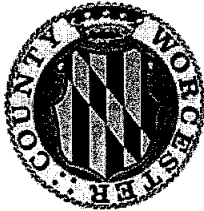


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# **Affordable Housing in Worcester County:**

## **Now and in the Future**

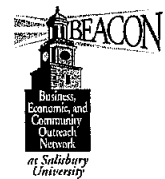
Briefing to the  
Worcester County Commissioners

Presented by Dr. Memo Diriker  
Snow Hill, Maryland  
November 16, 2004



# Why Stable and Affordable Housing is Important

- Impact on families:
  - Must have stability to keep job
  - Children of homeowners do better
  - High housing costs mean less \$\$ for other things
- Impact on economy
  - Business can't recruit workers if they can't afford to live in the community
- Impact on community
  - Core public servants can't live in own community
  - Sprawl worsens as families move farther out in search of affordable housing



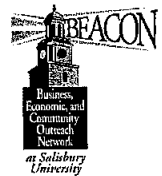
## Socio Economic Trends: National

- Income and wealth up overall, but more and more **UNEVENLY** distributed.
- Economy generating growing demand for **LOW-WAGE** workers.
- Daily living costs (incl. housing) are increasing faster than wages and income.
- Growing groups that that tend to have lower incomes: immigrants, women, minorities, seniors, disabled.



# Socio-Economic Trends (cont.): State and Local

- Per capita personal income lowest on Western Shore and Lower Eastern Shore.
- Worcester County has two populations when it comes to income.
- Worcester County has the most drastic and most accelerated rate of change in almost all types of housing affordability index calculations.



## Housing Characteristics and Real Estate Market: Homeownership

### NATIONAL

- Good news:
  - Homeownership at all-time high (68.3%)
  - Housing boom has helped keep economy strong
  - Residential construction on the rise



# Housing Characteristics and Real Estate Market: Homeownership (cont.)

## NATIONAL (cont.)

- Bad news:
  - Housing prices rising higher than household incomes
  - Result = more people with affordability problems
    - 1/3 of households spend 30%+ income on housing
    - Rate of homeownership for families with children is lower than in 1978



# Housing Characteristics and Real Estate Market: Homeownership (cont.)

## NATIONAL (cont.)

- Other factors influencing housing market
  - Changing demographics (immigrants, aging, female-headed households up, – need lower-cost housing)
  - Minority homeownership increasing
  - Women a more powerful presence
  - Changes in finance industry have strengthened housing markets



# Housing Characteristics and Real Estate Market: Homeownership (cont.)

## MARYLAND

- Good news:
  - Homeownership = 72% (18<sup>th</sup> nationally)
  - MD in census region (South) with most rapid growth in housing starts



# Housing Characteristics and Real Estate Market: Homeownership (cont.)

## MARYLAND (cont.)

- Bad news: Affordability
  - Oct. '03: median housing price in MD = \$180,894. Typical entry-level household cannot afford this
  - Home prices increasing faster than income
  - MD does not have a comprehensive affordable housing policy

Affordability  
= 2.5x annual  
in income

+ \$72,000/year  
= do afford median



# Housing Characteristics and Real Estate Market: Rental Market

## NATIONAL

- Rental housing is becoming less affordable: most new construction is targeted at top end of rental market
- Overall median income of renters is declining
- Age distribution of US population will soon start to favor rental markets



# Housing Characteristics and Real Estate Market: Rental Market (cont.)

## MARYLAND

- Affordability problems:
  - 10/03: MD had largest annual increase (12%) in "housing wages" in nation. (Housing wages = hourly wage one must earn to afford modest rental housing)
  - 37% of MD's households cannot afford rental units in MD



# Housing Characteristics and Real Estate Market: Rural Market

- $\frac{1}{4}$  of rural households pay more than 30% of income for housing (2001)
- Rural households more likely to own their own homes
- Rural housing stock requires more maintenance and upkeep
- Rural areas often have nonexistent or poorly enforced building codes
- Rural households are more likely to live in manufactured housing



## Existing Land Use and Housing Markets

- Exclusionary land use policies can be big deterrents to building affordable housing (e.g., banning multi-family housing, requiring large lots)
- Moratorium or other types of restrictions on new development (for growth management) can limit affordability



# Existing Land Use and Housing Markets (cont.)

- Smart Growth can have (+) or (-) effect on affordability:

(+): Reducing construction and infrastructure \$\$

Increasing access to transit

Providing more choices than single-family homes

(-): Gentrification

Increasing cost of land by limiting what is available

Note: MD's Smart Growth program has no affordable housing goal.



## Supply and Demand Pressures: National

### Demand Trends:

- Increasing demand for:
  - Modest starter homes and affordable rental housing
  - Senior housing
  - Higher-end housing



# Supply and Demand Pressures: National (cont.)

## Supply Trends

### Homeownership Market:

- Residential construction on the rise
- However, growing shortage of housing that is affordable to moderate-income households



# Supply and Demand Pressures: National (cont.)

## Supply Trends

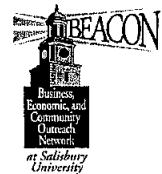
### Rental Market:

- 1<sup>st</sup> Q 2004: Highest vacancy rate in history (10.4%)
- New construction disproportionately concentrated in top 5<sup>th</sup> of rent distribution in metro areas
- Only 1/5 of new rental construction in past decade targeted to bottom tier of market



# Factors Related to Housing Affordability

- Nature of housing market:
  - Inherently expensive
  - Supply does not respond to demand quickly
- Increasing cost of housing: rising faster than inflation
- Inadequate incomes: economy generating demand for low-wage workers



# Factors Related to Housing Affordability (cont.)

- Dwindling supply of affordable housing
  - Physical deterioration
  - Gentrification
  - Changes to tax code limiting tax write-offs
  - Landlords opting out of Section 8 program
- Decline in direct federal assistance
  - Less \$\$
  - Devolution to states and localities
  - Greater reliance on public/private programs



# Factors Related to Housing Affordability (cont.)

- Restrictive land use and other regulations
- Public resistance to high-density development
- Potential homeowners' lack of financial qualifications and skills
- Complex application procedures for affordable housing programs
- Discrimination
- Rural areas: income disparity (particularly resort areas) and less access to financing



## Housing Affordability Regulatory Factors

- Includes:
  - Zoning
  - Subdivision codes
  - Building codes
  - Housing codes



# Housing Affordability Regulatory Factors (cont.)

## Regulations' Effect on Housing Affordability:

- Exclusionary land use policies deter affordable housing
- Infrastructure regulations and environmental remediation requirements increase cost of housing
- Smart Growth can have (+) or (-) effects (see previous slide)
- Fragmentation of authority among localities makes it difficult to craft regional regulatory strategies



## General Principles for Affordable Housing Strategies

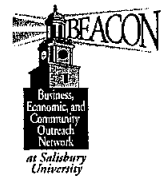
- Tailor housing strategies to local market conditions
- Make housing policy regional (since housing markets are regional)
- Integrate housing strategies with other community development goals, including smart growth, neighborhood revitalization, zoning/comprehensive planning



# Potential Affordable Housing Strategies

## "DEMAND-SIDE" STRATEGIES

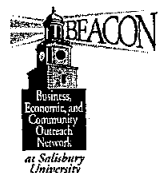
- Federal: range of income supplement and housing financing programs
- State/Local:
  - Living wage ordinances
  - Aggressive enforcement of fair housing / lending laws
  - Community Land Trusts
  - Help with down payment and closing costs
  - Increase eligibility for housing assistance programs
  - Help with bad credit
  - Help with mortgage incase of illness or unemployment



# Potential Affordable Housing Strategies (cont.)

## "DEMAND-SIDE" STRATEGIES (cont.)

- Non-Profit/Faith-based:
  - CDFIs
  - Church credit unions, "silent" second mortgages
- Private Sector/Collaborative
  - Banks setting aside \$\$ for below- market rate loans



# Potential Affordable Housing Strategies (cont.)

## "SUPPLY-SIDE" STRATEGIES

- Federal: range of project-based subsidies (public housing, Section 8, CDBG, LIHTC, etc.)
- State:
  - "Fair Share" legislation
  - Statewide affordable housing goals, tied to funding streams
  - Housing Trusts
- Regional:
  - Regional housing compact: communities pledge to make certain % of housing affordable
  - Regional trust funds supported by property tax revenues.



# Potential Affordable Housing Strategies (cont.)

## "SUPPLY-SIDE" STRATEGIES (cont.)

- Local:
  - Home repair programs
  - Rehab and infill of older neighborhoods
  - Partnerships, e.g., County contributes to private purchase and rehab of affordable housing units
  - Tax strategies, e.g., property tax break developers of affordable housing
  - Zoning strategies: rezoning of existing property, inclusionary zoning (require developers to include certain % of affordable homes along with market rate homes)



# Potential Affordable Housing Strategies (cont.)

## “SUPPLY SIDE” STRATEGIES (cont.)

- Local (cont.)
  - Comprehensive Development Planning: ensure that encompasses affordable housing goals
  - Better record keeping to track supply and demand for affordable housing
  - Better program mgt. to match those in need with available programs
- Private/non-profit
  - Habitat for Humanity, Foundations, use of manufactured housing to lower cost



## “Process” Best Practices

- Helps if State or region has mandated or provided incentives for “fair share” policy
- Ensure community and stakeholder involvement from the beginning: summits, focus groups
- Educate public about need for affordable housing and about intended recipients
- Make sure affordable housing blends into community
- Ensure that comprehensive planning, zoning, affordable housing, Smart Growth, etc. are integrated
- “Principled Negotiation” technique from Harvard: helps deal with concerns positively




# Worcester County Affordable Housing Scenarios

- Issues Related to Findings
  - Definition of the “Affordable Housing Problem”
  - Definition of the Commute Zones
  - Precision of Data (Federal vs. State vs. County)



## Discussion of the Local Data

- Worcester County -- Current Affordability 
  - Northern Worcester **Low to Moderately Low**
    - Urban **Low**
    - Rural **Moderately Low**
  - Southern Worcester **Moderately High to High**
    - Urban **Moderately High**
    - Rural **High**



# Discussion of the Local Data

- Worcester County -- Future Affordability



- Northern Worcester **Low**

- Urban **Low**

- Rural **Low**



- Southern Worcester **Getting Lower**

- Urban **Moderately Low**

- Rural **High to Moderately High**



## Worcester County Affordable Housing Scenarios (cont.)

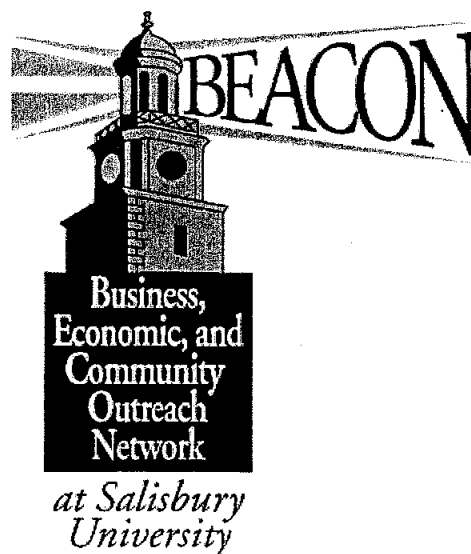
- Discussion of Recommendations

- Housing Subsidies
- Affordable Housing Incentives
- Market Place Dynamics
- Inclusionary Zoning
- Non-Profit Solutions
- Out-of-County Solutions
- Public Transportation



