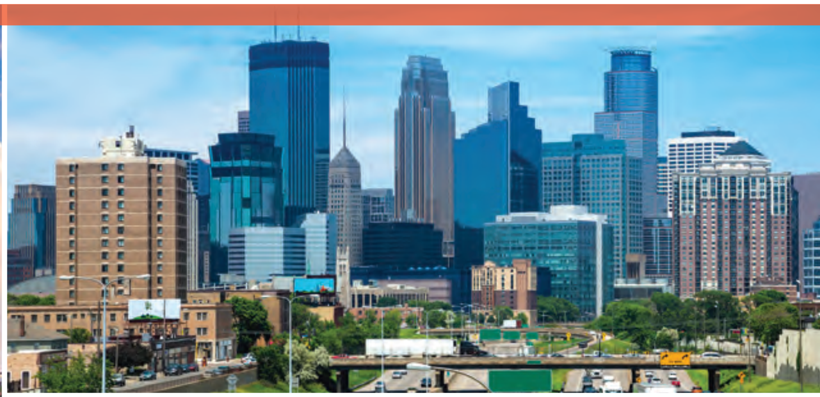
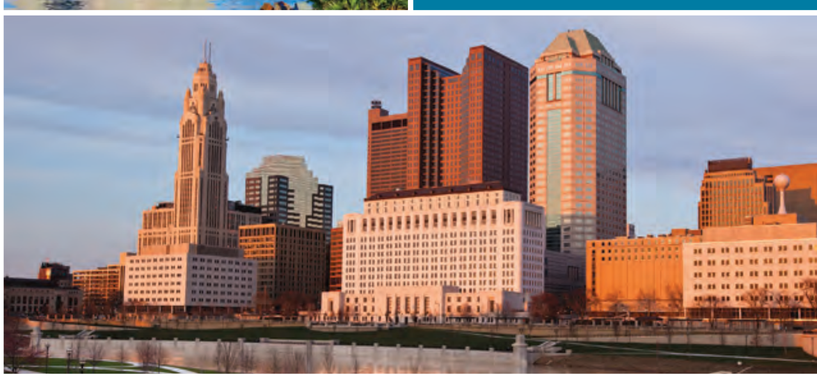
» PROVIDING AFFORDABLE RENTAL HOUSING

Five Cities Taking Steps to Improve Access and Availability





NAHMA

ABOUT NAHMA

NAHMA is the leading voice for affordable housing management, advocating on behalf of multifamily property managers and owners whose mission is to provide quality affordable housing. NAHMA supports legislative and regulatory policy that promotes the development and preservation of decent and safe affordable housing, is a vital resource for technical education and information and fosters strategic relations between government and industry. NAHMA's membership represents 75 percent of the affordable housing management industry, and includes its most distinguished multifamily owners and management companies. Visit www.nahma.org for more information.

ABOUT THE PROPERTY MANAGEMENT PROGRAM AT VIRGINIA TECH

The Property Management Program at Virginia Tech was established in 1985 in the Department of Apparel, Housing, and Resource Management in conjunction with the property management industry to attract undergraduate students and enhance their skills, enabling them to address the complexities of managing multi-million dollar investments. Graduates are now employed nationally with both public and private companies, and many have served as volunteer leaders in state and national industry organizations. For more information see http://www.ahrm.vt.edu.

ABOUT THE AUTHOR

Dustin C. Read serves as an Assistant Professor of Property Management and Real Estate in the College of Liberal Arts and Human Sciences at Virginia Tech, where he teaches courses in asset management, commercial leasing, and real estate development. His research interests include housing affordability, real estate management, and urban revitalization, among others.

Acknowledgments

Special thanks to the public officials who agreed to provide thoughtful comments and suggestions throughout the preparation of the case studies presented in this report.

Design by Mary Prestera Butler

» PROVIDING AFFORDABLE RENTAL HOUSING

Five Cities Taking Steps to Improve Access and Availability

Prepared for and funded by the
National Affordable Housing Management Association (NAHMA)

By Dustin C. Read, Ph.D., J.D.
Assistant Professor of Property Management and Real Estate
Virginia Tech
Blacksburg, Virginia

NAHMA

Foreword

IN RESPONSE TO THE NATION'S SEVERE SHORTAGE of affordable rental housing, the National Affordable Housing Management Association (NAHMA) has launched an initiative to identify and highlight Cities Where You Can Afford to Work and Live™.

Across the country, teachers, firefighters, police, restaurant staff, retail workers and retirees among others—all core members of a healthy, vibrant community—can't afford to live in the cities they have served. For many, more than half of their income goes to pay the rent, leaving little left over for food, utilities, transportation, health care, day care and other vital needs. This growing financial burden for basic rental housing for millions of Americans challenges the social and economic well-being of cities large and small. NAHMA's goal is to identify and highlight innovative programs by cities that successfully increase the net number of affordable rental housing units in their communities.

We are pleased to work with Dr. Dustin C. Read, Assistant Professor of Property Management and Real Estate at Virginia Tech, to publish the following overview of five cities that are finding success in implementing policies to address the shortage of affordable housing in their locales.

