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

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Executive Summary

Efforts to provide affordable housing are occurring at a time of great change. The responsibilities for implementing affordable housing are increasingly shifting to state and local actors. The market and demographic changes in the country are complicating the picture, as sprawling jobs-housing patterns and downtown revivals in some places are creating demand for affordable housing for working families and immigrants in both cities and suburbs. To help state and local leaders design fresh solutions to today's affordable housing challenges, The Brookings Institution Center on Urban and Metropolitan Policy and the Urban Institute joined forces to examine the lessons of seven decades of major policy approaches and what these lessons mean for local reforms. This executive summary of the full report, funded by the John S. and James L. Knight Foundation, finds that past and current efforts to expand rental housing assistance, promote homeownership, and increase affordable housing through land use regulations have been uneven in their effectiveness in promoting stable families and healthy communities. The findings suggest guiding principles for local action, with important cautions to avoid pitfalls.

Across the nation, state and local government leaders and their partners—in the corporate, civic, real estate, and nonprofit communities—are struggling to identify effective ways to provide affordable housing and homeownership opportunities for families and individuals at the bottom of the economic ladder. The federal government's role in housing policy is shrinking, shifting more responsibility onto the shoulders of state and local actors. And despite the economic boom and significant innovations in community development that occurred during the 1990s, the affordable housing crisis intensified in most parts of the country. The challenges facing state and local policymakers are further complicated by the suburbanization of jobs, changes in household composition and housing needs, and the growing diversity of our nation's population. And although every community faces serious housing affordability problems, variations across the country in the existing housing stock, population growth and demographic trends, and economic vitality create stark differences in housing conditions and trends, calling for unique, locally crafted responses.

Purpose and Approach

Drawing on lessons from seven decades of housing policy and practice, this report aims to help state and local leaders take on the realities of today's affordable housing challenge. It examines three broad approaches to affordable housing—rental assistance, homeownership assistance, and regulatory policies—and assesses the effectiveness of each in addressing seven goals for affordable housing:

1. Preserve and expand the supply of good-quality housing units.
2. Make existing housing more affordable and more readily available.
3. Promote racial and economic diversity in residential neighborhoods.
4. Help households build wealth.
5. Strengthen families.
6. Link housing with essential supportive services.
7. Promote balanced metropolitan growth.

Often, the success of affordable housing programs is determined by the extent to which it achieves a narrow set of objectives, such as the number of new units created or the number of households with affordable housing cost burdens. Although important, these narrow criteria do not reflect the array of demands currently being placed on affordable housing programs. Today, affordable housing policies must help promote healthy families and communities. These seven goals thus provide a more comprehensive framework by which state and local leaders should evaluate the effectiveness of past and future affordable housing programs. Although not all housing programs can meet all seven housing objectives simultaneously, this list enables state and local leaders to better align the community outcomes they want to achieve with the housing policy approaches they adopt.

Summary of Findings and Implications for Local Housing Strategies

Although there are serious gaps in the housing research literature, evidence on the experience of the past has a lot to offer today's policymakers and practitioners. The accompanying matrix provides an overview of our key findings on the effectiveness of federal housing programs in meeting the seven policy goals.

The following synthesizes the most relevant implications of these findings for local leaders.

1. Rental assistance programs require deep subsidies if they are to reach the neediest households; moreover, to be successful, rental assistance programs should avoid clustering affordable housing in low-income neighborhoods and include efforts to raise the incomes of low-income households.

Rental assistance programs—including both subsidized housing production and demand-side assistance (such as vouchers)—clearly play a central role in any housing strategy. However, the effectiveness of rental housing programs is not guaranteed; if poorly targeted or ineffectively implemented, they can actually work against the goals of an effective housing policy. Decisions at the federal level largely determine the resources available for rental housing assistance and set the broad parameters within which state and local actors operate. Some state and local governments allocate their own funds to rental housing assistance, but federal programs constitute by far the lion's share of resources available and in communities all across the country, these resources fall short of meeting needs.

Affordability is the central challenge for rental-assistance policy. This means that building more rental units is not necessarily the solution to the housing problems facing low-income renters. Subsidizing the rents for existing units is much less costly than building new units, and can help stabilize a faltering housing market, enable low-income households to compete in a tight market, provide struggling landlords with sufficient rent revenues to maintain their prop-

Potential Effects of Housing Programs on Policy Goals

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

erties, and prevent rental units from deteriorating and dropping out of the housing stock. In some circumstances, subsidizing the production of new rental housing units makes sense. But without deep, long-term subsidies, new rental units will not necessarily be affordable for the households whose needs are most severe.

Location also plays a critical role in the effectiveness of rental-assistance programs. A growing body of research now indicates that living in a high-poverty neighborhood can undermine the well-being of families and children, and that affordable housing alone cannot revitalize a distressed neighborhood. Both supply-side and demand-side programs can potentially play a role in a local rental-assistance strategy that takes location seriously. Using production programs to expand the availability of affordable rental housing in healthy neighborhoods (where it is scarcest) promotes economic and racial diversity and broadens opportunities for low-income households to live in neighborhoods that offer safety, good schools, quality services, and access to employment opportunities. At the same time, vouchers and other demand-side programs can be used to supplement what poor households can afford to pay for market-rate housing in neighborhoods of their choice.

2. *Homeownership among underserved populations has increased, mostly through improved access to mortgage credit; efforts to further expand homeownership should proceed cautiously.*

The promotion of homeownership has been a major focus of American housing policy, and although these programs have the potential to yield considerable benefit, they also have serious shortcomings. Homeownership should be promoted with caution among underserved households despite the numerous potential benefits it offers them, because not every homeowner will see all the benefits of homeownership and some may even suffer as a result of making poor housing decisions.

Federal programs that expand the availability of mortgage credit and help families overcome barriers to home buying have done much more to advance homeownership among low- and moderate-income households than programs that expand the supply of affordable housing. In this regard, the literature suggests that the most successful initiatives promoting homeownership have been federal—rather than local—and mostly in the form of the pressure government has placed on lenders and secondary market institutions to meet the financing needs of historically underserved groups.

Just as in the context of rental housing programs, location plays a critical role in the effectiveness of homeownership programs. A home's location will determine whether or not a family sees its value appreciate, and whether children realize social benefits. And although homeownership promotion may play a role in a larger strategy for revitalizing distressed neighborhoods, it cannot be the only tool used. The promotion of homeownership in poor and distressed neighborhoods may not have the hoped-for revitalization and stabilization effects and may even prove costly to the families who purchase there.

Not all households will necessarily benefit from homeownership. Potential first-time home buyers need to be informed about the risks as well as the benefits associated with homeownership so that they can make better-informed housing choices. Clearly, there are those for whom homeownership is not a viable option, and for them, other housing choices should be available in the community, along with assistance in building their income and wealth to prepare for homeownership. And for those who are ready to buy a home, assistance should go beyond the home purchase itself, to ensure that new homeowners are able to keep up with their mortgages and remain in their homes.

3. *Land use and other regulatory policies can have profound effects on the location and supply of affordable housing.*

Regulatory policies are often neglected as potential tools for affordable housing policy, because they do not directly subsidize either housing units or households. But state and local regulations have a powerful role in shaping the housing market. Traditional, exclusionary land use and zoning policies—such as banning multifamily housing and zoning for large lots—and growth controls, which impose strict limits on housing supply without accommodating projected growth, can be big deterrents to building affordable housing, frequently excluding lower income and minority households.. On the flipside, inclusionary zoning programs and well-designed growth management policies, when enforced, can successfully expand the supply of affordable housing while keeping administrative costs low.

Regulatory tools can be of particular importance to localities because, unlike the other programmatic tools discussed in this report, the federal government plays only a limited role in the regulation of local housing markets. Thus, local policymakers enjoy a relative freedom from federal resource constraints and federal program rules and definitions (although they may have to abide by state laws or guidelines). The biggest constraint on the effective use of regulatory tools may actually be the fragmentation of authority among individual cities and counties. This fragmentation makes it difficult to craft regionwide strategies for expanding the availability of affordable housing, promoting racial and economic diversity, or promoting balanced growth.

Historically, local land use and development regulations have undermined the goals of affordable housing policy, whether intentionally or not. Getting rid of these exclusionary regulations works. Even in the absence of a comprehensive regional approach, eliminating (or moderating) regulatory barriers to affordable housing development can be effective. This does not mean that all regulations of land use and residential construction should be eliminated. Many regulations that raise the cost of housing development have legitimate goals, such as protecting health and safety or preserving farmland. Local governments need not abandon these goals, but they can and should reassess their regulatory policies to ensure that they allow for the development of more affordable rental and homeowner housing.

Although simply eliminating exclusionary regulations on a jurisdiction-by-jurisdiction basis can be effective, the most optimal efforts are those that are regional in nature. Well-designed regional growth management or land use strategies are those that use a mix of regulatory tools to increase the supply of affordable, multifamily housing and make way for higher densities, while also advancing other important metropolitan-wide goals, such as open space protection, transportation choice and central-city revitalization.

"Inclusionary zoning programs and well-designed growth management policies, when enforced, can expand the supply of affordable housing while keeping administrative costs low."

Principles for Local Action

State and local policymakers, as well as housing advocates, community-based organizations, and funders, can draw upon the evidence summarized in the matrix as they plan, implement, and evaluate their own solutions to the affordable housing challenges in their communities. But the lessons of the past also offer a set of principles to guide local housing policy in the decades that lie ahead. Some of these principles may seem obvious, but nonetheless are frequently ignored. Others run counter to conventional wisdom, but following them could avoid some of the more dismal failures for which conventional thinking is responsible.

1. Housing strategies should be tailored to local market conditions.

Housing needs and policy priorities differ from place to place, due to differences in housing market conditions, history, and political realities. Although this report focuses on a comprehensive set of affordable housing goals and the tools that can be used to achieve them, it does not make sense to implement the same strategy everywhere. In hot markets, where population is growing rapidly and housing is in short supply, producing new affordable units may be a top priority. But in markets where the overall demand for housing is weak and vacancy rates are high, new units may not be needed; instead, poor households may need assistance in paying for the housing that is already available. And just as cities and metropolitan areas differ, neighborhoods within a jurisdiction often have very different housing circumstances and needs. Thus, the best strategies are those that match local conditions (and political realities) and respond to community input and expectations.

