

ULI Land Use Policy Forum Report

Workforce Housing: Barriers, Solutions, and Model Programs

**Prepared by
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**The ULI Workforce Housing Forum
Washington, D.C.**

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**Urban Land
Institute**

About ULI

ULI—the Urban Land Institute is a nonprofit education and research institute that is supported by its members. ULI—the Urban Land Institute is a nonprofit education and research institute that is supported by its members. Its mission is to provide responsible leadership in the use of land in order to enhance the total environment. ULI sponsors education programs and forums to encourage an open, international exchange of ideas and sharing of experiences; initiates research that anticipates emerging land use trends and issues and documents best practices; proposes creative solutions based on that research; provides advisory services; and publishes a wide variety of materials to disseminate information on land use and development. Established in 1936, ULI has more than 17,000 members in more than 60 countries representing the entire spectrum of land use and development disciplines.

Richard M. Rosan
President

ULI Land Use Policy Forum Reports. ULI is in the forefront of national discussion and debate on the leading land use policy issues of the day. To encourage and enrich that dialogue, the Institute holds land use policy forums at which leading experts gather to discuss topics of interest to the land use and real estate community. The findings of these forums serve to guide and enhance ULI's program of work. The Institute produces summaries of these forums in its Land Use Policy Forum Reports series, available on the ULI Web site at www.policypapers.uli.org. By holding these forums and publishing summaries of the discussion, the Institute hopes to increase the body of knowledge that contributes to the quality of land use policy and real estate development practice throughout the country.

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Introduction

In June 2002, ULI—the Urban Land Institute convened a panel of experts in Washington, D.C., to discuss the growing shortage of housing that is both affordable to moderate-income households and located close to jobs. This is the second in a series of ULI land use policy forums to address the issue of workforce housing. The first ULI Workforce Housing Forum was held in Los Angeles in December 2001. Through the presentation of case studies and group discussion, forum participants outlined existing barriers to the construction of workforce housing. The second forum built on the work of the first, by asking a panel of experts to describe policies and programs that could be developed to overcome the barriers identified in 2001. Participants also were asked to document whether any state, county, city, or other municipality has adopted programs to implement the solutions presented.

The panel of experts included a diverse group of professionals from the real estate industry, including the financial and development sectors as well as representatives from local government, nonprofit organizations, architectural and market analysis firms, and consultants. They gathered to create a comprehensive list of solutions to this complicated and vexing problem. After opening remarks, the group divided into four smaller groups, each of which was charged with answering one of the following four questions relating to a major barrier to the development of workforce housing:

- How can site-related barriers to workforce housing be overcome?
- What financing incentives could be provided to make the construction of workforce housing feasible, and how can affordability be retained over time?
- How could the regulatory process be improved, and what regulatory incentives could be offered to encourage the development of workforce housing?
- How could the design and production of housing be changed to encourage the development of workforce housing?

Policy Forum Summary

Chair David Mayhood opened the forum by welcoming and introducing all forum participants. He then presented an overview of the workforce housing problem and ULI's efforts to address the issue. This introduction was followed by opening remarks from John K. McIlwain, ULI senior resident fellow, housing, and ULI/J. Ronald Terwilliger chair for Housing. The group then broke into four smaller groups, each of which was assigned a specific question for discussion, as outlined above. The forum concluded with each group's presentation of its outline of barriers to the development of workforce housing, possible solutions to overcome these barriers, and a description of existing programs that address (or could be altered to address) the workforce housing problem.

Opening Remarks

McIlwain, in his opening remarks, reported that in his role as a ULI fellow he travels throughout the United States to discuss housing issues, and that affordable housing is a major concern in every community he has visited. He recommended a series of recent publications by the National Housing Conference as excellent resources for any discussion of workforce housing. These publications include *Paycheck to Paycheck: Working Families and the Cost of Housing in America*, *Housing America's Working Families: A Further Explanation*, and *Four Windows: A Metropolitan Perspective on Affordable Housing Policy in America, 2001*. McIlwain then defined the workforce housing issue as a complex one, with numerous geographic variations, complicated by other issues that include the supply and location of housing and jobs.

Defining the Issue: Location Matters

The supply of affordable housing is only one part of the problem, commented McIlwain, noting that to say the housing affordability problem is merely a production problem oversimplifies the issue. Failing to address the issue of geography means overlooking what realtors call the three most important factors in real estate: location, location, and location. The issue is not how much affordable housing is produced but where it is produced, as well as how to address the challenges of producing it where it is needed.

The proximity of affordable housing to jobs is the second part of the problem. Where affordable housing does exist, reported McIlwain, it usually is located far from where most people work. In rapidly growing cities throughout the United States, most new affordable housing is being created in the outer exurbs, so this is where moderate-income families are being forced to live. This outward movement of population brings with it all the undesirable aspects of sprawl: grinding traffic congestion, school overcrowding, air pollution, and a loss of open space. Yet most major institutions—governments, hospitals, and the like—are located in or near the central city and cannot move out to follow the workforce. This dynamic makes it hard to recruit and retain moderate-income employees such as teachers, fire fighters, nurses, and so forth. Private businesses, on the other hand, are more mobile. Many are moving to the outer fringes to be closer to their workforce. While this might appear to solve the jobs/housing imbalance, it actually further compounds the cycle of sprawl by driving up land costs and forcing affordable housing even farther out.