Contents

Introduction

THE RELATIONSHIP BETWEEN rental housing affordability and the economic vitality of U.S. cities has emerged as an important topic of conversation in policy circles over the last decade because rental units are increasingly becoming the tenure choice of several important segments of the workforce. Low-wage workers, recent college graduates, and mobile professionals alike have all demonstrated a preference for this type of residence in recent years, leaving municipal policymakers to wonder whether their housing stocks are diverse enough to satisfy the demands of each of these groups.[1] The answer to this question appears to be "no" in many cases, as existing research indicates nearly half of the country's renters are housing cost burdened.[2] This is problematic from an economic development stand point to the extent deficiencies in the supply of affordable rental housing prevent cities from attracting or retaining the human capital needed to achieve their full potential.[3]

This research sponsored by the National Affordable Housing Management Association (NAHMA) explores efforts on the part of U.S. municipalities to increase the availability of affordable rental housing. Through case study analysis, it provides an account of the strategies put in place by five cities to improve access to rental housing and reduce the rent burden incurred by residents in targeted income groups. The results suggest policymakers are embracing a host of different policy tools to advance such an agenda. Many of the initiatives currently in place promote private sector development of mixed-income rental housing through a combination of incentives and mandates, thereby serving as useful examples of how cities and states are responding to resource constraints brought about by the federal government's retrenchment from affordable housing programming.[4]

To set the stage, the report begins with a brief review of a document released by the Obama Administration outlining various ways in which state and local governments have worked to promote greater housing affordability. Case studies are presented next to illustrate how different cities are using the identified policy tools to increase the availability of rental housing at defined price points. The report concludes with a concise discussion of the lessons learned over the course of the analysis, as well as a summary of the implications for policymakers and their constituencies.

Increasing the Supply of Affordable Rental Housing

IN SEPTEMBER 2016, THE WHITE HOUSE released a *Housing Development Toolkit* offering an overview of successful activities undertaken by state and local governments to promote "healthy, responsive, affordable, high-opportunity housing markets…."[5] It includes a list of activities, or policy tools, identified as "potential starting points for local efforts to modernize housing planning and development" through the provision of economic incentives, the adoption of progressive land use ordinances, and the removal of regulatory barriers that have historically impinged upon the production of housing accessible to low- and moderate-income families. Ten of the policy tools outlined in the report are summarized in Figure 1, all of which emphasize the importance of leveraging the resources of the private sector to meet a community's affordable housing needs. These tools can be adopted independently or in conjunction with one another to strategically alter the composition of the rental housing stock.

FIGURE 1 Policy Tools Implemented by State and Local Governments Interested in Promoting Housing Affordability

1. Enable "by-right" development in select areas to accelerate the entitlement process
2. Tax vacant properties or encourage donation to non-profit developers to accommodate revitalization
3. Expedite regulatory approvals for projects including affordable housing units
4. Eliminate or relax off-street parking requirements for infill development projects
5. Enact high-density and multifamily zoning near public transportation stations
6. Allow accessory dwelling units in areas predominately comprised of single-family housing
7. Incentivize the construction of mixed-income housing by providing density bonuses
8. Adopt mandatory or voluntary inclusionary zoning ordinances
9. Utilize tax incentives to reduce the cost of constructing and operating affordable housing
10. Offer property tax exemptions to developers and owners of affordable housing units

SOURCE: HOUSING DEVELOPMENT TOOLKIT 2016

Since each of the identified policy tools can be implemented in a variety of different ways, case study analysis serves as a useful means of examining how they are put into effect in practice. Atlanta, GA, Columbus, OH, Denver, CO, Minneapolis, MN and San Diego, CA were chosen for the research at hand because these cities are actively taking steps to address the affordable rental housing deficiencies described in Figure 2 in the prescribed manner. And while their approaches differ in many ways, they are linked together by a common interest in creating *Cities Where You Can Afford to Work and Live.* The cases presented clearly illustrate the diverse array of options that are available to municipalities who are committed to this objective and open to new ideas.

FIGURE 2 Percentage of Housing Cost Burdened Renters in the U.S. at the Metro Level

Atlanta-Sandy Springs-Roswell, GA	47.54%
Columbus, OH	45.76%
Denver-Aurora-Lakewood, CO	48.49%
Minneapolis-St. Paul-Bloomington, MN-WI	47.54%
San Diego-Carlsbad, CA	56.75%
National Average	**50.60%**

SOURCE: WWW.APARTMENTLIST.COM/RENTONOMICS/COST-BURDENED-RENTERS-2016/

It is important to note at this point that the case studies are descriptive in nature and not intended to advocate for or against the use of any particular policy tool. Existing academic research suggests there are advantages and disadvantages associated with all of the aforementioned options that are context specific and influenced by economic, political and social conditions in a given housing market.[6] The analysis is simply intended to stimulate conversation among policymakers and other stakeholder groups about the steps that can be taken to promote greater rental housing affordability. Furthermore, only a sampling of the affordable housing programs in place within each of the cities of interest are discussed in order to devote attention to all of the policy interventions presented in the *Affordable Housing Toolkit*. The research report should be read with these limitations in mind.