2. *Housing markets are regional, so housing policies should be.*

While housing strategies must be tailored to local conditions, they should also be crafted with today's metropolitan realities in mind. The decentralization of both jobs and residents has been taking place over the past half century, but accelerated in the 1990s, solidifying the dominance of suburbs and reinforcing the link between city and suburban health in shaping growth and development patterns in a metropolitan area. Concerns over the fiscal, environmental, and socioeconomic consequences of sprawl and uneven growth patterns have sparked growing interest in metropolitan solutions. But for the most part, housing policy discussions remain strikingly local. In an era of population and employment decentralization, the metropolitan area—not the individual political jurisdiction—represents the appropriate level at which to think about and act on access to affordable housing. Enabling low-income families to live closer to employment centers (and stronger schools) in the regional economy not only will benefit those families and their children, but will also help reduce commute times, meet employer needs for workers, and ameliorate other negative consequences associated with current metropolitan growth patterns.

3. *Income policy IS housing policy.*

Most affordable housing strategies at the national and local levels are designed to expand the supply of affordable housing, with programs aimed to stimulate the construction, rehabilitation, and renovation of housing that is affordable to low- and moderate-income families. Production is a necessary component of a responsible affordable housing policy, but the lack of income remains the principal barrier to obtaining affordable housing. The U.S. Department of Housing and Urban Development's (HUD's) annual analysis of worst case housing needs generally finds that 80 percent of the problem is not housing inadequacy or overcrowding, but affordability. Thus, policies that help people increase their incomes will help address housing hardship as well.

State and local leaders are increasingly realizing that they can raise the incomes of working families by enhancing access to such federal investments as the earned income tax credit (EITC), nutrition assistance, health care, and child care. Some state and local groups have maximized the potential of the EITC by conducting outreach programs, providing support for free tax preparation services, and helping families use the credit as a gateway to financial services and savings. It is estimated that working families apply one third of their credits to housing needs. Other initiatives that help low-income families find and keep jobs, build skills, and advance economically should also be incorporated into strategies for making housing more affordable.

4. *Regulation can be a powerful housing policy tool.*

Often overlooked, state and local regulatory policies offer cost-effective opportunities to make private housing more available and affordable. Regulations such as zoning policies, land use restrictions, development fees, subdivision and design requirements, building codes, rent controls, and other regulations help determine whether and where different types of housing can be developed, how much it costs, and how it is maintained.

The traditional approach to land use and development regulation has resulted in policies that explicitly or implicitly limit or prevent the development of affordable housing in a jurisdiction, through restrictive policies like outright bans on multifamily housing or through requirements for large lot sizes, houses set back from the street, and wide sidewalks. While some of these regulations are valuable in meeting other goals, others can be detrimental and, when eliminated, have proven to open doors to more affordable rental and owner-occupied housing. Moreover, regulatory strategies like inclusionary zoning and thoughtful growth management policies can create powerful incentives for private developers to produce more affordable housing where it is needed most.

5. *Race matters.*

Historically, federal affordable housing policies—including Federal Housing Administration homeownership programs and public housing—have contributed to the residential segregation of our communities. More recently, these programs have made some progress in reversing the isolation of poor and minority residents from neighborhoods of opportunity, but the long-established patterns of segregation persist. Most communities in the United States remain profoundly racially segregated. The 2000 census confirms that nationwide, the residential segregation of blacks from whites remains extreme (declining only slightly over the past two decades); segregation levels for Hispanics and Asians, though lower, are on the rise in many metropolitan areas.

Local policymakers may hope to design and implement "color-blind" housing policies, but if the realities of segregation and ethnic inequalities are ignored, these policies are unlikely to work as intended. For example, a homeownership assistance program may not lead to wealth accumulation for minority households if segregation and discrimination limit their housing options to minority neighborhoods where values are not appreciating. Vouchers fail to give low-income families real choices about where to live if they are excluded from neighborhoods beyond the central city. And the successful revitalization of an inner-city neighborhood may lead to displacement of minority households if no efforts are made to resolve conflicts between groups and to actively promote diversity.

6. *Implementation matters.*

Even the best housing strategy will fail to accomplish its goals if it is not effectively implemented. The history of housing policy in the United States is replete with examples of well-intentioned programs that produced harmful outcomes because of poor administration. Before launching new programs, policymakers should critically assess the implementing organizations' operational capacity and ability to build effective partnerships: Do they have sufficient staff and resources? Do they have the skills and experience needed to fulfill their new responsibilities effectively? Is the program designed to provide incentives for effective administrative performance? Sometimes, strengthening organizational capacity can be the most effective intervention to improve policy outcomes. Also, partnerships between organizations with complementary strengths can result in effective program implementation although successful, sustained partnerships also require time and resources.

Implementation agencies must also be held accountable for performance. Clearly defined performance measures and systematic performance monitoring can strengthen implementation. Also, local policymakers can hold agencies accountable by requiring that performance data be collected and published on a regular basis, which creates strong incentives for effective performance. Communities can also enter into performance-based contracts with public agencies, private companies, and/or nonprofit organizations, through which payments, bonuses, and or contract duration are all explicitly tied to the achievement of measurable performance targets.

Conclusion

After decades of federal housing initiatives that were designed by Washington and administered by HUD or its predecessors, a palpable shift toward state and local control has dominated U.S. thinking about affordable housing policy. For more than a decade, federal policymakers have essentially devolved responsibility for the design and implementation of affordable housing initiatives to the state and local level. Across the nation, state and local government leaders are struggling to use the limited resources available to them in communities that differ significantly in their market conditions, residential patterns, regulatory regimes, and local goals.

Despite the changes occurring in housing policy and programs, and the new challenges posed by today's economic and demographic trends, the experience of past housing programs has a lot to teach us. As the devolution of housing policies continues to unfold, there is great potential for state and local leaders to build upon the experience of the past while bringing fresh thinking to a new generation of approaches that respond to the diverse needs of our communities and further informs the evolving federal role in housing.

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IV. LAND USE AND REGULATIONS

State and local regulatory policies can profoundly affect the availability and cost of affordable housing. Most states delegate the authority to regulate the private housing market to local governments, which then establish and enforce zoning policies, land use restrictions, development fees, subdivision and design requirements, building codes, rent controls, and other regulations that reflect local priorities and objectives. Taken together, these regulations help determine whether and where different types of housing can be developed, how much it costs, and even how it is maintained.

In general, local zoning, land use, and building regulations have not had as their primary purpose the promotion of affordable housing. In fact, many local regulatory regimes have been designed to *exclude* lower-cost housing and its residents, so as to maximize local property values (Choppin 1994; Pendall 2000). In response to a survey (Lowry and Ferguson 1992), most local planning officials cited prevention of overload on utilities and school systems and "maintaining local atmosphere" as their top priorities. Among the least likely reasons given for regulating development was "maintaining or increasing the amount of affordable housing."

Although regulatory issues are often overlooked in discussions of affordable housing policy, their potential impact may be even greater than that of conventional housing assistance programs because they influence the location, characteristics, and costs of housing in the private market (Nelson et al. 2002). Some widely used subdivision requirements, traditional zoning provisions, and building codes create barriers to the production of affordable housing or simply raise the cost of all construction. Removing or reducing these barriers can make a big difference. But in addition, some communities have developed regulatory provisions that actually promote or encourage the production of affordable housing. And several states have used their authority over local land use and building regulation to encourage affordable housing development across jurisdictions. In recognition of the important role of regulations, even HUD recently created a Regulatory Barriers Clearinghouse (www.regbarriers.org) to help state and local actors inventory the array of regulatory policies that may affect the quality, price, location, and supply of affordable rental and ownership housing.

This chapter provides a brief overview of state and local regulation of housing development, including the evolution of regulatory tools for addressing local and regional housing needs. The chapter then reviews the available evidence about the effectiveness of these tools for advancing the goals of an affordable housing strategy.

A. State and Local Regulation of Private Housing Markets

Historically, local land use and development regulations have explicitly or implicitly limited or prevented the development of affordable housing—especially in suburban jurisdictions. Local land use regulations were originally established by landowners and municipalities to keep out unwanted uses, preserve property values, and separate people of different races and income levels. For instance, early zoning ordinances in the South were explicitly designed to separate black and white residents. Although they were ruled unconstitutional in 1917 (*Buchanan v. Warley*, 245 U.S. 60), local governments continued to adopt racial ordinances for another ten years. Land developers and homeowners then turned to private deed restrictions and covenants as tools to keep out minorities, but in 1948, the Supreme Court rejected racially restrictive covenants as unenforceable (*Shelley v. Kraemer*, 334 U.S. 1) (Nelson et al. 2002).

While land use and zoning regulations no longer directly create and maintain racial and economic segregation, many still indirectly (and sometimes intentionally) have this result. As summarized recently by Nelson et al., land use regulations "work indirectly by shaping local housing markets, encouraging or prohibiting the construction of certain types of housing, and thereby conditioning the tenure (rent versus own) and price of housing." (Nelson et al. 2002).

For instance, subdivision regulations that mandate large lot sizes and costly amenities, zoning provisions that limit areas where multifamily housing can be developed, building codes that require costly materials or construction techniques, and development fees imposed to help pay for new infrastructure all discourage the production of housing that is affordable for low- and moderate-income households (Lowry and Ferguson 1992).

Some jurisdictions have practiced "exclusionary zoning" by preventing affordable housing construction through restrictive policies like outright bans on multifamily housing (Jackson 2000). These policies are usually justified as promoting community amenities, quality of life, safety, and property values, but often they also reflect residents' fears of crime or lower property values, which they associate with economic or racial integration. Local policymakers may assume that residents of affordable housing will demand expensive social services and cause a strain on local budgets, or policymakers may simply favor higher-end residential or commercial development for the high property tax revenues they yield (Choppin 1994). Local opposition to affordable housing development is often called "NIMBYism," an acronym for "Not In My Back Yard" (U.S. Department of Housing and Urban Development 1991a). NIMBYism is frequently a major driver for exclusionary zoning.

