



PENN IUR POLICY BRIEF

A Housing Plan Both Parties Can Support

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Thanks to Massachusetts Senator Elizabeth Warren, plans are again an “in” thing. This includes housing plans and so far, eleven candidates for the Democratic Presidential nomination as well as President Trump have released some type of national housing plan. Some are more thoughtful than others—Senator Warren’s and South Bend Mayor Pete Buttigieg’s are especially worth a look—but predictably, each skews toward its sponsor’s political base. Senators Warren, Sanders, and Booker’s plans all tilt toward renters, minorities, and would-be homebuyers. The Trump Administration’s recently-announced plans to privatize Fannie Mae and Freddie Mac, the two housing finance giants taken over by the federal government in 2008, would principally benefit shareholders in the newly-privatized companies.¹ These partial plans all raise the question of what a truly national housing plan should look like. This short piece identifies five housing policy areas where greater federal leadership could improve the housing circumstances of all Americans, including homeowners, renters, those currently living in poverty and with disabilities, as well as the 10+ million new households projected to be legally added to the U.S. population during the next ten years.

1. Expand Minority Homeownership within a Revamped Fannie Mae and Freddie Mac: Becoming a homeowner is still the most effective path to wealth-building in America, but with Black homeownership rates at just over half those for Whites, efforts to lift more African-American households out of poverty have largely stalled. Lagging Black homeownership is a long-standing problem, and in 1993, Congress directed the government-sponsored Federal National Mortgage Association and the Federal Home Loan Bank Corporation (better known as Fannie Mae and Freddie Mac) to expand their home mortgage purchases in minority and underserved communities. This push had the desired effect and by 2004 the Black homeownership rates had risen to 49.1², up nearly six percentage points over its 1990 level. These efforts were abandoned in 2008 when Fannie and Freddie ran into financial trouble and were taken over by the Treasury Department. This policy retreat, coupled with meager efforts to help Black homeowners avoid foreclosure in the wake of the Great Recession, is responsible for today’s historically low Black homeownership rate of 40.6%. With Fannie Mae and Freddie Mac having since returned to profitability, their surplus revenues now flow entirely back into the federal budget.

As discussions in Washington proceed about whether and how to reprivatize Fannie and Freddie, it is essential that Congress forcefully reassert the two agencies’ roles in promoting minority homeownership. This could be done in a number of ways that would not violate the Fair Housing Act, which bars any type of discrimination in mortgage lending, including making loans with lower down payment requirements and income qualifying ratios available to first-time homebuyers who purchase homes in distressed neighborhoods. These neighborhoods have already been identified by the U.S. Department of Housing and Urban Development as Qualified Census Tracts, making it possible to better coordinate affordable homeownership and rental assistance programs.

2. Incentivize Smart and Equitable Infill Housing Construction: Gentrification is today’s hot button topic but city officials not long ago were far more worried about population decline and urban disinvestment. Between 1950 and 1990, the 15 largest cities in the Northeast and Midwest³ lost one of every five residents, leaving behind vast swaths of empty lots and vacant buildings. This exodus finally began to reverse itself in the 1990s, prompted by falling crime rates, the preferences of innovative companies for downtown locations, and the desires of younger workers for urban living. The urban resurgence picked up steam during the 2000s, and by 2016 most big cities in the U.S. were on a steady, albeit modest growth path. But where would today’s new city residents live? This question was especially relevant in cities like New York, Boston, San Francisco, and Seattle, all of which lacked easily buildable sites and had adopted permitting processes favoring existing property owners over home and apartment builders. The resulting imbalance between a growing demand for urban housing and a limited supply expressed itself in the form of gentrification, the sudden rise of resident incomes and housing prices in previously low-income neighborhoods; leading, in extreme cases, to significant displacement and homelessness.

