Policy Recommendations to Make Apartments More Affordable

NATIONAL APARTMENT ASSOCIATION

NATIONAL MULTIFAMILY HOUSING COUNCIL

If government and private developers come together to take action, we can build 4.3 million apartments by 2035 to meet demand and control the cost of housing. Solutions that help supply meet demand and reduce the cost of developing apartments are out there but need to be more broadly adopted across the country.

There are things states and localities can do to **meaningfully reduce the cost** of producing housing.

Unfortunately, the current regulatory framework, whether intentional or not, has limited the amount of housing being built and increased the cost of what is produced. States and localities are now struggling to address this serious threat to their economic vitality. They must balance the dwindling resources they have for housing with the need to "do something" to meet growing demand. Fortunately, there is much they can do outside of their budgets to make it easier for the private sector to build more housing and to help reduce the cost of the housing that is produced.

Most importantly, they can reduce barriers to apartment construction. Land-use restrictions, zoning restrictions, parking requirements, slow permitting, and much more, add significantly to the cost of construction. Many of these rules and processes are well-meaning, but collectively they serve as real barriers to housing production. Even worse, some laws are specifically designed to prevent apartment construction, usually in response to NIMBY opposition.

In the following pages we present a toolbox of approaches states and localities can take to address the apartment shortage and help reduce the cost of housing.

1

Adopt local public policies and programs that harness the power of the private sector to make housing affordability more feasible.

The most common barriers to apartment construction are enacted at the local level, which means local governments have a lot of levers they can pull to create healthy housing markets. They also have no-cost resources they can bring to the table to reduce the cost of housing production. They can do the following:

ESTABLISH "BY-RIGHT" HOUSING DEVELOPMENT

Most developments go through a discretionary review process such as public hearings or legislative review by the local land use authority or board of zoning appeals. Public review is certainly important, but it's often duplicative, arbitrary and inefficient. Reviews also increase the cost of housing by slowing down its production or even preventing it from being built.

"By right" development allows projects, both new construction and rehabs of existing properties, to be approved by local administrators without discretionary reviews as long as they comply with current zoning rules and community development plans. Municipalities retain control and can deliver the housing the community has already decided it wants, while loosening restrictions that keep new apartments from being built.

In addition to establishing "by right" rules, municipalities can also relax restrictions related to density, building height, unit size and parking minimums. All of these require developers to seek waivers, variances or rezoning, which trigger the review process.

This strategy for expanding the supply of affordable rentals, has been gaining traction across the country. Fairfax, Virginia, has implemented by-right development and flexible zoning in seven districts where they want to encourage housing construction.

States can also play a role. Massachusetts, for example, provides incentives to municipalities that allow by-right development. These development incentives have cut in half the nine years it otherwise takes to develop a property.

EXPEDITE APPROVAL FOR AFFORDABLY PRICED APARTMENTS

Lengthy permitting processes add cost, time and uncertainty to housing construction. Fast-tracking review and permitting of housing that includes affordable units is a no-cost way for local jurisdictions to expand their supply.

Several cities are embracing this approach. San Diego's "Expedite Program" fast tracks permit processing for affordable housing and sustainable building projects with an initial business review that takes just five days.