The most blatant exclusionary practices are "large-lot zoning, inadequate provision in the zoning code for affordable housing types, large lot width and setback requirements for subdivisions, and high impact fees" (Choppin 1994). Other practices include minimum house size requirements, prohibition of multifamily housing, and prohibition of mobile homes. Local zoning regulations that restrict medium-density, walk-up multifamily housing, for instance, can also severely limit affordable housing development. Requirements for design features such as side yards and large lots can also add greatly to housing development costs (Lowry and Ferguson 1992). Arguably, the most famous court case with regard to exclusionary zoning policies was decided in 1975. In that case, the New Jersey Supreme Court declared that the township of Mount Laurel's zoning laws were unconstitutional because they precluded the opportunity for construction of affordable units. The ruling stunned local government officials who, until then, considered exclusionary zoning to be their "natural prerogative" (*Harvard Law Review* 2003).

Other state and local regulatory policies that aim to control, limit, or ration development can have significant effects on the supply of affordable housing in a region. Such policies include building moratoria, permitting caps, and development quotas. If these growth control policies are formulated without considering affordable housing needs, they may have a negative impact on the availability of affordable housing (Downs 2000b). Also, in some cases, local governments have used growth controls such as building moratoria as a "stealth" way to prevent development of affordable housing (Choppin 1994).

Distinguished from growth control policies are policies designed to manage metropolitan growth. The distinction is important. Growth *control* policies are designed to limit the growth of the housing stock; growth *management* policies accommodate projected development. The goals of growth management are to: preserve public goods, minimize negative externalities, minimize public fiscal impact, maximize social equity, and elevate quality of life. These goals are consistent with, and often explicitly include, expansion of the supply and accessibility of affordable housing. Nelson et al. (2002) has developed the most comprehensive and complete review of the literature on the link between growth management and housing affordability. The authors conclude that growth management programs usually focus on increasing densities, mixing housing types, and promoting regional fair share housing.

Exclusionary zoning has come under attack from many fronts. Conservatives argue that the practice constitutes unnecessary regulation and prevents the market from meeting demand for affordable housing. More liberal voices contend that it undermines principles of social equity, as well as broader regional housing needs, in favor of narrow local interests. In particular, the fragmentation of regulatory authority among individual jurisdictions in a metropolitan area undermines regionwide efforts to effectively manage growth, make housing affordable, and promote racial and economic diversity.

Remedies to the exclusionary effects of traditional regulatory regimes can take three basic forms: 1) reform of zoning requirements, subdivision regulations, and building codes to eliminate exclusionary provisions; 2) adoption of explicitly "inclusionary" zoning and land development regulations; and 3) statewide efforts to rein in local exclusionary practices and promote regional strategies for meeting affordable housing needs. Each of these approaches is discussed in turn below. In addition, we describe a fourth regulatory strategy for making housing affordable—the imposition of rent controls on existing, private-market housing.

1. Regulatory reform.

An obvious first step in aligning regulatory policies with affordable housing goals is to correct regulations or requirements that explicitly exclude affordable housing types or that unnecessarily raise the cost of construction. For example, zoning laws can be reformed to allow for garage apartments and other kinds of secondary units, to permit higher-density residential development, and to encourage a mix of housing densities and types in new subdivisions through Planned Unit Development or cluster zoning provisions (HUD 1991a). Building codes can be modified or made more flexible to eliminate unnecessarily costly requirements (Belsky and Lambert 2001). Subdivision regulations can be reformed by reducing required street widths and other unnecessary infrastructure requirements, and by streamlining approval processes to make the development process less time-consuming and costly (HUD 1991a). Finally, local governments that impose impact fees and other infrastructure requirements can waive or reduce those fees for affordable housing developments to make them financially feasible.

2. Inclusionary zoning.

States, regions, and local governments have employed "inclusionary zoning" and other regulatory reforms aimed at increasing the number of affordable units—for both ownership and rental—especially in areas where they are traditionally scarce (such as more affluent suburbs). Using a combination of mandates and incentives, inclusionary zoning can help compensate for past local exclusionary practices or can balance the effects of growth controls and other regulatory policies that may indirectly limit affordable development (Downs 1999).

Among the most frequently used tools of inclusionary zoning are "developer set-asides." These programs require developers to make a certain percentage of units in a new residential development affordable and available to low- and moderate-income households. Set-aside programs may be voluntary or mandatory. They generally provide some form of developer incentives, such as "density bonuses," which permit more units to be built than otherwise would be allowed under conventional zoning. Such incentives may also reduce impact fees, thereby cutting development costs. Some jurisdictions allow developers to build affordable housing off site or contribute cash to an affordable housing fund in lieu of including affordable units in the new development. In some set-aside programs, county or local housing authorities and nonprofit organizations buy a percentage of the affordable units and operate them as a sort of scattered-site public housing program (Brown 2001). For example, Montgomery County, MD, an affluent suburb in the Washington, D.C. metropolitan area, has for decades required that all new housing developments larger than 50 units include 12.5 percent to 15 percent of units to be affordable for households at or below the county's median income. Over 25 years, this requirement has resulted in the production of 10,600 affordable housing units, integrated throughout more affluent communities. In addition, the county's public housing authority retains the right to purchase some of these "inclusionary" units so that they can be made affordable for the poorest households (Brown 2001).

In addition to developer set-asides, some communities have used "development allocation plans" to explicitly include affordable housing. Development allocation plans enable jurisdictions with strict growth controls to authorize at least some affordable units. For example, Thousand Oaks, CA, evaluates development proposals using a point system that favors projects including affordable housing (Landis 1992). The city of Davis, CA, limits residential construction to an average of 500 units annually over a period of 20 years, holding "what one developer described as a beauty contest to award permits on the basis of developers' proposals, considering...inclusion of affordable housing" as one of the factors for awarding a permit (Lowry and Ferguson 1992). A system based on development agreements, on the other hand, does not have a structured point system for allocating permits but allows different interests (local residents, developers, planners, and environmental advocates, for example) to enter a structured negotiation about the amount, types, and location of residential development to be permitted locally (White 1992).

3. Statewide strategies.

Although land use and building regulations are typically enacted and implemented by towns, cities, and counties, their authority to do so comes from the state. State legislation sets the framework for local planning and development regulation. In recent years, some states have begun exercising more oversight of local regulatory policies in order to promote affordable housing and encourage more regional coordination. The strongest state systems view affordable housing as a foundation for community growth, and require localities to explicitly assess their housing needs and to create an institutional framework within which residents, advocates, and planners can meet to discuss these needs. California, New Jersey, Oregon, and Connecticut provide examples of four different state approaches:

- California requires its municipal and county governments to adopt housing elements in their mandatory general plans; the state's laws on the contents of the housing strategies are among the most prescriptive of any of its laws on planning. Among other things, each local government must develop plans and programs, and identify sites, to accommodate a "fair share" of its region's new growth of all kinds of housing, affordable and market-rate housing alike. The state Department of Housing and Community Development reviews these elements, which must be revised every five years, for their consistency with state law. Penalties for noncompliance, however, are weak (Calavita, Grimes, and Mallach 1997).

- New Jersey also has a procedure through which local governments submit housing elements to a state agency, the Council on Affordable Housing (COAH), which also determines municipalities' fair share targets, but only for affordable housing. The New Jersey housing element process has much different roots from California's, however; it was established in response to the *Mount Laurel* court decision that allowed builders of market-rate housing to file suit against exclusionary suburbs and to build large developments that incorporated affordable housing. Jurisdictions with COAH-approved housing elements are immune from these "builders' remedy" lawsuits (Calavita, Grimes, and Mallach 1997).

- Oregon's well-known state growth management system—dating from 1973—has goals for urbanization and housing that each local government must meet in its comprehensive plan. In the Portland region, these goals have been embodied in the Metropolitan Housing Rule (adopted in 1981), which requires local governments to demonstrate that their zoning can accommodate an even mix of single-family and multifamily housing. The state's planning process also works more generally to ensure an adequate supply of sites for housing, although there is substantial dispute over how effectively it does so. Oregon's planning system has historically been weaker for truly affordable housing, however, and Metropolitan Portland recently developed a fair share plan to ensure that all jurisdictions plan not just for density but also for affordability (Toulan 1994).

- Connecticut has experimented with a regional negotiation process, which is weaker because participation is voluntary for local governments. Individual jurisdictions in two metropolitan areas entered into a structured negotiation process to decide how to address regional housing needs. The conditions and terms of the regional negotiations were prescribed by the enabling legislation; each local government in a metro region sent one representative to the bargaining table. All decisions about regionwide zoning and regulatory reform had to be approved by a two-thirds majority, and an outside mediator facilitated the negotiations. This process produced regional affordable housing and zoning reform strategies within a short time period (Wheeler 1993).

Other states have taken a more reactive approach, allowing local governments to plan and regulate housing development as they choose, while providing special appeals mechanisms to override exclusionary behavior. To illustrate, Massachusetts enacted an "Anti-Snob Zoning" law in 1969 that provides a consolidated permit application and hearing process for developers. It also provides a state zoning appeals system that strongly favors developers over local zoning boards. For a local planning board to block a development project with an affordable set-aside, it must prove that other local considerations—environmental, open space, or safety, for example—outweigh the regional housing need. The state Housing Appeals Committee presumes that local affordable housing needs outweigh other local planning considerations in most cases. An executive order related to the legislation gives state agencies the authority to withhold financial assistance for development from communities that continue exclusionary practices (Stockman 1992).

4. Rent controls.

Although zoning, land use, and building codes are the most widely used tools for regulating the private housing market, some states also authorize local jurisdictions to regulate rent levels for existing housing. Rent control is most commonly imposed in high-cost housing markets in urban areas and covers an estimated 10 percent of existing rental units nationwide (HUD 1991b). Rent control programs vary considerably across municipalities. Although some of the earliest rent control programs (implemented during World War II) imposed absolute caps on rent levels, most existing programs are "second generation" rent control regimes, which allow for annual rent increases based on increases in operating costs. Typically, these programs also allow for rent increases when a landlord makes significant improvements to the building and "hardship increases" for landlords who are not earning a fair return on their investment. Many modern rent control programs also exempt new rental housing construction or luxury housing (Keating 1998).

