangerous because there are speculative losers from one interest or another in any effort to redirect growth. None of these issues – affordable housing, congestion, air quality, transportation, use of natural land resources, livability – can be parsed out and addressed without impacting the others, so efforts to tackle affordable housing shortages invariably occur in the context of the rest.

Plenty of evidence exists that efforts to preserve natural land resources from development pressures reduces the amount of land available and thus raises the cost of land through scarcity. Any time the stocks of place "A" are changed for the better, demand increases, prices rise, and fewer households can afford to live there, and so opt to reside in place "B".[19] The greater the distance between A and B, the larger the burden (time and money) for households in net housing expenses (housing plus transportation).

Two opposing forces result. On one side efforts to ensure some supply of housing for those otherwise unable to afford to reside in place "A" are confronted with great resistance by those that can. Likewise, efforts to restrict the options for developing housing elsewhere for persons unable to afford place "A" are confronted with great resistance as well, either by those in place "C" who also want no part of including less well-off households in their community, or by those either opposed to any use of the land at all, or use in some restricted form.[20] In other words, without economic integration everywhere, it is very likely that the regional settlement pattern will be defined by some form of segregation.[21] And segregation (race or class or both) anywhere becomes a self-fulfilling feedback loop. The summary consequence of these clashing forces and inputs is the predominant form of development and settlement today, known collectively as sprawl.[22]

This is the good news and the bad news. The good news is that development patterns and production efforts of the marketplace in partnership with government have achieved a national home ownership rate of nearly 68 percent and decent and safe housing for nearly all. The bad news is threefold.

1. These patterns consume finite resources and are not likely able to accommodate future growth and achieve the same results.[23]
2. These patterns include tremendous socio-economic inefficiencies resulting from concentrations of poverty households.
3. And the effect of concentrating poverty itself contributes to further neighborhood decline.

If sprawling patterns alone existed side-by-side a fully developed core, it would be a significant problem to address. What we have is a problem of far larger size: costly sprawling settlement patterns amid a plethora of undeveloped core property which the private sector is not only not being encouraged to develop, but most of the time is being discouraged from doing so by local government.[24]

Efforts to address either sprawl or urban decline piecemeal, which is the principal way localities have proceeded, tend to result in improvements in dealing with one aspect of sprawl while either doing nothing to improve others at best or exacerbating them at worst. They also tend to make the affordable housing mess worse. Two common shortcomings of efforts to address elements of sprawl are attempts to redirect demand without proper appreciation for the need for more supply, and attempts to increase supply without proper attention to where it goes. Ironically, the failure to tackle the production challenge in concert with the where-it-goes challenge also results in sprawl.

To one extent sprawl is the pattern of settling at relatively low densities. But it is also the pattern of siting large lot residential development zoned apart from commercial and retail development. This begets the chase for ratables that in turn leads to short-sited and self-interested land use decisions on the part of so many municipalities. And it is the pattern of settling in such a way that the haves reside in strongly striated clusters according to means and in all cases as far apart as physically possible from the have-nots. The effect therefore of zoning decisions to influence infrastructure location creates a feedback loop where the center of the core continues to "push" development elsewhere, the inner rings "push" out as well, and demand is ultimately satisfied on the fringe.

Until very recently, managing the growth of a region has largely meant organizing development to achieve low densities, a separation of uses, distance between households of different means, and often distance between households of different races and ethnicities. Even in a country with regions suffering from severe shortages of affordable housing, this is not necessarily a supply problem, it is a where-is-it-going-to-go problem. If aggregate supply is increased but not distributed any differently, and there would remain the problem of social inefficiency owing to concentrations of poor households that are a consequence of choices made by households in reaction to the demographic table that is set.

Likewise, the current aggregate supply might stay the same in relation to growth, but be distributed differently, resulting in the creation of more submarkets within a region comprised of a range of housing types, household types, and income types. In either case, the affordable housing challenge – whether in a soft market like Syracuse or overheated ones like northeastern New Jersey (Bergen-Hunterdon-Warren, 1998-2000) and the Silicon Valley (Santa Clara, 1997-2000) – is *both* an issue of supply *and* demand.

Present-day resistance to revisiting large-scale urban renewal-type approaches to dealing with the demand side of the equation is as misguided as resistance to Portland-style Urban Growth Boundary (UGB) approaches to growth management on the supply side. On the demand side, every metropolitan region, even the hottest, contains *relatively* weak submarkets.[25] To the degree that the work of neighborhood revitalization is the work of creating demand where there isn't any or where it is weak, or at least reducing the extent to which demand is *pushed* elsewhere within a region, large scale, place-based approaches should be reconsidered as a distribution tool.[26]

On the supply side, constraining land or imposing regulatory barriers to Greenfield development does indeed raise land costs.[27] But the case of Portland illustrates that land supply decreases need not have negative effects on housing affordability above and beyond that which is spurred by jobs creation-housing starts mismatches provided there are sufficient density offsets.[28] It is urged that there be strong federal encouragement of both large-scale urban renewal-type approaches in the core and first ring suburbs and UGBs at the metropolitan edge.

If the Commission had a paradigm shift in mind, it might recommend to Congress the importance of what Bruce Katz has suggested in terms of "doing no harm", instead of merely mitigating the harm already encouraged by the current spectrum of federal housing, transportation, and tax policies.[29] What would this look like? Functionally it would necessitate the discontinuation of existing and counterproductive policies that surely have powerful constituencies, but which make the job of housing unnecessarily more complex.

Section 3: Recommendations Overview

Federal policy should function in two principal ways. It should foster increased production to keep up with growing demand. And it should encourage courage distribution patterns that result in the creation of neighborhoods characterized by stocks affordable to a broad range of incomes. Together the result would be characterized a program of federal incentives to states and localities to manage economic growth and housing demand at the regional level.

Increased production without a wholesale change in the pattern of residential development and settlement will result in inefficiencies as well as inequities, each which encourages the other. Redistribution without increased production may reduce concentrations of poverty but will not address the affordable housing needs of the growing middle class of aspiring homebuyers whose incomes have not and are not likely to keep pace with rising housing costs. Federal policies must permit if not encourage local planning efforts to flexible.

3.1 To foster increased relative production, federal policy should make it easier for the private sector to develop housing for all income levels throughout metropolitan regions. It can achieve this goal best by taking a four-pronged approach.

- **3.1.a** Reduce regulatory barriers: Urge the Congress to push the states to take action as hinted at in the 1991 Kemp report.[30] This report accurately and incisively analyzed the development landscape but whose recommendations were underwhelmingly received by states.
- **3.1.b** Provide needed enhancements: Recommend that Congress provide incentives for the private sector to innovate (financially (by lowering the developers level of risk of developing middle market housing) and otherwise)[31].
- **3.1.c** Increase the amount and create a strategic complexion of federal resources available for subsidy (recognize that housing affordability problems are first and foremost reflections of income inadequacies)[32] to households at several income levels.
- **3.1.d** Harmonize housing, environmental, tax and transportation policies at the federal level so at a minimum one set of policies does not work directly or indirectly against another[33].

3.2 To encourage changes in settlement tendencies resulting in a different distribution pattern, federal policy should take the following demand-side steps:

3.2.a First, federal policy should help make it easier for the private sector to develop new infill market rate and low-income housing in those parts of regions where overall demand is presently weak: the inner core (downtown and in predominantly low-income neighborhoods), and inner or first-ring suburbs.[34] This would be a very deregulatory step.[35]

3.2.b Second, federal policy should encourage the establishment of land-use and transportation policies at the regional level that promote new housing construction in mixed-use, mixed-income developments in the suburbs.[36]

3.2.c Third, federal policy should encourage the redevelopment of historic properties.[37]

3.2.d Fourth, federal policy should encourage the conservation of critical environmental resources and should help distinguish between environment resources and critical environmental resources.[38]

3.3 Together these are not a rehashing of unproven demand management strategies tried in other fields such as transportation. Rather these recognize the need to make progress within the following framework:

3.3.a Development (Greenfield and infill alike) should be encouraged in such a way that it is welcomed by communities as a value-adding activity that grows the quality of life[39]. This means that housing is viewed as a common good activity to be tackled through regional cooperation and region-region partnership.[40]

3.3.b Innovation needs to be rewarded in development and finance sectors.[41]

3.3.c Income inadequacies should be addressed in ways that do not undermine consumer preference and indeed increase the options available in the market. (Increase purchasing power rather than decreasing the cost of supply).

3.3.d Economic efficiency is achieved (rational choice is rewarded) at the regional as well as the neighborhood level.[42]

3.3.e Regions become *both* more competitive economically and more environmentally sustainable as a result of federal encouragements.[43]

3.3.f Total "housing-transportation" burden per household decreases, and the term "housing-transportation burden" becomes the recommended policy measurement standard for affordability.

Section 4: Recommendations

Increased production alone will result in more housing. But housing costs go up in some locales at rates that exceed others because of quality of life issues. As long as choice is a cherished and preserved part of the American housing market, the consequence is that more attractive places will see higher home values. Production by itself will only continue the present trend of exclusionary development and settlement, one result of which is the concentration of low-income households elsewhere. This means what is needed is a certain *kind* of increased production, the kind that adds value to regions and reduces inefficiencies that show up in the form of inequalities.

Four production-side efforts are recommended.

