In the Elusive Search for Affordable Housing, Clues Emerge

Economists, sociologists and political scientists have recently identified single-family zoning as a major obstacle to building more of it. Could that change soon?

By John Buntin, Governing, May 2017

Los Angeles has some of the most expensive housing in the United States. The median price of a new home in the city is more than nine times median household income. That makes L.A. one of the 10 least affordable markets for homeowners in the world, let alone the nation. Renters are no better off. In 2015, the average rent in L.A. was $1,390 a unit, more than twice the national average.

Not surprisingly, many Angelenos are fed up. City officials have tried to address the price squeeze by encouraging high-density housing in areas served by mass transit. To promote it, the city council has routinely granted exemptions to the outdated L.A. zoning code. That, in turn, has led to new high-rise developments in the South Park area of downtown, along the Sunset Strip and in Leimert Park, a historic African-American neighborhood in south Los Angeles. It's not nearly enough. A 2015 report by the state's Legislative Analyst's Office concluded that coastal California would need to nearly double the rate of new housing construction to produce enough supply to bring prices down.

Even so, the new developments have stirred up a fierce backlash from homeowners who think it has disrupted existing neighborhoods and intensified traffic congestion. Those resentments produced Measure S, a drastic ballot proposition that would have essentially blocked large-scale development in the city for the next two years. The voters didn't go along -- Measure S was decisively defeated in a March referendum. In its wake, the affordability problem persists. In fact, it is getting worse.

Affordable housing policy is a mess, not only in L.A., but also in virtually every affluent big city in the country. Most developers insist the problem is one of supply and demand. Build more housing, any type of housing, they say, and prices will fall as older housing stock "filters down." In the view of many community activists, that's nonsense. In their opinion, new high-end housing only serves to jump-start gentrification and leads to the elimination of older, "naturally occurring" affordable units.

The housing problem is in large part a zoning problem. Zoning ordinances in most neighborhoods do not encourage -- or in many cases, even permit -- the construction of affordable multifamily buildings. So in many cities, housing advocates are calling for "mandatory inclusionary zoning." This requires policymakers to set aside a percentage of new units as affordable for the middle class and for some lower-income buyers.

Developers and many economists see that as a counterproductive tax on housing creation.

Even the usefulness of the term “affordable housing” is a subject of debate. “There are really two types of affordable housing problems,” says University of Washington economist Jacob Vigdor. Housing experts typically describe people as “cost burdened” when they spend more than 30 percent of their income on housing. But the real problem for most of them, in Vigdor’s view, is not the price of the housing. Their trouble is that they are not earning enough money to buy it. “Cities like Detroit have an ‘affordable housing’ problem because so many people living there have an income problem,” says Vigdor. Subsidized housing can help these people, but to say their problem is one of “affordable housing” is to misunderstand what is going on.

Real affordable housing failure is different. It exists primarily in the more affluent cities of the Northeast and the West Coast -- places like Los Angeles. “You’ve got the grand old cities,” Vigdor says, “where the price of housing is way above the price of land and what it costs to build a unit.” These are cities where supply has been constrained by zoning and regulations, with the result that the market is not working properly. The fact that people use the same language to talk about two very different situations further complicates efforts to find solutions.

But a consensus is slowly starting to develop amid the chaos. In many cities, it centers on single-family residential zoning. In Seattle, politicians have begun to explore whether “upzoning” -- increases in density -- can be pursued without risking political retaliation. Planning departments have developed a more sophisticated understanding of when measures such as mandatory inclusionary zoning can work and when they are disruptive. At the state level, advocates and elected officials alike are exploring ways to make it easier for developers to build both market-rate and cheaper housing.

Such efforts are not easy. The politics of affordable housing can be treacherous. Existing homeowners want the price of property to go up, not down. That often translates into opposition to new multifamily construction. Planning departments face difficult trade-offs too. Using the federal low-income tax credit to finance big projects generates the most affordable housing units. However, it can also produce concentrated poverty. Underwriting subsidized housing in higher-income neighborhoods seems to produce significant benefits for low-income families; but it doesn’t add much to the overall housing stock.

Without a huge expansion in federal support (an expansion that no one foresees during the Trump administration), subsidized housing will never solve America’s affordable housing crisis. Low- and moderate-income workers need the market to produce housing they can afford. However, that housing might be much smaller and more basic than what the prospective customers are used to or comfortable with.

All in all, it's a daunting set of challenges. Still, clues are emerging about what a more effective approach to affordable housing might look like.

In 2015, 29 percent of American homeowners with mortgages spent more than 30 percent of their income on housing. Among renters, that number rises to nearly 50 percent. As bad as this is, it actually represents an improvement. The percentage of people who are cost-burdened by housing has actually fallen over the past five years as new housing development, which stalled during the Great Recession, has begun to catch up with demand. But that's a very small step. According to Harvard University's Joint Center for Housing Studies, the national median asking price for new apartments in 2015 was $1,381, a price well above what the typical renter earning $35,000 a year could afford. What has been missing is new housing for middle- and working-class city residents.