# Worcester County Affordable Housing Scenarios (cont.)

- Issues Related to Recommendations
  - The Organizational Structure Issue
  - The Workforce Development Issue
  - The Inclusionary Zoning Issue
  - Political versus Public Policy Issues (L\*\*DERSHIP)

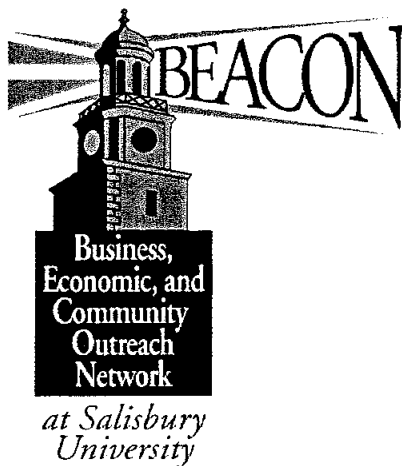


<http://BEACON.salisbury.edu>

# Affordable Housing in Worcester County:

Now and in the Future

Prepared by



Principal Investigators:

**Dr. Memo Diriker and Ms. Ruth Baker**

November 2004  
Snow Hill, Maryland

Copy Full study  
for Commissioners  
only

## **EXECUTIVE SUMMARY**

**To be handed out to the Commissioners at the Briefing Session**

## **Introduction**

Many in the State of Maryland refer to Worcester County as being the most blessed with natural beauty and with the economic potential that comes from such beauty. This is indeed reflected in the numbers of households moving into the county from in state, as well as out-of-state, locations. Some come to buy investment property, some to enjoy their vacations in a home or condo they also rent when they are not using it. Yet others come as “pre-retirees” and full-fledged retirees. When the property value pressures generated by this in-migration is added to the national and regional upward pressure on housing costs, we quickly realize that the very rapid increase in property values throughout Worcester County, and especially in the Northern part of the County can indeed be a double-edged sword. While public policy decision-makers generally welcome the positive fiscal consequences of increasing property values, they also worry about their impacts on Affordable Housing. It is as a result of such a concern that the Worcester County Commissioners have asked the Business, Economic, and Community Outreach Network (BEACON) of the Franklin P. Perdue School of Business at Salisbury University to study the current and potential future trends related to Housing Affordability throughout Worcester County.

## **SECTION 1: Analysis of Relevant Socio-Economic Trends and Projections**

In this section we examine some national trends and projections to set the stage for the remainder of the analysis performed for the study.

### **WHY STABLE AND AFFORDABLE HOUSING IS IMPORTANT**

- ▶ Impact on families:
  - Families without stable housing are highly mobile. Makes it hard to find and keep employment; children move from school to school getting farther behind.
  - When parents must work extra jobs to pay for housing, have less time for parenting duties, more stress, more likely to abuse and neglect children
  - Overcrowding leads to increased disease, stress, violence<sup>1</sup>
  - When impoverished households must spend disproportionately on housing, little remains to meet other basic needs.<sup>2</sup>

- Numerous studies have shown that children of homeowners are more likely to do well in school, less likely to have behavioral problems, less likely to become pregnant as teenagers. Positive impact appears to be particularly evident among lower income families.<sup>3</sup>
- ▶ Economic impact:
  - Lack of affordable housing may inhibit the ability to attract sufficient workers and meet growing economic development demands
- ▶ Community Impact:
  - Housing affordability crisis is starting to affect core public servants like teachers, police officers, who can't afford to live in communities they serve.
  - As families move farther out in search of affordable housing, housing/job imbalance worsens traffic congestion, stresses region's employers, and promotes sprawl<sup>4</sup>

## NATIONAL PERSPECTIVE

- ▶ Though income is on the rise, its distribution has become increasingly unequal<sup>5</sup>
  - According to Current Population Survey, mean income for bottom-fifth households rose by 11.7% during 1990s, but by 25.7% for top fifth.<sup>6</sup>
  - Wealth is even more concentrated than income. In 2001, top fifth of income distribution held 60% of aggregate income and 83% of aggregate wealth; top 5% of wealth holders held 57% of total wealth; entire bottom ½ of wealth holders held 3% of total wealth.<sup>7</sup>
  - Result: Households with access to wealth are better able to achieve homeownership. They may also drive home prices up ahead of income growth, making it more difficult for households with less wealth to buy homes.<sup>8</sup>
- ▶ Economy continues to generate strong and growing demand for LOW-WAGE workers.<sup>9</sup>

- According to Bureau of Labor Statistics (BLS), median wages in the industries adding the most jobs since the recession are 21% lower than those in industries losing the most jobs.<sup>10</sup>
  - Over next 10 years, BLS expects 11 of the 20 fastest growing occupations to be service jobs, paying a median wage of less than \$20K/yr<sup>11</sup>
  - Result: "Affordability pressures are unlikely to ease. Many of the low-wage jobs created by the economy do not pay enough for a household to afford (at 30% of income) even a modest 1-bedroom rental anywhere in the country"<sup>12</sup>  
(Harvard's Joint Center for Housing Studies, *State of the Nation's Housing 2004*)
- ▶ Daily living costs, including transportation, health insurance, childcare and housing are increasing faster than wages and income<sup>13</sup>
  - ▶ Groups that tend to have lower incomes:
    - Immigrants: Because of strong immigration in 1990's (vast majority of whom are young adults<sup>14</sup>) a larger share of households will be younger, foreign-born, and minority than previously predicted, with relatively low average incomes<sup>15</sup>
    - Women and minorities: are over-represented in lower-income category. Therefore, incidence of housing problems is higher among minorities than among whites and among unmarried women than unmarried men of comparable ages.<sup>16</sup> At the greatest disadvantage are single mothers: they spend the largest share of their incomes on housing.<sup>17</sup> 1/3 of low-income people with housing problems are children<sup>18</sup>
    - Seniors: retirement incomes are so meager that many seniors face heavy housing cost burdens on top of escalating healthcare costs."<sup>19</sup> 18% of low-income people with housing problems are seniors.<sup>20</sup>
    - Disabled people who rely on SSI have the most acute housing cost burdens; as national aggregate, pay 98% of income for 1-bedroom rental unit.<sup>21</sup>

## MARYLAND PERSPECTIVE

- ▶ Maryland 2000: Per capita personal income lowest on Western Shore (Garrett, Allegany, Washington) and Lower Eastern Shore (Caroline, Dorchester, Wicomico, Somerset, Worcester)<sup>22</sup>

## **SECTION 2: Analysis of the Current Housing Characteristics and Real Estate Market**

### HOMEOWNERSHIP MARKET: NATIONAL

#### The Good News:

- ▶ Homeownership rates in American at an all-time high:
  - In 2003 68.3% of households owned own homes, up from 65% in 1978. This increase occurred primarily in 1990s and is attributable to: aging of baby boomers, innovations in mortgage market, low interest rates, declining stock prices, booming economy.<sup>23</sup>
- ▶ Housing boom has been "economy's shining star,"<sup>24</sup> continuing through international finance crisis of 1998, recession of 2001, job losses in 2002-3.
  - This trend is unusual; recessions usually bring plunge in housing investment, residential construction, employment, and home sales. However, throughout this period, low interest rates kept housing markets thriving; home prices and sales continued to climb.<sup>25</sup>
- ▶ Residential construction has been on the rise for most of the last 12 years, adding significantly to housing stock in both metro and non-metro areas. Housing construction over next 10 years in likely to exceed that of the last 10 years.<sup>26</sup>
  - In first quarter 2004, pace of housing production was "exceptionally robust," reaching levels not experienced in past 2 -3 decades.<sup>27</sup>
- ▶ High cost of housing in major urban areas is helping once-declining (but more affordable) cities and remote towns to boom, particularly if within commuting distance of strong job markets. Examples = Newark, Providence, inland cities of California, Waterbury and

Hartford, CT. This trend is also helped by aggressive policies to limit sprawl, which limit development in suburbs and channel it to existing urban areas.<sup>28</sup>

### **The Bad News - Affordability:**

- ▶ House prices in many areas of the country have risen considerably faster than household incomes; a sharp correction is unlikely unless the economy unexpectedly contracts.<sup>29</sup>
  - Median home prices climbed 7.5% in 2003; the biggest increase since 1980 and are expected to climb nearly as much in 2004 overall.<sup>30</sup>
  - Urban Land Institute, 2004: Housing prices have risen 4-5x faster than inflation for last 10 years, but wages have been tracking inflation, at 2-3% nationally.<sup>31</sup>
- ▶ Result = Increasing numbers of people experiencing affordability problems, particularly low-income, but now extending to moderate income:
  - ~1/3 of all households spend 30+% of income on housing; <sup>32</sup> this is 2x people lacking health insurance and 3x people with food insecurity.<sup>33</sup>
  - 13% of all households (and 50% of low-income households) spend 50% or more of income on housing <sup>34</sup>
  - From 1997-99, among households with critical housing needs (i.e., paying more than 50% of income for housing), the number of moderate-income households in this category increased by 700,000 and that segment of the population represented 28% of the whole group (up from 23% two years earlier) <sup>35</sup>
  - Rate of homeownership for families with children is actually lower than in 1978, particularly working families. Partly reflects increase in single-parent working families (from 18% of all working families with children in 1978 to 39% in 2001). Partly reflects rapid increases in homeownership costs.<sup>36</sup>

### **Factors Influencing Market:**

- ▶ Changing demographics are reshaping housing demand:

- Immigrants: have accounted for more than a third of household growth since 1990s.<sup>37</sup> Persons born outside the US now head more than 10% of households.<sup>38</sup> 28% of foreign-born householders in US in 2000 arrived during the 1990s.<sup>39</sup> Most are Hispanic and Asian.<sup>40</sup> Result: a larger share of households will be younger, foreign-born, and minority than previously predicted; with their relatively low average incomes, these groups will add to the demand for modest starter homes and affordable rental housing.<sup>41</sup> Future: Since 2000, immigration has been running at more than 1.2 million/year (vs. government projections of .85 mill/year), so household formation could be higher than currently projected.<sup>42</sup> Foreign-born are highly concentrated in 10 metropolitan markets; however, are increasingly choosing to live in a wider range of locations, including non-metropolitan communities.<sup>43</sup>
- Aging: longer life expectancies favor stronger growth among 75+ than previously predicted.<sup>44</sup> This trend has two faces:
  - Affluent retirees in some areas are "trading up," leading to soaring home values.<sup>45</sup> Nationally, at least ¼ homebuyers are 55+<sup>46</sup> and the number of homeowners 65+ with a mortgage increased by 46% between 1995 and 2001.<sup>47</sup>
  - Less affluent seniors face "quadruple threat": 1) inadequate incomes to pay housing costs; 2) mounting healthcare needs; 3) most live in single-family homes that require maintenance and are expensive for caregivers to reach because they are geographically dispersed. 4) Physical limitations or cognitive impairments that must be addressed by in-home care or structural modifications.<sup>48</sup> Harvard's Joint Center for Housing Studies: "Retirement incomes are so meager that many seniors face heavy housing cost burdens on top of escalating healthcare costs."<sup>49</sup>
- ▶ Minority homeownership is increasing (17% in 1980 to 26% in 2000), (largely as a result of immigration<sup>50</sup>) but still lags white rate by nearly 25%.<sup>51</sup>
- ▶ Women have a more powerful presence in housing markets. More households headed by unmarried women. Median contributions of wives' earnings have increased.<sup>52</sup>