4.1 Encourage reduction/elimination of regulatory and other barriers to production by taking action as recommended in the 1991 Kemp report and by recognizing increased burdens on developers imposed by localities in the name of growth management. See notes and appendices for a summary of key findings of the Commission.[44] Costs from regulations, while differing sometimes dramatically from region to region, are high. The national average as calculated by the NAHB was ten percent or $22,000 per house sited on a 7,500 - 10,000 sq.ft. lot.

4.1.a Impact Fees consume an increasing share of per unit development costs. This burden could be reduced in a number of ways[45]

i. MHC could recommend the IRS include impact fees in the cost basis of projects for tax purposes[46]

ii. MHC could recommend the creation of a pool of flexible resources for possible use in paying for impact costs for certain kinds of projects[47]

4.1.b Rehabilitation is a very costly undertaking. Prohibitive costs push development elsewhere from the inner core and surrounding older suburban developments. This burden could be lessened by reducing costs of rehabilitation (building code requirements).[48]

i. MHC could recognize efforts in Maryland (Smart Codes: Maryland Building Rehabilitation Code Program[49]) and New Jersey (Rules that Make Sense: NJ Rehabilitation Code[50]) as basis for the kinds of rehabilitation that should be encouraged. This reduces the complexity and cost of redirecting growth inward where the predominant forms of production are rehabilitation and infill (see J. Terrance Farris on *Barriers to Using Infill Development to Achieve Smart Growth*).[51]

ii. MHC could recommend that adjoining jurisdictions create compatible building codes.[52]

iii. MHC could recommend repealing Davis-Bacon and recommend Congress investigate urban-suburban cost differential for labor.[53]

4.1.c Land Development and Zoning Regulations impose significant cost barriers to production of affordable housing. Ironically this burden is often enlarged by jurisdictions attempting to manage growth.[54] It could be reduced by encouraging statutory changes.

- MHC could recommend changes in the CERCLA regulations to lessen the remediation costs for Brownfield redevelopment that generates affordable housing in certain kinds of projects.
- MHC could encourage regions to increase the density of by-right developments across jurisdictions (Loudoun County, Virginia)
- MHC could encourage adoption at the regional level of certain types of zoning and subdivision regulations that make it less costly and time-consuming for developers to build certain kinds of projects.
- Mixed-income projects (generally not more than 15 percent below 80 percent of median in any one development, except in high cost markets where two wage earner households at 50 percent of median represent good tenant selection[55]).
- Mixed-use projects (combined residential and commercial)

MHC could foster progress on NIMBYism by articulating the positive impact on property values quality design of rental housing can have, and by recommending resources for achieving high quality architectural design.

4.1.d The Permitting Process is cumbersome, multi-layered, and costly to navigate. It could be reduced with three simple encouragements.

i. MHC could encourage the creation of one-stop permitting shops as in Portland.
ii. MHC could encourage widespread use of technology in the permitting process.
iii. MHC could encourage a general municipal commitment to simplifying existing codes as in Seattle.

4.1.e Land Assembly Costs pose significant barriers to urban infill development. (see Brownfields reclamation cost estimates (upwards of 8 percent of project costs))[56]

McCormack & Baron estimate it requires no less than 200 units to achieve the necessary economy of scale to offset infill assembly and site preparation costs. [57]

- MHC could consider a financial encouragement to developers to proceed with assembly and development of smaller projects (offsetting gains not obtained through economy of scale)

Present zoning and subdivision regulations work against infill development attempts. The process of re-zoning is cumbersome, time-consuming, and costly.

- MHC could encourage central cities to make wholesale changes in their regulatory infrastructure regarding zoning to help level the playing field.
- MHC could encourage states to adopt Maryland-type “priority funding area” efforts

4.1.f NIMBYism was outlined by the Kemp-Kean report as the main force behind measures aimed at either controlling growth (which in turn increases development costs) or keeping out unwanted uses. **What was true in 1991 is more true now than ever before.**

Nimbyism mainly occurs at two levels. The first occurs at the household level. Individual households exercise their views on what they are and are not willing to tolerate as neighboring uses by staying or moving on the one hand when they have the means, or on the other by permitting or fighting uses they find acceptable or unacceptable in the event they stay.[58] The second occurs when households ban together to form coalitions against what they consider to be undesirable adjoining uses. The more politically active and connected the coalition (which tracks with income levels), the more likely they will succeed in keeping out unwanted uses.[59] The more they succeed at keeping out unwanted uses, the more they will succeed in future such battles.[60] Likewise, the weakest of the coalitions against a burdensome use is the coalition that will end up with that use in their backyard, further concentrating existing weaknesses.[61]

Affordable housing is not seen in America as an issue of housing for working households, or a problem the solution of which is in the best interest of *both* the region as a whole and individual households. MHC has a chance to use language and place emphasis on certain aspect of housing and other policies in such a way that would begin to change this.

- MHC could promote medium and high density housing solutions as good for the environment, cost effective, community-building efforts that need not be unsightly or magnets for crime. It could promote such development configurations to occur roughly in thirds (one-third in the inner core, one-third in older suburbs, and one-third on Greenfields).[62] While it is true that the market wants much of what equals sprawl, a great deal of demand goes unmet because are prevented from meeting it.[63]
- MHC could address the issue of racial segregation found in settlement patterns. It would be important for the MHC to not sidestep the fact that race is very often a proxy for class in NIMBYism fights, and vice versa.
- MHC could recognize innovative state and regional examples of "fair-share" arrangements that have resulted in scattering low-income dwellings or show promise of doing so, as well as a range of promising codes at the state level that promote balanced growth.
    - Pennsylvania: Municipal Planning Code Act of 1968
    - Connecticut: General Statutes Section 8-2J
    - Wisconsin: Act 9 (WS Statutes Section 66.1027)
    - Virginia: Zoning Section 15-2.2200 and 15-2-2283
    - California: Codes 65584 and 65583
    - Maryland: Maryland Annotated Code S5-305
    - New Jersey: Mount Laurel I and II
    - Massachusetts 40B Comprehensive Permit Law

- MHC could build on studies that show mixed-income housing projects generate a competitive rate of return.[64]
- MHC could present a balanced discussion of the role and impacts (positive and negative) of inclusionary zoning[65]

4.2 Encourage private sector innovation (financially (by lowering the developers level of risk of developing middle market housing) and otherwise). Private market behavior is dominated by the requirement to generate a competitive rate of return and the primary means this is achieved, which is through economies of scale. Affordable housing as a single goal – separate from the context in which it exists which connects it to congestion, air quality, transportation, use of natural land resources, and livability – is pretty easily achieved where there are no neighbors to put up a fuss and where there is ample subsidy. And affordability is further achieved by generating enough production volume that unit costs are reduced.

However, the contemporary reality is that affordable housing is *never* produced without a connection to these other issues, and thus without builder, developer, and financier innovations, costs invariably rise in the development process.

Builders commonly prefer that these connections did not exist, and see most efforts to connect affordable housing issues to those of congestion and air quality and transportation and livability and infrastructure as having the effect of adding cost. On this point builders are right. If they don't innovate the process consumes them and costs rise. If they innovate the process may not consume them but the cost of innovations does in loss of scale, the clumsiness of experimentation, and learning curve steepness. Builders thus get hammered in either case. If they don't innovate the process raises costs and lowers their rate of return. If they do innovate they internalize the costs of doing so, pass those costs onto customers, and have to cope with a smaller market.

To address this bind, MHC could consider developing a set of encouragements to innovate on the part of builders. Builders could receive underwriting for attempting projects that may require cumbersome approvals processes. They could receive incentives to take risks with middle market housing development and with unconventional or at least uncommon approaches linked to increased livability, like mixed income and mixed-use developments. (See Montgomery County, Maryland[66])

When the 1986 Tax Reform Act was passed and in it the Low-Income Housing Tax Credit, returns initially were about 60 cents on the dollar. In the 15 years since the Credit was introduced, returns have risen to better than 85 percent. This reflects the capacity of the private sector, with appropriate government partnership at the State level, to innovate at the project level. MHC could encourage additional investments in the LIHTC program and others modeled after it, such as a first time home buyer's tax credit, provided such additions were predicated on stimulating mixed-income development.

By deregulating municipal control over local land use to create more development opportunities where there is already infrastructure, a supply of opportunities becomes available to the private sector. Few developers would not welcome increases in density, a steam-lined and predictable permitting process, and tax credits to offset the risk of developing for the middle market. Such an increase in supply opportunities would be an enormous incentive to innovate.

4.3 Increase the amount and create a strategic complexion of federal resources available for subsidy (recognizing that housing affordability problems are first and foremost reflections of income inadequacies)[67] to households at several income levels.

Too many federal housing programs continue to focus on providing sufficient subsidy to low and very low-income households. The most promising of all subsidy programs is the Section 8 program. It provides dollars and mobility, but not enough of either. This and the HOPE VI Program could be the primary tools used to generate supply for the lowest income households, a key principal of an efficient and sustainable development pattern. However it should be noted that Gautreaux showed as mobility is encouraged, the very real possibility of reactionary outmovement exists.

Scarcity of units affordable to households at 120 percent of median has the effect of pushing those households into stocks otherwise available to households earning less. This domino effect creates tremendous downward pressure on the ladder of housing opportunity. Just as upward mobility contributes to the hollowing out of low-income communities, so too does this form of downward pressure trigger changes in the normal filtering process.[68]

Formerly soft market neighborhoods like East Palo Alto (in the SF Bay Area), Columbia Heights (in Washington, DC), and the "Berg" (Alexandria, VA), are suddenly thrust into the regional housing market with relatively inexpensive land and a competitive location, the result being escalating prices from newfound demand and displacement. As much federal dollars as possible after Section 8 and Hope VI allocations should be directed to providing subsidies to middle income households.