SEAN PAVONE/ISTOCK

Fiscal and social problems associated with urban sprawl have encouraged the City of Atlanta to promote the development of mixed-income housing on underutilized infill sites using a variety of policy tools.

Atlanta, Georgia

THE CITY OF ATLANTA is currently experiencing a surge in multifamily housing construction brought about by a strong regional economy and growing demand for urban living. However, most of the rental housing delivered over the course of the last several years is unattainable to entry-level employees and public servants working in the municipality proper.[7] This trend has exacerbated an already notable spatial disconnect between employment centers and affordable housing options, while contributing to a host of different fiscal and social problems associated with urban sprawl. Promoting mixed-income housing development in infill locations has therefore become a priority for many of the City's policymakers. The regulatory interventions in place take a variety of forms and are designed to address an affordable housing shortfall that currently leaves one out of every two renters, or approximately 50,000 renter households, moderately to severely cost burdened.[8]

Atlanta's City Council recently took action by passing a resolution aimed at increasing the supply of workforce housing.[9] Any multifamily real estate development project that receives public assistance from an economic development authority doing business in the City must now reserve units for households in one of two targeted groups. At least 15% of the units must be set aside for those earning no more than 80% of the area median income or 10% set aside for those earning no more than 60% of the area median income. The restriction must apply throughout the period of the subsidy. Similar to many other affordable housing programs, rental rates must not exceed 30% of the area median income as defined by HUD guidelines, including all utilities and fees.

As for the remainder of Atlanta's efforts to promote mixed-income housing, most are voluntary in nature due in part to legal questions surrounding the scope of local government authority to enact various types of mandatory inclusionary housing policies in the State of Georgia. Density bonuses are offered via overlay zoning in several parts of the City to residential developers who agree to reserve at least 20% of the units in their projects for those earning 60% or less of the area median income.[10] The size of the density bonuses available in return varies across planning districts and may promote mixed-income housing development both inside and outside of public transportation areas. Deed restrictions or development agreements 15 to 20 years in duration are often

›› DENSITY BONUSES

The City of Atlanta utilizes overlay zoning to provide density bonuses of various sizes to residential developers willing to reserve at least 20% of the rental units included in their projects for those earning no more than 60% of the area median income.

PROPERTY TAX ABATEMENTS

Those developing mixed-income rental housing in Urban Enterprise Zones throughout the City of Atlanta are eligible for property tax abatements, which start at 100% of assessed value and plain down in size over a 10 year period.

required to ensure the additional units constructed onsite remain accessible to low-income households.

Urban Enterprise Zones represent yet another program designed to stimulate infill development including an affordable rental housing component.[11] Residential developers interesting in building in economically depressed areas can request property tax abatements from the City of Atlanta, Atlanta Public Schools, and Fulton County lasting up to 10 years. In most cases, the developer must demonstrate that the project is not financially viable in the absence of public assistance and that the area in which the proposed development is located suffers from some combination of pervasive poverty, blight, high unemployment, underdevelopment, or general distress. No such demonstration of need is required in designated Economic Development Priority Areas and the tax abatements are granted as a matter of course to conforming projects. Eligible rental housing projects must set aside at least 20% of the units for households earning no more than 60% of the area median income. Property taxes may be abated for up to 100% of a project's value in the first five years of the investor's holding period, gradually plaining down thereafter to 20% in year 10.

Irrespective of where a proposed multifamily development project is located, the affordable rental units included therein may be eligible for impact fee waivers if certain conditions are met.[12] Rental units priced at no more than 60% of the fair market rate established by HUD are completely exempt from impact fees in Atlanta, whereas units priced from 60% to 80% of the fair market rate must only pay 50% of the impact fees ordinarily due. Developers must request the exemption during the entitlement process and agree to restrict rents for at least 20 years. Absolving the private sector of the direct cost of providing transportation improvements, recreational facilities, and emergency services to newly-constructed affordable housing in this way is anticipated to enhance the financial performance of proposed development projects and improve the odds of them coming to fruition.

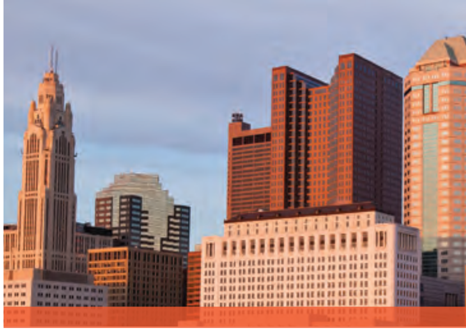
A final noteworthy feature of Atlanta's municipal code is an ordinance requiring the preparation of affordable housing impact statements before members of the City Council consider certain types of legislative action.[13] These statements are intended to promote transparency and thoughtful deliberation throughout the policymaking process by ensuring elected officials and the public at large have a meaningful sense of how many affordable housing units will be gained or lost as a result of changes to comprehensive planning documents and building permit fees, among other things. All affordable housing impact statements must cover at least a 30 year period and provide a narrative account of the data and methodology used to derive important quantitative estimates.