Why doesn't middle-class housing get built? At first glance, this seems like something of a puzzle. But there's a reason. "Think about the markets for cars or clothing," says Ed Pinto, a housing specialist at the American Enterprise Institute (AEI). "Carmakers build cars for people at every income level. There are clothes for rich people and really cheap clothing for poor people." But that doesn't hold true when it comes to places to live.

The primary reason, according to economists such as Pinto and Harvard's Edward Glaeser, is that we've made it much harder to build in the nation's hottest markets. Up until around 1960, developers in cities such as New York and San Francisco routinely tore structures down and built taller or denser when local economies boomed. Then, in the early '60s, things began to change. Codes got more stringent. Environmental reviews became more demanding. Historic preservationists began to protect existing structures. This benefited a powerful constituency: homeowners. Supply constraints made their property more valuable. The result, Glaeser and economist Joe Gyourko wrote in a paper published in January, was "a transfer of wealth to a few lucky homeowners and … a distorted labor market where people move to regions such as the Sun Belt that make it particularly easy to build." Indeed, demographers have estimated that the failure of productivity centers such as Silicon Valley to add more housing since the 1960s has shaved nearly 15 percent off the nation's gross domestic product over that period of time.

Not only do supply constraints enrich older homeowners and force workers to move to cities where they may be less productive, but these constraints also distort what developers choose to build. "If carmakers could only build 100,000 cars," Pinto says, “they’d build the most expensive cars with the largest margins. That’s the situation builders are in.”

Economists have long had a ready answer for this situation: greater density. That’s easier said than done, however. Consider the case of Seattle. In 2014, Mayor Ed Murray assembled a task force to examine the city’s affordable housing situation and charged the group with developing a plan to produce 30,000 additional market rate units and 20,000 new subsidized housing units. Ten months later, the group unveiled a 65-point plan, the Housing Affordability and Livability Agenda. Perhaps the most important provision dealt with how Seattle was zoned. The task force noted that two-thirds of Seattle was zoned for single-family homes. It called for “extensive citywide upzoning of residential and commercial zones.” In other words, more multifamily projects. “Seattle’s zoning has roots in racial and class exclusion and remains among the largest obstacle to realizing the city’s goals for equity and affordability,” the group wrote. “In a city experiencing rapid growth and intense pressures on access to affordable housing, the historic level of single-family zoning is no longer either realistic or sustainable.”

Just before the report came out, a local newspaper columnist got an advance copy. He wrote a story alleging Seattle was planning to “do away with” single-family zoning. In response to the uproar that followed, Murray announced that the city would instead focus new development on neighborhoods served by transit.

Notwithstanding this sort of opposition, some communities have taken steps to embrace greater density, or at least blocked efforts to restrict it. In the fall of 2015, voters in Boulder, Colo., where housing prices are well above average, rejected a plan to give neighborhood groups greater say over local zoning decisions, a plan that would have made it harder to build multifamily units in residential areas. Austin, San Francisco and Washington, D.C., have seen groups form to support changing local zoning laws to permit greater density.

The media has given these groups a catchy name, YIMBYs, which is short for “yes in my backyard.” Social scientists have supplied YIMBYs with evidence to support their arguments. Economists have shown how housing constraints disproportionately benefit the oldest, wealthiest homeowners. Sociologists have begun to argue that large minimum lot sizes and single-family zoning often function as tools of segregation, denying lower-income city residents the benefits that come from living in economically integrated neighborhoods. In at least a few places, in short, upzoning is becoming a social justice issue.

Yet for now, YIMBYs exercise more power over the imagination of journalists than they do over the actions of elected officials. As a result, advocates of increased housing production are pursuing another approach -- moving responsibility for development decisions away from neighborhoods and localities and toward state authorities. The model is legislation, Chapter 40B, that was enacted by Massachusetts in 1969 and is still in effect. It gives builders who propose developments that include affordable housing units (25 percent of units for home ownership projects, 20 percent for rentals) access to a fast-track approval process. It also directs localities to develop plans to ensure that at least 10 percent of new housing is affordable. In towns that fall short, developers who include affordable units in their plans can appeal local zoning board rejections to the state.

By most accounts, 40B has been very successful, facilitating the construction of an estimated 60,000 affordable units over the course of the law's history. Another dozen states have laws with similar, though usually weaker, provisions. However, enacting new laws modeled on 40B is challenging, even in progressive states. In California, opponents of new multifamily housing have used the California Environmental Review Quality Act to delay and disrupt new housing projects. A major initiative proposed in 2016 by Gov. Jerry Brown, known as "streamlined affordable housing approval," would have limited local zoning boards' ability to approve or reject new projects that included affordable housing. Instead, developers would have been given approval "by right." Environmental reviews would no longer have been required for such projects. Brown's proposal quickly ran into a buzz saw of opposition, and the idea died in committee. This year, Brown declined to request an increase in funds for affordable housing.