The federal government previously stayed out of local housing construction battles, preferring to keep mortgage rates low to encourage housing production on a national level while helping local governments pay for needed transportation and affordable housing projects. These funds began declining in the 1980s, putting increased fiscal stress on cities to cover the rising costs of public services while also meeting growing affordable housing needs. Absent federal leadership, some responded on their own, either by adopting inclusionary housing laws which require developers to include a percentage of affordable units in their market-rate projects, or by up-zoning neighborhoods to accommodate higher-density housing and mixed-use development. In a notable example of this second strategy, Minneapolis recently announced that it would effectively eliminate single-family-only zoning, removing a significant barrier to apartments and condominium construction.

So far, efforts by Congress and the Trump Administration to promote new investment in urban neighborhoods have focused solely on giving tax breaks to investors. It is now time to even the equity scales by creating a modestly-sized Smart & Equitable Growth Fund to provide housing and infrastructure funding to cities which, with appropriate community involvement, proactively up-zone locations with good public transportation access while also adopting meaningful inclusionary housing programs. This something-for-everyone strategy would enable cities to build needed market-rate housing while also expanding the supply of affordable housing. I am not so naive to think that this additional funding would end all community growth and gentrification battles—many of which are really more about community control than affordable housing—but I do think it would help out communities actively trying to promote equitable growth but unable to make the budgetary numbers work.

- 3. Integrate Homeless Reduction and Economic Mobility Goals into Existing Low-income Renter Assistance Programs:** Added together, the nation's two largest rental housing assistance programs, the Housing Choice Voucher (HCV) program and the Low-income Housing Tax Credit (LIHTC) program, help 5.9 million low-income households⁴ meet their everyday needs for good-quality affordable housing. (A third program, Public Housing, assists another 950,000 low-income households.) The HCV program works by providing qualified low-income renters with a monthly voucher equal to the difference between 35% of their monthly incomes and market-level rents in existing apartment units. The LIHTC program provides a 10-year tax break to companies and investors who fund the construction of new affordable housing projects. Both programs have long track records of success but are facing new challenges. The number of private landlords willing to accept vouchers has been on downward trend, and the 2017 federal cut in corporate income tax rates reduced the attractiveness of the LIHTC program. In terms of meeting the nation's affordable housing needs, both programs are grossly underfunded, reaching just three out of ten households who qualify for assistance. Both programs could also do better in anticipating critical housing needs and promoting greater economic mobility.

Recent research by Raj Chetty and his associates at Harvard University has demonstrated how the HCV program could better direct vouchers to neighborhoods where minorities and others have improved opportunities for upward economic mobility.⁵ Similar research at the University of Pennsylvania⁶ has focused on the tensions within the LIHTC program between meeting immediate affordable housing needs and promoting upward economic mobility. Both programs should be amended to put greater emphasis on steering recipient households and projects receiving assistance to neighborhoods where there are more educational and work force development opportunities. They should also be modified to make them more attractive to their private sector partners. For the HCV program, this could take the form of bigger vouchers for landlords willing to negotiate longer contracts. In the case of the LIHTC program, the current time limit for receiving tax credits should be

extended from ten to fifteen years. Both of these changes would have a minimal effect on the federal budget. The supply of HCV and LIHTC funding should also be significantly expanded in states with large homeless population, with the additional funds earmarked for landlords and project sponsors willing to enter into two-year rental agreements with currently homeless individuals and families. Contrary to Republican fears, there is no evidence that such an increase would encourage more people to become homeless. To the contrary: when coupled with more secure funding for affordable HCV and LIHTC units, it would lessen the effect of rising rent levels on housing tenure insecurity.