Affordability indexes—the best known being those of the National Association of Home Builders (NAHB) and the National Association of Realtors (NAR)—noted McIlwain, tend to report that housing in most of America is affordable. He argued that these indexes are deceptive for the geographic reasons mentioned above. Affordable housing close to work has moved out of the reach of most moderate-income households, claimed McIlwain, and the indexes do not address the geographic disparity between the location of jobs and the location of affordable housing.

Looking at the Numbers

McIlwain then described some of the many data sources that can be used to analyze the issue of workforce housing. Data from the U.S. Census, the Millennial Housing Commission, and the National Housing Conference all provide insights into the demographic and affordability issues surrounding the workforce housing issue.

Meeting Our Nation's Housing Challenges, the report of the Millennial Housing Commission, noted McIlwain, shows uneven income growth by income groups and a lack of workforce rental housing. Income growth charts that Harvard's Joint Center for Housing Studies prepared for the Millennial Housing Commission demonstrate how incomes have fared since 1968 for five different income groups. The lowest of these groups have shown little income growth over the last three decades. The next

two quintiles showed slight growth. The upper two quintiles, however, showed significant income growth. The gap between rich and poor has become a wide chasm.

While some affordable for-sale housing has been produced, the Millennial Housing Commission reported that the production of rental housing has been uneven. From 1985 to 1999, there was a net increase in rental housing for low- and high-income households but a net decrease in rental housing for moderate-income households. From 1985 to 1999, the inventory of rental apartments available to extremely low-income households—defined as those earning less than 30 percent of area median income (AMI)—increased by about 400,000 units. For very low-income households (those with incomes ranging from 30 to 50 percent of AMI), the inventory increased by 2.6 million units. For low-income households (50 to 60 percent of AMI), it increased by about 1 million units. McIlwain posited that these increases are due to the use of low-income housing tax credits to construct affordable apartments.

The situation for moderate-income households is dramatically different. The supply of rental housing for those earning 60 to 120 percent of AMI has actually decreased. Yet the supply of rental housing for households earning more than 120 percent of AMI has increased. McIlwain reported that rental housing production in the 1990s was less than half that of previous decades, and added that the housing that was developed in the 1990s consisted mostly of tax credit projects and high-end apartments for the “renter by choice” market.

As census data show, the United States is in a period of rapid population growth, having added 32 million people in the 1990s—more, even, than during the baby boom of the 1950s. Estimates of growth over the next two decades are for an additional 25 million to 30 million people in the current decade and another 25 million to 30 million in the 2010s. All of these new residents will need housing. McIlwain stated that a large part of the challenge of providing affordable housing for this group will involve building it in the right places. Affordable housing in the central cities and mature inner-ring suburbs, near where businesses and jobs are located, he claimed, makes more sense from an environmental, financial, and social perspective.

Census data also offer some interesting facts about affordability. Between 1990 and 2000, the number of households spending more than 35 percent of their

income on housing increased 19 percent, from 16 million people in 1990 to 19 million in 2000. During the same time period, the overall U.S. population grew by 13 percent. More families thus are spending more of their income on housing. The median house payment, now \$1,088, rose 16 percent from 1990 to 2000, exceeding the overall growth rate of incomes, which rose only 8 percent.

Defining the Terms

ULI defines workforce housing as housing for households making between 60 and 120 of AMI. McIlwain said there are two ways of defining the “workforce.” The National Housing Conference defines it as anyone working full time, which effectively means anyone making at least \$10,800 per year, the minimum-wage yearly salary for a full-time employee. McIlwain breaks this group of workers into three income categories. The first of these consists of households earning less than 60 percent of AMI. These households often qualify for some kind of federal assistance. The category at the opposite end of the spectrum—those earning more than 120 or 130 percent of AMI—includes those who generally can afford to buy a market-rate home in a location that is convenient to their place of employment. The middle category—what ULI defines as the workforce—consists of households with incomes between 60 and 120 to 130 percent (depending on the area) of AMI. McIlwain contended that this is the group ULI is looking to address, noting that while the government is taking care of those with lower incomes and the market is taking care of those with higher ones, this group is left with few good housing options.

Politics and the Future of Workforce Housing

McIlwain then took a brief look at the politics of workforce housing, followed by a look at the future of the issue. Noting that the federal government has been in the process of getting out of the housing business for decades, he predicted very little federal interest in or effort on the issue of workforce housing for the near future. Federal government spending, he commented, is now oriented toward homeland defense and these programs will take priority when funding decisions are made.

McIlwain foresees answers to the problem coming from the local governments and cities affected by the issue. The U.S. Conference of Mayors held a one-day conference in May 2002 to address the issue of workforce housing, demonstrating that this is becoming a political issue at the local level. This, he noted, makes three groups currently addressing the issue of workforce housing: the

National Housing Conference, the U.S. Conference of Mayors, and the Urban Land Institute.