B. Performance of Regulatory and Governance Tools

Because they govern the development and operation of the private housing market, state and local regulatory tools have a potentially far-reaching impact on housing outcomes. Research on the effects of various regulatory tools suggests that they can influence the overall supply of affordable housing as well as the geographic distribution of different housing types. The remainder of this section reviews evidence about the effectiveness of regulatory tools in advancing each of the seven housing policy objectives.

1. Preserve and expand the supply of good-quality housing units.

As already discussed, many widely used zoning, subdivision, and building codes create barriers to the production of low- and moderate-cost housing or add unnecessarily to the costs of housing development. Regulatory reforms that eliminate (or moderate) these barriers represent an important first step in expanding the production of affordable housing.

However, some states and localities have implemented more proactive regulatory strategies. Recent research has addressed two major questions about the potential impacts of these strategies on housing production. First, several studies have assessed the effectiveness of various inclusionary zoning provisions (particularly set-asides), generally concluding that these programs provide an effective and low-cost way for local governments to encourage affordable housing production. A second set of studies has focused on the impacts of growth management and other antisprawl strategies to determine whether they restrict the production of affordable housing. These studies conclude that even areas with strict growth management can continue to produce affordable housing if controls are designed and implemented intelligently.

Inclusionary zoning programs have been found to constitute an important source of affordable housing production in the jurisdictions where they exist. For example, in Montgomery County, MD, inclusionary zoning accounted for half of the suburban county's newly created affordable units since the programs' inception in 1974, adding more units than the Low-Income Housing Tax Credit and Section 8 project-based programs combined (Brown 2001). Administrative costs are minimal; the onus is on developers, not governments, to build and sell the units (and maintain them, if they are rental units). Developers or residents of market-rate units in the developments generally absorb any extra costs of building the affordable units (Calavita and Grimes 1998; Cowan 2001). Research shows that affordable units can be incorporated into a larger development through inclusionary zoning policies with little or no effect on the economies of the development as a whole (Mallach 1984). Set-aside programs can also save public funds by reducing the need for government housing subsidies. In Massachusetts, Rhode Island, and Connecticut, government subsidies decreased in areas that adopted set-aside programs (Cowan 2001).

Some set-aside programs have been criticized for failing to fully address local shortages of affordable housing. For example, Goetz (2000) argues that the Twin Cities Livable Communities Act did not set its production targets high enough to increase the relative availability of affordable housing in the Twin Cities region. As a result, he suggests that there was actually less affordable housing construction in most parts of the Twin Cities area than there would have been under the status quo. In addition, inclusionary zoning does not necessarily produce housing that is affordable over the long term. Although some set-aside programs impose caps on home sales prices for a number of years, these time limits eventually expire and jurisdictions lose affordable units (Brown 2001).

Housing market conditions can greatly affect the ability of inclusionary zoning programs to produce units (Philip B. Herr and Associates 2000; Burchell and Galley 2000). In periods of rapid population growth and in areas with a lot of new residential development, set-asides can produce large numbers of new affordable units. However, in areas where the supply of undeveloped land is great or in periods when little new housing is being produced, these programs have little impact (Choppin 1994). A strong housing market may be necessary to make affordable construction financially feasible for developers (Burchell and Galley 2000). For example, developers' use of California's inclusionary zoning provisions declined during the early 1990s as a result of land values being driven down by recession (Calavita, Grimes, and Mallach 1997).

Not all inclusionary zoning programs offer sufficient incentives to entice developers to include affordable units in their projects. For example, a survey of developers in California indicated that they "...were not much interested in density bonuses that limited the prices they could charge for their dwellings...(and that) financial incentives did not loom large in the developers' perceptions," particularly incentives designed to encourage residential development for families with low to moderate incomes (Choppin 1994). In general, mandatory set-asides appear to be more effective than voluntary programs that depend on incentives to induce developer participation (Philip B. Herr and Associates 2000).

Although much of the research on housing-market regulation and housing production focuses on inclusionary zoning practices, which are intended to promote affordable housing, other research has focused on the impacts of growth management programs, such as urban growth boundaries,[39] and their potential to restrict housing production. Recent research on Portland, OR (arguably the most frequently cited example of an urban growth boundary) finds no significant relationship between regional housing prices and the existence of the boundary (Downs 2002; Phillips and Goodstein 2000). This research focuses on house prices generally, not specifically on affordable housing production, but Nelson (2002) points out that a key element of the Portland area's growth management strategy is to explicitly and creatively increase the type and amount of housing

[39] Urban growth boundaries (UGBs) and more general urban containment policies are designed to promote infill and redevelopment programs while preserving open space, agricultural land, and environmentally sensitive areas. They are commonly considered to be programs that discourage development outside of a metropolitan boundary while promoting development within it (Nelson and Duncan 1995).

provided in the region, which is meant to ensure that as land supply is constrained, the supply of housing is not.

Portland's policies are decidedly anti-exclusionary (as opposed to being specifically inclusionary) in that they promote a range of housing types spread throughout the metropolitan area. For example, Portland encourages housing units created out of existing buildings as well as lofts and other housing types that many localities restrict. In connection with regional and statewide growth management, Oregon's metropolitan housing rule is intended to address socioeconomic concerns in conjunction with growth management (Toulan 1994). In the Portland region, the rule requires every suburban city and county to adopt plans that set minimum housing densities and allow for at least 50 percent of new housing to be multifamily or attached single-family units (Span 2001). The result is that moderate- and low-income families are not necessarily restricted to the most distressed suburbs to find housing (Connerly and Smith 1996). The Portland Metropolitan Government adopted a Regional Affordable Housing Strategy in 2001. This program requires each part of the metro region to provide a fair share of affordable housing needs, determined on the basis of 5- and 20-year population predictions (Canada Mortgage and Housing Corporation 2001).

The potential negative effects of growth control strategies such as building permit caps and building permit moratoria, on the other hand, may be significant. Particularly if growth controls are implemented in conjunction with other exclusionary regulations, they can reduce the overall volume of housing production in a jurisdiction and increase the cost of housing significantly. And by limiting the amount of new housing that can be produced, growth control measures may cause gentrification and displacement (Pendall 2000). However, research shows that even areas with strict development and growth controls can enjoy a continued supply of new affordable units, if policies that promote affordable development are incorporated (Nelson et al. 2002).

While rent control is primarily intended to regulate the costs of rental housing, some forms of rent control discourage the production of new units, because limits on rent increases are expected to reduce the return on investment. Even in cities where new units are not covered by rent control, developers and investors may be wary of future regulation and invest elsewhere. In Los Angeles, Teitz (1998) found both an absolute and a relative drop in multifamily housing production during the initial years of the city's rent control ordinance. Other cases present contradictory evidence. However, Goetz (1995) analyzed trends in San Francisco's rental market and found that rent increases accelerated and the production of multifamily housing increased following the adoption of rent control. Similarly, Turner (1998) found an increase in multifamily housing production following the implementation of rent control in Washington, D.C.

2. Make housing more affordable and more readily available.

Despite the advantages of inclusionary zoning programs, they generally do not produce housing units that are affordable for the poorest households (with incomes at or below 50 percent of area medians). And relatively few set-aside programs produce rental housing units. Instead, the main beneficiaries of these programs are moderate-income families who are able to purchase homes. For example, most of the units produced in New Jersey since the Mt. Laurel decision have been targeted to home buyers making at least 50 percent of the area median income (Calavita, Grimes, and Mallach 1997). Without additional subsidies, inclusionary zoning alone probably cannot be expected to produce rental housing units that are affordable for the poorest households. Nonetheless, set-aside programs and other inclusionary zoning strategies can help reduce production costs and moderate market pressures (Choppin 1994). And as discussed earlier, they can be linked to other subsidy programs that supplement what the poorest households can afford to pay for housing. Montgomery County's inclusionary zoning program explicitly requires that some affordable units be purchased by the local public housing authority and set aside for occupancy by very low income households.

While zoning, subdivision, and building codes all have the potential to shape the production of new housing units, rent control is intended to make existing housing more affordable, primarily by moderating rent increases in volatile markets. Research on the impacts of rent control indicates that it does result in lower rent levels than would prevail in an unregulated market. However, rent control is often characterized as an inefficient affordability mechanism because it reduces housing costs for middle- and upper-income households as well as for the poor. In addition, some evidence suggests that rent control may discourage private investment in rental housing, undermining both the size and the condition of the stock.

Rent controls promote housing affordability by regulating annual rent increases. A study of rent control in Los Angeles found that the program has kept housing costs in the affordable range for 12,000 to 25,000 households that would otherwise be paying unaffordable rent burdens (City of Los Angeles 1985). Levine, Grigsby, and Heskin (1990) found that in Santa Monica, those paying the highest share of income for rent experienced a significant reduction in shelter cost as a result of rent control.

Rent control also smoothes out fluctuations in the rental market. Limits on rent increases prevent displacement that might result under volatile economic conditions. Nash and Skaburskis (1998) compared rent levels in Toronto, which has rent control, with Vancouver, BC, which is uncontrolled. Over the long term, rents in the two cities were similar. The authors found that rent control stabilized rents and smoothed the fluctuations in Toronto's rental market. Furthermore, rent control reduces uncertainty about future rent increases. In a study of rent control in Washington, D.C., Turner (1998) found that rent control provided residents the security to stay in their apartments if they wanted to.

One of the major criticisms of rent control is that its benefits are not necessarily targeted to those with the greatest need. Most rent control regimes enforce some form of vacancy decontrol, under which the landlord can raise rents to "market" rates when a unit is vacated and a new household moves in. As a result, those who benefit most from rent control are those who stay in their apartments the longest, and households that move frequently may actually pay higher rents than they would in an unregulated market. Although a significant portion of long-term renters are low-income households, middle- and upper-income households also benefit if they stay in their apartments. Some needy households get no benefit if they are frequent movers or recent arrivals.

The rent savings generated by rent control are not as substantial as many renters believe. Turner (1998) found that 90 percent of residents in the District of Columbia believed that rent control had made their units more affordable. About a quarter of those in rent-controlled units, however, were estimated to be paying rents as high as or higher than they would have paid in an uncontrolled market.