Given per household spending power after housing for middle income households, this would dramatically improve GRP if the dollars encouraged settlement in areas where there is already infrastructure.

4.4 Harmonize housing, environmental, tax, and transportation policies at the federal level so at a minimum one set of policies does not work directly or indirectly against another. Federal statutes are plainly in contradiction with one another, and not for lack of historic attempts to remedy this situation.[69]

4.4.a Tax policy rewards home ownership on the basis of the argument that the multipliers through the economy are numerous and that home ownership stabilizes neighborhoods which creates value which in turn raises property taxes which in turn pay for important public services, including the mortgage interest deduction valued at $164B a year. Tax policy also rewards home ownership progressively, resulting in an estimated $18B annual transfer from the inner cities to the suburbs. This $18B leakage is then supposed to be addressed by a $15B HUD Section 8 expenditure to promote mobility for the poor who seek to no longer live where no one else lives. Tax policy also funds the production of rental housing for low income households through the LIHTC, which in turn is an equity advance to developers to create concentrations of low income housing in neighborhoods where land values are low enough so as to create an eligible cost basis of sufficient size for the deal to pencil out, and whose values are unlikely to rise due to the addition of more low-income units. The LIHTC, has generated 1.1M units of housing through $4.7B in credits and is often used in combination with the Section 515 program to create affordable units in rural communities where there are no jobs.

MHC could consider recommending tax policy sufficient to encourage production so that growth through land development pays for itself.

MHC could consider recommending tax policy that rewards certain kinds of development, namely mixed income and mixed use.

4.4.b The most creative and far-reaching efforts occur mainly at the state and local levels and adroitly combine housing and economic development on the supply side but are mitigated by NIMBYism expressed through zoning.[70]

MHC could recommend that housing policy at the very least should not enable the development of projects that are concentrated by income.

MHC could recommend that a robust voucher program alone, streamlined and free of much of the uncertainty plaguing it, could suffice as the inducement on the supply side for households above 50 percent but below 80 percent of median. There is a lot of evidence that MTO efforts have produced very good results.

MHC could recommend the reorganization of PHAs into leaner, regional bodies. Housing policy continues to underwrite the existence of arguably obsolete housing authorities. The current PHA structure is ill-equipped to manage housing demand by very low income households across an entire region, yet that is precisely the vehicle needed in this era of regionalism.

MHC could recommend a substantial increase in the allocation for the historic tax credit, and recommend modifying it to include bonuses for developing in certain densities, and in areas of certain age and condition.

4.4.c Transportation policy should serve residential settlement patterns in ways that neither increase the resulting housing-transportation cost burden for households nor permit them to remain stubbornly high.

This is not presently the case. As of 1999 the average American household spend nearly 19 percent of annual wages on transportation.[71] In the SF Bay Area, where the median sales price in April 2001 was $375,000, PITI would have been about $2,894/month.[72] By adding a monthly transportation cost of $584, the monthly housing-transportation burden comes to $3,478. A police officer in Fremont, California earning $45,000 a year would have to clock 158 hours a month just to pay for housing and commute costs. A well-paid wage earner in a high cost region would have to work full time just to break even on housing and transportation costs. To compensate for this mismatch, the police officer in this case would not own a home, and instead would spend upwards of 50 percent of monthly wages on an apartment an hour south or west, tightening the rental markets there while adding to the congestion dilemma and the resulting air quality problem.[73] The resulting congestion burden makes clear that those regions with less developed public transportation systems to provide for non auto-oriented trip traffic – which are most useful to working households needing a more affordable housing-transportation burden – have higher inefficiencies.

Over time, the data show a disturbing trend of increasing transportation expenses. Since the early 1990's, the Consumer Expenditure Survey has shown that the portion of total spending devoted to transportation has increased steadily. During the eight-year period between 1990 and 1998, the portion of total expenditures going to transportation grew by an average of 8.1 percent in the metro areas surveyed, from 16.8 percent of expenditures to 18.2 percent. Meanwhile, the portion going to shelter also increased, but at a lower rate (6.7 percent). If this trend continues, spending on transportation could surpass spending on shelter.

In a handful of metro areas – Houston, Dallas-Fort Worth, Pittsburgh, Atlanta, St. Louis, Minneapolis-St. Paul, and Kansas City – this is already the case. Households in Houston, for example, spent more than $8,800 on transportation in 1998, while they spent not quite $6,500 on shelter. One might expect that this gap reflects Houston's cheap housing stock. The gap actually reflects just how expensive transportation is in Houston – Houston households spent almost 27 percent more than the national average on transportation, and only two percent less than the national average on shelter.[74]

The connection between transportation policy and resulting spending priorities and land use and zoning is clear. When there is a high percentage of land zoned for by right single family large lot development, the result is transportation expenditures for new road construction. In other words:

Individual Consumer Preference ➜ Locally Expressed Group Values ➜ Zoning

Zoning ➜ Land Use ➜ Infrastructure Decisions ➜ Transportation Priorities

Transportation Priorities ➜ Congestion ➜ Housing-Transportation Cost Burden

Housing-Transportation Cost Burden ➜ Downward Pressure on Housing Ladder

To the degree that land usage ultimately is a reflection of what is feasible, transportation spending is an enormous component of infrastructure costs. MHC, with a stated goal of reducing the housing-transportation cost burden on households, could achieve such a goal by a) encouraging states to make growth by land development pay for itself, and b) encouraging states to distribute transportation dollars increasingly towards residential development that is higher in density, transit-oriented, mixed-income, and mixed-use. This would have the effect of increasing transportation choices, reducing transportation costs, and reducing environmental impacts.[75]

In Chicago for example, the current workforce contains approximately 300,000 entry-level workers unable to afford monthly rents of $750, the bottom of the housing ladder where jobs are being created in the Chicago Metropolitan Region. This results in a mismatch of housing location and jobs creation such that more than ten percent of the workforce must commute three hours a day.[76] So whether in the case of Houston where transportation costs are equal to or more than housing costs or Chicago where commute times result in reduced productivity despite a well developed public transit system (23 percent of the workforce uses public transit), infrastructure investments not coupled with inclusionary zoning and land use decisions end up costing working households.[77] MHC could recommend increasing the amount of federal resources in TEA-21 for green corridors and urban growth boundaries (presently at $120M/five years).

Much effort has gone into the creation of the powerful Georgia Regional Transportation Authority (1999). And as a result, much angst has been created within the development community in the Atlanta region over GRTA's power to channel transportation dollars towards some and away from other types of projects. MHC should recognize that recommendations it makes to enlarge or strengthen state level apparatus modeled after GRTA will be met with resistance from both builders and realtors. Thus MHC may wish to examine in greater detail the structure of other metropolitan authorities to learn what elements can be kept to mutual agreement and which elements cannot.

4.4.d Environmental policy (impact statements and costs) (Brownfields mitigation/remediation costs) (air quality) (lead) (wetlands preservation) (endangered species protections) (energy efficiency) has a profound impact on settlement patterns.

It is easier and less expensive to develop housing and place infrastructure at the region's edge than to rehabilitate housing and turn Brownfields in the core into productive use, not to mention more desirable to consumers preferring to be distant from inner city problems. Environmental policy (RCRA) should be modified to make it easier to reclaim Brownfields. The Brownfields National Partnership Action Agenda which coordinates the work of 15 federal agencies and provides tax credits for redevelopment, should be expanded substantially. Furthermore MHC should encourage additional liability amendments to CERCLA.

States could be encouraged by MHC to further refine their SIPs to address air quality from auto congestion and to parse out auto emissions tonnage from other inputs that reduce air quality. The flexibility states have to withhold transportation dollars in exchange for air quality improvements should focus increased attention on auto emissions in urbanized metropolitan areas. Presently the Clean Air Act provides incentives for the creation of cleaner fuels. MHC could adopt the philosophical intent of these incentives and recommend modification to the Act that would contain incentives in the form of credits to regions that steer their housing supply towards transit-oriented developments. An offset program is in effect whereby because total pollutant amount is decreased, component increases are allowed. MHC should recommend that no offsets may be obtained for residential development that decreases air quality unless there is a public transit orientation. Urban infill development and the use of UGBs obtain some support from the NAHB as an effective tool to help comply with the Clean Air Act. But NAHB also argues vehemently that while a UGB can assist in air quality improvements, it creates a regulatory barrier that raises costs. NAHB cites primarily Prince William County, Virginia and Portland, Oregon as instances where the preservation of environmental resources comes at the expense of the "American Dream". MHC could further encourage urban infill at the core and UGBs at the periphery by recommending the establishment of even more incentives to implement both. MHC could consider making a policy statement recognizing that Clean Act compliance costs more than $20B annually, a substantial portion of which is derived from energy production for inefficient home heating and cooling as auto emissions, both of which can be improved through changes in zoning and land use combined with progressive transportation policy and green building incentives. Part of what MHC ultimately says on this subject will have to address the definition of the "American Dream" and whether ownership as a stake in the community is the goal or if the goal is ownership of a SF detached 4,500 sq.ft. house on an 11,000 sq.ft. lot. Unfortunately this issue cannot be sidestepped in this consultant's opinion. Nor can the challenge of clearly distinguishing between environmental resources and critical environmental resources.[78]

EIS requirements are costly. These costs are passed onto buyers and renters either directly or indirectly when the market opts not to develop. MHC would substantially improve housing affordability by encouraging the feds to absorb a large portion of these costs.