"The governor was saying, if you [the legislature] want more money for affordable housing, then you need to do something about the regulatory environment," explains Carol Galante, who heads the University of California, Berkeley's Terner Center for Housing Innovation. Legislators have responded with more than 300 proposals to date.

Meanwhile, many localities with rising rents have focused on a different intervention -- inclusionary zoning. There are several varieties. Voluntary inclusionary zoning programs typically offer developers the incentive of greater density in exchange for including affordable units. Then there is mandatory inclusionary zoning. Montgomery County, Md., was the trailblazer in this area. In 1974, county council members enacted a law that required developers to set aside 12.5 percent of the units in new developments for low- to moderate-income residents.

Economists don't tend to like inclusionary zoning requirements. Most see them as a tax on housing production. That hasn't stopped an increasing number of cities from instituting new mandatory zoning requirements. Since 1992, San Francisco has required developers to set aside 12 percent of units in new market-rate developments for affordable housing or make an offsetting payment to the city's housing trust fund. That approach kept the trust fund well-stocked, but produced very little affordable housing. Other cities had a similar experience.

Last summer, however, San Francisco voters decided more needed to be done. The result was Prop. C, which increased the set-aside percentage for buildings with more than 25 units to 25 percent, the highest in the country. Voters overwhelmingly approved the initiative, despite credible warnings that the requirement could reduce overall levels of construction if not lowered. In December, Portland, Ore., followed suit (although its set-aside mandate was slightly lower -- 20 percent for large projects). Seattle is currently moving forward with a mandatory inclusionary zoning requirement as well.

Some economists see a kind of cynical logic to this decision. “Politically I can make a really good argument that is the smart thing to do,” says Joe Cortright, an economist who publishes the City Observatory website. “Make homeowners happy, maintain their values by not doing anything significant to expand the supply, then I as an elected official can turn around and say, ‘We are going to have inclusionary zoning,’ and I try to keep a few affordable housing units loose that I can then allocate through a show lottery.”

To expect inclusionary zoning to reduce housing prices is “completely misguided,” says economist Vigdor. “A few dozen units here and there is like putting a Band-Aid on an amputated leg.”

Many planning departments disagree with this harsh assessment of mandatory inclusionary zoning. They see it as a useful element of a broader strategy. “It is has been extremely effective,” says Gwen Wright, who heads Montgomery County’s planning department. “From 1976, which is the time the program started, to 2016,” she says, “there have been an average of 373 MPDUs -- moderately priced dwelling units -- produced every year. We have literally produced thousands of MPDUs over the course of the program.”

Economist Lisa Sturtevant echoes Wright’s view that inclusionary zoning requirements can generate significant amounts of affordable housing -- if the requirements are not set at a level so high as to discourage market-rate development. That is not always easy to determine. “Inclusionary zoning works best in markets where there is a strong demand for market-rate housing,” she says. She questions its value in more economically troubled communities. “It feels to me like these places are going down the wrong path,” says Sturtevant. “They have a chance to buy land cheaply, set up some community land trusts and be thoughtful about where they can be proactive, not just jump into inclusionary zoning, which could become a tax on market-rate development.”

Instead of battling NIMBYs -- or those who favor “not in my backyard” policies -- in single-family neighborhoods or implementing potentially damaging mandatory inclusionary zoning requirements, Cortright suggests city officials consider other options. One is to target underutilized commercial land. In Portland, the largest new developments have gone into previously underused areas such as the Pearl District and the South Waterfront area. “Both of those neighborhoods are former industrial areas, so politically there was not the neighborhood reaction to deal with,” he says. “If you built four- and five-story buildings on 2 percent of the land in Seattle, you could dramatically increase the housing supply.”

But perhaps the most intriguing new idea is to think about affordability much more broadly. That’s the approach touted by Scott Bernstein, who heads the Center for Neighborhood Technology in Chicago. “We have a national discussion about income,” Bernstein says, pointing to the proliferation of “living wage” ordinances and the debate around them. “We don’t have a national discussion about the cost of living.”

In Bernstein’s view, true affordability involves much more than the price of shelter. It includes, most important, transportation. In most cities, the affordable housing strategy most homeowners and renters use is basically “drive until you qualify.” Housing prices drop as distance from the city increases. As a result, homeowners and renters keep moving further out until they find a place where they afford to live. Unfortunately, they nearly always underestimate the cost of transportation. “Very low-income people can easily spend 80 percent of their incomes on the combined cost of housing and transportation,” Bernstein says. “Even moderate-income people who are stuck with no mass transit can end up spending as much on transportation as on housing.”

That can quickly become a big problem. Bernstein would like to see government provide housing consumers with more accurate information, much as it does in estimating the mileage of a new car. He’d also like to see local government do more to encourage the development of new housing closer to jobs.

Bernstein’s ideas are beginning to gain some traction among economists and students of the housing problem in general. “If you don’t put economical rental units near jobs, you automatically build in another $3,000 a year, give or take, for the commute,” agrees AEI’s Pinto. For a working-class person, “that’s a huge amount. If you could eliminate that cost, you’d go a long way toward solving the problem.”