Some of the costs of rent control may be transferred to renters living in unregulated units through higher rents. In Los Angeles, renters of uncontrolled units who had moved the year before were found to be paying $15 to $28 more per month than if rent control had not been adopted (City of Los Angeles 1985). Using data from the American Housing Survey, Early and Phelps (1999) found that an uncontrolled unit's rent is $85 higher as a result of rent control. However, their study also found that the effects of rent control on uncontrolled units diminished over time. Therefore, the authors concluded that eliminating rent controls could not be expected to reduce the price of uncontrolled housing, but that the imposition of new rent controls would increase the price of housing in the uncontrolled market.

Landlords may also recoup revenues lost due to rent control by deferring maintenance of rent-controlled units. Moon and Stotsky (1993) examined the effect of rent control on the quality of rental housing in New York City. A hedonic price index showed that rent control reduces the chances that a unit will improve in quality. However, White (1992) argues that rent control need not be detrimental to the condition of the housing stock if the program of controls is well designed. And Turner (1998) found that the physical condition of controlled units in the District of Columbia was as good as or better than that of unregulated units.

3. Promote racial and economic diversity in residential neighborhoods.

Because local regulatory policies influence the volume, characteristics, and cost of new housing in individual jurisdictions, they can have an important impact on economic and racial integration. Regulations that discourage the production of affordable housing, including rental housing and high-density development, can exclude lower-income households from a community. More inclusionary policies, on the other hand, make it possible for lower-income households to find housing in a community and therefore create opportunities for racial and economic integration. Inclusionary zoning policies alone, however, cannot ensure that low-income households or minorities will gain access to affluent or predominantly white communities.

The regulations that are most detrimental to racial and economic integration appear to be low-density-only zoning and building permit caps (Pendall 2000). Low-density-only zoning discourages the production of lower-cost homes (such as townhouses) and rental units. Permit caps create incentives to build larger, more expensive homes and may cause communities to allocate the limited number of permits to higher-value housing (Pendall 2000).

Implementing inclusionary zoning in affluent suburban areas can play a part in regional strategies to open up the suburbs to lower-income and minority households (Rusk 2000). In fact, some researchers argue that set-aside-type inclusionary zoning is "the best, perhaps even the only currently available means by which residential integration can be actively fostered" (Calavita, Grimes, and Mallach 1997). However, inclusionary zoning programs that include "in-lieu of" provisions (allowing developers to produce affordable units off site or contribute to a housing fund in lieu of incorporating them into the new development) may limit the extent to which racial and economic integration is encouraged (Calavita and Grimes 1998).

Although there is clear evidence that various forms of inclusionary zoning can produce economic integration, the evidence of achievement on racial integration is mixed. Some jurisdictions have had some degree of success in promoting both. For instance, affordable units built under inclusionary zoning programs in suburban counties in metropolitan Washington, D.C., have been found to provide housing for low- and moderate-income households of diverse racial and ethnic backgrounds. A 1998 profile of a small sample of owners of inclusionary units in Montgomery County, MD, showed that 80 percent of the households were minorities and 84 percent earned less than $36,000 per year (Brown 2001). Tying the development of affordable units to market-rate construction in economically healthy areas has benefited minority and low- and moderate-income households.

The success of inclusionary zoning programs in New Jersey helped to "soften stereotypes" about affordable housing in many suburban areas (Lamar, Mallach, and Payne 1989)—perhaps easing the way for more low-income families to be successfully integrated into middle-class areas. However, relatively few minority households live in the new developments (Lamar, Mallach, and Payne 1989). Similarly, Goetz (2000) argues that the Twin Cities Livable Communities Act encouraged the development of more affordable housing in neighborhoods with higher housing prices. However, increased levels of affordable housing development were not linked with racial composition of neighborhoods, job opportunities, or percentage of households with very low incomes: "At the community level, the distribution of affordable housing under the program is virtually identical to what it would be under a continuation of the status quo" (Goetz 2000). And Cowan (2001) found that although inclusionary zoning was effective in increasing the supply of affordable housing units in metro areas in Connecticut, Rhode Island, and Massachusetts, it was not as effective in promoting racial integration, particularly in suburban areas. Cowan also found a lower rate of increase in affordable housing production in communities that were particularly affluent or had a very low percentage of minority householders.

4. Help households build wealth.

Inclusionary zoning programs have succeeded in creating considerable opportunities for first-time home buyers of modest means. The primary group benefiting from New Jersey's inclusionary zoning requirements, for instance, is first-time home buyers (Lamar, Mallach, and Payne 1989). And because these affordable homes are tied to market-rate housing and often located in suburbs or economically healthy neighborhoods, inclusionary zoning programs can help lower-income households own homes that may increase in or retain market value.

On the flip side, traditional land use and zoning practices can help wealthy families build assets in their home by excluding poor families from their neighborhoods. Historically, housing market regulations have helped middle- and upper-income households build wealth through homeownership by limiting forms of development thought to undermine property values. Homeowners in jurisdictions with exclusionary zoning practices benefit from constraints on the availability of developable land and from zoning requirements that encourage only high-end development (Stockman 1992).

There is conflicting evidence on the role of land use regulations in increasing the cost of for-sale housing, thus potentially pushing homeownership out of reach for low- and moderate-income households. The literature review by Nelson et al. (2002) finds that the academic evidence by and large argues that market demand, not land constraints created by growth boundaries or other regulations, is the primary determinant of housing prices. Another study by Downs (2002) illustrates this point by finding that Portland's housing prices increased at the same rate as prices in other metropolitan areas without urban growth boundaries or growth controls. Furthermore, Nelson et al. (2002) argue that growth management policies tend to create walkable, mixed-income, mixed-use communities with access to jobs and amenities and that home prices tend to rise due to high housing demand. Thus, if traditional, exclusionary zoning and growth management regulations both ultimately result in higher housing prices, growth management policies are preferred because they mandate inclusion of affordable housing.

Other studies demonstrate that land use regulations push up the cost of housing. The National Association of Home Builders (1998) argues that, in a typical market, regulations can drive home prices up by 10 percent or more, making homeownership unaffordable for millions of Americans. One empirical analysis of the effects of regulatory environments on housing costs and homeownership rates showed that moving from a "permissive" to a "strict" regulatory environment could reduce homeownership rates as much as 10 percent (Malpezzi 1996). However, this study did not make a distinction between exclusionary regulations and those that encourage more affordable production.

5. Strengthen families.

Housing market regulations do not directly aim to strengthen families, although inclusionary zoning can have the indirect effect of providing lower-income families with opportunities to live in better neighborhood environments. See Chapter 2 for a discussion of the relationship between neighborhood characteristics and family well-being.

6. *Link housing with essential supportive services.*

Regulatory policies have little impact on the goal of linking housing with supportive services, unless they explicitly prohibit or limit the development of housing designed for people with special needs. Examples could include group homes for people with developmental disabilities or continuing care facilities for the elderly.

7. *Promote balanced metropolitan growth.*

State and local regulation of land use and development can help promote balanced metro growth and ensure that affordable housing is available throughout a metropolitan area, especially if states or regional authorities take action to mandate inclusionary housing approaches in suburban communities.

Regulatory schemes that promote the production of affordable housing across all communities in a region may be more effective than those implemented voluntarily by individual jurisdictions. In some states, fair share laws have helped to distribute affordable units throughout many suburban areas for the first time. For example, 20 years after the passage of the Massachusetts act, affordable housing had been introduced to many suburbs where it had never existed before, although the total number of units built and planned under the act did not come close to meeting affordable housing demand for the state (Stockman 1992). State and regional fair share mandates that require localities to plan for levels of affordable housing in line with regional needs can also be effective in promoting economic and racial integration because they require local governments to plan with the needs of lower-income households in mind (Pendall 2000).

The spatial mismatch between low-income workers and jobs and the need to build "workforce housing" near major employment centers are two of the major challenges of affordable housing at a regional scale. Studies have found that some reduction of spatial mismatch can be achieved through the use of linkage fees on commercial development and public-private trust funds for affordable housing (White 1992). By siting affordable housing in areas located closer to job opportunities, set-aside development itself also helps to solve problems of jobs-housing mismatch (Calavita and Grimes 1998).

Well-designed growth management policies, by definition, are efforts to anticipate and plan for growth at a metropolitan scale while ensuring that growth is environmentally and fiscally sustainable, promotes economic growth, and maximizes the benefits to all residents, including low-income persons and persons of color. Thus, well-designed regulatory regimes can address sprawl, revitalize central-city communities, and provide sufficient affordable housing throughout a metropolitan area at the same time.

Portland is a prime example of a metro area that has attempted to address the problems of sprawl, housing affordability, transit and congestion, and jobs-housing proximity comprehensively and on a metropolitan scale. According to its Regional Urban Growth Goals and Objectives statements, recently adopted by Portland Metro (Portland's regional authority), "there shall be a range of housing types available inside the Urban Growth Boundary for rent or purchase at all costs in balance with the range of household incomes in the region," and "housing should be located in proximity to major activity centers and regional transportation system." Through mandatory inventory-taking of buildable land and careful planning for denser residential development, Portland has managed to avert many of the potential negative impacts of growth management on its housing market (Toulan 1994). Portland's Downtown Plan, adopted in 1972, also helps to counteract potential housing price pressures of the Urban Growth Boundary by controlling land values in urban renewal projects, providing density bonuses for developers, and setting replacement policies that guard against net loss of affordable units under urban renewal activities (Toulan 1994).

To ensure regional equity among richer and poorer communities, regional governing bodies must be sure that incentives they provide for affordable housing development are enticing enough for richer communities to "bite." For example, the Twin Cities Livable Communities Act offers loans and grants to encourage affordable housing development near transportation nodes, but the program makes little economic sense for communities that can easily attract upscale commercial and residential development. Sanctions as well as incentives are necessary for such initiatives to have any real impact on growth patterns and affordable housing development patterns in all areas of the city (Goetz, Chapple, and Lukermann 2001).