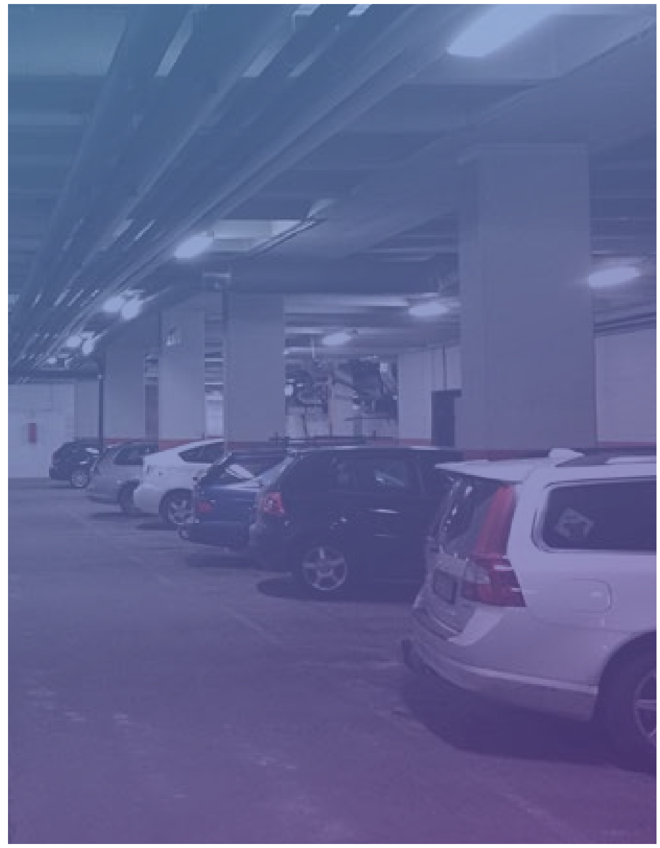
Austin's S.M.A.R.T. Housing program gives affordable housing builders an expedited development review, and it waives development fees. Since 2005, more than 4,900 apartments have been built through the initiative.[22]

REDUCE PARKING REQUIREMENTS

Parking requirements are one of the biggest costs for a development, particularly in urban environments, ranging from $5,000 per spot for surface parking to $60,000 for underground parking.[23] The Urban Land Institute found that parking minimums were the number one barrier to building affordable rentals.[24]

Many cities can significantly reduce or even eliminate parking requirements, particularly in transit-oriented or urban infill development. This approach will become increasingly valuable as ride-sharing increases and automated vehicles become adopted, dramatically reducing parking demand.

In 2012, Seattle voted to reduce parking requirements by 50 percent in some neighborhoods and to eliminate them completely in downtown areas readily served by transit. Other cities such as Denver, Minneapolis, Boston, San Francisco and New York are revising parking requirements to reduce the cost of housing. In 2015, California enacted a law overriding local parking requirements for all transit-adjacent housing developments that include affordable housing units.



ESTABLISH DENSITY BONUSES TO ENCOURAGE DEVELOPMENT OF AFFORDABLE HOUSING

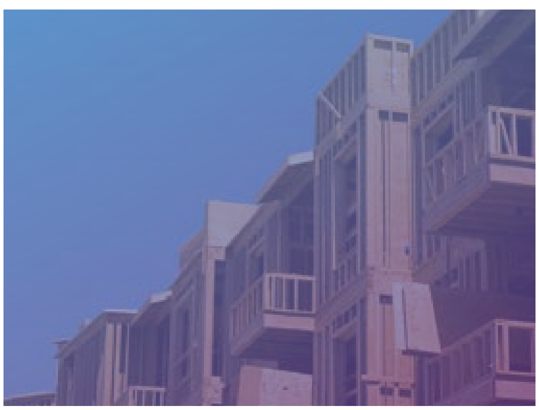
Density bonuses make building affordable housing more cost-effective for developers. In return for including a certain number of affordable units in a building, the developer is allowed to build more market-rate apartments than are normally allowed.

Fairfax, Virginia, and Denver both allow for taller buildings near transit centers if they include affordable units. Massachusetts also provides incentives to local governments that adopt zoning laws encouraging denser development near transit.

ADOPT SEPARATE REHABILITATION BUILDING CODES

Maintaining the stock of older apartments — which tend to have lower rents — and improving them so they remain habitable is essential to ensuring affordability across the income spectrum. But because many jurisdictions require developers to bring a building up to the current building code when they want to substantially rehab it, upgrading properties is often prohibitively expensive.

Localities can overcome this by adopting separate building codes for rehabilitation projects that balance the need to ensure safety and structural integrity, but don't sacrifice affordability. They can also offer tax abatement, for properties that include affordable housing, when property taxes rise because of improvements.