ACESHOT/ISTOCK

Columbus, Ohio

ALTHOUGH THE CITY OF COLUMBUS fared better than many of its regional peers in the 1980s and 1990s in terms of increasing employment and retaining population, these economic achievements did not result in greater housing affordability for a large number of the municipality's low-income residents. In fact, policymakers became aware of an affordable housing shortfall at the turn of the century estimated to exceed 20,000 rental units.[14] This problem, along with a dearth of affordable home ownership

Promoting the development of workforce housing in urban neighborhoods has become a priority for the City of Columbus over the last two decades.



opportunities, prompted a series of initiatives designed to make Columbus a more attractive location for residential development. Some of the programs put in place focus on removing regulatory barriers inhibiting all types of housing production, while others specifically seek to encourage the development of affordable housing in targeted areas in need of assistance.

The Building Service Department of the City of Columbus executed a memorandum of understanding with the local building community demonstrating a commitment to improving the permitting process for all parties involved.[15] It led to the formation of a council comprised of both public officials and industry practitioners who meet on a monthly basis to discuss policy changes and procedural improvements. An administrative position was also created within the Department to provide builders with a single point of contact to address permitting concerns. Other provisions of the memorandum of understanding include the establishment of a dedicated funding source to ensure proper training and staffing levels among municipal employees involved in the permitting process, the adoption of timelines for plan review and building inspections, and a defined strategy for making technological upgrades supporting the City's permitting decisions. These features are intended to reduce the cost of bringing housing to market, and in turn, contribute to affordability.

ACCELERATED PERMITTING

A memorandum of understanding entered between the City of Columbus and the local building industry demonstrates a commitment to promoting efficiency and innovation throughout the permitting process.

The City of Columbus complimented these regulatory reforms with heightened efforts to increase the availability of safe, decent, and affordable housing in several urban neighborhoods suffering from high concentrations of poverty and blighting influences. It did this by increasing the number of Community Reinvestment Areas and Neighborhood Improvement Districts in its jurisdiction. Pursuant to state enabling legislation, municipal governments can offer property tax abatements within these geographically defined areas or districts to stimulate development activity.[16] Newly constructed rental projects including three or more units may be exempted from property taxes for up to 15 years. The City is responsible for certifying the improvements, which must equal or exceed 50% of the property's pre-improvement value in order to be eligible. The County then determines the value increase and the amount of taxes due. No income restrictions are imposed upon rental housing receiving the property tax abatements, as the objective of the program is to encourage production of diverse housing options in urban areas.

A land banking system has additionally been created to facilitate the redevelopment of vacant or abandoned properties throughout the City of Columbus. The State of Ohio allows counties to form land reutilization corporations, or land banks, for the purpose of demolishing such properties or seeing them returned to productive use.[17] Counties must delegate operational authority for one of these corporations to a non-profit organization charged with the task of establishing acquisition and disposition policies. A board comprised of city and county officials, as well as appointed representatives, oversees a land bank's activities in cooperation with an executive director.

A memorandum of understanding with the Central Ohio Community Improvement Corporation, the land bank serving Franklin County, allows the City of Columbus to manage land banked properties within its jurisdiction that are acquired primarily through donations and expedited property tax foreclosure sales.[18] Capital improvement funds from the City, direct appropriations for Franklin County, and grant proceeds from the State provide the vast majority of the working capital. To date, most of the properties acquired by the land bank have been demolished, although a growing number are being purchased by investors who remodel existing housing units and hold them as rental properties. Such behavior has the potential to increase the supply of affordable rental housing in economically fragile neighborhoods that have historically struggled to attract private sector investment. In late 2017, the City of Columbus hopes to reinstitute a policy of providing grant funding to owners who renovate rental units accessible to households earning 80% or less of the area median income, which was temporarily discontinued in 2016.

Accessory dwelling units are another source of affordable rental housing in the City of Columbus, which are permitted in all single-family zoning districts so long as they are located inside a primary dwelling unit and do not alter the character of the neighborhood.[19] These units cannot exceed 800 square feet in size, must have a separate entrance, and provide at least one off street parking space. Furthermore, any such unit must satisfy all density restrictions imposed by zoning and include a kitchen and no more than two bedrooms. Detached accessory dwelling units, on the other hand, are subject to a greater number of restrictions.[20] They are permitted only for the care of aged or disabled relatives and cannot be constructed in a single-family zoning district on any parcel of land smaller than two acres in size. A conditional use permit must be obtained before constructing a detached accessory dwelling unit of any type and the City of Columbus reserves the right to revoke it in the event the unit is used for a purpose not expressly authorized.

›› LAND BANKING

The City of Columbus uses a land bank to accommodate the demolition or redevelopment of abandoned properties acquired via donation or tax foreclosure sale, some of which have been converted into rental housing accessible to low- and moderate-income families.

SEAN PAVONE/ISTOCK

Rapid population growth in recent years has contributed to a significant shortage of affordable rental housing in the City of Denver.