- ▶ Changes in finance industry have helped to strengthen housing markets<sup>53</sup>:
  - Consolidation: brings economies of scale, reducing costs
  - Ability to tap into broader capital markets both here and abroad;
  - Automation: lowered costs, reduced discrimination
  - Multiple mortgage products (interest-only loans, piggyback loans, mortgages that allow skipping up to 10 payments over life of loan, etc.): enables industry to meet different needs
  - Note: these new instruments can themselves contribute to rise in prices by increasing demand. Also can be risky for borrowers in the long run.<sup>54</sup>
  - Capital more available in low-income and minority communities (growth in sub prime loans in these communities)

## HOMEOWNERSHIP MARKET: MARYLAND

### The Good News:

- ▶ October 2003: Homeownership rate = 72%, or 18<sup>th</sup> nationally<sup>55</sup>
- ▶ Of the four census regions, most rapid growth in housing starts has been in the South (MD included)<sup>56</sup>

### The Bad News - Affordability:

- ▶ October 2003: Median housing price in MD = \$180,894 for first-time homebuyer. A typical entry-level household does not earn enough income to afford this.<sup>57</sup>
- ▶ Home prices are increasing faster than wages and income:
  - 2004: Price of average MD home has risen 52% in 5 years leading up to 2003, 13% annually for past two years. Average cost of a newly constructed home = \$368,085.<sup>58</sup>

- Family would need to earn \$111,323 annually to purchase average new home in MD. Average wage of MD's 54,000 teachers increased only 16% in 5 years leading up to 2003, to \$48,525. Avg. salary for Baltimore area police officer: \$44,557 at end of 2003.<sup>59</sup>
- ▶ MD does not have comprehensive affordable housing policy
  - Gov. Ehrlich: "MD has long lacked a comprehensive housing policy and a strategic plan for addressing the housing needs of Marylanders." Created *Governor's Commission on Housing Policy* in March 2003 to examine state's role in meeting MD's housing challenges.<sup>60</sup> Interim report is due Sept. 30, 2004; Final Report is due Dec. 31, 2004.

### RENTAL MARKET: NATIONAL

- ▶ Rental housing is becoming less affordable:
  - From 1991 – 1999, number of families paying more than 50% of their income for rent rose by 12%. By 1999, renter families with "worst case housing needs" had reached record levels.<sup>61</sup>
  - As of 1999, 40% of all renter households paid more than 1/3 of income for rent. Among very low-income households, 70% paid more than 1/3 of income for rent.<sup>62</sup>
- ▶ Most new construction is targeted at top end of rental market:
  - New construction over past 10 years has been disproportionately concentrated in the top 5<sup>th</sup> of the rent distribution in individual metro areas.<sup>63</sup>
  - Building for the "middle market" (rents between 40<sup>th</sup> and 80<sup>th</sup> percentile) has also been robust.<sup>64</sup>
  - In lower market (bottom 40% of rent distribution), new construction is highly constrained by amount of government subsidies available to make this production economically feasible. As a result, only ~1/5 of all new rental construction over the past decade has been targeted to the bottom tier of the market.<sup>65</sup>

- ▶ More than 1/3 of households with “worst case housing needs” (i.e., very low-income renter households that do not receive assistance and pay more than 50% of income in rent) live in suburbs.<sup>66</sup>
- ▶ While number of renter households has grown only slowly since 1990, composition of renter population has changed dramatically
  - Minority share of renters jumped 31 – 39%
  - Foreign-born share of renters grew from 12 –17%.
  - Because of these trends, overall median income of renters is lower. Meanwhile, higher-income renters have taken advantage of low interest rates, etc. to become homeowners. Therefore, income gap between owners and renters has widened (\$18,700 in '91 to \$22,100 in '01)<sup>67</sup>
- ▶ Projection: The age distribution of the US population will soon start to favor rental markets:<sup>68</sup>
  - Increase in foreign-born increases population of lower income young adults;
  - Echo baby-boomers will soon be old enough to form own households.
  - Both these populations tend to rent initially.

### RENTAL MARKET: MARYLAND

- ▶ Affordability problems: In October 2003, National Low Income Housing Coalition found that MD had the largest annual increase (12%) in housing wages in the nation (5<sup>th</sup> highest of any state).<sup>69</sup> Housing wage = hourly wage that one must earn to afford modest rental housing working FT (40 hrs/ wk, 52 wks/yr)
- ▶ 37% of MD's households cannot afford rental units in MD. In state's most affordable rental housing jurisdictions, minimum wage worker needs to work 80 hrs/week to pay for a 2-bedroom apartment.<sup>70</sup>

## RURAL HOUSING TRENDS

### Affordability trends:

- ▶ ~16% extremely low-income renters and 25% extremely low-income owners reside in non-metropolitan areas (1998).<sup>71</sup>
- ▶ ¼ of rural households pay more than 30% of income for housing (2001).<sup>72</sup>

### Homeownership trends:

- ▶ Rural households are more likely to own their own homes than are urban households (81% vs. 58%) (1998).<sup>73</sup>
- ▶ Housing stock in rural areas is typically older than that in urban areas, requiring more maintenance and upkeep.<sup>74</sup>
- ▶ Rural areas often have building codes that are nonexistent, not enforced, or not applicable to existing houses<sup>75</sup>. Result = overall lower quality housing.
  - According to 1995 American Housing Survey, in 1993 rural home owners were more likely than urban homeowners to have severe plumbing problems as well as moderate heating and upkeep problems.<sup>76</sup>
  - Nearly 1/10 of rural households live in inadequate units (2001).<sup>77</sup>
- ▶ Rural homes are more likely to live in manufactured housing than are urban households (16% vs. 3%).<sup>78</sup>

### SECTION 3: Analysis of Existing Land Use & Housing Markets

- ▶ Affordable housing is sometimes built on less desirable sites, e.g., brownfields and/or affected by environmental remediation regulations.
- ▶ Exclusionary land use policies can be big deterrents to building affordable housing.<sup>79</sup>
  - Examples = banning development of multifamily housing, zoning to require large lots, minimum setback requirements, prohibitions on accessory dwelling units or multifamily housing, growth controls
  - Communities that have adopted low-density-only zoning as a way to control growth have become more exclusive, leading to fewer African-American and Hispanic residents, and shifting from multi-family and renter occupancy to owner-occupied, single-family homes.<sup>80</sup>
- ▶ Growth management initiatives may place moratoriums on all new construction as a strategy to limit housing development and control change in the community; this also tends to limit housing affordability
- ▶ Smart Growth strategies can have a positive OR negative affect on affordability:<sup>81</sup>
  - Can decrease affordability by 1) making neighborhoods that were formerly undesirable more attractive and expensive (e.g., revitalized urban neighborhoods); 2) restricting the amount of land available for growth, thereby increasing cost of remaining land (especially if land-use practices are not adjusted to accommodate higher densities).
  - Can also contribute to affordability by reducing construction and infrastructure costs (but only if those savings are passed on to the buyer), increasing access to transit (so families can spend less on travel and more on housing), providing more choices than detached single-family home (e.g., multi-family, smaller homes, attached units).
  - Note: Unlike other states, Maryland's Smart Growth program has no affordable housing goal and no requirement that local governments must accommodate growth within urban areas. Most local governments in MD currently do not monitor residential development capacity, rendering them ill-equipped to assure that future capacity is sufficient to meet

housing needs. Gov. Ehrlich has issued an executive order authorizing the MD Dept of Planning to conduct a development capacity study.<sup>82</sup> Submitted July 1 and available on-line

## **SECTION 4: Analysis of the Current Overall Supply and Demand Pressures**

### **DEMAND TRENDS**

- ▶ Increasing demand for modest starter homes and affordable rental housing:
  - Strong immigration in 1990's (vast majority of whom are young adults<sup>83</sup>): means that a larger share of households will be younger, foreign-born, and minority, with relatively low average incomes<sup>84</sup>
  - Echo baby-boomers will soon be old enough to form own households.<sup>85</sup>
  - Economy continues to generate strong and growing demand for LOW-WAGE workers.<sup>86</sup>
  - Harvard's Joint Center for Housing Studies: "Many of the low-wage jobs created by the economy do not pay enough for a household to afford (at 30% of income) even a modest 1-bedroom rental anywhere in the country."<sup>87</sup>
  - Home prices are increasing faster than wages and income
  - Many seniors face affordability problems
- ▶ Increasing demand for affordable senior housing, including assisted living facilities:
  - More than 1/3 of households with heads 65+ are in bottom income quintile.<sup>88</sup>
  - One of biggest needs is for middle-income senior housing, for those that don't qualify for LI housing, but can't afford market rate<sup>89</sup>
- ▶ At same time, demand for higher-end housing:

- Due to increasing income disparity, strong market demand for larger, more luxurious housing.<sup>90</sup> Those with access to wealth may help drive home prices up ahead of income growth.<sup>91</sup>
- Concept of what constitutes basic housing has changed. What was considered acceptable/desirable 40-50 years ago (e.g., 800-sq-ft brick box) is not considered acceptable, so families drive to distant suburbs to get more / better housing.<sup>92</sup>
- ▶ Record-low mortgage interest rates have contributed to bidding wars on properties and to rising prices<sup>93</sup>

### SUPPLY TRENDS

- ▶ Note: In general, housing is different from other goods because supply does not respond to demand quickly; construction takes time. Older, less desirable units may "filter down" to low-income people, but this takes awhile and is uncertain. Units can also filter up (e.g., as higher-income households get attracted back into central city).<sup>94</sup>

### Homeownership Market:

- ▶ Residential construction has been on the rise for most of the last 12 years, adding significantly to housing stock in both metro and non-metro areas. Housing construction over next 10 years is likely to exceed that of the last 10 years.<sup>95</sup>
  - In first quarter 2004, pace of housing production was "exceptionally robust," reaching levels not experienced in past 2 -3 decades.<sup>96</sup>
- ▶ However, the private housing market does not reach down to the lowest income people in the U.S.<sup>97</sup> Thus, inadequate supply of housing that is affordable to low-moderate income households
- ▶ In addition, growing shortage of housing that is affordable to moderate-income households (i.e., 50-120% of area median income), especially in urban areas.
  - This leads many households to locate far from their jobs, creating all the problems associated with sprawl, including traffic congestion, air pollution, environmental degradation,

and requests for public funds for new roads, schools, libraries, etc.