In Hartford and Bridgeport, the structured, mediated negotiations among local governments allowed participating municipalities to solve affordable housing problems within a context that took into account regional infrastructure and economic development and environmental protection needs. The negotiations also eased tensions between city and suburb (Wheeler 1993).

Some regulations undermine the goals of promoting balanced metropolitan growth and true regional housing choice. The primary ones are exclusionary land use and zoning policies designed at the local jurisdictional level, rather than on a regional scale. California is one state with a high number of local governments that have adopted growth controls with the explicit goal of limiting the supply of housing and thus excluding new residents (Nelson et al. 2002). Downs suggests that these local antigrowth controls helped reduce California's production of housing units by 46 percent between 1986 and 1990 (Downs 1992). Statewide and metropolitanwide growth management programs can help ease the restrictiveness of local land use regulations and thus help reduce housing rents and home prices (Nelson et al. 2002).

C. Summary and Implications for Local Action

Regulatory policies are often neglected as potential tools for an affordable housing policy because they do not directly subsidize either housing units or households. But as the research presented here demonstrates, state and local regulations governing land use, residential development, construction standards, subdivision design, and property maintenance play critical roles, even when they are not explicitly considered as part of an affordable housing strategy. Some regulations may undermine housing affordability and exclude lower-income and minority households from parts of a metropolitan area. Others can be explicitly incorporated into a local or regional housing strategy. Exhibit 3 summarizes the findings presented in this chapter, showing what is known about the performance of regulatory and governance tools for each of the seven policy objectives introduced in Chapter 1.

Exhibit 3: Performance of Land Use and Regulatory Tools

	Land Use and Regulations
Preserve and Expand the Supply of Good-Quality Housing Units	Mixed—some programs expand supply while others limit new affordable construction
Make Housing More Affordable and More Readily Available	Maybe—rent control may moderate rent increases in tight markets
Promote Racial and Economic Diversity in Residential Neighborhoods	Mixed—some reforms can expand affordable housing in affluent communities
Help Households Build Wealth	Mixed—some programs provide wealth building opportunities while others do not
Strengthen Families	No
Link Housing with Essential Supportive Services	No
Promote Balanced Metropolitan Growth	Mixed—zoning and regulatory reforms can promote affordable development in all jurisdictions, though some do not

Regulatory tools may be of particular importance to localities. Unlike the other programmatic tools discussed in this report, the federal government plays almost no role in the regulation of local housing markets. These powers belong to state government and are often delegated to local authorities. Thus, local policymakers enjoy a relative freedom from federal program rules and definitions when they weigh the use of regulatory tools. In fact, the biggest constraint on the effective use of regulatory tools is fragmentation of authority among individual cities and counties. This fragmentation makes it difficult to craft regional strategies for expanding the availability of affordable housing, promoting racial and economic diversity, or promoting balanced growth. Often, action at the state level is required to establish and empower regional decision-making bodies or to limit the authority of individual jurisdictions to implement exclusionary zoning and land use regulations. Without this kind of state intervention, the use of regulatory tools by individual localities can have only limited impacts.

Historically, local land use and development regulations have tended to undermine the goals of affordable housing policy, whether intentionally or not. Requirements for large lot sizes; expensive subdivision design standards and construction codes; prohibitions against manufactured housing, townhouses, or multifamily development; and time-consuming permitting processes have all been shown to make housing more expensive. These regulatory barriers have also prevented the development of affordable housing and reinforced patterns of economic and racial separation. Getting rid of exclusionary regulations works. Even in the absence of a comprehensive regional approach, eliminating (or moderating) regulatory barriers to affordable housing development can be effective. This does not mean that all regulations on land use and residential construction should be eliminated. Many regulations that raise the cost of housing development have legitimate goals, such as protecting health and safety or preserving farmland. Local governments need not abandon these goals, but they can and should reassess their regulatory policies to ensure that they allow for the development of more affordable rental and homeowner housing.

While simply eliminating exclusionary regulations on a jurisdiction-by-jurisdiction basis can be effective, more comprehensive regional strategies can use regulatory tools to advance affordable housing goals across a metropolitan area and balance affordable housing with other goals, such as environmental protection and preservation of open spaces. Critics of regulations that attempt to limit urban sprawl or redirect new development to already urbanized areas have argued that these regulations undermine housing affordability. And indeed, development moratoriums and high permitting fees can raise the cost of new housing if they are implemented without accompanying tools for promoting affordable development. But the research evidence suggests that regional regulatory strategies like Portland's Urban Growth Boundary or Connecticut's regional negotiation process can expand the availability of affordable housing in communities throughout a metropolitan area. These innovations also can promote economic and racial diversity in suburban as well as central-city communities, limit sprawl, and preserve open spaces, all while helping to revitalize central-city neighborhoods.

D. Priorities for Future Research

Many questions remain unanswered by existing research on the link between land use regulations and affordable housing, although there has been renewed interest in the topic, as more states and localities are considering or adopting growth management approaches. Much of the academic literature to date has focused on two strands of investigation: the historical role of traditional land use and zoning regulations on racial and economic segregation, and the role of urban growth boundaries on home values, land prices, or home sale prices. This literature generally does not examine the effect of land use regulations on other measures of affordable housing, such as housing types, overall housing supply, residential mobility, or the price of rental housing.

Most of the existing research has focused on a single type of land use tool or growth control, such as urban growth boundaries or traditional Euclidian zoning. However, most jurisdictions use a multitude of land use tools to manage growth, such as open space preservation, density bonuses, adequate facilities ordinances, and the like. Additional research is needed to understand the effectiveness of comprehensive growth management regimes. Moreover, although some growth management strategies are implemented at the jurisdictional level, the effects are clearly regional, as is the housing market itself. Analysis of the effects of these strategies needs to take a regional perspective, rather than focusing narrowly on outcomes within individual jurisdictions.

A critical challenge for research in this area is the problem of generalizing across regulatory regimes and market conditions. To date, it has been difficult to isolate the effects of growth management policies from issues about the effectiveness of their enforcement, and variations in underlying market conditions. For example, most case studies examining the effects of urban growth boundaries or growth management policies on home prices have focused on Portland, OR, and to a lesser extent on Washington, California, and Florida, all of which are rapidly growing, high-cost housing markets, not representative of many other regions that may have an interest in growth management.

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

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

A. Summary of Lessons by Goals

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

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

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

Focusing on regulatory approaches is important because pure housing production programs, while effectively expanding the supply of affordable housing, has not been able to keep up with increasing needs among underserved and rent-burdened families. Further, while affordable housing production programs add to the supply, they do not always successfully provide decent-quality housing. Building low-cost rental housing is not enough; owners of such housing need to have both the capacity and the resources to maintain and operate them effectively.

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

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

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

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

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

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

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

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

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

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

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

3. Promote Racial and Economic Diversity

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

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

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

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

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

4. Help Households Build Wealth

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

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

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

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

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

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

5. Strengthen Families

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

Low-income renters with housing vouchers who move to low-poverty neighborhoods also benefit from positive family outcomes. Studies of Chicago's Gautreaux program confirm that voucher recipients who moved to middle-income, white suburbs were more likely to have jobs and to have children who were less likely to drop out of school (and more likely to enroll in college) than other public housing residents. Also, public housing residents participating in Moving to Opportunity programs and Section 8 voucher recipients were both able to reduce their dependence on welfare and find employment and job training programs when they moved out of their high-poverty neighborhoods. Despite these successes, however, some families who move out of their original neighborhoods experience stress from leaving behind their friends and families.

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

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

6. Link Housing with Essential Supportive Services

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

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

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

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

7. *Promote Balanced Metropolitan Growth*

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

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

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

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

B. Summary of Lessons by Matrix

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

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

Exhibit 4: Effectiveness of Housing Programs by Policy Goals

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

VI. CONCLUSION: IMPLICATIONS FOR LOCAL HOUSING STRATEGIES

This final, concluding chapter offers a framework that local policymakers and practitioners can use to take advantage of the available evidence and thus craft housing strategies that make sense for their communities and regions.

A. Housing Strategies Should Be Tailored to Local Market Conditions

Housing needs and policy priorities differ from place to place, due to differences in housing market conditions, history, and political realities. Although this report has focused on a comprehensive set of affordable housing goals and the tools that can be used to achieve them, it does not make sense to implement the same strategy everywhere. In markets where population is growing rapidly and housing is in short supply, producing new affordable units might be a top priority. But in markets where the overall demand for housing is weak and vacancy rates are high, new units may not be needed, although poor households may still need help to afford the available housing.

A local—or metropolitan—housing strategy should be crafted to address current and expected market conditions. It is not sufficient simply to identify housing problems—local policymakers need to understand what is going on in the housing market to cause these problems. Then they can determine which goals make sense, and which should be the highest priority. Based on this information, a mix of programmatic initiatives can be crafted to promote the community's priority goals.

Since 1990, communities that receive housing block grants under the HOME program have been required to develop and submit housing plans as a condition of funding. More specifically, the National Affordable Housing Act of 1990 requires states and local jurisdictions that receive HOME funding to develop a Comprehensive Housing Affordability Strategy (CHAS). In 1993, the U.S. Department of Housing and Urban Development (HUD) linked the CHAS requirement to planning and administrative requirements for other programs, creating the Consolidated Plan (ConPlan). These plans are required to provide a fact-based analysis of local market conditions and trends, quantify the housing problems and needs of low- and moderate-income households, set priorities, and identify concrete strategies for allocating federal funding—in conjunction with state and local resources—to achieve the priority outcomes. Some jurisdictions have used the ConPlan process very effectively as a mechanism for strategic planning, and it offers an opportunity that more localities could exploit to systematically analyze and address their housing market circumstances (Turner et al. 2002).

Exhibit 5 illustrates how the basic goals of housing policy might be prioritized in two very different housing markets. We have exaggerated the contrast between these two hypothetical markets to make the point that priorities and strategies need to reflect local conditions and trends. In

City A, the regional economy is booming, unemployment is low, and incomes are rising. The population has been growing rapidly, with large numbers of immigrants from Latin America and Asia attracted by the region's job opportunities. Rents and house prices in some central-city neighborhoods are rising rapidly, creating affordability concerns for both low-income renters and moderate-income homeowners. Although welfare rolls have declined dramatically, a significant number of long-time recipients appear to face serious obstacles to finding and keeping jobs; many of them live in public housing.