CREATE AN EFFICIENT PUBLIC ENGAGEMENT PROCESS

New developments benefit from community input. But the public engagement process can also result in NIMBY opposition that creates long delays, and even lawsuits, that increase construction costs. There is no single model that works to strike a balance, but localities should examine their process to ensure it's not one-sided and doesn't create uncertainty.

The Reality of Rent Control

Some lawmakers are revisiting rent control as a strategy to control housing costs. New efforts are underway around the country.

To some, rent control would seem a fast and easy fix — a local jurisdiction sets limits on how much property owners and managers can raise rents on residents, theoretically making units more affordable. But it's not the panacea some lawmakers seem to think it is.

Economists on both sides of the political spectrum agree that rent control is not effective policy. Forbes Magazine calls it one of the 10 worst economic ideas of the 20th century: "Here we have a policy initiative that has done huge damage to cities around the globe. It is very hard today to find an economist supporting rent control."

While the laws' intent is positive, research shows that the real impact of rent control policy is a decline in property maintenance, stifled development activity, shrinking affordability and a chronic undersupply of rental homes. Rent control also encourages owners to convert buildings from residential to non-residential use.

Without profitability as an incentive, investment capital is directed to other markets and maintenance on existing properties is deferred. Subsequently, the affordable housing shortage is exacerbated.

2

Increase public-private partnerships.

Policymakers at all levels of government can provide incentives and share risk with the private sector to produce the necessary units at price points households can afford. They can do the following:

LEVERAGE UNDERUTILIZED LAND

Federal, state and local governments should prioritize affordable housing when disposing of public land. Land accounts for approximately 10 to 25 percent of an apartment project's cost, and even more in high-cost areas.[25] Developers also often struggle to find developable land in urban areas. Yet many localities own underused or abandoned land that could be used for affordable housing. Under-utilized buildings, which can be renovated, are another resource.

Making good use of these lands and buildings requires strong public-private partnerships. The private sector contributes the investment dollars and expertise, and the locality provides the land and helps facilitate a streamlined approval process. In the end, such partnerships produce affordable apartments while also boosting economic development.

Land banks — government-created nonprofit corporations that manage and repurpose tax-delinquent and vacant properties — are another option. More than 140 land banks have already been created across the country.

USE PROPERTY TAX ABATEMENTS

Tax incentives and abatements are another way to spur development. While they do reduce public revenues, they are often more politically palatable than direct subsidies. The Seattle Multifamily Tax Exemption (MFTE) program gives a 12-year tax exemption to new apartments that include a certain percentage of affordable units. By 2018, more than 200 properties are expected to participate.[26]

In 2017, New York passed a program that gives 35-year property-tax exemptions to apartment developments of at least 300 units in certain areas if 25 to 30 percent of units are set aside for low- to moderate-income renters. The program is expected to generate 2,500 units a year.[27]

Philadelphia abates 100 percent of the value of residential building improvements for up to 30 months during the construction phase. Oregon offers tax abatement to affordable housing as well as vacant land intended to be developed into affordable housing.

WAIVE FEES FOR PROPERTIES THAT INCLUDE AFFORDABLE UNITS

Housing developers often pay significant fees to expand public infrastructure or to support the creation of city amenities such as schools and parks. Because fees add to the cost of housing, many jurisdictions waive impact fees for properties that include affordable units.

3

Leverage state-level authority to overcome obstacles to apartment construction.

Forward-thinking states recognize that their economies suffer from a lack of housing supply. They are taking action to enact laws that override local zoning restrictions that inhibit apartment construction, whether intentionally or not.

Massachusetts, for example, has an "Anti-Snob Zoning Law" (Chapter 40 B Comprehensive Permit Law) that allows developers to build with more density than local zoning laws allow if the proposed apartment property has a certain percentage of affordable units and the community has an affordable housing shortage. Since it was enacted in 1969, more than 42,000 rental units have been built.[28]

Rhode Island approved the "Expedited Permitting for Affordable Housing" Act that sets strict approval deadlines for permitting agencies if a development is large enough to increase the amount of affordable housing in their communities.