- Includes teachers, firefighters, police officers, and nurses.<sup>98</sup>
- Though most intense in largest metropolitan areas, the problem is nationwide and attaining crisis proportions.

### **Rental Market:**

- ▶ 1<sup>st</sup> Quarter 2004: High vacancy rates persist in the rental market: 10.4% highest vacancy rate in history.<sup>99</sup>
- ▶ New construction over past 10 years has been disproportionately concentrated in the top 5<sup>th</sup> of the rent distribution in individual metro areas<sup>100</sup>
- ▶ Building for the "middle market" (rents between 40<sup>th</sup> and 80<sup>th</sup> percentile) has also been robust.<sup>101</sup>
- ▶ In lower market (bottom 40% of rent distribution), new construction is highly constrained by amount of government subsidies available to make this production economically feasible. As a result, only ~1/5 of all new rental construction over the past decade has been targeted to the bottom tier of the market.<sup>102</sup>
  - The number of rental units affordable to extremely low-income families dropped 5% between 1991 and 1997.<sup>103</sup>
  - Number of renters in bottom income quintile outnumbered supply of lowest-cost units by 2 million (2001).<sup>104</sup>

## **SECTION 5: Analysis of Factors Related to Housing Affordability (Rental and Owned)**

### **FEDERAL DEFINITIONS**

- ▶ "Financially burdened" = pay more than 30% of income on housing (called "housing cost burden")<sup>105</sup>
  - Housing cost burden = "moderate" if 30-50% of income on housing and "severe" if pay 50+% of income on housing<sup>106</sup>
- ▶ Low-income households = those with incomes at or below 80% of area median

- ▶ Very low-income households = those with incomes at or below 50% of area median
- ▶ Extremely low-income households = those with incomes at or below 30% of area median.
- ▶ Note: These income categories do not correspond to the federal definition of poverty or any other federal or state categorization of people by income. Area median income (AMI) varies from place to place and is calculated each year by HUD.<sup>107</sup>

## AFFORDABILITY FACTORS

### Nature of Housing Market

- ▶ Housing is an inherently expensive product: "The simple fact is that the cost of supplying even the most modest housing far exceeds the amount many lower-income households can pay."<sup>108</sup> (Harvard's Joint Center for Housing Studies). Therefore, the private housing market does not reach down to the lowest income people in the U.S.<sup>109</sup>
- ▶ Housing is also different from other goods because supply does not respond to demand quickly; construction takes time. Older, less desirable units may "filter down" to LI, but this takes time and is uncertain. Units can also filter up (e.g., as higher-income households get attracted back into central city).<sup>110</sup>

### Increasing Housing Costs

- ▶ House prices in many areas of the country have risen considerably faster than household incomes and 4-5x faster than inflation for last 10 years.<sup>111</sup> Factors include:
  - Record-low mortgage interest rates, which have contributed to bidding wars on properties and to rising prices<sup>112</sup>
  - Affluent baby boomers helping to push up prices
  - Demand for larger, more luxurious housing, plus concept of what constitutes basic housing has changed. What was considered acceptable/desirable 40-50 years ago (e.g., 800-sq-ft brick box) is not considered acceptable, so families drive to distant suburbs to get more housing space.<sup>113</sup>

## Inadequate Income Relative to Cost of Housing

- ▶ Economy continues to generate strong and growing demand for LOW-WAGE workers.<sup>114</sup>
- ▶ “Based on HUD’s fair market rent measure, households with one full-time minimum wage earner cannot afford to rent even a one-bedroom apartment anywhere in the country”(Harvard’s Joint Center for Housing Studies)<sup>115</sup>
  - National Low Income Housing Coalition calculated “housing wage” = hourly wage that one must earn to afford modest rental housing working FT (40 hrs/ wk, 52 wks/yr). Ranges from \$8.50/hr in WVA to \$18.33 /hr in CA. In 33 states and DC, even two FT minimum wage earners do not reach “housing wage” and in 3 states (NJ, NY, Hawaii), even 3 jobs are not enough.<sup>116</sup>
  - Housing problems are most heavily concentrated among the lowest income people: 2/3 of people with housing problems are low-income.<sup>117</sup> Most trends indicate that more Americans will struggle with housing costs, especially if poor (many of whom are senior citizens).<sup>118</sup>
  - Women and minorities are over-represented in lower-income category. Therefore, incidence of housing problems is higher among minorities than among whites and among unmarried women than unmarried men of comparable ages.<sup>119</sup> At the greatest disadvantage are single mothers: spend the largest share of their incomes on housing.<sup>120</sup>
  - Low-moderate income seniors: More than 1/3 of households with heads 65+ are in bottom income quintile.<sup>121</sup> One of biggest needs is for middle-income senior housing, for those that don’t qualify for low-income housing, but can’t afford market rate<sup>122</sup>

## Dwindling Supply of Affordable Housing

- ▶ Number of rental units available for very low-income households fell by more than 1 million units from 1997-99. Number of units available to extremely low-income households dropped by 750,000 units.<sup>123</sup>
- ▶ In 2001, number of renters in bottom income quintile outnumbered supply of lowest-cost units by 2 million.<sup>124</sup>

► Factors include:

- Physical deterioration: low rents in private market units lead to inadequate maintenance, which leads to units' deterioration and eventual removal from housing stock. Once lost, these private market units are almost impossible to replace.<sup>125</sup>
- Gentrification
- Changes to tax code in 1986: limited tax write-offs investors had come to expect in real estate, new housing and construction ventures. Led to declines in housing starts, including moderately priced dwellings, and value of real estate as investors got out of market.<sup>126</sup>
- Also, many affordable housing units are in the hands of owners who would incur a significant tax upon sale; makes them reluctant to sell properties at a price that would allow community organizations to purchase and preserve the affordable units.<sup>127</sup>
- Reduced inventory of federally subsidized housing units because of landlords opting out of Section 8 program when contract expires and trend toward replacing failed high-density public housing projects with lower-density, mixed income communities.<sup>128</sup> Note: more than 1 million units of low-cost rental housing were lost during the 1990s because of expiration of Section 8 contracts. By 2005, contract for 900,000 of remaining 1.5 million Section 8 units will have passed their initial expiration mark.<sup>129</sup>

**Decline in Direct Federal Assistance for Affordable Housing**

- Cranston-Gonzalez National Affordable Housing Act of 1990 refocused federal housing priorities from housing construction and rehab to housing affordability.
- From mid-80s, federal government policy turned away from federal funding and control of housing programs and toward increased responsibility at both state and local levels.<sup>130</sup>
  - Also, greater reliance on public/private programs to make up for gap created by reduced funding for housing programs.<sup>131</sup> Direct assistance was de-emphasized and new programs

were initiated, such as tax incremental financing for affordable housing, loan guarantee programs, and rent assistance vouchers<sup>132</sup>

- After adjusting for inflation, housing as a federal budget item has ½ the funding today that it had in the 70s.<sup>133</sup>
- ▶ Today, housing assistance programs reach only a small fraction of the lowest-income households.
  - Only ~1/3 of very low-income renters receive housing assistance<sup>134</sup>
  - ¾ of eligible households receive no assistance.<sup>135</sup>
- ▶ In time of federal deficit, prospects for additional income supports or housing subsidies are bleak.<sup>136</sup> Along with looming shortfall in Social Security fund, Medicare and Medicaid expenses are set to soar when the baby boomers start to retire at the end of the decade.<sup>137</sup>

### **Restrictive Land Use and Other Regulations: See Sections 3 and 5**

### **Public Resistance to High-Density Development**

- ▶ Increased housing demand can be perceived as a threat to the small town rural character of many communities. The effort to maintain rural character (usually the ideal = owner-occupied homes on large individual lots in residential neighborhoods) frequently results in policies that, for example, restrict mobile homes, require large lot sizes, and limit the development of multifamily rental housing.<sup>138</sup>
- ▶ May create difficult and politically unstable environment for those trying to produce affordable housing; discourages developers of this type of housing

### **Lack of Financial Qualifications and Skills**

- ▶ 1998 Fannie Mae National Housing Survey: Major obstacles to homeownership:
  - Having a good enough credit rating to get a mortgage – 16%
  - Confusion about the home-buying process and how to get started – 13%
- ▶ Example: New affordable housing complex in Lakeland, FL, that can't fill units because applicants can't qualify for federal loans established for low-income homebuyers: don't have checking account or savings

account, are buried in credit card debt, don't have stable employment. Note: some researchers suggest that for many working poor, homeownership is simply not realistic and shouldn't be overemphasized.<sup>139</sup>

### **Complex Application Procedures**

- ▶ People seeking to take advantage of affordable housing programs don't know where to look and can be overwhelmed by paperwork, application process, etc.

### **Discrimination**

- ▶ May make it more difficult for minorities to get traditional loans, must rely on more expensive sub-prime loans

### **Factors Specific to Rural Areas**

- ▶ Rural households have, on average, incomes ~19% lower than their urban counterparts.<sup>140</sup>
- ▶ Residential financing continues to be less available and more costly in rural areas than in urban ones (according to Census, 1995): higher interest rates, less use of both conventional and government-sponsored financing, loan terms shorter, loan-to-value ratios lower.<sup>141</sup>
- ▶ Workers can't afford to live in expensive resort towns where low-income housing is almost non-existent

## **SECTION 6: Analysis of Housing Affordability Regulatory Factors**

- ▶ This is an area where federal government plays a limited role, so localities have most impact.<sup>142</sup>

### **DEFINITIONS:**

- ▶ Zoning: regulates housing types and density for specific parcels of land
- ▶ Subdivision codes: deal with the division of land into building lots and the design of supporting site improvements, such as streets, curbs, and gutters, and water/sewer connections
- ▶ Building codes: regulate construction standards and provide materials specifications governing the construction, reconstruction, alteration,

and repair of buildings and other structures to which the code is applicable

- ▶ Housing codes: regulate occupancy factors regarding tenant health and safety as well as the structural condition of existing housing.

### HOW REGULATIONS AFFECT AFFORDABILITY

- ▶ Exclusionary land use policies can be big deterrents to building affordable housing.<sup>143</sup>
  - Local elected officials know they can maximize their tax base and please their established voting constituents by maintaining regulatory barriers.<sup>144</sup>
  - These include banning development of multifamily housing, zoning to require large lots, minimum setback requirements, prohibitions on accessory dwelling units or multifamily housing, growth controls
  - Communities that have adopted low-density-only zoning as a way to control growth have become more exclusive, leading to fewer African-American and Hispanic residents, and shifting from multi-family and renter occupancy to owner-occupied, single-family homes.<sup>145</sup>
  - Example: Loudoun County limited future development to one house per 10, 25, or 25 acres, depending on location. Nearly impossible to develop affordable housing under these restrictions.<sup>146</sup>
  - Example: Habitat for Humanity. Larger minimum home sizes and other new rules are leading to fewer new Habitat homes and making it harder for clients to afford them.<sup>147</sup>
- ▶ Infrastructure regulations can increase cost of housing: sidewalks, underground utilities (water/sewer), storm drains and other incremental costs of new development.<sup>148</sup>
- ▶ Environmental remediation regulations for affordable housing built on less desirable sites, e.g., brownfields, can add to cost of housing.
- ▶ Smart Growth strategies can affect affordability:<sup>149</sup>
  - Can decrease affordability by 1) making neighborhoods that were formerly undesirable more attractive and expensive

(e.g., revitalized urban neighborhoods); 2) restricting the amount of land available for growth, thereby increasing cost of remaining land (especially if land-use practices are not adjusted to accommodate higher densities).