Like impact statements, green building is costly and value engineering these costs requires a substantial economy of scale over which to amortize them. MHC could consider linking green building to development bonus packages at the regional level.

Wetlands preservation is a straw man for many builders. The evidence shows that wetlands preservation does cost money and that it does translate into increased housing costs but in turn open space is considered an amenity that drives values up compensatorily, a point conveniently missing from much industry agitprop.

The net effect of reduced impact statement costs, a streamlined brownfields reclamation process, increased volumes of development credits for brownfield redevelopment, and air quality credits for transit-oriented development, would be enormous. When combined with a true pay-as-you-go approach to Greenfield development and changes in the encouragement structure at the state level for zoning modifications, the amount of comparative "pushing" done by the inner core would be reduced substantially. This would result in a more level playing field, and enable possible as much as one-third of metropolitan residential development to occur in the cities. It would also subscribe to Bruce Katz's recommendation for the appropriate federal role in growth management, which is "first do no harm". *Any* decrease in the amount of monumental cost-shifting that goes on would be result in important increases in efficiency.

Four <u>demand-side</u> efforts are recommended.

4.5 Changing current settlement patterns will result in a different spatial arrangement of where people live and where new homes are built. But redirecting growth does not stop growth. Substitute housing is always found elsewhere. Builder opportunities are always ferreted out. Any differential in the land use or zoning statutes between neighboring jurisdictions invariably results in a race towards the path of least resistance. If the jurisdiction offering the least resistance is rewarded for setting such a table, there is no incentive for the other jurisdiction to lower their guns.

Regional cooperation is a prisoner's dilemma and cooperation has proved more difficult for burden sharing than for resource sharing. The capacity of the federal government to compel or even encourage regional cooperation is limited. The first and most important step is for the average consumer to understand that new settlement patterns are value added propositions and that individual behaviors and demands circumscribed in current settlement patterns are the fuel for such "hidden" costs as concentrations of poverty, congestion, decreased open space, the loss of the sense of place, and reduced air quality. Therefore much of the work facing the Commission is educational in nature in terms of crafting a message that can be heard in a tone that will be received, but which puts the work of necessary adaptive behavioral change back where it most needs to be: with individual household consumer behavior.

4.5.1 Encourage federal policies to help make it easier for the private sector to develop new infill market rate and low-income housing in those parts of regions where overall demand is presently weak: the inner core (downtown and in predominantly low-income neighborhoods), and inner or first-ring suburbs. To assist with this, MHC is encouraged to recommend funding for there to be a national zoning inventory. Presently farmland and old urban land is often grouped with more critical environmental resources; local zoning often prohibits by right development of either for residential use. MHC is also encouraged to recommend that states, which have provided for local planning authority through their constitutions, revisit this granting of authority. In the greater Chicago Metropolitan Region there are 272 municipalities each practicing their own form of legalized self-preservation, which is almost always interpreted as the necessity to keep poor households out. On Long Island 66 municipalities. Seattle, 200. And so on. States should be encouraged by the Commission to respond to the problem of excessive regulation of metropolitan housing markets by municipal governments. The Commission would do well to go back to the grant-in-aid recommendations of the Kemp Commission to foster model efforts at creating regional authorities with enforcement powers. This is a deregulatory effort, but one surely to face a mighty challenge at the local level.

4.5.2 Certain types of housing could be encouraged. Mandates should be avoided, as should discouragements. The work of several organizations is noteworthy. First the Los Angeles Community Redevelopment Agency[79] developed a high quality document on what kinds of form infill development ought to take. This document should be reviewed and could form the basis of a set of guidelines for which financial incentives are created based on MHC recommendations. Likewise the newly released New Community Design (NCD) guidelines from the National Governor's Association contains excellent if over-romanticized site planning and urban design guidelines that also could form the basis of an incentive package.[80] Third, the newly released set of land development regulations containing model codes is an excellent survey of TNDs, New Urbanism projects, and regional growth management efforts.[81] Tom Daniels work on the pros and cons of various growth management techniques now used. This would complement the others already listed and merits consideration. An important point: all of these efforts represent the best laid plans, but rarely do they have an affordable housing component as an expressed priority. This consultant found no evidence that without affordable housing as *the* expressed priority (Montgomery County, Mount Laurel I and II, California Code 65583 and 84), it will get built. And even in the presence of a judicial mandate, little real volume is created even though great opposition is given a convenient target. Because the constituency for affordable housing has only very recently become middle-income oriented, affordable housing has historically been equated with poverty housing, density housing, crime, unsightliness, and deterioration. A big step MHC could take would be to define the housing problem as a common good challenge that when done well is a value added component of growth. For value added purposes, new housing projects should be:

- Located near public transit (rewards for TODs and interest rate write downs for LEMs)
- Mixed income (sufficient subsidy for the right proportions)
- Mixed use (front end financing and rewards to development innovations)
- Sufficiently dense as to internally subsidize low income units

4.5.3 Most NIMBY efforts on the edge evolve as the original conditions that made the area a competitive investment in the first place change. Efforts to maintain the character of fringe communities result in higher housing costs that flow from this parochial approach to growth control. Still, rather than redevelop inwards, the tendency is to more further from the center. This is for many reasons but the accumulated cause is that the older inner neighborhoods have stocks that "push" investments elsewhere. One of the major factors in pushing redevelopment elsewhere is the sheer financial burden and permitting nightmare of rehabilitation. The Historic Preservation Tax Credit provides a small amount of equity for redeveloping in some inner jurisdictions, but it is cumbersome and narrow in scope. Increased allocation of credits and a steam-lined application process would be a large encouragement for growth to be redirected inward. This plus a relaxation on the allowable uses of CDBG monies would enable local jurisdictions to invest block grant dollars into infrastructure repairs.

There is a common misperception in the smart growth conversation that the infrastructure in older urban neighborhoods, which already exists, is thus a no cost issue. This is mistaken. While infrastructure does indeed exist, it is rarely not in need of major and costly reinvestment. MHC is encouraged to thus complement an increased tax credit allocation with block grant flexibility for infrastructure.

A second major "push" factor is the onerous regulatory environment so many older urban cities require developers to navigate. MHC could create federal encouragements for cities to minimize existing permitting processes. The case of Portland, Oregon is an excellent example of improvements in this area that enabled builders to take advantage of infill opportunities without layering of more development costs.

A third consideration when steering redevelopment into older urban neighborhoods is of course the mix of incomes for whom housing is produced. New Jersey's fair share laws are worth study in the case of Newark in terms of how it creates a financial gain for Newark to trade on it's share of poverty households. Though not an explicit part of the recommendation to widen the use of the Historic Tax Credit, the fair share issue unaddressed can remain a barrier to feasibility and neighborhood stability.[82]

With respect to increasing the allocation of the Historic Tax Credit as a tool to steer growth, the parameters of the Credit should be widened so that any structure built before WWII may qualify, which is the generally agreed age of most inner city and inner ring suburban stocks.

4.5.4 Encourage the conservation of critical environmental resources and help distinguish between environment resources and critical environmental resources[83]. First MHC would provide a major contribution to the effort to harmonize growth management struggles with the need for affordable housing if it would recommend the funding and creation of a national zoning inventory as already mentioned. Second MHC is recommended to consider the data obtained by the National Association of Realtors on the subject of Smart Growth.[84] Particularly the following warnings:

- People want open space but they are not willing to pay very much for it
- Voters oppose low-density zoning (20 du/acre) to maintain open space

This suggests that the battle for states to shift zoning authority to regional bodies will be viewed as a clear usurpation of local land use rights. At the same time, without such a shift, individual municipalities will continue to zone in reaction to perceived development threats (and thus raise costs) rather than work regionally to achieve better jobs-housing balances and income balances. It is unlikely that any major shift in the trend to implement costly growth management measures will occur without a very strong Commission statement here.

Two cases are worthy of mention for what both they set out to achieve and have and have not accomplished as of yet. The urban growth boundary around Portland is the nation's best and most popularized example of growth management that appears to have worked. The jury is out. Homebuilders both support the final balancing act done in Portland (containing growth on the edge and increasing densities inside the municipality) and argue it has raised housing costs. Some agree. Others do not. Downs has suggested it has not. There is no conclusive evidence one way or the other presently. But this consultant believes that housing costs do go up when land supply diminishes, regardless of the increases in density since the increased density tends to be able to purchase amenity packages that "pull" investments and thus increase demand. Downs conclusion to the contrary is based on demand remaining constant amid land supply decreases that are offset by density bonuses. But demand is never constant in terms of a finite geography.

A major contribution to the dialogue about environmental resources is made in the Portland case and is often overlooked in the tendency to focus narrowly on the UGB itself and on land scarcity. Portland's effort to contain growth could never have resulted in what nominal consensus there was without the offsets in density. But the offsets alone are the only counterweight to the land scarcity problem. Within the boundary but outside of areas that were upzoned inside the city of Portland, much land remained to be developed that might easily have been viewed as open space that needed to be preserved. By rezoning in these areas for residential, additional buildout was obtained.