Denver, Colorado

FEW MUNICIPALITIES IN THE U.S. have experienced greater population growth in recent years than the City of Denver. A steady influx of residents is straining the rental housing supply, as evidenced by a double-digit percentage increase in rental rates in a very short period of time. Rising costs have left over 70,000 low- and moderate-income renter households moderately to severely cost burdened. Thus, policymakers have moved aggressively to expand the workforce housing stock.[21]

On January 1, 2017, the City of Denver implemented a linkage fee ordinance requiring nearly all developers undertaking new projects in the jurisdiction to contribute to an affordable housing fund. Linkage fees are assessed in accordance with the size of the proposed project and are currently $1.70 per square foot for commercial and institutional buildings, $1.50 per square foot for multifamily projects of three units or more, $.60 per square foot for single-family houses and duplexes, and $.40 per square foot for industrial, manufacturing, and agricultural uses.[22] The fees do not apply to parking areas and are scheduled to increase annually at the rate of inflation. All of the revenues generated by the linkage fee ordinance compliment proceeds from a newly enacted .5 mill property tax increase that also flows into the affordable housing fund. Over the next decade, public officials plan to use $150 million from these dedicated sources to support the development of 6,000 housing units serving individuals earning no more than 80% of the area median income.

In many ways, the linkage fee ordinance works like a mandatory inclusionary zoning ordinance with fee in lieu and offsite provision options. Real estate developers can avoid contributing to the affordable housing fund by electing to include deed-restricted affordable housing in their projects or by constructing it at an alternative location within a ¼ mile radius of the subject property.[23] The number of units that must be provided for households earning no more than 80% of the area median income depends upon the size and type of the proposed real estate development. For example, the developer of a large apartment complex must agree to provide .168 affordable units for every 1,000 square feet of space constructed in order to apply for the exemption. Non-profit developers of deed-restricted affordable housing and those receiving public-assistance for affordable housing development are also exempt from the fee. In select cases, developers can obtain fee reductions or waivers by showing a commercial project will not employ individuals requiring affordable housing or a residen-

›› INCLUSIONARY HOUSING POLICY

Nearly all real estate development projects in the City of Denver are now subject to a linkage fee providing a dedicated funding source for affordable housing, which can be avoided by including affordable housing in residential projects or by constructing it offsite at a nearby location.

REDUCED PARKING REQUIREMENTS

The City of Denver allows residential developers to add together a 25% parking reduction for housing within ¼ mile of a transit station with a 20% parking reduction for housing units serving those earning 65% or less of the area median income for an aggregate 45% parking reduction for affordable housing in TOD projects.

tial project will not house individuals with spending patterns contributing to employment in the areas increasing the demand for affordable housing.[24]

While linkage fees act as a "stick" encouraging affordable housing development, reduced parking requirements offer a "carrot". The City of Denver imposes different parking requirements in different areas taking into account the character of the built environment. As one might expect, the highest requirements for multifamily housing exist in densely developed areas and those where the City wants to encourage pedestrian mobility. Residential developers can apply for reduced parking ratios in all of these areas by agreeing to include affordable housing in their projects. Only .25 spaces are required for each housing unit accessible to individuals earning 40% or less of the area median income. The same parking ratio is available for small housing units no greater than 550 square feet in size.[25] Alternatively, a 20% parking reduction can be obtained for delivering rental units accessible to those earning 65% or less of the area median income.[26] This incentive can be combined with a 25% transit-oriented development (TOD) parking reduction when a project is within ¼ mile of a transit station, resulting in a 45% aggregate reduction in the spaces required for qualifying developments.

To further improve access to affordable housing near public transportation, the City of Denver contributes to an investment fund managed by Enterprise Community Partners, a non-profit group specializing in the acquisition and improvement of developable land near local transit stations. The fund effectively acts as a short-term land bank, obtaining legal control of strategically important parcels until a private sector development partner can arrange for tax credits or some other form of public assistance to accommodate the development of affordable housing on the site. Expanding the resources available to the fund has become a priority of community leaders because its existence offers a means of controlling land at a reasonable price in areas poised for growth.[27]

More modest efforts to increase the supply of affordable rental housing have been made via a revision to the City of Denver's zoning ordinance that allows attached and detached accessory dwelling units in a limited number of residential districts. Interested parties must satisfy a series of requirements common to this type of regulation. Accessory dwelling units cannot alter the appearance of primary dwelling units in ways that make them appear like multifamily housing from the street, nor can they be accessed by a separate driveway. The allowable size increases with the size of the lot on which the accessory dwelling unit sits, not to exceed 1,000 square feet. At least 200 square feet must be included for each inhabitant. Both the accessory dwelling unit and primarily dwelling unit must be owned by the same person who must live in one of the two.[28]

GANGLIU10/ISTOCK

Minneapolis, Minnesota

A THRIVING CENTRAL BUSINESS DISTRICT and world class amenities have helped the City of Minneapolis attract and retain growing companies in a variety of industries. Unfortunately, these features have also created robust demand for rental housing in urban neighborhoods, effectively pricing low- and moderate-income families out of the markets. Community leaders are addressing this concern by taking steps to better align the City's economic ambitions with its housing policy goals. Efforts are

Rental rates in some of the City of Minneapolis's urban neighborhoods have increased dramatically, making these areas inaccessible to many low- and moderate-income households.