- Can also contribute to affordability by reducing construction and infrastructure costs (but only if those savings are passed on to the buyer), increasing access to transit (so families can spend less on travel and more on housing), providing more choices than detached single-family home (e.g., multi-family, smaller homes, attached units).
  - Note: Unlike other states, Maryland's Smart Growth program has no affordable housing goal and no requirement that local governments must accommodate growth within urban areas. Most local governments in MD currently do not monitor residential development capacity, rendering them ill-equipped to assure that future capacity is sufficient to meet housing needs. Gov. Ehrlich has issued an executive order authorizing the MD Dept of Planning to conduct a development capacity study.<sup>150</sup> Submitted July 1 and available on-line.
- ▶ Fragmentation of authority among individual cities and counties is one of biggest constraints on effective use of regulatory tools: makes it difficult to craft region wide strategies, which are the most optimal.<sup>151</sup>

#### **SECTION 7: Analysis of Housing Sub-Markets on the Basis of Growth and Value Trends**

- ▶ Housing Sub-Markets in Worcester County chosen for this study were:
- Ocean City – Ocean Pines – West Ocean City;
  - Berlin
  - Snow Hill
  - Pocomoke
  - Remainder of Northern Worcester County
  - Remainder of Southern Worcester County
- ▶ The first two sub-markets above have been further classified as "Northern Worcester – Urban."
- ▶ The next two above have been further classified as "Southern Worcester – Urban."

- ▶ The last two have been classified as “Northern Worcester – Rural” and “Southern Worcester – Rural” respectively.
- ▶ On the basis of these classifications, the current conditions as they relate to housing affordability can be summarized as follows:

**TABLE 1**

Northern Worcester -- Urban	<b>Low</b>
Northern Worcester -- Rural	<b>Moderately Low</b>
Southern Worcester -- Urban	<b>Moderately High</b>
Southern Worcester -- Rural	<b>High</b>

**Worcester County -- Current Affordability**

**NOTE:** At this point, it is important to clarify the concept of “Current Affordability” as it pertains to Table 1 presented above. Different demographic and socio-economic groups in a community experience housing affordability issues in different ways. While the summary conditions presented above apply to Worcester County in the aggregate, there should be no doubt that for some households, housing affordability is a major problem even in the rural areas of Southern Worcester, which Table 1 currently shows as having “High” housing affordability. This is not a weakness of the analytical framework used in this study, or in similar studies done elsewhere. This kind of aggregate information is used for overall trend forecasting purposes. The particular impacts of these trends on specific demographic and socio-economic sectors of the population are examined separately before public policy recommendations are made. Some of that deeper analysis is presented in Section 8 of this study below.

- ▶ Using the same classifications, the future (five-year horizon) conditions as they relate to housing affordability can be summarized as follows:

**TABLE 2**

Northern Worcester -- Urban	<b>Low</b>
Northern Worcester -- Rural	<b>Low</b>
Southern Worcester -- Urban	<b>Moderately High</b>
Southern Worcester -- Rural	<b>Moderately High</b>

**Worcester County – Future Affordability**

- ▶ The public-policy conclusion we can reach from these two tables is as follows:

Worcester County currently is **NOT** in an "Affordable Housing Crisis." However, the problem is growing, especially for certain demographic and socio-economic sectors of the population. However, Worcester County **WILL BE** in an "Affordable Housing Crisis" within the next five-year period if no action is taken. The next section contains some additional forecasting that could help public policy decision-makers as they prepare for this impending crisis.

## **SECTION 8: Forecasts for Sub-Markets and Population Sectors**

### **Value Trends**

- ▶ Home values are increasing in each of the four zones described in Tables 1 and 2. Please see Appendix A for a detailed analysis of these trends.
- ▶ A Scenario Analysis model constructed by BEACON suggests that the current rate of increase in property values is not expected to continue. However, over the next five years property values will continue to rise everywhere in Worcester County, albeit at a lower rate than what we have seen over the past three years. The possible exception to this is those parts of the Northern Worcester County that fall under the "Resort Area" definition, especially waterfront, water view, and water access properties. More significant is the fact that household incomes of local residents will continue to lag behind the property value increases.

### **Community and Economic Development Trends**

- ▶ Increasing property values, driven by the in-migration trend discussed earlier will have a positive impact for community development, and a somewhat positive impact on economic development due to the increasing spending potential these new residents represent.
- ▶ On the flip side, the higher values will negatively impact housing affordability for the current county workforce, especially for critical categories where living near where you work is a key job requirement or seen to be desirable for social reasons (i.e. police, fire-fighters, nurses, and teachers).

### **Fiscal Impact Trends**

- ▶ The increasing property values will have a positive fiscal impact for the County where the taxes can be realized (i.e. new properties or properties sold by current residents to the in-migration crowd). However, over time, the fiscal pressure on current residents, as they try to cash in on higher prices will be negative, forcing them to move away from their current neighborhoods. This may exacerbate the sprawl pressures on the various jurisdictions within the county. Finally, the need to deal with the ripple effects of the "Housing Affordability" issue, such as need for infrastructure enhancements, and demand for more public transportation could easily negate the fiscal benefits if not managed properly and proactively.

### **Workforce Impact Trends**

- ▶ As discussed earlier, the majority of the newcomers, who are the most significant cause of property value increases, tend not to be in the local workforce. As these newcomers increase the need for private and public sector services, the workforce will need to grow. However, the region's economic realities dictate the wage rates, not the property value increases. As such, the Housing Affordability for the current workforce will get worse. In addition, recruiting the needed new workers will get progressively more difficult, in part due to the rising property values.

### **Demographic and Social Impact Trends**

- ▶ The most significant demographic impact related to increasing property values will be the increase in the aging rate of the County. Outsiders who are at or nearing retirement age are more likely to afford housing in the County.
- ▶ The Social Impacts of the aging trend discussed above will manifest itself a intergenerational tension, as well as the tension between the "Come Heres" and the "From Heres."

### **Affordable Housing Needs Assessment Model**

- ▶ A modified Scenario Analysis Model developed by BEACON to track the Housing Needs in the County can be used as a future policy decision support tool. BEACON staff will provide training in the use of the model to Worcester County housing officials.

### **In-Migration and Out-Migration Model**

- ▶ The modified Scenario Analysis Model mentioned above can also be used to track in- and out-migration into the County by specific demographic and socio-economic sub-groups.

### **Traffic and Public Transportation Impact Model**

- ▶ While the modified Scenario Analysis Model mentioned above can be used to track the traffic and public transportation impacts of the decrease in housing affordability in numerical terms, BEACON is not equipped to provide mapping services to present these impacts in spatial terms. However, the Eastern Shore Regional Geographic Information Systems Cooperative operated by the Salisbury University Geography Faculty under the Auspices of the Tri-County Council of the Lower Eastern Shore of Maryland could provide such mapping services.

### **An Abandoned Building Phenomenon Forecast**

- ▶ The Modified Scenario Analysis Model mentioned above suggests that this phenomenon, a factor in Affordable Housing policy deliberations in urban inner-city environments, is not a viable scenario for Worcester County.

## **SECTION 9: Potential Affordable Housing Strategies and “Best Practices” in Comparable Communities**

### **GENERAL PRINCIPLES FOR AFFORDABLE HOUSING STRATEGIES:**

- ▶ Housing strategies should be tailored to local market conditions:
  - In hot markets, where population is growing rapidly and housing is in short supply, producing new affordable units may be a top priority. In markets where overall demand is weak and vacancy rates are high, poor households may need help paying for housing that is already available.<sup>152</sup>
  - Local officials need to understand configuration of their local homeownership and mortgage market: what is the pattern of homeownership? What is the quality of the stock and price appreciation history? Who are the lenders, realtors, mortgage brokers, and NGOs and in what areas are they active?

- When designing strategies, ask: does neighborhood need new units? Rehabilitation of existing units? Or should take steps to make existing units more affordable? Or a mix of all three? Where should affordable units be placed? Location is important because it determines whether family will see value of home appreciate and what, if any, social benefits they will realize
- ▶ Housing markets are regional, so housing policies should be.
    - We all have an interest in enabling low-moderate income families to live closely to employment centers.<sup>153</sup>
    - "Just as growth management and transportation planning require collaboration across jurisdictions, efforts to preserve affordability must be coordinated at the regional level to succeed. All local jurisdictions must be encouraged to provide their fair share of affordable housing."<sup>154</sup>
    - We should "look at housing in the context of whole communities and communities in the context of larger regions."<sup>155</sup>
- ▶ Income policy is housing policy.
    - HUD's annual analysis of worst case housing needs generally finds that 80% of the problem is affordability (i.e., not housing inadequacy or overcrowding). So programs that help people increase their incomes (child care, education, job training, etc.) also address housing hardship.<sup>156</sup>
- ▶ Affordable housing strategies should be integrated with other community development goals, including, neighborhood revitalization, smart growth, and zoning/comprehensive planning practices.<sup>157</sup>
    - If focus too narrowly on a single goal (e.g., "affordability") can have unintended consequences, e.g., racial /economic segregation.
    - A balanced approach helps reduce long-standing conflicts re "people-based" policy (e.g., help them move out of bad areas) versus "place-based" policy (e.g., improve distressed neighborhoods)<sup>158</sup>

## "DEMAND-SIDE STRATEGIES" - TO INCREASE INCOME / ABILITY TO PAY FOR HOUSING / ACCESS TO FINANCING

### Federal "Demand-Side" Programs: (Selected Examples)

- ▶ Note: In mid-80s, federal government policy turned away from federal funding and control of housing programs and toward increased responsibility at both state and local levels.<sup>159</sup>
  - After adjusting for inflation, housing as a federal budget item has ½ the funding today that it had in the 70s.<sup>160</sup> Hence, greater reliance on public/private programs to make up for gap created by reduced funding for housing programs.<sup>161</sup>
  - Direct assistance was de-emphasized and new programs were initiated, such as tax incremental financing for affordable housing, loan guarantee programs, and rent assistance vouchers.<sup>162</sup>
- ▶ Section 8 Voucher Program: Families pay 30% of income for rent and federal government makes up the difference.
  - Note: more than 1 million units of low-cost rental housing were lost during the 1990s because of expiration of Section 8 contracts. By 2005, contract for 900,000 of remaining 1.5 million Section 8 units will have passed their initial expiration mark.<sup>163</sup>
- ▶ Fannie Mae programs, including:
  - Program that allows for down payments as low as \$500 and considers "nontraditional" credit histories, such as those of recent immigrants.<sup>164</sup>
  - Program in which people who are "credit impaired" can reduce their interest rates by making payments on time, as well as other incentives to encourage mortgage lender to reach out to low- and moderate-income borrowers.<sup>165</sup>
  - Employer-assisted housing programs: Partnership includes Fannie Mae, employer, employee, and lender. Employer offers benefit (e.g., loan, grant, matched savings plan, homebuyer education); employee participates and meets criteria; lender provides first mortgage underwriting and origination; Fannie Mae helps employers create the

program, identify lenders and other partners. Can also be used to help with rental housing.<sup>166</sup>