The Millennial Housing Commission spoke to the issue of workforce housing in its report but did not directly address solutions. The report does, however, mention two federal programs that could affect the issue. The first is the homeownership tax credit, which President George W. Bush recommended during the 2000 election campaign. Because this program would be limited to first-time homebuyers who make less than 80 percent of AMI, it will not address the large portion of the workforce that earns 80 to 120 percent of AMI. The second program is the 80-20 bond program. Housing finance agencies currently issue bonds for the production of rental housing for households making 60 percent of AMI or less. This new program calls for an expansion of the program to households making up to 80 percent of AMI. It also would exclude households earning 80 to 120 percent of AMI. The federal government, noted McIlwain, is more comfortable spending its limited tax dollars on low-income families than on those with moderate incomes. Federal officials do not yet see the political motivation to support workforce housing solutions.

While the federal government is not motivated to take action, local governments are. The U.S. Conference of Mayors has made housing its number-one issue, at the request of its president, Boston Mayor Thomas Menino. And recent polling shows that Americans do care about the issue. A Fannie Mae-funded Hart-Teeter survey polled 1,000 people, 37 percent of whom said that finding reasonably priced housing was a big issue for moderate-income families. When these survey responses are broken down by income groups, the moderate-income groups responded that finding affordable housing was their most important issue. More than half of the parents surveyed said they were worried that their children would not be able to find housing. This is the first survey to show that affordable housing has become as important as the other issues occupying the current political debate.

McIlwain predicted that when the connection between housing and politics is made, the federal government’s priorities will shift. He projected workforce housing will be transformed from a “city” issue to a federal issue as it emerges as one that is important to voters. Until then, he predicted, Washington will pay little attention to the workforce housing issue, leaving local governments with the task of coming up with creative solutions to the problem.

Group Discussion

During the question-and-answer and discussion session that followed McIlwain's opening comments, one of the participants commented that the amount of federal money spent directly on housing issues had declined in the past several decades. He added that the amount of tax revenue lost because of the mortgage interest deduction dwarfs the amount of federal dollars spent on housing when this spending peaked in previous decades. Discussion ensued about the geographic applicability of some of the statistics quoted, specifically the amount of tax credit housing being produced. An attendee from Boston said that very little tax credit product is being produced there; rather, high-end product is being constructed almost exclusively.

Participants also discussed how workforce housing should be defined. McIlwain responded that while ULI has viewed those earning 60 to 120 percent of AMI as the workforce housing market, the target income level to be served by such housing varies from city to city—and even within a single metropolitan area, since some “edge cities” face completely different situations than the urban core. Chicago and Washington, D.C., were listed as examples of areas in which such variations exist. One attendee suggested that actual incomes of workforce-type jobs be used to define the income limits. The applicability of AMI figures to all situations was questioned because of its broad nature. The importance of geography also was discussed.

Participants agreed that the federal government will not deal with this problem, and that any local solution will cost someone—taxpayers, developers, or builders. Attendees mentioned several local programs that address the issue, including development fees, inclusionary zoning, linkage programs, and so forth.

One attendee asked whether the focus of the forum was to address the provision of workforce housing anywhere or just the provision of workforce housing in the city. Was this, he asked, a discussion about fighting sprawl or providing workforce housing? Several participants responded that both were objectives. A discussion about density then ensued. The argument was made that many cities today are actually less dense than they were decades ago, and that increasing density is merely getting the density back to where it was. A participant remarked that the density issue is complicated; in some places less density is the answer, while in others more density is needed, depending on geographic and neighborhood considera-

tions. Minneapolis, it was noted, has more people in the city now than in the past while Baltimore has fewer.

Participants agreed that the issue is truly a jobs/housing balance one, which needs to be expanded beyond a center city issue. One attendee cited an example of a program in Minnesota that provided low-income households with both low-interest home mortgages and gap mortgages. When given a choice of locations, most participants chose to purchase homes in the outer suburbs, citing a variety of reasons that included a perception of better value and a better quality of life. Participants then discussed the question of how city housing can be made more desirable.

Breakout Sessions

The group then broke out into four smaller ones, each of which was charged with answering one of the following questions:

- How can site-related barriers to workforce housing be overcome?
- What financing incentives could be provided to make the construction of workforce housing feasible, and how can affordability be retained over time?
- How could the regulatory process be improved, and what regulatory incentives could be offered to encourage the development of workforce housing?
- How could the design and production of housing be changed to encourage the development of workforce housing?

Each group was asked first to outline the barriers surrounding its issue, then to develop solutions and, finally, to list any model programs participants were aware of that attempted to address the issue.

How Can Site-Related Barriers to Workforce Housing Be Overcome?

The group addressing this question listed the following site-related barriers to the construction of workforce housing:

- **High land costs.** Participants cited high land costs in urban areas as the biggest site-related barrier to the construction of workforce housing.
- **Deteriorated infrastructure.** Infrastructure in many urban areas is in need of repair, enlargement, or replacement. The costs to repair such infrastructure add to overall project costs and can make the production of workforce housing financially infeasible.

■ **Environmental challenges.** Urban sites are more likely to be contaminated than greenfield suburban sites. They also pose staging and access challenges during the construction process.

■ **Lack of information about available sites.** The group mentioned that information about available sites varies depending upon the market. In markets with significant unsatisfied demand, the profit motive will lead developers to find the sites; in low-demand markets, government assistance may be helpful.

■ **Mismatch between sites and where people want to live.** Many cities contain abandoned and underutilized sites, but these typically are located in places where people do not want to live. Many are in neighborhoods with poor infrastructure, crime, bad schools, and so forth.