being made to address a 50,000 unit affordable rental housing shortfall in the Twin Cities.[29]

The City of Minneapolis adopted a unified housing policy in 2016 reaffirming its desire to make affordable housing available to all segments of its population. As part of this resolution, it pledged to ensure all city-assisted housing projects undertaken each year result in an aggregate net increase in the number of residential units accessible to households earning between 30% and 60% of the area median income. It also imposed a mandate requiring all city-assisted housing projects greater than 10 units in size to reserve at least 20% of those units for households earning no more than 60% of the area median income. The income target drops to 50% of the area median income for projects receiving support from the City's Affordable Housing Trust Fund. These income restrictions must remain in place for the period of time the project receives public assistance, the term agreed upon with the funding source, or 15 years, depending upon which is greater in length.

Minnesota state law imposes even stricter income requirements on housing projects benefiting from tax increment financing.[30] Residential developers must reserve at least 20% of the units included in a project for households earning no more than 50% of the area median income or 40% of the units for households earning no more than 60% of the area median income. Irrespective of whether municipal bonds are issued to support the project or a developer agrees to be reimbursed for upfront expenditures, these income restrictions are applied over the lifespan of the TIF district, which can last up to 25 years. Numerous cities throughout the State of Minnesota, including Minneapolis, have used this public finance strategy to promote affordable housing development.

» TAX INCENTIVES

Residential projects benefiting from tax increment financing in the City of Minneapolis must satisfy defined affordable housing requirements.

As an alternative to tax increment financing, cities in Minnesota can support affordable housing development by abating up to 40% of the property taxes due from residential developers who agree to reserve at least 20% of their units for households earning 60% or less of the area median income.[31] Minneapolis can offer the tax benefit for as long as 15 years when other political subdivisions, such as the Minneapolis School District, participate in the abatement or 20 years when they do not.

Several zoning districts in the City of Minneapolis also allow residential developers to build at a higher density than otherwise permitted by law in exchange for including affordable housing in their projects. In most cases, a 20% density bonus is provided to those who voluntarily agree to set aside 20% of their units for individuals earning 60% or less of the area median income.[32] Overlay zoning increases the available density bonus to 25% or 30% in some areas where the City hopes to stimulate compact pedestrian-oriented or transit-oriented development.[33] A significant number of these zoning districts give residential developers the option to include street-level retail or covered parking in their projects, rather than income-restricted housing, and still receive the density bonus. This flexibility is valued by the private sector, but undoubtedly limits the amount of affordable rental housing likely to be delivered by this voluntary inclusionary housing policy.

Other features of the City of Minneapolis's zoning ordinance that are potentially favorable to affordable housing advocates include reduced parking requirements near public transportation and authorization for accessory dwelling units in many single-family districts. Multifamily developers constructing up to 50 housing units are eligible for a 100% reduction in parking if their projects are located within ¼ mile of a bus transit station or ½ mile of a rail transit station and the service headways are 15 minutes apart or less.[34] Projects including 51 housing units or more must include 50% of the parking normally required, which equates to .5 spaces per unit. The parking reduction falls to 10% for multifamily projects of all sizes when they are located within 350 feet of a transit station with service headways 15-30 minutes apart. As for accessory dwelling units, they are generally allowed in low-density residential districts as long as a permit is obtained from the City and design requirements are satisfied. No off street parking is required for these units.[35] All of these regulations promote rental housing affordability to a degree by expanding the housing stock.

HIGH DENSITY DEVELOPMENT NEAR PUBLIC TRANSIT

Residential developers benefit from a 25% to 30% density bonus in several areas throughout the City of Minneapolis where policymakers want to increase pedestrian mobility and public transit ridership.

RON THOMAS/ISTOCK

A dearth of affordable rental housing options in the City of San Diego threatens to undermine its growing economy and the high quality of life enjoyed by local residents, which has prompted local policymakers to take action.

San Diego, California

LIKE MANY PLACES IN CALIFORNIA, DEMAND for housing in San Diego consistently exceeds supply, resulting in upward pressure on prices throughout the market. The shortfall in rental housing accessible to low- and moderate-income families is estimated to exceed 90,000 units.[36] These conditions have been recognized as a threat to economic growth and policymakers have responded by enacting a series of ordinances designed to spur the production of mixed-income housing in the private sector. These ordinances address not only the housing needs of low-income populations, but also those of middle-income individuals employed in regionally important industries such as biotech, healthcare, and tourism.