- ▶ U.S. Rural Housing Service (RHS, formerly the Farmers Home Administration) programs: prompted by concern that rural households seeking to purchase homes are hindered by a private sector loan shortage. This is a loan program directed at very low, low and moderate-income borrowers seeking financing for modest rural homes. Includes Section 502 direct loan program and Section 515 rental housing program<sup>167</sup>
- ▶ Other sources of publicly supported residential mortgage financing: Farm Credit System, Federal Housing Administration (FHA), and Veteran's Administration (VA). According to 1995 Census, these government programs are used less in rural than in urban locations.<sup>168</sup>
- ▶ Community Reinvestment Act: intended to encourage depository institutions to help meet credit needs of communities in which they operate, including low- and moderate-income neighborhoods.
- ▶ American Dream Down payment Assistance Act: Signed into law in December 2003. Funds given to 434 state and local governments to give people earning less than 80% of area's median income: \$10,000 or 6% of homes purchase price, whichever is greater, to help with down payments and closing costs. It is the first federal block grant to help first-time homebuyers.<sup>169</sup>

#### State/Local "Demand-Side" Programs

- ▶ Living wage ordinances, increasing minimum wage
- ▶ Aggressive enforcement of fair housing and lending laws
- ▶ Housing Trust Funds: as of 2002, had been established by over 200 states and local jurisdictions,<sup>170</sup> including Vermont and Florida<sup>171</sup>
- ▶ Community Land Trusts: In this model, a nonprofit organization owns the land and the homeowners own building.<sup>172</sup> Decreases the total cost of the housing. There are 120 across community land trusts across U.S.
  - New employers and/or those that don't pay very high wages can be required to contribute to the fund.<sup>173</sup>
- ▶ Help with down payments and other housing costs:

- Example: Baltimore County, Office of Community Conservation - Recently increased the maximum amount available from its settlement expense loan program for first-time homebuyers from \$5,000 to \$10,000. County will forgive loan if homebuyer stays in house for at least 15 years. Must purchase home in specified communities. Regarded as a revitalization tool as well as homeownership assistance program. Only 20% of applicants are approved (because of credit problems and insufficient down payment). Program funded by HUD.
  - Example: Anne Arundel County - Recently increased maximum loan from \$10,000 to \$25,000. Recipients required to pay back principal when sell homes.<sup>174</sup>
  - Example: Long Island, NY - Government gives down payment assistance grants to employees that their employers are required to match up to \$3,000.<sup>175</sup> Partnership includes: Long Island Association (LIA), the Long Island Housing Partnership, Inc. (LIHP), the New York State Affordable Housing Corporation and Fannie Mae = Home Works Partnership, an employer-assisted housing program.
- ▶ Increasing eligibility for housing assistance programs
    - Santa Fe: Raised cap for people to qualify for affordable housing from 80% median income to 100% median income.<sup>176</sup>
  - ▶ Help with bad credit:
    - Texas state-sponsored program that provides mortgage financing to families who previously could not get financing due to their credit, or who could only get high interest rates that they couldn't afford.<sup>177</sup>
  - ▶ Help paying mortgage in case of illness or unemployment:
    - North Carolina: proposal to establish low-interest loan pool for homeowners who miss mortgage payments for designated reasons. Patterned after program started in Pennsylvania 20 yrs ago.<sup>178</sup>

### Nonprofit / Faith-Based "Demand -Side" Programs

- ▶ Community Development Financial Institutions (CDFIs): more than 500 in the United States, with at least one in every state.
  - Primary mission = to promote economic development in struggling areas, both urban and rural, that are underserved by traditional financial institutions.
  - Provide an array of financial services in their target areas, including mortgage financing for homebuyers.<sup>179</sup>
- ▶ Churches operating credit unions to help people save for down payment, also providing financial counseling.<sup>180</sup>
- ▶ Howard County: religious groups collaborating with Community Development Financial Institution and county housing officials to provide a "silent second" mortgage for portion of home price, in exchange for share of the appreciation when the house is sold or loans refinanced.

### Private Sector / Collaborative "Demand-Side" Programs

- ▶ Citizens Bank "first of its kind" program that will set aside \$200 million for below-market-rate loans to nonprofit developers in 4 NE states. Hope to create 1,200 affordable housing units in region.<sup>181</sup>
- ▶ Targeted Mortgage Program: Bank of American (one of country's highest-volume mortgage originators) teaming up with Fannie Mae (largest mortgage investor) to roll out a new targeted-financing concept called "neighborhood champions" mortgages. For moderate-income public servants increasingly priced out of housing market, e.g., teachers, school employees, medical workers, pharmacists and pharmacy assistance, hospital, nursing facility and doctors' office employees.
  - Designed to stretch traditional underwriting requirements, e.g., zero down payment, gifts allowed for closing costs, credit standards custom-tailored for community professional, income standards more generous than under traditional mortgage lending guidelines.
  - Research has shown that, despite modest salaries, these "neighborhood champions" are excellent credit risks because they are highly likely to make monthly payments on time and are not typically subject to mass layoffs.<sup>182</sup>

- ▶ Collaboration between National Association of Realtors and US Conference of Mayors: "Realtors Ambassador to Cities Initiatives."<sup>183</sup>  
Includes:

- Educational campaign for real estate professionals to raise awareness about the array of homeownership assistance that is available to low- and moderate-income families
- Research to ensure that the assistance meets the needs of local homebuyers and borrowers

### Final Caution

- ▶ Pushing homeownership for underserved families has a place but must be careful.
  - Not all will benefit from homeownership, which has risks as well as benefits.
  - Location plays critical role in effectiveness of homeownership programs (i.e., whether home value appreciates, whether children realize social benefits).
  - Homeownership can play a role in revitalizing distressed neighborhoods, but cannot be only tool used. Without other improvements, may even prove costly to families who purchase in these neighborhoods. Assistance should also go beyond purchase to helping keep up mortgage payments and maintaining property.<sup>184</sup>
  - 2004 study: Buying a house does not necessarily mean an improvement in neighborhood quality because most low-income families bought homes in areas similar to where they were renting – elevated levels of poverty, high school dropouts, and unemployment.<sup>185</sup>
  - 2004 study: Low-income minority families in homes at least 10 years tended to realize smaller average property value increases than did middle- and high-income whites (30% vs. 60%)<sup>186</sup>
  - 2004 study: More than ½ of minority and low-income families left houses and returned to renting within 5 years; 1/3

returned to renting in first 2 years. "Homeownership is not a cure-all for low-income families w/o a living wage job and wage progression. W/o those 2 things, it is not sustainable." Very few low-income families that return to renting every buy another house.<sup>187</sup>

### "SUPPLY-SIDE STRATEGIES" – TO INCREASE PRESERVATION / PRODUCTION OF AFFORDABLE HOUSING

- ▶ Note: Location is critical to housing production programs. Concentrating families in a high-poverty neighborhood can undermine well-being. Affordable housing alone cannot revitalize a distressed neighborhood.<sup>188</sup>
- ▶ Note: Building housing that extremely low-income households can afford requires deep subsidies.<sup>189</sup>

#### Federal "Supply-Side" Programs (Selected Examples)

- ▶ Note: See info above re. declining federal role in production of affordable housing.
- ▶ Public Housing: Federally subsidized multifamily units, run by local public housing authorities. Trend is toward replacing failed high-density public housing projects with lower-density, mixed income communities.<sup>190</sup>
- ▶ Section 8 project-based subsidies.
- ▶ National Affordable Housing Trust Fund Act: housing production program that will provide 1.5 million rental units over 10 years for LI families and paid for with revenues from FHA and Ginnie Mae<sup>191</sup>
- ▶ Community Development Homeownership Tax Credit Act: to build or rehabilitate 500,000 homes for low and moderate-income families in economically distressed areas<sup>192</sup>
- ▶ Community Development Block Grants
- ▶ HOME Investment Partnership programs
- ▶ Low-Income Housing Tax Credit for rental units. Created by Congress in 1986.

- Provides states with \$1.75 per capita allocation of tax credits each year. Credits are then allocated to affordable housing developers, who sell the credits to private sector investors in order to raise equity for their projects (new construction or substantial rehabilitation).
  - Administered by state housing finance agencies. Each sets out state's priorities for allocating credits in Annual Allocation Plan, aimed at awarding credits to projects that best serve the state's unique housing needs. Income and rent restrictions last for 15 yrs; 30 yr compliance period with extensive monitoring. Each jurisdiction has its own allocation plan.<sup>193</sup>
  - HUD data from 1995-2000 shows 26% of LIHTC projects placed in non-metro areas.
  - Often used in combination with other financing programs, e.g. USDA Section 515 rural rental housing program for rural areas.<sup>194</sup>
- ▶ Hope VI: demolition of large, distressed public housing properties and replacement with low-density, mixed income properties

#### State "Supply-Side" Programs

- ▶ CA and NJ: Require municipalities to demonstrate how they will accommodate "their share" of the state's need for affordable housing.<sup>195</sup>
- ▶ RI: Approved legislation in June 2004 re. Statewide affordable housing bill: state sets housing production goals for each community. Must approve local housing plans.<sup>196</sup>
- ▶ MD:
  - Unlike other states, Maryland's Smart Growth program has no affordable housing goal and no requirement that local governments must accommodate growth within urban areas. Most local governments in MD currently do not monitor residential development capacity, rendering them ill-equipped to assure that future capacity is sufficient to meet housing needs. Gov. Ehrlich issued an executive order authorizing the MD Dept of Planning to conduct a development capacity study.<sup>197</sup> This was submitted July 1 and is available on-line.

- Maryland Affordable Housing Trust (MAHT):<sup>198</sup> Created 1992 by MD General Assembly. Helps to provide housing for households earning less than 50% of area or Statewide median, whichever is higher through:

- Funding capital costs of rental and ownership housing
- Providing financial assistance for nonprofit developer capacity-building
- Funding supportive services for occupants of affordable housing
- Funding operating expenses of housing developments

Preference is given to proposals providing housing to households with incomes below 30% of area or statewide median, whichever is higher, and to projects that provide the longest-term affordability.