■ **Lack of understanding about this market segment's location preferences.** Do workers want to live near their workplaces, or are other factors—such as schools and crime rates—driving their location decisions? The answer to this question is often unclear. Determining their preferences is crucial to delivering the product they desire.

■ **Parking costs.** The high cost of parking in cities can serve as a barrier to constructing workforce housing by acting as a deterrent to the market and as a major expense for the developer.

■ **Construction costs.** For a variety of reasons—including the physical difficulty of working in urban areas, the possibility of deteriorated infrastructure and contaminated sites, federal wage requirements, and site security issues—building in urban areas can be more expensive than building in suburban or exurban areas.

■ **Inadequate existing building stock.** Because the existing stock may not meet the needs of the market, developing many urban sites requires the demolition or conversion of existing structures. The cost of demolishing or converting these structures into a product that meets the needs of the market may be too high to make development financially feasible.

The group then listed the following ideas as possible solutions that may help overcome the barriers described above. If the participants knew of a program that addressed the issue, it was listed as a model program. Some of the programs mentioned were targeted to low-income households but could be adapted to include moderate-income households.

■ **Assemble and provide land in low-value/low-demand areas.** Public or quasipublic agencies such as redevelopment authorities should assemble land and provide it for sale for development as workforce housing. Title and ownership problems can make the land assembly process time consuming and risky for developers. Land assembly by the government removes some of the risk to the developer. This solution is not recommended for high-value areas, where the value of the land would justify the developer assuming the risk and cost of land assembly. Model programs include those of the *Virginia Redevelopment Authority*, the *Pittsburgh Urban Redevelopment Authority*, and the *National Capital Revitalization Corporation*.

■ **Make targeted areas more attractive by improving physical infrastructure, safety, schools, supportive retail and mixed uses, and parks and open space.** Local governments have consistently offered infrastructure improvements as an incentive to attract commercial development. The group recommended that the same incentives be offered to attract workforce housing. Model programs include the *Atlanta Regional Commission's Livable Cities Initiative* and a *Cincinnati, Ohio*, program that makes physical improvements to induce development. The city of *Chicago* also will improve physical infrastructure to attract development, and the *Massachusetts Brownfield Fund* pays for the cleanup of contaminated sites being developed for affordable housing. In addition, numerous cities make extensive use of *tax increment financing (TIF) districts*.

■ **Inventory existing sites—including information on assets, liens, ownership, and contamination—and market these sites for development.** Local governments can promote the development of workforce housing by inventorying existing sites and listing any potential development problems, such as title problems, land contamination problems, and so forth. By quantifying these properties' existing conditions and problems, local governments can reduce the risk to the developer. As a model program, the group cited *Dayton, Ohio*, which is in the process of documenting this type of information throughout the city.

■ **Conduct market studies on workforce housing demand prior to designing public programs.** Assessing the demand for workforce housing in targeted urban areas will provide a statistical basis for public policy, while also demonstrating demand to the development and finance communities. Pioneering projects often find it difficult to attract financing because of a lack

of comparable sales in the community. Government-sponsored market studies can demonstrate demand and make it easier for developers to acquire financing for pioneering projects. Model programs include studies that have been conducted in *Columbus, Ohio*, and *Chattanooga, Tennessee*.

- **Leverage public lands.** Local governments can donate public lands or sell them at reduced prices with the stipulation that some workforce housing be produced on the land.

- **Improve the visibility of existing programs.** The group noted that many cities already have a collection of workforce housing programs that few developers know anything about. Participants mentioned that publicizing such programs and making them available to the entire development community would in turn make the programs more effective. They recommended that cities take an entrepreneurial attitude in selling these programs. The group cited two model programs. The marketing program at Forest City Enterprises's redevelopment of the former *Stapleton Airport site* in Denver was mentioned as a good example of how to market programs aimed at producing workforce housing to developers as well as to potential homebuyers. A *Cincinnati, Ohio*, program that offers educational tours of the city to realtors, educating them about the history of the neighborhoods and making them aware of areas that they previously may have overlooked, also was mentioned.

What Financing Incentives Could Be Provided to Make the Construction of Workforce Housing Feasible, and How Can Affordability Be Retained Over Time?

The group addressing this question listed the following barriers to the financing of workforce housing:

- **High development costs.** In many urban housing markets, developers cannot profitably produce workforce housing. High land costs are usually cited as one of many factors that make such development financially infeasible.

- **Limited government funding.** The issue of workforce housing has yet to gain traction as a federal political issue and therefore is not a priority for the federal government. No federal money is available to fund workforce housing programs. Although the issue has gained more attention at the state and local levels, even there very little money has been allocated to address the problem. Low-income housing tax credit programs and other federal, state, and

local programs address the housing needs of low-income households but few of these programs extend their income restrictions to include moderate-income households.

- **Downpayment requirements.** Although many moderate-income workers make enough money to qualify for a home mortgage, few have been able to save enough for the downpayment required to secure a loan. Many potential moderate-income homebuyers therefore are forced to remain in the rental market.

- **Restrictive underwriting criteria.** Some loan underwriters assume potential homebuyers will have one car per bedroom and require developers to address this parking issue by providing expensive parking structures and parking lots. Local zoning requirements for parking often are less stringent than those of underwriters.

- **No Community Reinvestment Act (CRA) tie to moderate-income housing.** The CRA requires lenders to invest a certain amount of their money in low-income areas but not in moderate-income, working-class neighborhoods.