In Sacramento, local housing elements of the regional consolidated plan responding to the innovative state fair share law has become a very promising document and was approved on September 20, 2001 by SACOG. SACOG's effort to interpret the state's law is impressive. It explicitly states that every city and county in the region has an obligation to address the housing needs of the entire region. It has as a major goal assuring a fair distribution of housing among cities and counties, so that every community provides an opportunity for a mix of housing affordable to all economic segments. It has a 20 year buildout, and the explicit intention that the allocations are intended to be used by jurisdictions when updating their housing elements as the basis for assuring that adequate sites and zoning are available to accommodate the least number of units allocated. This is a major step in breaking down development barriers such as exclusionary zoning and growth controls. In effect Sacramento is attempting to steer development on one hand and is taking strong steps to ensure existing impediments (current zoning) are removed so that development can actually occur.

Section 5: Conclusions

Growth controls are triggered by concern about development patterns that will disrupt the investment presumptions of present property owners.[85] When growth controls are triggered, development is slowed or halted and production volume declines. What is produced is more costly since growth controls reduce the supply of land or impose impact fees or both. In turn this pushes residential development elsewhere, increases the jobs-housing spatial mismatch, and winds up reinforcing existing consumer preference for segregation by class, which in turn reinforces the decline of the urban core, and which itself is a reflection of the confluence of consumer preference and federal urban policies.

Much is made of the fact that such patterns are effectively "dumb" and that the antidote is growth that is smart. However in only a very few cases has it been shown that growth can be managed without raising housing costs very much, and in no case has it been shown that growth can be managed without raising housing at all. In other words, managing growth contains the price tag of housing cost or subsidy somewhere. But critically missing from policy debate is the fact that the absence of growth controls in some form contains the expensive price tag of population increases and prosperity.

Settlement patterns reflect five basic building blocks within a framework of increasing population and prosperity.

1. Income distribution in a market economy.
2. The cherished capacity of households to choose where they want to live within their means of doing so.
3. Millions of individual household choices more or less rationally made in response to available information, perception, and belief systems.
4. Table set by a gamut of tax and housing and transportation policies that more or less encourage a range of consumer behaviors.

5. Institutional behaviors that have matured over the years in planning departments, transportation agencies, and so forth.

If the current sum of these building blocks is an unacceptable pattern, then these building blocks have to be reconsidered. Behaviors that don't change in a choice-driven market economy will result in an unchanged pattern.[86]

With the current condition of worsening congestion and unsolved housing problems in mind, the following local efforts may be useful:

TO REDUCE LOCAL CONTROL OVER PRODUCTION AND PLACEMENT OF LOW-INCOME HOUSING, create a significant enough Federal incentive for states to shift substantial amounts of land-use and zoning authority away from local government, and toward regional bodies that can act in the regional interest. Portland and Minneapolis/St. Paul

TO DECREASE RESISTENCE TO LOW INCOME AND RENTER HOUSEHOLDS AS NEIGHBORS, create an existing property owner's insurance pool significant enough to guarantee competitive house price appreciation in those locales where land-use and zoning authorities were shifted to regional bodies. This could be similar to but focused on more equity than the 1973 work done in Oak Park, Illinois.

TO INCREASE THE QUALITY OF PLANNING AT THE REGIONAL LEVEL IN ANTICIPATION OF FUTURE POPULATION GROWTH AND INCREASED PROSPERITY, recommend that Congress encourage state governments to apply statewide balanced housing goals to local eligibility for any kind of federal funds for anything. Other performance measurements could be used. Tennessee's statewide UGB ordinance is an example.

TO INCREASE THE PURCHASING POWER OF HOUSEHOLDS UNABLE TO AFFORD HOUSING CLOSE TO JOBS, recommend restoration and expansion of the Section program.

Appendix A
(Managing Growth and Generating a Supply in HOT Markets)

Recommended course of action
Principles:
- Differentiate between hot and soft markets
- Focus efforts at neighborhoods and regional scale
- Take the Long View

Recommended Models for Statewide Growth Management:
- Oregon[87]
- Maryland
- Florida

Recommended Models for Regional Growth Management:
- Sacramento
- Minneapolis/St. Paul

Models (process or outcome) to Avoid:
- Seattle (too prescriptive)
- New Jersey Mt. Laurel (too much in the courts)
- Loudoun County, VA (policies disconnected from surrounding jurisdictions)

For Hot Markets
The best models the Commission is recommended to consider are those in use by the Sacramento Area Regional Council of Governments (SACOG), and the Metropolitan Council of Minneapolis/St. Paul[88]. **The model to avoid is the one in use by the City of Seattle.**[89]

Characteristics of the SACOG model

Elements Recommended for Use Elsewhere	Elements of Concern
++ Regional in scale	--Insufficient formal linkage to neighboring regions that impact growth
++ Incentive-oriented	--Not enough of an incentive
++ Future-oriented	--Sole focus on new construction as expression of need
++ Organized around a 20 year build out with 5 year increments	
++ Strong relationship with the State	

Characteristics of the Minneapolis/St. Paul Model

Elements Recommended for Use Elsewhere	Elements of Concern
++ Two-thirds of expected growth inside the current urban services area	-- This will create pressure on housing prices as an impact on the favorable changes anticipated for neighborhoods; however the build-out is 25 years, which is good.
++ Emphasizes more compact development at higher densities	-- No data on whether there is demand for development at higher densities as proposed.
++ Local planning among 200 jurisdictions can occur with local autonomy.	-- The Council can require modifications if it determines that plans will have an adverse effect on the system plans; this may not be enough of an incentive for the locales to cede land use authority to the regional body.

Appendix B
(Four Issues MHC Might Consider When Evaluating Impact of Kemp Report)

ACCURATE PROBLEM DEFINITION	
Kemp Report	Millennial Housing Commission
Main problem is cost increases resulting from regulations at the local level	•Main problem for low-income households is income inadequacy
↓	↓
Reduce regulatory barriers	Build robust voucher program for low and very low income households
	• Serious problem for middle income households is NIMBYism as reflection of class and race bias resulting in segregatory settlement patterns
	↓
	Focus on region instead of locality

APPROPRIATE SCALE	
Kemp Report	Millennial Housing Commission
Proper scale is <u>state</u> and <u>local</u>	Proper scale is <u>region</u> and <u>neighborhood</u>
↓	↓
Rely on states to curtail local authority on zoning and land use decisions that reflect the property value concerns of "privileged households" which are reflected through NIMBYism	Rely on states to <u>shift</u> portions of zoning and land use authority *from* localities *to* regional bodies that reflect public welfare needs of a region

SUFFICIENT INCENTIVES	
Kemp Report	Millennial Housing Commission
Use of carrots and sticks	Incentives alone
↓	↓
Main tool for states to prompt regulatory reform is availability or lack of availability of housing and housing-related funds (carrot) along with possible legal action for non-compliance (stick)	Main tool for states to prompt regulatory reform is availability of robust block grant monies to regions that end what Kemp Report recognized as "cost-shifting" "negative side-effects of growth"

MARKET ORIENTATION	
Kemp Report	Millennial Housing Commission
Housing affordability is a problem that be fixed in a vacuum	Addressing affordability sometimes comes at the expense of revitalizing neighborhoods, since revitalization is by definition, the creation of demand, which by definition, increases price
↓	↓
Cites New Jersey (Mt. Laurel) and Massachusetts (774) as type of state action that can be taken to provide units needed	Recognize affordable housing is seen as a "negative side effect of development", and thus must be shared equally, which Mt. Laurel and 774 and most state inclusionary zoning efforts do not do
Argues environmental protections pursue worthy ends but often raise the costs	Environmental protections actually add to livability

Appendix C
(Working Definitions)

Housing Affordability Problem:	Households with incomes too low to enable them to pay for occupying "decent" quality housing units without spending more than 30 percent of their incomes for housing.
Sprawl:	Pattern of development caused by land + $P_1+P_2+P_3+P_4$, where P_1= population growth, P_2=prosperity, P_3=political power, and P_4=preferences of consumers, and characterized by low density, leap-frog style fringe development on the periphery.
Smart Growth:	Pattern of development aimed at producing opposite outcomes of those produced by sprawl.
Growth Controls:	Efforts, usually local, intended to prohibit growth of real estate development.
Growth Management:	Efforts, often regional or statewide, intended to "manage" growth by steering population expansion and prosperity into settlement patterns that do not create negative costs of real estate development.

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Robert Puentes, Brookings Institution
Michael Pyatok – Harvard University
Henry Richmond – National Alliance for Growth Management
Gus Selig – Vermont Housing Conservation Board
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Endnotes

[1] National Housing Conference, 2000
[2] Based on the work of George Galster and Anthony Downs
[3] See Confronting Suburban Decline, by William H. Lucy and David L. Phillips, 2000.
[4] "The Extent of Federal Influence on "Urban Sprawl" is Unclear" report of the GAO, April, 1999.
[5] "Moving Beyond Sprawl", Brookings Institution, 2000.
[6] Moffitt, Robert A., "Policy Intervention, Low-Level Equilibria, and Social Interactions," in Social Dynamics by Peyton Young and Steven Durlauf, MIT Press, 2000, page 41.
[7] Anthony Downs Speech to the National Association of Homebuilders - Baltimore, 9-2000
[8] Every region in America has an affordable housing problem and one form or other of a growth management challenge. This is because all markets grow, if not in size, than in changes in shape.