States can also make some state financing contingent on a locality meeting a minimum affordable housing threshold or adopting policies that support housing production.

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Leveling the Playing Field for Renters

People choose to live in apartments for many reasons, and their choice should not limit their ability to enjoy financial security. We should promote policies that give people flexibility to build wealth without owning real estate and through incentivized savings. We should also adopt public policies that promote affordability in all housing.

4

Collaborate with business and community leaders to champion apartments.

Local communities are stronger and more vibrant when there is a mix of rental and owned housing. Without a diversity of housing options to meet a variety of lifestyle needs and price points, local economies are held back. We need local leaders in government and business to work together to bring a range of housing types to their communities by crafting creative solutions to ease existing hurdles.

One of the best ways to accomplish this is to make the connection between a sufficient supply of housing and a community's economic health and economic development. Insufficient housing causes workers to leave an area or lose productivity because of long commutes. Companies relocate or stagnate when they cannot hire the workers they need because their employees can't find housing.

In other words, ensuring a community has enough housing isn't just the concern of those who struggle to find housing. It's an important issue for everyone in the community whose employer might move to another market where housing is more readily available. Several areas have successfully made that connection and have generated political support for regulatory changes or even vocal support for specific projects.

Local employers can be a powerful force against NIMBY opponents. For example, the Silicon Valley Manufacturing Group recognized that a housing shortage was affecting their members, so they formed a Housing Action Coalition. The group goes to planning commissions and city councils to actively support smart growth developments. They also help educate lawmakers about the importance of affordable housing. They say their intervention works 98 out of 99 times and has resulted in 26,000 new homes in 18 Silicon Valley towns.

Federal Solutions

It's not up to states and localities alone to ensure that people have access to housing that fits their needs. The U.S. Congress can take the following steps:

- **Enact a pro-development tax policy that incentivizes investment in rental housing.**
- **Support housing finance reform that preserves the multifamily mortgage liquidity provided by the Government Sponsored Enterprises.**
- **Support funding for the FHA Multifamily Programs, which are an important source of capital supporting apartment construction and redevelopment.**
- **Expand the Low-Income Housing Tax Credit.**
- **Create a Middle-Income Housing Tax Credit.**
- **Increase funding for subsidy programs that address housing affordability such as the Section 8 Housing Choice Voucher Programs, Project-Based Rental Assistance, Rental Assistance Demonstration, HOME and Community Development Block Grants.**
- **Reform overly burdensome regulations that contribute to making housing less economically feasible to develop and operate.**

What's good for renters is good for everyone.

CONCLUSION

In 2035, today's fifth-grader may be renting her first apartment. Her grandmother may be downsizing into apartment living, too. A city lot that sat vacant for decades or a long-neglected suburban downtown may now be a vibrant place to live, eat and work because local leaders had a vision for revitalization that included apartments.

Every American should be able to choose to live in a place that fits his or her stage of life and budget and to choose the community in which he or she wants to live. To make that vision a reality, we must build more apartments at all price points. Building 4.3 million apartments by 2035 will go a long way toward meeting the demand for apartments, stabilizing rents and helping to boost the U.S. economy.

With the right mix of policies and strong partnerships between local governments and independent developers, we can bridge the gap between the cost of building and operating apartments and the amount of rent lower-income and middle-class households can afford. It helps that a growing number of people in communities from San Francisco to Boulder, Colorado, to New York are already recognizing the value of moving from "Not in my backyard" to "Yes, in my backyard."

They are seeing that it is not only renters who benefit when communities build more apartments. Communities benefit, too. When people are able to affordably live where they work, the volume of traffic is reduced. When a community has a diverse housing stock, it can attract a diverse population of people with different incomes, skillsets and professions. And apartments can help the tax base and boost the local economy through mixed-use development that revitalizes communities and creates jobs.

What's good for renters is good for everyone. It's time to take action to ensure every household at every income level has an affordable place to call home.