The economic boom of the 1990s never really reached *City B*, where central-city unemployment remains high. Incomes are stagnant, and population continues to decline. Rents and house values are generally low. Many units are vacant, and some are deteriorating and even abandoned or boarded up. Nonetheless, because incomes are low, many households have difficulty finding decent housing they can afford. The central-city population is majority African American. The surrounding suburbs, which are predominantly white, historically have been unwelcoming to minorities. A substantial population of homeless individuals—mostly men—lives on the city streets and in shelters.

Exhibit 5: Strategic Priorities in Differing Market Contexts

Housing Policy Goals	Growing City A Priorities	Declining City B Priorities
Preserve and Expand the Supply of Good-Quality Housing Units	**#1:** Increase the stock of modestly priced rental and homeowner units in neighborhoods where demand is high	**#7:** Improve the condition of existing housing units at risk of being removed from the stock
Make Housing More Affordable and More Readily Available	**#2:** Help low-income renters and moderate-income home buyers with affordability problems	**#1:** Help low-income renters and moderate-income home buyers with affordability problems
Promote Racial and Economic Diversity In Residential Neighborhoods	**#3:** Promote opportunities for neighborhoods to become more racially and economically diverse and combat discrimination in housing transactions	**#5:** Assist minority families who want to move to the suburbs to overcome racial barriers, while making city neighborhoods more attractive to families of all races
Help Households Build Wealth	**#6:** Create homeownership opportunities for new immigrants, in neighborhoods where house values are rising	**#6:** Strengthen house values and appreciation rates for existing and new homeowners
Strengthen Families	**#5:** Reform public housing occupancy and rent rules to encourage two-parent families and reward work	**#4:** Provide targeted job training and job search assistance to residents of assisted housing
Link Housing With Essential Supportive Services	**#4:** Provide intensive self-sufficiency services for welfare-dependent families living in public housing	**#3:** Link supportive services with housing subsidies to provide permanent housing for homeless individuals and families
Promote Balanced Metropolitan Growth	**#7:** Encourage development of affordable housing in the suburbs as well as the city	**#2:** Promote reinvestment in central-city neighborhoods as an alternative to higher-cost suburban sprawl

In both of these markets, all seven of our basic housing policy goals are applicable, but their relative importance differs. In City A, expanding the stock of decent and affordable housing is the top priority, while no new units are needed in City B. Instead, City B should focus on making existing housing more affordable for low- and moderate-income residents and strengthening the local housing market by attracting more households to the city.

Just as cities and metropolitan areas differ, neighborhoods within the same jurisdiction often have very different housing circumstances and needs. Although local policymakers need to craft a strategy for the city or region as a whole, this strategy may call for different programmatic approaches in different neighborhoods. For example, a low-income neighborhood with moderate rents and house prices and relatively high vacancy rates may not need any new affordable housing construction, but could benefit from low-cost rehabilitation loans or down payment assistance to first-time home buyers. In contrast, it might be possible to boost the supply of affordable housing in a high-cost, high-demand neighborhood through inclusionary zoning regulations. To match programmatic approaches to neighborhoods, local decision makers need information about current market conditions and trends—information that often can be assembled from a combination of national and local data sources (www.urban.org/nnip).

In virtually all communities nationwide, the magnitude of the housing need is likely to dwarf available resources. Thus, given local market conditions (and political realities), communities may adopt different strategic approaches. It is critical to align the strategy with local needs and the community's expectations for outcomes. For example, one community might decide to focus the bulk of its resources on its top one or two priorities, chipping away at these problems over an extended period of time. Another community might decide to focus instead on more narrow or short-term goals, such as eliminating all lead-based paint over a ten-year period or providing service-linked housing for all disabled people. A third strategic approach would be to focus on activities that leverage other resources from federal and state governments and from the private and philanthropic sectors.

B. Housing Markets Are Regional, and Housing Policies Should Be

The most appropriate geography for thinking about housing policy and programs has changed dramatically over recent decades due to the rampant decentralization of economic and residential life in the United States. During the 1990s, the metropolitan areas containing the 100 largest cities grew 80 percent faster than their central cities. The pattern of faster suburban growth held for all types of cities, whether their populations were falling, stagnating, or growing. Even sunbelt cities like Phoenix, Dallas, and Houston are growing more slowly than their suburbs. Cities have lost disproportionate numbers of the middle- and upper-income households that form the backbone of economically strong communities. From 1989 to 1996, 7.4 million upper- and middle-income households left cities for suburbs, while only 3.5 million moved from suburb to city (Kasarda et al. 1997).

The suburbs also dominate employment growth. A study of 92 metropolitan areas found only 17 places where city job growth outpaced suburban job growth during the middle of the 1990s (Hill and Brennan 1999). The bulk of the cities did gain jobs, but at a slower pace than that of their suburban neighbors. From 1994 to 1997, for example, the central business districts in Ohio's seven major cities experienced a net increase of only 636 jobs. Their suburbs, by contrast, gained 186,410 new jobs (Hill and Brennan 1998). A new spatial geography of work has emerged in metropolitan America. Across the 100 largest metro areas, on average, only 22 percent of people work within three miles of the city center. In cities like Chicago, Atlanta, and Detroit, employment patterns have altered radically, with more than 60 percent of the regional employment now located more than ten miles from the city center (Glaeser and Kahn 2001).

In the wake of decentralizing economies, central cities still harbor a disproportionate share of their regions' low-income families. Low-cost rental housing, including federally subsidized housing, tends to be concentrated in central-city neighborhoods, in part because wealthier suburban jurisdictions have limited the development of affordable housing within their borders. Historically, central-city neighborhoods were convenient to entry-level and low-skill job opportunities, but today's outlying employment centers are often inaccessible from low-income neighborhoods in the urban core (Pugh 1998; Coulton, Leete, and Bania 1999; Turner, Rubin, and DeLair 1999).

Sprawling metropolitan growth brings other economic and environmental consequences as well. The spatial divide between jobs and workers exacerbates the traffic congestion that has become the hallmark of metropolitan America. The reliability and productivity of the workforce are diminished as workers are forced to tolerate longer commutes. In sprawling regions, such as Atlanta and Los Angeles, the combination of employment decentralization, poverty concentration, and low-density settlement has diminished the utility of public transit. In these places, it has become virtually impossible for low-income workers, many of whom do not own cars, to get from home to work in a reasonable time using rail and bus systems.

The current reality of metropolitan economies has sparked a growing interest in metropolitan solutions. But, for the most part, housing policy discussions remain strikingly local. In an era of population and employment decentralization, the metropolitan area—not the individual political jurisdiction—represents the appropriate geographic space for which to be thinking about and acting upon access to affordable housing. Enabling low-income families to live closer to the employment centers in the new economy (and to more economically diverse schools) will not only benefit those families and their children—A better balance between jobs and housing will help ameliorate the negative consequences that are associated with current metropolitan growth patterns.

C. Income Policy *IS* Housing Policy

Most affordable housing strategies at the national and local levels are designed to expand the supply of affordable housing. A panoply of programs and subsidies focus on stimulating the construction, rehabilitation, and renovation of housing that is affordable to low- and moderate-income families. Production is a necessary component of a responsible affordable housing policy. But the lack of income remains the principal barrier to affordable housing. HUD's annual analysis of worst case housing needs—the closest barometer available for measuring the nation's affordable housing challenges—generally finds that 80 percent of the problem is not housing inadequacy or overcrowding, but affordability.

The causes of the housing affordability gap are, of course, complex. Household incomes are determined by the interplay of major economic, demographic, and government forces. At the same time, housing prices are determined by a host of market and regulatory factors. Given these structural issues, housing policymakers and advocates often conclude that there is little they can do to raise incomes at either the federal or local levels. As a result, they continue to focus their efforts on programs that subsidize some of the costs of housing production or supplement what low-income households can afford to pay for housing.

Increasingly, however, state and local leaders are realizing that they can raise the incomes of working families by enhancing access to and use of such federal investments as the earned income tax credit, nutrition assistance, health care, and child care. In recent years, for example, state and local groups have maximized the potential of the earned income tax credit by conducting outreach programs, supporting free tax preparation services, and helping families use the credit as a gateway to financial services and savings. It is now estimated that working families apply one third of their credits (or $10 billion of the annual $30 billion made available under this program) to housing needs. That makes annual expenditures under the earned income tax credit program larger than under any single HUD program. In designing effective housing strategies, therefore, housing leaders need to look beyond the narrow confines of federal supply- or even demand-side programs. Recent experience with the earned income tax credit shows that local leaders can have a dramatic impact on household incomes and, by extension, housing affordability. Other initiatives that help low-income families find and keep jobs, build skills, and advance economically should also be incorporated into strategies for making housing more affordable.

D. Regulation Can Be a Powerful Housing Policy Tool

Most affordable housing strategies try to subsidize the gap between what low-income people can pay and what it costs to produce and maintain decent housing. For example, rental housing production programs often provide grants or low-cost loans for the construction of new units, or offer investors tax credits to compensate for below-market rent levels. Similarly, homeownership programs provide down payment assistance to supplement what low- and moderate-income families can afford to pay on their own. But because resources are scarce, housing subsidies only serve a small fraction of those in need. The majority of low-income households with serious housing problems do not receive assistance, even though they are eligible.

State and local regulatory policies may offer opportunities to make private housing more affordable. Most states delegate the authority to regulate the private housing market to local governments, which then establish and enforce zoning policies, land use restrictions, development fees, subdivision and design requirements, building codes, rent controls, and other regulations that reflect local priorities and objectives. Taken together, these regulations help determine whether and where different types of housing can be developed, how much it costs, and how it is maintained. Although regulatory policies are often overlooked in discussions of affordable housing policy, they play a critical role.

The traditional approach to land use and development regulation has resulted in policies that explicitly or implicitly limit or prevent the development of affordable housing in a jurisdiction, through restrictive policies like outright bans on multifamily housing or through requirements for large lot sizes, houses set back from the street, and wide sidewalks. Eliminating (or moderating) exclusionary regulatory barriers to affordable housing development can be effective. This does not mean that all regulations on land use and residential construction should be eliminated. Many regulations that raise the cost of housing development have legitimate goals, such as protecting health and safety or preserving farmland. Local governments need not abandon these goals, but they can and should reassess their regulatory policies to ensure that they allow for the development of more affordable rental and homeowner housing.