Hot Markets (eg SF Bay Area and Northern Virginia)
In the SF Bay area job growth has outpaced housing production to such an extent that demand has simply been far too great for supply to keep up. In the Bay Area and similar markets, not only is fast-paced job growth a factor in determining housing price, so too is the regulatory environment, NIMBYism, land scarcity and land values. All of these factors influence housing price in such markets. But the primary factor that causes a housing affordability problem is what John Landis has called the "problem of triple convergence," the root of which is insufficient incomes.

- Population increases within a region
- Increases in the amount and percentage of low-income households
- Supply shortages

In other words, first, if the population of a region increases, so must its supply of housing. If the supply does not keep pace, demand pressures cause prices to rise. Second, if the nature of the population shift is such that there is an increasing number and percentage of low-income households, ever larger percentages of the region will be unable to afford housing, the price of which is a reflection of consumer preferences of and demand pressures by upper income households. Third, if the supply pipeline contracts, for whatever reason, there is that much less to go around, driving prices up even more.

Because supply pipelines contract when population growth generates regulatory reactions to the potential influx of low-income households, price problems are worsened. Hot markets get stuck in an acute cycle. They are attractive regions for businesses seeking an appropriate labor force. Job creation ensues. Housing markets tighten in response to population growth. Middle and upper middle income households require services that are performed by low-income people, whose housing middle and upper middle income households will not tolerate in their proximity. Regulations aimed at preserving property values take aim at housing development for low-income households as well as most forms of development that consume nearby environmental resources. The regulatory matrices become complex and intertwined. Land becomes more scarce, and more costly. For places like California and Northern Virginia, this is a very complex and specific kind of problem of housing and growth management.

Soft Markets (Syracuse, Camden, North Philadelphia)
Places like North Philadelphia and Camden exert a powerful influence on the broader Philadelphia region. In such regions job growth is often strong in some places only to be nonexistent in others. Whereas all parts of the SF Bay Area "pull" to some extent, very few submarkets in the Philadelphia region experience do the same. Middle income households seeking jobs and housing in the Bay Area will settle for East Palo Alto or Richmond if they

absolutely, positively have to. This is not true for West or North Philadelphia, or Camden. Job growth and prospects are not powerful enough to drive up housing prices (across a soft market region like Philadelphia or Baltimore) to the point where households cannot obtain quality alternatives away from the core. In a hot market like the SF Bay Area or Northern Virginia, there are very few quality alternatives that would not be considered.

In soft markets the affordable housing problem is that there is too much affordable housing, and it is located in areas that have too little capacity to attract investment. The primary factor that causes a housing affordability problem in these regions is too little purchasing power for low-income households, too many investment alternatives for middle and upper middle-income households, far away from low-income neighborhoods, and too much regulation and other "push" factors in the core.

- Investment alternatives for middle and upper middle-income
- Low-incomes
- Core "push" factors

So, if the population of a soft market increases, it does so only in certain spots. These areas experience more demand than other areas. Increases by middle and upper middle-income households in some spots concentrates those areas economically by they have, and in the process concentrates other areas by what they lack. Low-income households exist in neighborhoods where there is little or not demand, and little or not price appreciation, and thus little reason for outsiders to invest. Those who can leave, do, relegating the remains to those unable to leave, which further concentrates poverty and incentives to disinvest. Coupled with the complex regulatory framework that accompanies older, urban neighborhoods (typically arising from a historic stock), core areas "push" even reasonable efforts to redevelop without considerable expense. Alongside of an abundance of investment alternatives in the suburbs, the housing dilemma is part and parcel a neighborhood revitalization challenge made even more intricate since the challenge of revitalization is the challenge of creating demand.

[9] There is a national dialogue in progress now about where we live. Every major newspaper has daily reports of builder-government-neighborhood arguments about development. This dialogue involves a broad spectrum of people and institutions. Congestion is getting worse, not better, and so commuting Americans have something to say about that. Housing prices continue to outpace the capacity of many households to afford them, and so the suppliers of housing and the consumers of it have something to say about as well. Farmland as well as other open spaces continues to vanish only to be replaced by tract houses and strip malls, and so many Americans have that one their minds, too. The inner cities and first ring suburbs continue to lose population and as newcomer immigrants take their places economic segregation solidifies and many communities have something to say about that. Anytime improvements result in increased livability in formerly and relatively unattractive places, demand increases and prices rise and people are displaced and many are talking about that also. To protect what they already have, neighborhoods band together to keep out anything that might have a negative impact on housing values.

[10] Those concerned about congestion want wider roads, but little evidence suggests that such a response results in ultimately reduced traffic. Those concerned about housing prices want more affordable housing built but that usually occurs as a result of reduced land costs and little evidence suggests that land costs go down when farmland and other open spaces are preserved. Those concerned about the unsightliness of tract housing and strip development have enacted measures to restrict the consumption of land, but in nearly all cases land costs have subsequently risen and resulting housing prices have outpaced incomes. Those who see that the hollowing out of the urban core creates a self-fulfilling cycle of push and pull as well

as service-dependent, tax base-impoverished inner city neighborhoods want rehabilitation to occur but not so much that prices rise and displacement results. Many who live in homogeneous neighborhoods comprised of valuable land see all of these problems but very ably keep out households of lesser incomes through one effort or another, pushing inevitable growth elsewhere and usually further from the center.

[11] North of San Francisco in West Marin County the extremely innovative Marin Agricultural Land Trust (MALT) has managed to secure the development rights of more than 50 percent of the land, keeping it in the hands of farmers. This serves legitimate environmental stewardship goals but raises the cost of land to unsurmountable levels for any but the wealthiest household. In Western Loudoun County, Virginia nearly half the county has been down-zoned by 80,000 units, which will get built, only elsewhere. In downtown Oakland, California the city has initiated an effort to attract 10,000 middle income families and to put 6,000 vacant homes back into productive use while reclaiming more than 55 acres of scattered urban infill sites for commercial and retail development. Prior to the in-migration of these middle-income households the tax base for Oakland was comprised of more than 40,000 households at or below the poverty line, leaving virtually no capacity for the local government to pay for basic city services and thus ushers in one form or another of so-called fiscal zoning. Changes in zoning coupled with incentives to consumers and builders along with hot market realities in nearby Berkeley and elsewhere have resulted in a migration into Oakland of just the kind of middle-income households needed to support the municipal economy. But resulting displacement of low-income households from the downtown has created two groups with worthy goals at odds with one another.

[12] In reviewing the recently bonded redevelopment of downtown Lakewood, Colorado and the newly completed development of Westminster outside of Denver (Colorado is a good case study state because of the enormous population growth statewide), the creation of affordable housing in any form amid rich amenity packages simply was not feasible without a large density bonus and without a site review step in the process and changes to the local zoning.

[13] Rephann, Terence, *The Economic and Social Impacts of NIMBYs. Paper presented to the North American Regional Science Association, 1996.* Also Davis, O. and A. Whinston. "The Economics of Urban Renewal". Law and Contemporary Problems. 25 (1961), and Schelling, T. "Dynamic Models of Segregation" in Journal of Mathematical Sociology, 1971.

[14] For a discussion on the "smart" distribution of housing and jobs, see Brookings Institution "Job Sprawl: Employment Location in US Metropolitan Areas" by Edward Glaeser (Harvard) and Matthew Kahn (Tufts), page 4. July, 2001.

[15] See Arthur Nelson, et.al. *Growth Management and Housing Affordability*, Brookings, 2001. **This is a DRAFT document cited with verbal permission from the Brookings Institution. "Land use regulation was born from landowners' and municipalities' desires to stop nuisances before they started; to stabilize property values; and to separate people of different income levels and ethnicities." p.13.**

[16] The Joint Center for Housing Studies estimates 16-17M units will be in demand in this decade.

[17] Stephen Fuller (George Mason University) The Impact of the Housing Sector on the Washington Area Economy. Fuller estimates total cost to the DC region in GRP to exceed $8B/year in 2000. This calculation is based on a net deficit for the region of 120,000 units and a per household contribution to GRP of $220,000.

[18] Texas Transportation Institute, Urban Mobility Report

[19] George Galster (Wayne State University)

[20] Statewide inclusionary zoning mandates go back as far as 1969 (Massachusetts) and the recognition to diffuse poverty housing goes back even further. Little positive evidence exists to suggest progress outside of New Jersey (from Mount Laurel I and II) and Maryland (Montgomery County). Also Glickfield and Levine (Lincoln Institute of Land Policy) reported

that growth controls don't really slow growth since households find substitute opportunities elsewhere.

[21] Joshua Epstein (Brookings Institution)

[22] Moffit.

[23] Carol Galante of B.R.I.D.G.E. makes the argument that congestion costs ultimately are compared to the perceived costs of living in the inner city (Oakland for instance) by a section of the market that would not otherwise consider locating in downtown Oakland, and that as congestion worsens the market for downtown Oakland grows.

[24] See Silicon Valley Manufacturer's Group, John Landis (Berkeley) and Henry Richmond for a discussion of site available for build out that are either zoned industrial (for local revenue creating purposes), or zoned for large lots. According to 1,000 Friends of Oregon there was 135,000 units of housing to be built before the establishment of the UGB in 1972 based on average lot size of 13,000 sq.ft. in place at the time compared to 305,000 units available to the market once the UGB was counterbalanced with increased density allowances and lot size reductions to 8,500 sq.ft. This same situation also occurs in the municipalities surrounding San Jose, California in Santa Clara County.

[25] Growth Management in the Portland Region and the Housing Boom of the 1990's, by Gerard C.S. Mildner, Working Paper 98-1, May, 1998., see Table No. 3 for housing prices by sub-market in the Portland Region 1982-1995.