The group then listed the following ideas as possible solutions that may help overcome the barriers described above. If the participants knew of a program that addressed the issue, it was listed as a model program. Some of the programs mentioned were targeted to low-income households but could be adapted to include moderate-income households.

- **Use tax increment financing (TIF) for infrastructure improvements and other site improvements.** TIF directs the additional revenue that will be generated by new development in an urban area directly to that development, rather than back into the city's general revenue stream. It provides an excellent method of financing needed infrastructure improvements. *TIF districts* are used throughout the United States; participants mentioned *Chicago* as one city that has used them extensively.

- **Create an infrastructure finance district (IFD) to finance infrastructure improvements.** Homeowners living in an IFD are assessed a fee that is used to finance infrastructure improvements in their community. An IFD is similar to a TIF district, except that homeowners fund the improvements. As a model program, the group cited *Prince George's County, Maryland*, where certain areas have been designated as IFDs. Residents of these areas pay an additional assessed fee to fund infrastructure improvements.

■ **Increase or dedicate transfer/recording taxes to pay for a housing trust fund.** Property taxes or recording taxes could be earmarked to pay for a housing trust fund dedicated to financing the construction of moderate-income housing. (Housing trust funds normally dedicate their funds to the production of low-income housing.) Model programs include a housing trust fund initiated by the state of *Florida* and one being funded by the *District of Columbia* that will make money available for the production of housing for those earning up to 80 percent of AMI.

■ **Expand tax credits for first-time homebuyers and offer loans to cover downpayments.** Some state and local governments offer tax credits to first-time homebuyers who purchase units in specified areas. Some public and private organizations also offer downpayment assistance. Model programs include the *District of Columbia's* offer of a \$5,000 federal tax credit to first-time homebuyers who purchase a home in the District and a *Bank of America* program that offers a \$5,000 forgivable loan for first-time homebuyers.

■ **Expand employer-assisted housing programs.** Some employers provide financial and other assistance to their low- and moderate-income workers in an effort to improve employee retention and productivity. Model programs include the following: The city of *Seattle* makes housing assistance programs available to all city, hospital, and university workers. *San Jose, California*, has a model housing assistance program for teachers. *Fannie Mae's* homebuyer assistance program offers low-interest loans to employees. A *District of Columbia* program matches employer contributions to employees' housing with a tax credit. The District also offers downpayment assistance to city employees and mortgage assistance to teachers, firefighters, and police officers, as does the state of *Georgia*.

■ **Provide more flexibility in government housing programs to address a broader range of incomes.** Many government programs are structured to support the production of low-income housing. These programs could be altered to support mixed-income communities that include moderate-income housing.

■ **Build into the entitlement process financial devices that reward developers for providing workforce housing.** This broad solution seeks to offer a variety of financial incentives tied to the condition that a certain percentage of the housing be designated for moderate-income households. Model programs include *Boston's* inclu-

sionary zoning policy, which requires 10 percent of the housing in qualifying developments to be designated for moderate-income households. *Cambridge, Massachusetts*, also has an inclusionary zoning policy that requires 15 percent of the housing in qualifying developments to be designated for moderate-income households. The commonwealth of *Massachusetts* "anti-snob law" requires that at least 10 percent of the housing in every city and town be affordable.

■ **Encourage the broader use of TIF for public parking garages and other public infrastructure improvements.** The group recommends the expanded use of TIF to finance public infrastructure improvements that would attract new development, including workforce housing. Model programs include the extensive use of TIF in states like *Missouri* and *Minnesota*, and cities like *Chicago* and *Denver*.

■ **Investigate the effectiveness of location-efficient mortgages.** Location-efficient mortgages allow homebuyers to take on a higher debt ratio if the home they purchase is located within a certain radius of public transportation, since a household that relies on public transportation will spend less money on a car and therefore will have more money available for housing. *Fannie Mae's* location-efficient mortgages are one model program.

■ **Assess a consumer goods tax that would be dedicated to the production of moderate-income housing.** Assessing a consumer goods tax and directing the revenue into the production of workforce housing would provide a source of funding for workforce housing. One model program is *St. Louis's* consumer goods tax on imported goods costing more than \$2,000. The tax revenue is dedicated to affordable housing and health care.

■ **Offer property tax abatements for the construction of new workforce housing and freeze taxes for existing residents.** Offering to abate the property taxes of a new development for a specified period of time, with the stipulation that a certain percentage of any new housing be designated for workforce housing, can be an effective way to make such housing financially feasible. In addition, freezing the property taxes of longtime existing residents in gentrifying communities can help keep them from being driven out by escalating property taxes. A model program in the *District of Columbia* offers tax abatements tied to the production of a certain percent-age of affordable housing and freezes the property taxes of longtime residents to stem the negative affects of gentrification.

How Could the Regulatory Process Be Improved, and What Regulatory Incentives Could Be Offered to Encourage the Development of Workforce Housing?