A cornerstone of San Diego's efforts to increase the availability of affordable rental housing is its mandatory Inclusionary Housing Ordinance.[37] Residential developers that plan to construct two or more rental units are required to pay an inclusionary affordable housing fee. The fees collected are deposited into the City's Affordable Housing Fund and are used to make loans to private affordable housing developers for the production of units targeting low-, very low-, and extremely low-income households. Fees are assessed in accordance with the total size of a project, starting at $1.87 per square foot for a duplex and increasing to as much as $9.36 per square foot for a project including 10 or more residential units. Developers may alternatively elect to set aside at least 10% of the total rental units in a project for households earning no more than 65% of the area median income. These projects are considered exempt from the fee. The California Supreme Court emboldened cities such as San Diego to enforce this type of regulation in 2015 by holding that mandatory inclusionary zoning ordinances are a legitimate use of municipal police powers and in lieu fees do not constitute unlawful exactions within the state.[38]

Residential developers that elect to construct mixed-income housing per the Inclusionary Housing Ordinance instead of paying fees are rewarded with an option to participate in San Diego's Expedite program.[39] By voluntarily agreeing to pay $500 per housing unit included in a proposed project, eligible parties are granted access to streamlined permitting purported to reduce the amount of time needed to obtain municipal entitlements by 50% or more. The timeline is made possible by requiring

EXPEDITED ENTITLEMENTS

The City of San Diego's Expedite program allows developers of mixed-income rental housing access to an accelerated review process reducing the time required to obtain municipal entitlements by 50% or more.

residential developers to present detailed project information to members of the planning staff early in the due diligence process and by imposing strict deadlines for review once the material is submitted. Collaborating with the private sector in this manner is anticipated to bring mixed-income housing projects to the market more quickly and at an overall lower cost.

Density bonuses provide residential developers with yet another reason to consider incorporating affordable rental housing into market-rate projects. Municipalities in California have long been required by state law to allow developers to construct more units on a given parcel of land than otherwise allowed by zoning in exchange for including a specified amount of affordable housing.[40] However, San Diego revised its local ordinances in 2016 to offer even more generous incentives.[41]

Residential developers that agree to set aside 5% to 15% of the rental units in a project for very low-income households are entitled to a density bonus of between 10% and 50%, calculated on a sliding scale, with the density bonus increasing for each additional percentage of very low-income units offered up to a maximum of 15%. Very low-income rents cannot exceed 30% of 50% of the area median income. In addition to the density bonus, development "incentives" are offered. A development incentive is an allowed deviation from a development regulation. For the minimum percentage of affordable units one incentive is granted. Up to five such incentives can be obtained by including the maximum level of affordable units at the maximum allowable density. The same sliding scale is applied to rental developments offering low-income units. A 10% set aside of low-income units provides a 20% density bonus plus 1 incentive, whereas a 33% set aside provides a 50% density bonus and 5 incentives at a maximum. Low-income rents must not exceed 30% of 60% of the area median income.

All of the affordable rental units delivered under the Inclusionary Housing Ordinance must be deed restricted for at least 55 years. Developers may also receive density bonuses by contributing land for the construction of affordable housing offsite at a nearby location. Other features of San Diego's density bonus ordinance include a provision authorizing public officials to issue variances to accommodate higher density development on a site when necessary and a requirement that all affordable units be of equal quality to market-rate units and dispersed throughout a project.

San Diego offers an additional incentive to encourage the development of affordable rental housing in close proximity to its public transportation system.[42] Any project within ½ mile of a bus, ferry or rail stop that is comprised entirely of rental housing deed restricted for low- or very low-income households is eligible for a parking ratio of .5 spaces per dwelling unit. Mixed-income projects are also eligible for a reduced parking ratio of .5 spaces per bedroom when at least 11% or 20% of the residential units are respectively set aside for very low- or low-income households. The ordinance is designed to simultaneously advance the city's housing and public transportation goals.

In an effort to increase the availability of affordable rental housing in neighborhoods comprised predominately of single-family homes, San Diego revised a local ordinance in late 2016 to bring it into compliance with recently enacted state legislation.[43] One accessory dwelling unit not to exceed 700 square feet in size is now allowed in designated zoning districts. It may be attached or detached so long as it conforms to prevailing height and density standards. Pursuant to state law, the ordinance prevents the imposition of sprinkler requirements for accessory dwelling units when no such requirement exists for the primarily dwelling unit, prohibits the collection of sewer and water connection fees, limits off-street parking requirements to one space per bedroom, and eliminates the need for parking altogether when the unit is located within ½ mile of public transit.[44]

ACCESSORY DWELLING UNITS

The City of San Diego's zoning ordinance now allows for the construction of accessory dwelling units in many residential neighborhoods, while limiting water/sewer connection fees and reducing off-street parking requirements for such units.

Conclusions

THE ATTENTION DEVOTED to Atlanta, Columbus, Denver, Minneapolis, and San Diego in this report is not intended to imply that these municipalities have resolved their affordable housing problems. Nor are the policy tools discussed put forth as panaceas for the rental housing affordability crisis plaguing many American cities. Rather, the case studies serve as examples of strategies that are being successfully used by local governments throughout the U.S. to address some portion of their unique affordable rental housing needs. Through a combination of mandates and economic incentives, these municipalities are leveraging the resources of the private sector to increase the supply of rental units available to low- and moderate-income families. Public officials representing other jurisdictions are left to assess how they can best use different combinations of these policy tools in a locally-responsive manner to create *Cities Where You Can Afford to Work and Live.*

REFERENCES

1 Collinson, R. (2011). Rental housing affordability dynamics, 1990-2009. Cityscape, 13(2), 71-103.

2 Colburn, G. and Allen, R. (2016). Rent burden and the Great Recession in the USA. *Urban Studies*, Advance online publication. doi:10.1177/0042098016665953.