[26] Rolf Goetz. Boston : Boston Redevelopment Authority, Policy Development & Research Dept., 1995. Of course much opposition to present day large scale renewal efforts is grounded in the ways initial renewal efforts of the 1940s and 1950s took place, whereby whole and often historic and most always minority neighborhoods were taken down and replaced with architectural monoliths isolated by the intentional placement of segregating transportation corridors.

[27] Effects of Urban Containment on Housing Prices and Landowner Behavior, by Arthur C. Nelson, for the Lincoln Institute of Land Policy, May 2000.

[28] Anthony Downs. 2001 *Have Housing Prices Risen Faster in Portland Than Elsewhere?* Working Paper. Brookings Institution. See also Phillips J. bad E. Goldstein. 2000. Growth Management and Housing Prices: The Case of Portland. *Contemporary Economic Policy* 18:3.

[29] Bruce Katz (Brookings Institution). Crossing the Line Conference - Memphis, 2000.

[30] See 1991 Kemp-Kean Report: NOT IN MY BACKYARD: Regulatory Barriers to Affordable Housing.

[31] John Landis (University of California at Berkeley) and Galster; Dan Fauske (Alaska Housing Finance)

[32] Jerold Kayden (Graduate School of Design; Harvard University)

[33] William Fulton (Solimar Research Institute), Bruce Katz, and others. Also see the relationship between the federal government and GRTA.

[34] Robert Burchell (Rutgers) and Jeane Birch (University of Pennsylvania)

[35] Henry Richmond, American Land Institute

[36] Robert Lang (Fannie Mae Foundation)

[37] Tom Daniels (SUNY-Albany)

[38] Landis

[39] Landis

[40] Mark Baldesare, Public Policy Institute of California

[41] Galster

[42] Thomas Schelling (RAND Corporation)

[43] Peter Calthorpe (Calthorpe Assoc.) and William Fulton (Solimar) and others (Rusk) (Houstoun)

[44] The Kemp-Kean Commission concluded that the basic problem is the same in growing suburban areas and older central cities: because of excessive and unnecessary government regulation, housing costs are too often higher than they should and could be. However, the Commission also observed that there are significant differences between the specific

regulations in suburban and central city locations. In the suburbs, the Commission found that exclusionary zoning, reflecting a pervasive NIMBY syndrome, was one of the most significant barriers. In the central city, there were fewer regulatory problems arising from NIMBYism and more from outdated building codes and lending practices of financial institutions. (See states of New Jersey and Maryland for new rehabilitation/smart building codes). The Commission presents three root causes for excessive regulatory reform: conflict among competing public policy objectives, fragmented structure of government land use and development regulation, and NIMBY sentiment at the individual, neighborhood and community levels. The report identify the NIMBY syndrome as "often widespread, deeply ingrained, easily translatable into political actions, and intentionally exclusionary and growth inhibiting." The report contains a thorough discussion of the impact of NIMBYism on affordability, the personal basis of NIMBYism and its influence on local government policy and decision-making. The Commission identified all three levels of government as having a role to play in tackling these root causes. Thirty-one recommendations were presented under three main headings (The Federal Role: Stimulating Regulatory Reform; Increasing State Responsibility and Leadership; and Working Together) Several recommendations relate to overcoming NIMBYism including the creation of model codes, standards and technical assistance to local governments; the requirement that local governments prepare housing policy statements, subject to state review; creation of statutes to provide state authority to override local barriers to affordable housing projects; the creation of state-established housing targets and fair-share mechanisms (see Maryland and California as excellent examples of how this is now in place and in some instances working); and setting time limits on development approvals, reviews.

[45] The difficulty with this is that it addresses one form of cost-shifting by introducing another. The result is that no progress is made on the fundamental superstructure that promotes current suburban development patterns: cost and burden shifting. See "Godfathers of Sprawl by Witold Rybczynski (University of Pennsylvania) and The Spatial Distribution of Housing-Related Tax Benefits in the United States by Joseph Gyourko (Wharton School of Finance)

[46] Tom Bozzuto (The Bozzuto Group)

[47] Michael Stegman (University of North Carolina at Chapel Hill)

[48] The decades-long push to reduce rehabilitation cost in order to make supply less expensive as a means of closing the affordability gap has been largely a folly. The effort to bring supply costs down, as notably promulgated by the Rehab Work Group of the Enterprise Foundation, can unintentionally serve to soften already soft markets. The last thing a low-income neighborhood needs is reductions in the quality of the stock if it has any hope of attracting the middle market. So it is with caution that the recommendation is made to reduce rehab costs. If cost-reduction is to be pursued, it should be done sparingly, to avoid reducing the effective value of property.

[49] For the MD Rehabilitation Code: http://www.op.state.md.us/smartgrowth/smartcode/rehab_overview.htm

[50] For the NJ Rehabilitation Code: http://www.state.nj.us/dca/codes/rehab/pioneerart.htm

[51] *The Barriers to Using Urban Infill Development to Achieve Smart Growth* by J. Terrance Farris (Clemson University). Focus is on 1) Land Assembly and Infrastructure Costs, 2) Resistance to Use Legal Powers of Eminent Domain, local social and other policies, shortage of qualified developers, partnership complexity, NIMBYism, risk, and political constraints. See also Danielson, Lang, and Fulton on the complexity of market analysis.

[52] Fannie Mae National Housing Impact Group

[53] See study by Philadelphia Inquirer on Philadelphia and surrounding suburbs (8-12-01)

[54] National Land-Use Planning In America: Something Whose Time Has Never Come by Jerold S. Kayden (Washington University School of Law Journal)

[55] Comments from Carol Galante, B.R.I.D.G.E.

[56] Michael Greenberg, APA

[57] Housing Policy Debate (12:1)

[58] Galster
[59] William Rohe and George McCarthy (University of North Carolina at Chapel Hill)
[60] Robert Putnam (Harvard University)
[61] As Stephanie Pincetl of the Sustainable Cities Program of USC noted: "the [landscape] has been transformed, not because of the power of the visions that have inspired its social movements and imagination, but because of demography and economic changes. These changes have led to great social diversity and complexity, and an even greater estrangement of the people from their political system. Many eligible voters do not vote, and there are significant numbers of residents who cannot legally participate. We have gone from machine politics to progressive reforms, to a politics of personality and special interests that favors the affluent. The fundamentally elitist and undemocratic nature of the [so many] governance structures has created conditions for the demise of democratic involvement and the impossibility of political debate about the public realm. From Transforming California: A Political History of Land Use and Development
[62] Burchell
[63] Eric Belsky, JCHS
[64] See http://www.inhousing.org/house2.htm for an excellent study on Montgomery County, MD and Fairfax County, VA housing prices
[65] From New Century Housing: A survey of programs compiled in the early 1980s by Mallach (1984) identified inclusionary programs in 72 local jurisdictions across the country. Inclusionary housing programs were operative in the states of California (38); New Jersey (16); Colorado (5); Massachusetts, Illinois and New York (2 each); and Connecticut, Delaware, Florida, Maryland, Oregon, Virginia and Washington (1 each). In a more recent 1990 survey, Mary Nenno identified some 50 local inclusionary programs nationally, again with a disproportionate number in California (Nenno 1991, 484). Similar to Mallach*s findings, Nenno noted that her listing was illustrative of the inclusionary programs existing in the United States at that time, not exhaustive. According to a survey by Edward Goetz (1991, 341), of 133 U.S. cities with a population of more than 100,000, only about 10 percent (12 cities) had inclusionary provisions in their zoning ordinances. This is about the same percentage of those cities that required linkage fees, replacement of demolished units, rent control or other means of facilitating low-income housing. Thus, a city with an inclusionary housing program also was likely to implement other affordable housing activities. Finally, in the early 1990s, a California survey identified more than 50 inclusionary programs in that state that had produced over 20,000 affordable units during their histories (San Diego Housing Commission 1992; Newman 1993). Thus, even though no definitive source or comprehensive national survey of these efforts exists, the literature indicates that there are 50 to 100 jurisdictions nationally that employ one or more, or a variant, of these programs. Inclusionary zoning works best when combined with developer incentives. It has delivered the greatest numbers of units when the populations "included" are closest to median income. Inclusionary zoning is the by-product of expensive housing markets that have been spawned by either raw demand or exclusionary zoning controls. Typically, these have been in northeastern and western United States housing markets and today are likely to extend to specific locations in southeastern and southwestern U.S. housing markets. In summary, inclusionary zoning has been criticized for shifting the burden of affordable housing provision to other groups, for distilling the upwardly mobile poor from the remainder of central city residents and for causing undue growth in locations that would not otherwise experience it. These criticisms, while warranted and substantive, pale by comparison to the roster of accomplishments and benefits attributable to inclusionary housing programs.
[66] Most zoning is "exclusionary," that is, it forbids certain land uses or housing types in specific areas. The result in most instances, therefore, is homogenous communities, where most households live in comparable homes (single-family detached or townhouses multi-family rental or condominiums, etc.) where housing costs are also comparable. By contrast, "inclusionary zoning" -- either through mandatory government regulation or incentives to the

private development industry -- requires that a small percentage of the newly constructed homes be affordable to owners and renters earning less than 50 percent of the area's median income. As a result, these new communities typically include households earning a wide range of incomes and homes that vary in design. The most successful inclusionary zoning program in the country is found in **Montgomery County, Maryland.** There, the local Moderately Priced Dwelling Unit (MPDU) ordinance, enacted in 1974, requires developments of more than 50 units to include 15 percent MPDUs. Of that 15 percent, two-thirds are sold to moderate-income first-time homebuyers and the remainder can be purchased by the local housing commission or local non-profits for use in their affordable rental programs. So, for example, in a typical new subdivision of 100 units, 85 units would be market-rate, 10 would be sold to first time income-eligible homebuyers, and five would be owned by the housing commission (or a non-profit) for use in their rental programs. To make the program work Montgomery County provides a "density bonus" to developers; that is, within local planning constraints, a builder is granted the ability to build 22 percent more units in the subdivision than otherwise would be allowed. Thus, the land for the MPDU's is "free." Montgomery's mandatory MPDU inclusionary zoning program has produced nearly 10,000 units since 1974. Other states, such as California and New Jersey, have instituted programs that promote affordable housing through the use of density bonuses.