The group addressing this question listed the following regulatory barriers to the construction of workforce housing:

- **Exclusionary zoning.** In many communities, zoning excludes affordable or higher-density housing. The group believes that most zoning codes have a heavy bias toward low-density housing and against affordable or higher-density housing.
- **The building permit process.** This process tends to be lengthy and expensive, adding time and costs to the development process and thus making it harder for developers to produce affordable housing. Developers and builders often complain about the building permit process in their communities. Those who develop affordable housing are even more affected by permitting process delays and expenses, because their projects have a smaller profit margin and encounter more public opposition from the NIMBY (not-in-my-backyard) crowd.
- **The rezoning or variance process.** This can be a difficult, painful, and risky process that works against the production of affordable housing and creative development solutions. While many development projects could be improved or made more affordable through rezoning or the variance process, developers often are hesitant to pursue a variance or a rezoning request because of the difficulty of the process. Public opposition makes it difficult to effect positive change.
- **Building codes.** Codes often include provisions that add time and expense but do not improve the quality or safety of construction. The group complained that in some areas, union representatives have added building code requirements whose only purpose appears to be job security for union employees.
- **Lack of regulatory and program coordination.** The group noted that there appears to be little coordination among the many regulatory agencies charged with issuing development approvals. In addition, while a number of programs are available at the local level to support affordable housing production, there seems to be very little knowledge on the part of developers as to what is available.
- **Lack of political leadership.** There is little political leadership for affordable housing because local political leaders tend to support the status quo and to focus on reelection. Political leaders at the local level respond to

constituent demands or, at least, to the demands of those who show up at public meetings. These demands tend to be antichange and pro status quo. In addition, most elected officials serve for only two to four years and thus are constantly concerned with their reelection chances. Taking courageous stands on unpopular issues can lead to defeat at the polls.

- **Community opposition.** The opposition of existing community residents can make getting approvals for new development projects difficult. Developing workforce housing in urban areas means more existing residents and therefore more potential opponents.
- **No advocacy group.** While low-income households are supported by various low-income housing advocacy groups, moderate-income households lack such support. Few politicians or advocacy groups are fighting for the cause of workforce housing. Both developers and cities tend to be unaware of the depth of the need for such housing.

The group then listed the following ideas as possible solutions that may help overcome the barriers described above. If the participants knew of a program that addressed the issue, it was listed as a model program. Some of the programs mentioned were targeted to low-income households but could be adapted to include moderate-income households.

- **Adopt inclusionary zoning regulations.** Inclusionary zoning regulations often specify that a certain number of the units in a new housing development be affordable. Many of these regulations offer incentives—like density bonuses—to provide affordable housing. The group felt it was important that the affordable units provided in a development offer a mix of housing, including workforce housing as well as low-income units. Participants cited several model programs. *Montgomery County, Maryland*, has what may be the country's most famous inclusionary zoning requirement. Developers there are required to include moderately priced dwelling units (MPDUs) in all new residential projects. The county often provides density bonuses in exchange for the construction of MPDUs. In addition, *Fairfax County, Virginia*, recently enacted inclusionary zoning requirements; *San Francisco* recently made its formerly voluntary inclusionary zoning policy mandatory; *Boston* has an inclusionary zoning policy that is based on an executive order, which makes some affordable housing advocates worry about its future; and *Cambridge, Massachusetts*, also has inclusionary zoning regulations.

■ **Expedite the permit process.** Group members listed consolidating the land development permitting process as one possible way to reduce the amount of time required to get building permits. While they agreed that this likely would reduce the time required to get a permit, it was unclear whether it would improve the predictability of the process. A single location for gathering information about all licensing and permitting processes also was mentioned as being a helpful idea. The group believes that giving priority to affordable housing projects is one way to encourage workforce housing development. Model programs include the commonwealth of *Massachusetts's* one-stop application center for permitting and the city of *Los Angeles's* customer service-oriented approach to permitting, which has reduced significantly the time needed to get a building permit.

■ **Improve coordination.** Different programs have different requirements, which often are redundant and/or conflict with each other. To improve the efficiency and predictability of the permitting process, the group recommended that the requirements of various programs and permits be coordinated to avoid conflicts or redundancies.

■ **Create interdepartmental development review committees.** The group proposed that local permit-granting governmental agencies create a committee consisting of representatives from the various agencies involved. This committee would review development proposals at the preapplication stage and provide immediate feedback as to the acceptability of the plans and an outline of the anticipated review and permitting process.

■ **Modify the public approval process.** Obtaining public approval for land development is often a polarizing, emotionally charged process that does not effectively clarify the wants and needs of either the developer or the community. Earlier engagement of the community in this process and an emphasis on what both parties have in common—and on protecting the value of both the existing community and the new development proposal—should be the hallmarks of a more constructive and effective public approval process.

■ **Allow existing commercial properties to be redeveloped as workforce housing.** Many communities contain abandoned or underutilized commercial properties—including retail malls and industrial buildings—that could be converted to housing. The group believes that local governments should support such redevelopment proposals.

■ **Provide incentives for the development of workforce housing.** Incentives such as shared parking opportunities, density bonuses, tax abatements, mixed-use zoning, flexible zoning, and fee waivers all can help make the development of workforce housing more economically feasible.