Regulatory strategies can also create incentives for private developers to produce more affordable housing where it is needed most. States, regions, and local governments have employed inclusionary zoning and other regulatory reforms aimed at increasing the number of affordable units, especially in areas where they are traditionally scarce (e.g., more affluent suburbs). Using a combination of mandates and/or incentives, inclusionary zoning can help compensate for past local exclusionary practices, or can balance the effects of growth controls and other regulatory policies that may indirectly limit affordable development. Among the most frequently used inclusionary zoning tools are developer set-asides, which require that a certain percentage of units in a new residential development be affordable and available to low- and moderate-income households. Implementing inclusionary zoning in affluent suburban areas not only can expand the overall availability of affordable housing, but also can help open up the suburbs to lower-income and minority households, promoting racial and economic integration, and providing low- and moderate-income households with more choices about where to live.

E. Race Matters

Most communities in the United States remain profoundly segregated on the basis of race. The latest evidence from the 2000 census indicates that nationwide, the residential segregation of blacks from whites has declined slightly, but remains high. Levels of segregation for Hispanics from non-Hispanic whites and for Asians from whites are much lower, but may actually be rising in some metropolitan areas (www.albany.edu/mumford/census). Moreover, recent studies indicate that school segregation is on the rise, not only for racial minorities but also for children who are not native English speakers (Orfield 1997). Although the causes of residential segregation are complex, the persistence of segregation at high levels cannot be explained away as the result of individual choices by whites and minorities to live in homogeneous neighborhoods. In fact, most whites as well as minorities indicate that they would be comfortable living in mixed neighborhoods (Farley et al. 1997).

Residential segregation denies minority families full and free choice about where to live, while often denying minority neighborhoods the services and resources they need to thrive and grow. As a consequence, minorities' access to quality schools, jobs, and economic opportunity is limited. The most extreme consequences of residential segregation are found in the central cities of large urban areas. Because minorities experience higher poverty rates than whites, the concentration of minorities in inner-city neighborhoods also concentrates poverty and compounds its social costs (Massey and Denton 1993). As jobs, wealth, and economic opportunities have migrated to the suburbs, poor minority communities in the central city have become increasingly isolated, cut off from access to the mainstream of our society and economy (Wilson 1990). Thus, housing segregation helps sustain economic inequality and contributes to the persistence of urban poverty. Moreover, it perpetuates racial and ethnic prejudice by limiting opportunities for healthy interaction between minorities and whites.

Historically, affordable housing policies have done little to address the problem of segregation, and often have exacerbated it. At their inception, federal housing programs incorporated many of the prevailing practices of the private housing market and were explicitly discriminatory as a result. Over the years, as new housing programs evolved, successive administrations missed opportunities to aggressively combat discrimination and segregation, instead allowing prevailing practices and patterns to continue. For example, federal programs to assist low-income renters have helped concentrate poor minority households in poor minority neighborhoods, limiting housing choice and exacerbating segregation. Originally, public housing regulations and guidelines encouraged the assignment of households to projects on the basis of their race and the racial composition of the surrounding neighborhoods (Jackson 1985). The federal government's homeownership programs also reinforced patterns of segregation and discrimination in U.S. housing markets. The earliest Federal Housing Administration (FHA) mortgage insurance programs enabled and encouraged middle-class white families to obtain financing for new housing in the burgeoning suburbs, while lending institutions denied loans for homes in older, inner-city neighborhoods and appraisal practices discouraged racial mixing (Calmore 1993). Later FHA programs—which were intended to expand credit to older neighborhoods and less-affluent borrowers—sometimes played a role in the abandonment of urban neighborhoods by white homeowners, contributing to residential resegregation, high foreclosure rates, and neighborhood disinvestment (Massey and Denton 1993).

Although local policymakers may hope to design and implement color-blind housing policies, if the realities of segregation and ethnic inequalities are ignored, policies may not work as intended. For example, a homeownership assistance program may not lead to wealth accumulation for minority households if segregation and discrimination limit their home purchase choices to minority neighborhoods where house values are not appreciating. Vouchers fail to give low-income families real choices about where to live if they feel unwelcome in neighborhoods beyond the central city. And the successful revitalization of an inner-city neighborhood may lead to displacement of minority households if no efforts are made to resolve conflicts between groups and to actively promote diversity.

F. Implementation Matters

Even the best housing strategy will fail to accomplish its goals if it is not effectively implemented. The history of housing policy in the United States is replete with examples of well-intentioned programs that produced harmful outcomes because of poor administration. For example, some of the local housing authorities responsible for implementing the federal housing voucher program have failed to effectively perform basic administrative functions such as inspecting units promptly when subsidy recipients apply for lease approval, making rental payments to landlords on time, and responding effectively to landlord questions and complaints. As a result, landlords are unwilling to participate in the program, leaving subsidy recipients with limited choices about where to live and contributing to the concentration of poor households in distressed neighborhoods (Turner, Popkin, and Cunningham, 2000).

When new programs are launched, local policymakers should critically assess the capacity of the organizations that will implement them. Do they have sufficient staff and resources? Do they have the skills and experience needed to perform their new responsibilities effectively? Is the program designed to provide incentives for effective administrative performance? Sometimes, strengthening organizational capacity can be the most effective intervention to improve policy outcomes. For example, the National Community Development Initiative (NCDI) made a long-term commitment to strengthen the capacity of nonprofit community development corporations (CDCs), providing technical assistance and operating support to CDCs in selected communities and contributing to substantial increases in sophistication, performance, and production levels (Walker 1998).

Often, partnerships between organizations with complementary strengths can result in effective program implementation, particularly when a mix of diverse skills and experience is needed to meet client needs. In several communities across the United States, local housing authorities have collaborated with nonprofit counseling organizations and fair housing advocates to link housing vouchers with effective housing search assistance and mobility counseling. Voucher recipients have received not only demand-side housing assistance, but also hands-on help in finding suitable units in thriving neighborhoods, and counseling to prepare them to succeed in the private housing market (HUD 1999). But it takes real effort to establish and sustain effective partnerships; many organizations that have done so stress the time and resources that are required to be successful.

Implementation agencies must be held accountable for performance. It is not enough to assign responsibility for implementing a new program to the best-qualified agency (or partnership) and hope for the best. Clearly defined performance measures and systematic performance monitoring can strengthen implementation. Exhibit 6 offers a set of outcome and output indicators specific to each of the seven goals of affordable housing policy. *Outcome indicators* measure the communitywide conditions (such as an affordable housing shortage or racial segregation) that housing policies intend to change over the long term. *Output indicators* provide more immediate measures of program accomplishments (such as number of new affordable units or number of families making pro-integrative moves). Over time, programs that are successful in producing the desired outputs should contribute to progress on the larger outcome measures.

Local policymakers can choose from several alternative strategies for holding agencies accountable for the performance of housing programs. Sometimes, simply requiring that performance data is collected, and publishing it on a regular basis, creates strong incentives for effective performance. But communities can also enter into performance-based contracts with public agencies, private companies, and/or nonprofit organizations in which payments, bonuses, and/or contract duration are all explicitly tied to the achievement of measurable performance targets (Osborne and Plastrik, 2000; Osborne and Gaebler 1991).

Exhibit 6: Measuring Program Performance

Goals of Affordable Housing Policy	Indicators	
	Outcomes (long-term: five to 20 years)	**Outputs** (short-term: one to five years)
Preserve and Expand the Supply of Good-Quality Housing Units	▪ Number of housing units affordable for very low, low-, and moderate-income households ▪ Number of physically deficient housing units ▪ Number of overcrowded housing units	▪ Number of units built or rehabilitated ▪ Number of units improved/upgraded ▪ Share of new units affordable for very low, low-, and moderate-income households
Make Housing More Affordable and More Readily Available	▪ Number of very low, low-, and moderate-income households paying more than 30 percent of income for housing ▪ Number of very low, low-, and moderate-income households paying more than 50 percent of income for housing	▪ Number of vouchers issued ▪ Share of available vouchers utilized ▪ Number of households relocating with housing search assistance
Promote Racial and Economic Diversity in Residential Nieghborhoods	▪ Index of residential segregation by race and ethnicity ▪ Index of residential segregation by income level	▪ Share of new (assisted) units in low-poverty and nonminority neighborhoods ▪ Share of voucher recipients moving to low-poverty and nonminority neighborhoods ▪ Racial and economic mix of assisted developments ▪ Number of pro-integrative moves
Help Households Build Wealth	▪ Average household assets, by income and race/ethnicity ▪ Homeownership rate, by income and race/ethnicity ▪ Average house price appreciation rate, by neighborhood	▪ Number of new homeowners ▪ Average house price appreciation among assisted buyers
Strengthen Families	▪ Share of children living with two parents ▪ Share of children with elevated blood lead levels ▪ Share of children completing high school ▪ Average household income, by neighborhood ▪ Share of households with wage income, by neighborhood	▪ Number of families reunifying ▪ Number of assisted households completing self-sufficiency programs ▪ Number of assisted households moving from welfare to work
Link Housing with Essential Supportive Services	▪ Number of homeless people ▪ Number of frail elderly without services ▪ Number of disabled without services	▪ Number of units with transitional services ▪ Number of nonprofits serving special-needs populations
Promote Balanced Metropolitan Growth	▪ Geographic concentration of affordable housing ▪ Average commute times, by jurisdiction ▪ Ratio of jobs to housing, by jurisdiction	▪ Share of new affordable housing in suburban jurisdictions ▪ Volume of residential investment in older, city neighborhoods

The variety of available program options and their differing applicability to local conditions necessitate constant and thoughtful evaluation of potential policy choices in the light of the best available data on "what works." This report organizes and summarizes what is known about the performance of various programmatic approaches. Local practitioners can take advantage of past experience to craft more effective strategies, given their own unique circumstances. We hope that this report will help practitioners and policymakers do just that.