3 Joint Center for Housing Policy at Harvard University. (2007). *Rethinking U.S. rental housing policy*. Cambridge, MA: Katz, B and Turner, M.

4 Hays, R. (2012). *The Federal Government and Urban Housing*. Albany, NY: SUNY Press; Hyra D. (2013). Mixed-income housing: Where have we been and where do we go from here? Cityscape, 15(2), 123-134.

5 The White House (2016). *Housing Development Toolkit.* Washington, D.C

6 Basolo, V. (2000). City spending on economic development versus affordable housing: Does inter-city competition or local politics drive decisions? *Journal of Urban Affairs,* 22(3), 317-332; Haughey, R., and Sherriff, R. (2011). *Challenges and policy options for creating and preserving affordable housing near transit and in other location-efficient areas.* Darby, PA: Diane Publishing; Ryan, S. and Enderle, B. (2012). Examining spatial patterns in affordable housing: The case of California density bonus implementation. *Journal of Housing and the Built Environment* 27(4), 413-425; Brinig, M. and Garnett, N. (2013). Room of one's own: Accessory dwelling unit reforms and local parochialism. *The Urban Lawyer,* 45(3), 519-569; Manville, M. (2013). Parking requirements and housing development. *Journal of the American Planning Association,* 79(1), 49-66; Mukhija, V., Das, A., Regus, L., and Slovin Tsay, S. (2015). The tradeoffs of inclusionary zoning: What do we know and what do we need to know? *Planning Practice and Research,* 30(2), 222-235.

7 Suggs, E. (2016, July 23). "Invest Atlanta adopts policy on affordable housing." The Atlanta Journal-Constitution. Retrieved from http://www.myajc.com.

8 NYU Furman Center. (2016). *Renting in America's largest metropolitan areas.* New York, NY: Ellen, I. G., and Karfunkel, B.; Invest Atlanta (2015). *A housing strategy for the City of Atlanta.* Atlanta, GA.

9 Atlanta, Georgia Municipal Code § 54.1.

10 Atlanta, Georgia Municipal Code § 16.18P.028; § 16.18P.030; § 16.18R.008.

11 Atlanta, Georgia Municipal Code § 9.61.

12 Atlanta, Georgia Municipal Code § 19.1016.

13 Atlanta, Georgia Municipal Code § 54.2.

14 Bushman, J. (2007). Affordable housing in Columbus, Ohio. *National Civic Review,* 96(1), 55-56.

15 National Association of Home Builders. (2015). Development process efficiency: Cutting through the red tape. Washington, DC: Burnett, K. and Morrill, T.

16 Ohio Rev. Code § 3735.65-3735.70.

17 Ohio Rev. Code § 5722.01-5722.02.

18 Ohio Rev. Code § 323.66.

19 Columbus, Ohio Municipal Code § 33.5.0.

20 Columbus, Ohio Municipal Code § 33.6.0.

21 Denver Office of Economic Development. (2015). *2015 housing report.* Denver, CO.

22 Denver, Colorado Municipal Code § 27.151-27.157.

23 Denver, Colorado Municipal Code § 27.155.

24 Denver, Colorado Municipal Code § 27.157.

25 Denver, Colorado Municipal Code § 10.4.5.2.

26 Denver, Colorado Municipal Code § 10.4.5.3.

27 Urban Land Institute of Colorado. (2016). *Overcoming barriers to affordable housing in Colorado.* Denver, CO.

28 Denver, Colorado Municipal Code § 11.8.

29 Metro Council (2006). *Summary report: Determining affordable housing need in the Twin Cities 2011-2020.* Minneapolis, MN.

30 Minn. Stat. § 469.174-469.1794.

31 Minn. Stat. § 469.1813.

32 Minneapolis, Minnesota Municipal Code § 549.110, 551.385, 547.130, and 548.130.

33 Minneapolis, Minnesota Municipal Code § 551.150 and 551.180.

34 Minneapolis, Minnesota Municipal Code § 541.200.

35 Minneapolis, Minnesota Municipal Code § 541.170.

36 San Diego Housing Commission (2015). *Addressing the housing affordability crisis in San Diego and beyond.* San Diego, CA

37 San Diego, California Municipal Code § 142.1301-142.1311.

38 *California Building Industry Ass'n v. City of San Jose,* 351 P.3d 974 (Cal. 2015).

39 City of San Diego Development Services (2015). *Information Bulletin 538.* San Diego, CA.

40 Cal. Com. Code § 65915; Blackwell, D. (2011). The density bonus law: Has its time finally arrived? *California Real Property Journal,* 29(4), 13-20.

41 San Diego, California Municipal Code § 143.0710-143.0750.

42 San Diego, California Municipal Code § 143.07(d).

43 San Diego, California Municipal Code § 141.0302.

44 Cal. Com. Code § 65852.

NAHMA

National Affordable Housing Management Association
400 North Columbus Street, Suite 203
Alexandria, VA 22314
www.NAHMA.org