■ **Require housing/jobs linkages.** While comprehensive plans are good at laying out plans for the construction of sewers, roads, and parks—and for creating residential and industrial areas—they rarely include any link between who is going to work in the commercial and industrial business parks and the type of housing in which these workers will live. The group proposed that comprehensive plans be required to include a linkage between housing and jobs, and that zoning codes be required to reflect this desired linkage through appropriate zoning. The group believes that the current planning and zoning structure is outdated and fails to provide a sufficient amount of housing choice. They believe it also perpetuates a strict segregation of uses and a reliance on low-density housing that has led to sprawl, economically segregated communities, affordable housing problems, and traffic congestion. Diversification, the group believes, will lead to economic and social strength. The group listed several model programs. *Portland, Oregon*, was cited as a good example of an area that supports a balanced housing approach through its comprehensive plan. The group highlighted how Portland's plan supports multifamily housing, which often is the only type of housing moderate-income households can afford. *Vancouver, British Columbia*, was mentioned as a city that does a good job of addressing the jobs/housing balance and supports multifamily housing as a way of providing workforce housing. The group also mentioned the plan for the redevelopment of *Denver's Stapleton Airport site* as a good example of comprehensive planning for jobs and housing, and of providing a variety of housing types.

■ **Expand government condemnation powers.** Expanding the condemnation powers of local governments would allow them to demolish existing vacant housing and make the land available for new development. They also could clear land currently used for other purposes and make it available for workforce housing. As a model program, the group cited the *District of Columbia*, which has expanded its condemnation powers in an effort to make land available for affordable housing.

■ **Use the powers of annexation and rezoning** Local governments should use these powers to create opportunities for the construction of workforce housing. Approval of

any land annexation or rezoning requests can be tied to requirements to provide or fund workforce housing. Model programs include those in *Denver* and *Chicago*.

- **Link workforce housing requirements to commercial development.** When a developer of a commercial project requests some kind of special treatment—such as a street or alley closing or a density bonus—approval of the request can be made subject to the developer’s inclusion of workforce housing in the project, or funding or developing such housing elsewhere. The group cited the proffer system of land development negotiation practiced in the commonwealth of *Virginia* as a model that could be used to promote the linkage of commercial development with workforce housing.

- **Use green building principles.** Using green building principles in the construction of workforce housing may help affordable housing developers begin to build a diverse coalition of support for proposed affordable housing projects. This could prove particularly beneficial at public meetings, where those opposing new development—the NIMBY crowd—often show up but those who support it typically do not.

- **Tie workforce housing to public projects.** Local governments can require the construction of workforce housing as part of the request for proposals (RFP) process for major public development or redevelopment projects. Examples of such projects would include the expansion of mass transit, the construction of new parking garages, or the rehabilitation of abandoned public schools.

- **Address community concerns.** Local government and/or business groups should conduct education programs to demonstrate the value of workforce housing for the regional economy. Such programs should address the concerns of low-income housing advocates and how workforce housing affects these issues. Community groups and political leaders should be brought into the discussion. Developers and local governments should provide some form of compensation for existing residents, such as a new trail system or park or a new service. Continually asking existing communities to become denser because doing so is consistent with smart growth may only lead to a lower quality of life for residents of that community and thus might further promote sprawl.

- **Build a coalition.** Creating an advocacy group that will apply political pressure in support of workforce housing and will search for creative answers is crucial. Groups that logically should be included in this coalition

include teachers’ unions, business associations, and environmental organizations. At the local level, the group mentioned ULI District Councils and other civic leaders as potential champions. A calculated education campaign could begin to build support for development proposals that include workforce housing. The group cited several model programs. A *San Francisco* group known as “YIMBYs” supports affordable housing and attends public meetings in support of development proposals for affordable housing, as does a similar advocacy group in *Colorado*. The state of *Minnesota* has put together a public relations campaign to build support for workforce housing.

How Could the Design and Production of Housing Be Changed to Encourage the Development of Workforce Housing?

The group addressing this question listed the following barriers affecting the design and production of workforce housing:

- **House sizes.** The National Association of Home Builders reports that the average size of a single-family house has risen dramatically in the last few decades, from 1,500 square feet to 2,200 square feet. The group cited both the desire for larger houses and the existing inventory of larger houses as barriers to workforce housing.

- **Consumer expectations.** The group reported that today’s consumers expect homes to include certain luxury features and that many homebuyers view these features as necessities rather than “extras.” These consumers also view a large single-family detached house with many luxury items as the ideal home. The group considers these views to be barriers to the construction of affordable housing, which typically consists of small and/or multifamily units.

- **Design and zoning regulations.** The group argued that a good portion of a house’s sales price results from governmental regulations that drive the sales price out of the reach of moderate-income buyers.

- **Community opposition.** Existing residents often view proposed affordable housing projects as a threat to their property values and their community, and therefore actively oppose them. As mentioned earlier, in the past such community opposition often was justified by these projects’ poor architectural and planning qualities. The group argued, however, that the design of today’s affordable and workforce housing developments has improved to the point that these impressions are no longer justified.

■ **Few housing renovators.** The group commented that renovating the existing housing stock could provide one solution to the workforce housing problem. The current lack of a significant and cohesive renovation industry (especially for affordable housing) consequently is a barrier to the production of workforce housing. Group members also reported that they believe rehabilitation is much more difficult than new construction.

The group then listed the following ideas as possible solutions that may help overcome the barriers described above. If participants knew of a program that addressed the issue, they cited it as a model program. Some of the programs mentioned were targeted to low-income households but could be adapted to include moderate-income households.