[67] Jerold Kayden (Graduate School of Design; Harvard University) and John Landis' *Myths and Facts About Affordable and High Density Housing*, California Planning Roundtable, 1993.

[68] Weicher, John C. and Thomas Thibodeau. 1988. "Filtering and Housing Markets: An Empirical Analysis". Journal of Urban Economics 23. 21-40. See also Dowell Myers, "Filtering in Time: Rethinking the Longitudinal Behavior of Neighborhood Housing Markets," in D. Myers, ed., *Housing Demography: Linking Demographic Structure and Housing Markets*, edited book from the University of Wisconsin Press, 1990.

[69] Intergovernmental Cooperation Act of 1968 and resulting Circular A-95

[70] See The Double Bottom Line: Investing in California's Emerging Markets, 2000

[71] Bureau of Labor Statistics Consumer Expedition Survey - 1999

[72] Based on 80-15-5 jumbo loan structured at 8.5% and 7.5% and property taxes conservatively estimated at 1% annual.

[73] The SF Bay Area ranked 29th on the Congestion Burden Index (CBI) developed by the Surface Transportation Policy Project (2001)

[74] From *Driven to Spend* by STPP - 2001.

[75] An excellent example of coordinate transportation and housing dollars is the Fruitvale Transit Village just south of Oakland, CA. The Fruitvale BART Transit Village is a mixed-use development which will be built on 15-24 acres of land surrounding the Fruitvale BART station, including the 10.43 acre BART surface parking lots.□The development process has been spearheaded by the Fruitvale Development Corporation (a support corporation for the Unity Council). It has brought together an extensive public-private partnership, including the Bay Area Rapid Transit District, the City of Oakland, La Clinica de la Raza, and other public-private partners. The project strives to enhance and stabilize a burgeoning economic revitalization effort for the Fruitvale community. The anticipated investment is approximately $100M. The project includes family housing, senior housing, commercial and retail space, childcare facilities, and a community center. In a formerly relatively soft submarket nearing the brink of being able to cope with gentrification in such a hot region, this transportation-housing collaboration - by changing the zoning and the land use first - illustrates how infrastructure spending ultimately reduces the transportation-housing cost burden for households.

[76] Mary Sue Barrett, Chicago Metropolitan Planning Council

[77] The case of Chicago, with an extensive public transit system (CTA) is notable. Continued sprawling development in the collar counties moves jobs from existing transit locations and increases auto orientation. This combined with NIMBYism and the need for regulatory reform as described by Mary Sue Barrett has a profound impact. "Community resistance to rental housing is extremely strong and this resistance is reflected in local zoning codes, which

severely limit apartment construction. In addition, high land costs and property taxes, lengthy permit review periods and inflexible building codes further limit growth in rental housing."

[78] Landis and Richmond

[79] http://www.ci.la.ca.us/CRA/

[80] New Community Design to the Rescue by Joel Hirchhorn and Paul Souza

[81] New Urbanism Land Development Regulations by Analise Fonza, August 2001

[82] Robert Burchell

[83] Landis

[84] On Common Ground; Realtors and Smart Growth, July 2001

[85] See Arthur Nelson, et.al. *Growth Management and Housing Affordability*, Brookings, 2001. **This is a DRAFT document cited with verbal permission from the Brookings Institution. "Land use regulation was born from landowners' and municipalities' desires to stop nuisances before they started; to stabilize property values; and to separate people of different income levels and ethnicities." p.13.**

[86] The Millennial Housing Commission will have the chance to comment on existing programs managed by a number of agencies. The common thread in the recommendations made here is for the Commission to modify existing programs and efforts in such a way that: "no program directly or indirectly funds production efforts that are not economically diverse." From the Low Income Housing Tax Credit, administered by the states, to the HOME program, federal dollars are used to support project creation characterized by concentrations of low-income households. This is not in the national interest.

The Millennial Housing Commission may also have the chance to consider recommending to Congress the creation of new federal efforts. It is recommended that any new efforts be strictly incentive-based, and outcome-oriented. Regions could be encouraged to undertake the changes they deem worthy in order to achieve "an ample supply and balanced distribution of affordable housing for working and low income families across [their] region"

a. Possible tools to increase the pull of the urban core
    i. Large scale redevelopment of parts of the inner core
    ii. Historic preservation tax credits
    iii. Middle market inducements to builders
    iv. Streamlined permitting process
    v. Increased density allowances

[see Hill and Nowak's "Nothing Left to Lose" for an excellent presentation on how a large scale modern renewal effort might be structured]

b. Possible tools to decrease the pull of exurban jurisdictions
    i. Pay as you go infrastructure financing
    ii. Coordinated land use planning and zoning
    iii. Decrease in exclusionary zoning
    iv. Decreased densities in outer vacant areas
    v. Increased densities in "urban villages"
    vi. Regulatory authority conferred by states ceded to regions

Many of the recommendations here reframe and refer to and explicitly cite the exemplary work of the Kemp Kean Commission on Regulatory Barrier done a decade ago. That notable work was not well received by the states, raising the issue of how states and local municipalities reacted to the discussion of NIMBYism and the issue of governmental autonomy. In short, power is not usually ceded for the common good unless the possible outcomes clearly show a benefit for any reduction in autonomy. Affordable housing has never been shown to be in the best interest of a region to create, much less distribute evenly. If the Millennial Housing Commission were to accomplish only one thing – and that were to be able to find the language to persuade the Congress to articulate how critical it is to regions that there be a balanced stock of housing throughout – then it might well have given the very legs to the Kemp-Kean Commission that it then lacked (see appendix "B"). Ten years ago, the effects of sprawl were far less acute and much less on the minds of everyday taxpayers. Congestion and housing prices and a loss of a sense of community are all commodities that the MHC could trade on, using them as leverage to assert that NIMBYism in the case of affordable housing is damaging to a region's health.

[87] http://www.urbanfutures.org/wpgrowth.html

[88] From Douglas Porter, Managing Editor of the Growth Management Institute:

> "Only a year or so after Portland Metro adopted its 2040 regional plan, along comes the Metropolitan Council (Minneapolis/St.Paul) with a similar plan, like Portland's in many ways but with somewhat different procedures for implementation. The Council, after being combined with the regional sewer and transit agencies to form a new regional agency, quickly produced a *Regional Blueprint* in 1994 that laid out some basic features of a new regional plan. The plan focused on social and economic concerns as much as urban form and infrastructure systems issues traditionally addressed by earlier plans. The Council spent the next two years refining those proposals and adding a growth strategy component that put teeth in the plan's goals and policies. The *Blueprint* was formally amended in December, 1996 and implementation activities are well underway.
>
> The growth strategy element, referred to as *Metro 2040: A Growth Strategy for the Twin Cities Metropolitan Area*, defines an urban growth pattern and spells out policies and actions needed to carry it out. It is intended to accommodate the 330,000 new households and 650,000 more people projected for the seven-county region over the next 25 years in ways that meet the *Blueprint* long-range goals. The strategy is a hybrid option determined after evaluations of three scenarios (current trends, concentrated development, growth centers). Key features are:
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> - directing two-thirds of expected growth inside the current urban services area, allowing the remaining third to locate within 80,000 acres at the urbanizing edge (compared to 170,000 acres that might occur without restrictions);
> - achieving more compact development at higher densities than recent development and concentrating jobs in the regional core and at activity centers along transit routes; the Council has defined a minimum of three dwelling units per acre as a benchmark to future subdivisions, compared to current single-family development averaging 1.7 units per acre;
> - creating an urban reserve of at least 120,000 acres earmarked for urban development after 2020;
> - permanently preserving agricultural areas and a rural environment outside the urban reserve.
>
> The new plan is intended to guide the efforts of almost 200 local governments in the region in revising their plans to meet regional goals and principles. The Council staff is assisting local officials to draw lines designating the urban service area and the urban reserve. Those local plans, once coordinated with adjacent communities, are to be submitted to the Council for a review of consistency with Blueprint and regional system plans for aviation, recreation/open space, transportation, and water resources. Once the Council certifies its approval, local plans can proceed to implementation. The Council can require modifications if it determines that plans will have an adverse effect on the system plans. However, the Council has indicated that it wishes to obtain

consensus agreements without resort to threats; the Council generally will follow a policy of "ruthless disclosure" of plans inconsistent with regional goals and plans. The planning period is expected to extend through 1999."

[89] Seattle's "Neighborhood-Based Housing Strategies and "Special Objective Areas" are extremely prescriptive. Developers consider the net of the guiding documents to be a major impediment to investment.