- Maryland Dept. of Housing and Community Development: Operating assistance grants to nonprofit affordable housing developers, both for production and rehab of limited income housing and to build capacity of inexperienced nonprofits interested in LI housing<sup>199</sup>
- ▶ Energy efficiency is an emerging issue. VA and LA added points in the LIHTC allocation for energy-efficient product; Nevada included it as a threshold criteria.<sup>200</sup>

#### Regional "Supply-Side" Programs

- ▶ Minneapolis/St. Paul: Affordable housing advocates have promoted a regional systems approach, e.g., tying funding for transportation, and environmental and livable community programs to a community's performance in providing affordable housing.<sup>201</sup>
- ▶ Sacramento Area Council of Governments – 6-county region. Agreed to a regional approach to getting more affordable apartments and houses.
  - Housing compact is voluntary; can opt to join or not. Those that join pledge to make sure 8% of new housing is affordable to low- and very low-income residents.
  - Strategies vary. "Inclusionary ordinances" are common (Sacramento City: 15%; Sacramento County: crafting 10% ordinance)<sup>202</sup>

- ▶ Can set up regional housing trust funds supported by property tax revenues

#### Local "Supply-Side" Programs

- ▶ Community-based home repair programs: to help seniors stay in their homes and low-income families preserve existing affordable housing stock
- ▶ Making greater use of older and urban neighborhoods, i.e., through rehab, compact and infill development.
  - This also helps with Smart Growth, but must be combined with affordable housing strategies or may just result in gentrification.<sup>203</sup>
  - Federal historic preservation credits can help: allocated by State Historic Preservation Offices and National Park Service for rehab and preservation of buildings that are historically significant to their surrounding neighborhoods or were constructed before 1936<sup>204</sup>
  - Example: Howard County. New program renovates problem homes in existing neighborhoods and allows that to count towards developer's "affordable housing quota."<sup>205</sup>
  - Example: Lancaster and Palmdale, CA - Looking to attract seniors to downtown as both a housing and a revitalization strategy. It allows seniors to be close to services, amenities.<sup>206</sup>
  - Example: Minneapolis - Vacant and Boarded Housing Task Force coordinates City and County efforts to get residential property back on the market as quickly as possible.<sup>207</sup>
- ▶ Public partnerships with private/nonprofit entities:
  - Example: Silver Spring, MD - Elderly rental facility facing foreclosure purchased by Homes for America, Annapolis-based non-profit, with \$1 million contribution from Montgomery County.<sup>208</sup>
  - Example: St. Paul, MN - U.S. Bank and Wells Fargo Bank underwrote affordable housing development project and provided letter of credit, so that bonds could be rated AA<sup>209</sup>

▶ Tax strategies

- Example: Seattle - City Council voted a property tax break for apartment developers who set aside units in their buildings for low- and moderate-income tenants.<sup>210</sup>
- Can also offer tax abatements or deferrals for low-income homeowners in revitalizing areas

▶ Zoning / Regulatory Strategies

1) Redevelopment/Rezoning of existing property, e.g.: vacant shopping centers, old strip center.<sup>211</sup>

- Developers now converting old office buildings, department stores, warehouses, schools and hotels into affordable housing. This is both providing housing and revitalizing urban cores. It is also good for residents without access to cars.
- Example: Silver Spring, MD: Took 15-story, 130,000-sq-ft Gramax Heliport Building and are turning it into affordable housing. This can require complicated financing: e.g., Gramax involved tax-exempt bond underwritten by Montgomery County Housing Opportunity Commission, tax credits issued by Maryland HCD, gap financing from county's Housing Initiative fund, and credit enhancement for tax-exempt bond by HUD.<sup>212</sup>

2) Adopt separate codes to monitor rehabilitation of older buildings

- Many building codes / construction standards have been designed to address the needs of new suburban construction. Make it cost-prohibitive to upgrade older buildings.<sup>213</sup>

3) Inclusionary Zoning: A program that requires developers to include a certain % of affordable homes when they build a particular number of market rate homes.<sup>214</sup> Used by many jurisdictions throughout country, from Burlington VT to Santa Fe, NM, to dozens of communities in CA. In Washington DC area, used in Montgomery, PG Counties in MD; in Fairfax, Loudoun Counties in VA.

- Mechanism = trade-offs between local government and developer. Developer sells or rents % of units in new development at prices that low-moderate-income families can afford, and in return is usually given a "density bonus," which gives permission to build more units than local zoning regulations typically allow. Developer participation may be voluntary or mandatory. Parameters may include: applies only to developments with more than a certain number of units; affordable units are available to families making a certain % of area median or less; rent and sales prices of affordable units are periodically updated<sup>215</sup>
- Developers may also be allowed to "buy out," e.g., by paying a fee, providing units in another location, or providing land elsewhere for construction of affordable housing<sup>216</sup>
- Part of idea is to avoid clustering affordable housing, which can have a deleterious effect on neighborhoods. Increases chance that occupants will have same access to good schools, jobs, neighborhoods as those with more resources and choices. Also helps localities ensure affordable housing for teachers, police officers, service workers who are increasingly priced out of housing market.<sup>217</sup>
- Example: Montgomery County - Nearly 11,000 affordable housing units produced in the 2-½ decades since the ordinance was enacted in 1974.<sup>218</sup>
- Example: Cambridge, MA - Any residential development with 10 or more units must make 15% affordable
- Example: Tallahassee FL - Lowered threshold from 50 units to 25 and does not allow large development of >100 units to opt out by paying a fee.<sup>219</sup>
- Example: California – 1 in 5 communities now have an inclusionary zoning program in place and the number is growing rapidly<sup>220</sup>
- Challenges:

1) What do you do when price controls expire? In Montgomery County, the Housing Opportunity Commission may purchase up to 33% of the affordable units, and qualified non-profits may purchase up to 40% of what the HOC does not purchase. Once purchased, these units are put aside for LI households and will always be in the County's affordable housing stock.<sup>221</sup>

2) As developable land is used up, less opportunity to create these units, especially with growth management rules that limit density.

3) Communities can oppose inclusionary zoning initiatives.

4) Does inclusionary zoning have unintended consequence of slowing production? Yes, according to research done in Bay Area (funded by Libertarian think tank)<sup>222</sup>

5) If is optional and adds a lot of time to the process, developer may well reject because time = money<sup>223</sup>

6) Will it push prices up on other units as builders compensate?

▶ Comprehensive Development Planning strategies:

- Ensure an integrated approach to comprehensive planning so that housing production programs, existing zoning regulations, and comprehensive/master plans for future development are reviewed together to assess their effects on one another.<sup>224</sup>

▶ Improved information management strategies

- Example: Denver – Developed centralized system of record keeping so could track identify and track supply of affordable housing<sup>225</sup>
- Note: Most local governments in MD currently do not monitor residential development capacity, rendering them ill equipped to assure that future capacity is sufficient to meet housing needs.

- ▶ Improved program management strategies
  - Can develop centralized and consistent programs to help developers and buyers navigate complex affordable housing systems
  - Example: Denver - Different developers had different financial formulas to determine qualified buyers, didn't honor same federally backed loan programs. Re-organized Dept. of Housing and Neighborhood Development Services so city could assume responsibility from sellers and landlords of determining who qualifies for affordable housing.<sup>226</sup>
  - Example: Denver – Developed uniform sales agreements for affordable housing<sup>227</sup>
  - Example: Denver - Developed website ([www.homesearchdenver.or](http://www.homesearchdenver.or)) to help users search for affordable housing by price, size and proximity to transit<sup>228</sup>

#### Nonprofit "Supply-Side" Programs

- ▶ Middleburg, VA (Loudoun County): Private foundation raising money and combining with HUD funds to build/renovate affordable housing<sup>229</sup>
- ▶ MacArthur Foundation has announced a commitment to provide \$50 million to help purchase and preserve 100,000 units of affordable rental housing.<sup>230</sup>
- ▶ Enterprise Foundation of Columbia MD (founded by James Rouse and wife) in 2002 launched nationwide, \$125 million fund-raising campaign to renovate up to 70,000 homes in poor communities across the country.<sup>231</sup>
- ▶ Habitat for Humanity: national program to build affordable housing via donations and "sweat equity"

#### Private Sector "Supply-Side" Programs

- ▶ Home Builder Association of Maryland organizing a coalition to bring housing interests together with teachers, firefighters, police officers, and nurses to push for zoning changes and allowances for high-density development.<sup>232</sup>
- ▶ Use of manufactured housing: Cheaper and faster than traditionally built homes.<sup>233</sup>

- 2002 Millennial Housing Commission reported that manufactured housing represents 2/3 of homes added to affordable housing stock in recent years. For-profit developers are completing bulk of this development<sup>234</sup>

## **SECTION 10: Potential Affordable Housing Policies for Worcester County**

- ▶ The available remedies for Worcester County have been grouped under the following categories:
  1. Housing Subsidies
  2. Affordable Housing Incentives
  3. Market Place Dynamics
  4. Inclusionary Zoning
  5. Out-of-County Solutions
  6. Public Transportation
- ▶ A detailed analysis of these available remedies for Worcester County is presented in section 11 below.

## **SECTION 11: Analysis of Available Remedies for Worcester County**

### **1. Housing Subsidies**

Housing subsidies are best handled by the Federal and State Government agencies, and in some cases by non-profit organizations. The research presented above suggests that this remedy, while powerful in nature, is fraught with a myriad of problems.

### **2. Affordable Housing Incentives**

The variety of incentive programs described in the research presented above make this type of remedy a very attractive one. The incentives that are employer driven tend to be most targeted and easiest to operationalize. These remedies are also very effective in preventing speculation.

### **3. Market Place Dynamics**

Market place dynamics dictate, more effectively than any social engineering program, how the unmet needs of a community can be met. Once again, an analysis of the research presented above lets us conclude that the impending housing affordability crisis will yield

to some market-based solutions. The role of public policy decision-makers in this instance should be one of facilitation. Removing regulatory or other hurdles and obstacles to such market-based remedies would result in the lowest cost and highest impact outcomes.

#### 4. Inclusionary Zoning

Please see Appendix B for a detailed discussion of inclusionary zoning. Anytime there are development pressures in a community, inclusionary zoning becomes more viable. This is also the case for Worcester County. There are however, as the research presented above indicates, many pitfalls associated with inclusionary zoning solutions. A thorough analysis of such pros and cons is the first best step for incorporating inclusionary zoning in the arsenal for combating housing affordability problems in Worcester County.

#### 5. Out-of-County Solutions

While there is an understandable desire to provide all-inclusive solutions to Worcester County's Housing Affordability problem, it must be acknowledged that this is an economic phenomenon. As such, like all economic phenomena, the housing affordability problem transcends jurisdictional boundaries. Therefore, solutions that might exist outside the County's jurisdictional boundaries must be included in the policy discussions.

#### 6. Public Transportation

Housing affordability is a location-related factor in its purest form. In a very simplistic way, we can state that the distance between desirable and affordable increases as the affordability problem becomes more pronounced. Given the limited resources for infrastructure enhancements, it is clear that affordable housing will have to be developed in close proximity to existing or potential infrastructure clusters. Out of economic necessity, most of these developments will not be in the "most desired" locations. This in turn will increase the "commute time" between home and work. Roadways, as one of the limited infrastructure resources, will feel the burden of these increased commutes. Additional issues related to cost of the commute to the workforce and the environmental and quality of life impacts of such increased commute times necessitate the concentration of some public resources on an enhancement of the public transportation network (Shore Transit) to, at least, partially alleviate the problem.