■ **Support the development of “mansion”-type multifamily housing.** Given the strong public support and preference for single-family detached homes, the group felt that multifamily housing developed to look like single-family houses offers a good opportunity to engender community support while also providing workforce housing. Local government regulations should be revised to support this housing type, and architectural firms and multifamily developers should adopt this building type into their respective portfolios.

■ **Investigate the effectiveness of manufactured and modular housing.** Although the group noted that neither of these housing types would be appropriate or feasible in some locations, members do believe that these housing types may play a role in solving the workforce housing problem. Their time savings, production ease, and reduced construction financing costs could enable the production of more workforce housing. The group believes that the full capabilities of the efficiencies created by these housing types have not yet been realized.

■ **Support regulations that encourage the rehabilitation of existing housing.** Most major cities contain a huge inventory of vacant and abandoned housing that could be rehabilitated into workforce housing. Advocates of workforce housing should support government programs that encourage the rehabilitation of housing and the community. The group also argued for the support of programs to replace (rather than renovate) some of this housing stock because of the environmental contamination (lead paint, asbestos, and so forth) that exists in many of these older homes. Model programs include one in *Baltimore* that provides city grants to the Habitat for

Humanity organization for lead-based paint abatement. The *District of Columbia* is acquiring vacant and abandoned properties, then selling the blocks back to developers—who are required to include some affordable housing—for renovation. The advantage for developers is that they do not have to deal with the costs and risks involved in the acquisition process.

■ **Strengthen the home rehabilitation industry.** The group suggested that creating a strong national organization that supports the rehabilitation of older homes specifically for use as affordable housing would be one way to strengthen that industry. Such an organization could lobby for federal, state, and local regulations that make rehabilitation less difficult. When discussing model programs, the group mentioned two organizations: the *National Association of Remodelers*, which, if broadened, could represent the rehabilitation industry, and the *NAHB Remodelers Council*, which also already deals with the issues of housing rehabilitators.

■ **Encourage nonprofit groups to acquire and convert expiring-use public housing properties to mixed-income communities.** The owners of many Section 8 multifamily properties with expiring contracts can choose to opt out of the program and convert their properties to market-rent projects. Some of these properties could be repositioned as mixed-income communities with a workforce-housing component. The group mentioned that this is occurring in *Miami* as well as in *other parts of Florida*.

■ **Allow accessory units in all residential areas.** Many zoning codes do not permit accessory apartment units in single-family houses. The group believes that changing zoning regulations to permit these units on all residentially zoned land would be an effective way to seamlessly integrate workforce housing into existing communities, creating true mixed-income communities rather than segregating low- and middle-income households. As model programs, the group listed *Chapel Hill, North Carolina*, and *Orlando, Florida*, both of which permit accessory units in some residential areas.

■ **Discourage the construction of larger houses by tying building permit fees to unit size.** Some municipalities charge fees based on the number of units rather than unit size. The group views this practice as discriminatory toward builders who construct smaller houses. It argued that fees should be calculated in the same manner as a builder’s expenses (that is, per square foot rather than per unit) to make it easier and more profitable to build smaller units.

■ **Educate homebuyers about the virtues of smaller, more compact housing.** To counteract the prevailing belief that huge, luxurious homes are the ideal, the group recommended an educational campaign to support smaller, more modestly appointed homes, as well as higher-density and urban living.

Conclusion

Marta V. Goldsmith, ULI vice president, land use policy, addressed the forum regarding the next steps that ULI's workforce housing program should take. She stated that the information presented at the forum provides almost an embarrassment of riches. This report will be made available on the ULI Web page at www.policypapers.uli.org and will be used by ULI staff as they prepare the *Workforce Housing Tool Kit* during the coming year. Goldsmith also commented that she found the forum to be incredibly helpful in beginning to outline the solutions to the workforce housing problem.

Policy Forum Agenda

TUESDAY, JUNE 25, 2002

6:30 p.m. Reception and Dinner
D.C. Coast

WEDNESDAY, JUNE 26, 2002

8:00 a.m. Continental Breakfast

8:30 a.m. Welcome and Introductions

Forum Chair: David Mayhood, *President, The Mayhood Company, McLean, Virginia*

9:00 a.m. Opening Remarks: The Workforce Housing Crisis in America

John K. McIlwain, *Senior Resident Fellow, Housing, and ULI/J. Ronald Terwilliger
Chair for Housing, ULI, Washington, D.C.*

Group Discussion

9:45 a.m. Break

10:00 a.m. Concurrent Working Sessions: Overcoming Barriers to the Provision and
Retention of Workforce Housing

10:00–10:45 a.m. Identification of Barriers

10:45–11:00 a.m. Break

11:00–11:30 a.m. Discussion of Solutions

11:30–12:00 a.m. Identification of Model Programs

- How can site-related barriers be overcome?
- How could the regulatory process be improved, and what regulatory incentives could be offered to encourage the development of workforce housing?
- What financing incentives could be provided to make the provision of workforce housing feasible, and how can affordability be retained over time?
- How could the design and production of housing be changed to encourage the development of workforce housing?

12:00 p.m. Lunch

1:00 p.m. Group Presentations of Solutions, Followed by Discussion

3:00 p.m. Summary and Next Steps

Marta V. Goldsmith, *Vice President, Land Use Policy, ULI, Washington, D.C.*

3:30 p.m. Adjourn

Policy Forum Participants

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President
The Mayhood Company
McLean, Virginia

Speaker

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