## **SECTION 12: Community Best Practices for Affordable Housing Policy Shifts and Process-Oriented Factors for Developing Affordable Housing Policy**

- ▶ Successful economic development frequently results in increased housing demand. This can then be perceived as a threat to the small town rural character of many communities.<sup>235</sup>
- ▶ The effort to maintain rural character (ideal = owner-occupied homes on large individual lots in residential neighborhoods) frequently results in policies that, for example, restrict mobile homes, require large lot sizes, limit the development of multifamily rental housing,<sup>236</sup> or even place moratoriums on all new construction as a strategy to limit housing development and control change in the community.
- ▶ Challenge: A few groups, or just one, can block an affordable housing initiative. Given that social concerns about race, class, and neighborhood quality severely complicate the situation, and demographic trends point toward increases in the number of low-income and minority households (including immigrant households), difficulties will only increase.<sup>237</sup>

### **STRATEGIES**

- ▶ It helps if State has mandated or provided incentives for a "fair share" approach
- ▶ Ensure community involvement from the beginning of a planning process<sup>238</sup>
  - Example: Houston - Developer got input from community and changed original multi-family project into low-income senior project.<sup>239</sup>
  - Example: Minneapolis-St. Paul - Representatives from Metropolitan Council say that encouraging people to engage in planning for future of their communities allows them to focus on benefits of affordable housing rather than on their fears.<sup>240</sup>
  - Minneapolis Mayor hosted two Affordable Housing Summits with over 1,000 community participants.<sup>241</sup> Also "door-knocked and attended many church and neighborhood meetings to help bring raise awareness

for the need affordable housing projects in our city.”  
<sup>242</sup>

- ▶ Educate the public about the intended purpose of the program and the intended recipients (e.g., need to make housing affordable for teachers, police officers, etc.)<sup>243</sup>
- ▶ Making sure that affordable housing blends into community.
  - Study by Innovative Housing Institute of Fairfax and Montgomery Counties showed that the presence of affordable units had no effect on resale values of market-rate units.<sup>244</sup>
  - Example: Urban Design Demonstration Project (UDDP), a pilot intended to demonstrate that manufactured homes can address housing affordability issues while also blending in with existing architecture: Houses were built in three locations. In each project, residents were consulted on design and construction. In every case, it didn't matter to the neighbors that the homes were built in a factory, only that they would blend in well with the neighborhood.<sup>245</sup>
  - Example: Saratoga Springs - Used committee of city residents to help design apartment bldg for low-to moderate income families, to make sure that it fit into neighborhood<sup>246</sup>
- ▶ Take a comprehensive approach, i.e., ensure that housing production programs, zoning regulations, and comprehensive/master plans for future development are reviewed together to assess their effects on one another.<sup>247</sup>
  - Example: Important to link Smart Growth and affordable housing discussions. Practices that promote sprawl (encouraging large lots, single-family detached dwellings) also impinge on affordability (best achieved through smaller, attached and multifamily units)<sup>248</sup>
  - On the other hand, Smart Growth can lead to gentrification if affordable housing is not explicitly included in the planning.
- ▶ Get all the stakeholders involved: local, state, federal government, developers, community-based organizations, smart growth advocates.<sup>249</sup>

- ▶ Use process of “principled negotiation,” developed by Harvard Program on Negotiation: puts everybody’s concerns on the table and creates a process for dealing with them constructively.
  - Without such a process, groups in conflict tend to see things as “zero sum game.” They attempt adversarial options like litigation or seeking intervention by city councils to stop projects.<sup>250</sup>
  - Third party may be needed to help participants persevere in this process.
  - In addition to helping resolve specific issues, this process can lead to general increase in trust in governance process. People see the process as fair, even when it doesn’t go their way.<sup>251</sup>
  - Example: Norfolk, NE - City Administrator who graduated from Harvard Program on Negotiation was able to implement it to reorganize city agencies, resolve zoning variance requests, and create an affordable housing zone in part of the city.
  - Example: Hartford, CT metropolitan region - Fair Share Agreement for affordable housing. 1988 legislation provided various incentives, rather than pursuing strategy of impulsion. If metro regions formed agreement within designated timeframe, would get preferential treatment for state infrastructure funding. Also got some funding for expert mediators. Final solution allowed each community to select the strategy most appropriate for it.<sup>252</sup>

### **SECTION 13: Recommendations**

- ▶ The recommendations presented here follow the available remedies classification presented in sections 10 and 11. As discussed with the Commissioners at the outset of this project, BEACON does not make specific policy recommendations. As such, these recommendations are ways to evaluate potential policy decisions.
- ▶ The specific recommendations offered by BEACON for each Available Remedy are as follows:

## 1. Housing Subsidies

To better explore the Housing Subsidy issue, BEACON recommends that a Worcester County Task Force on Affordable Housing be created. BEACON further recommends that this task force be limited to 12 to 15 participants, with representation from the following sectors:

- Economic Development
- Workforce Development
- Planning and Zoning
- Taxation
- Faith-Based Organizations
- Community-Based Organizations
- Public Works
- Private Developers
- Chambers

If requested BEACON, at no additional charge, can provide guidance to the Commissioners in determining the exact make-up of the task force and its charge.

## 2. Affordable Housing Incentives

BEACON recommends that the Commissioners do not become actively engaged in policy decisions that would lead to the County providing housing subsidies above and beyond what is currently available. Here, the Commissioners should play "cheerleading" and "advocacy" roles to help existing subsidy programs find higher use in the County.

## 3. Market Place Dynamics

BEACON recommends that Commissioners direct appropriate County employees to prepare a briefing (to be presented to the Commissioners in six to twelve months) on the existing and potential hurdles and obstacles in the way of Market-Based remedies to Worcester County's Housing Affordability Problem.

## 4. Inclusionary Zoning

BEACON believes that inclusionary zoning is probably the most effective tool Worcester County can use to combat the current Housing Affordability Problem. However, as we mentioned above, this is a remedy with many potential problems. Given the impact on Comprehensive Planning and Zoning changes, BEACON

recommends that a separate study on Inclusionary Zoning in Worcester County be commissioned.

5. Out-of-County Solutions

BEACON recommends that the Commissioners add the further exploration of Out-of-County solutions to the charge of the Worcester County Task Force on Affordable Housing mentioned in recommendation #1 above.

6. Public Transportation

BEACON recommends that the Commissioners ask the Tri-County Council to direct the staff of Shore Transit to prepare a comprehensive briefing (to be presented to the Commissioners in three to six months) on the potential expansion of Shore Transit services. This increased level of service will be in anticipation of and to meet the increased demand that housing affordability issues will generate in the Lower Shore region over the next three to five years.

On behalf of all of us at BEACON, we the principal investigators of this study, hereby wish to thank the Worcester County Commissioners for giving us this opportunity to work with the staff and elected officials of Worcester County. Please note that this document is still draft form. After our briefing to the Commissioners, we will incorporate any staff and/or Commissioner requests and suggestions to this report before finalizing the document. At that briefing, we will also discuss with the Commissioners some issues related to our recommendations, including: Organizational Structure Issues; Workforce Development Issues; Issues related to Inclusionary Zoning; and, Political versus Public Policy Issues (L\*\*DERSHIP).

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- <sup>3</sup> for Housing Policy, "Working Families with Children: A Closer Look at Homeownership Trends," *Center Pieces: Noteworthy Research from the Center for Housing Policy* (May 2004).
- <sup>4</sup> Karen Destorel Brown, *Expanding Affordable Housing Through Inclusionary Zoning: Lessons from the Washington Metropolitan Area*, Brookings Institution Center on Urban and Metropolitan Policy (October 2001), 19.
- <sup>5</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2003*, 13.
- <sup>6</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2003*, 13.
- <sup>7</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2003*, 13.
- <sup>8</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2003*, 13.
- <sup>9</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2004*, 29.
- <sup>10</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2004*, 29.
- <sup>11</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2004*, 29.
- <sup>12</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2004*, 4.
- <sup>13</sup> Karen Destorel Brown, *Expanding Affordable Housing Through Inclusionary Zoning: Lessons from the Washington Metropolitan Area*, Brookings Institution Center on Urban and Metropolitan Policy (October 2001), 1.
- <sup>14</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2004*, 11.
- <sup>15</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2004*, 10.
- <sup>16</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2004*, 3.
- <sup>17</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2004*, 14.
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- <sup>37</sup> Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2004*, 2.
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## WORCESTER COUNTY AFFORDABLE HOUSING BRIEFING TO COUNTY COMMISSIONERS

Northern Worcester -- Urban	Low
Northern Worcester -- Rural	Moderately Low
Southern Worcester -- Urban	Moderately High
Southern Worcester -- Rural	High

### Worcester County -- Current Affordability

Northern Worcester -- Urban	Low
Northern Worcester -- Rural	Low
Southern Worcester -- Urban	Moderately High
Southern Worcester -- Rural	Moderately High

### Worcester County -- Future Affordability

## RECOMMENDATIONS

1. Commissioners should ask BEACON and the Worcester County Committee on Adequate Decent Affordable Housing to jointly convene a January or February 2005 workshop with representation from:

- County Economic and Workforce Development Organizations;
- County Government (Including Public Works, Planning and Zoning; Taxation);
- Faith-Based and Community-Based Organizations;
- Private Sector (Including Private Developers; Chambers; Employer Groups)...

...to explore in-depth the findings of the BEACON Study and to craft a Draft Plan for Affordable Housing.

2. Affordable Housing Incentives

Commissioners should not become actively engaged in policy decisions that would lead to the County providing housing subsidies above and beyond what is currently available. Here, the Commissioners should play "cheerleading" and "advocacy" roles to help existing programs find higher use in the County.

3. Market Place Dynamics

Commissioners should direct appropriate County employees to prepare a briefing (to be presented to the Commissioners in six to twelve months) on the existing and potential hurdles and obstacles in the way of Market-Based remedies to Worcester County's Housing Affordability Problem.

4. Inclusionary Zoning

Inclusionary zoning is probably the most effective tool Worcester County can use to combat the current Housing Affordability Problem. Given the impact on Comprehensive Planning and Zoning changes, a separate study on Inclusionary Zoning in Worcester County should be commissioned.

5. Out-of-County Solutions

Commissioners should add the further exploration of Out-of-County solutions to the charge of the Task Force on Affordable Housing mentioned in recommendation #1 above.

6. Public Transportation

Commissioners should ask the Tri-County Council to direct the staff of Shore Transit to prepare a comprehensive briefing (to be presented in three to six months) on the potential expansion of Shore Transit services. This increased level of service will be in anticipation of and to meet the increased demand that housing affordability issues will generate in the region over the next three to five years.

**For the complete report, please go to: <http://BEACON.salisbury.edu/AH.htm>**