4. Equity Mobility Plans for Urban Livability: Building new affordable housing in an unlivable city won't make it more livable. Making a city livable requires better connecting neighborhoods to each other via multiple, reliable, and affordable transportation options. This includes walking and biking, public transportation, and yes, private cars. Put simply, it requires equitably maximizing personal mobility. Unfortunately, today's transportation funding formulas are more oriented toward single-mode projects like highway additions or replacement transit vehicles than toward maximizing mobility. This is especially problematic in poor neighborhoods where transit service is infrequent, where walking is not always encouraged, and where many lack access to a car. When coupled with a shortage of affordable housing, this lack of mobility options contributes to an already oppressive sense of social and economic isolation. What can be done to better address this combined housing-transportation problem? A good place to start is for the U.S. Department of Transportation to require metropolitan planning organizations—these are the agencies charged with developing regional transportation plans and allocating project funding—to work with local transit providers, state highway departments, and community organizations to develop corridor and neighborhood-based Equity Mobility Plans, or EMPs. Instead of just trying to reduce congestion during commute times, as most current transportation plans do, EMPs would focus on the full range of daily trips people take with an eye toward maximizing their travel mobility options to shopping, personal business, family, medical, and recreation trips. And because so much travel happens across cities, EMPs could better match housing and transportation opportunities at a metropolitan as well as local scale.
5. Low-interest Loans for Residential Energy Conservation and Climate Change Mitigation: Transportation is not the only policy area that overlaps with housing. Energy and climate change do too. Depending on its location, the typical home built in the 1960s uses between 20 and 30 percent more energy per square foot than a similarly-located home built after 2000⁷. Regardless of what happens in Washington, DC to limit greenhouse gas emissions, one thing state and local governments can do is require older homes and apartments be brought into compliance with today's best practices for residential energy conservation. According to some estimates, doing so would reduce 2030 greenhouse gas emissions in U.S. metropolitan areas by as much as six percent over 2010 levels.⁸ Unfortunately, the costs of such a policy mostly occur upfront and to the building owner, while the benefits, which include reduced electric and heating bills as well as lower emissions, can take several years to accrue. Tax credits can help balance the scales, but a better approach would be for the federal government to create a one-percent loan program of up to \$20,000 per unit to help building owners pay the costs of retrofitting their properties. With interest rates currently at historical lows, this program would be much less expensive than building new energy generating facilities. For owners of subsidized units, some or all of the loan could be forgiven, enabling them to pass the cost savings on to tenants.

Unlike the plans being offered by today's presidential candidates, these five initiatives are all eminently affordable and would not cost hundreds of billions of dollars to implement. They each build on existing programs known to be effective in responding to today's market realities and community needs. Most importantly, they would actively create new housing and mobility opportunities for those currently denied them. Nothing could be more American or more bipartisan.

NOTES

1. U.S. Department of the Treasury. Housing Reform Plan, September 2019 (Available from the Washington Post at: <https://www.washingtonpost.com/context/treasury-department-housing-market-proposal/3caff32e-f82e-4927-90ec-15721d3fb5ec/>)
2. U.S. Census Bureau. (2019) Quarter Residential Vacancies and Homeownership, Second Quarter 2019. Release Number: CB19-98
3. Including New York City, Chicago, Philadelphia, Detroit, Baltimore, Cleveland, Washington DC, Boston, Pittsburgh, Milwaukee, Buffalo, Cincinnati, Newark, Indianapolis, and Columbus.
4. As outlined in the Minneapolis 2040 Zoning Plan, as enacted in December 2018 (<https://minneapolis2040.azurewebsites.net/topics/land-use-built-form/>).
5. Center on Budget Priorities. Federal Rental Assistance Fact Sheet. Retrieved October 1, 2019 (<https://www.cbpp.org/research/housing/federal-rental-assistance-fact-sheets#US>).
6. Chetty, R., Hendren, N., & Katz, L. F. (2016). The effects of exposure to better neighborhoods on children: New evidence from the Moving to Opportunity experiment. *American Economic Review*, 106(4), 855-902.
7. Landis, John. (2019). Improving the Spatial Equity of the Low-Income Housing Tax Credit Program. University of Pennsylvania PennPlanning Equity Initiative Working Paper 2019-3.
8. This comparison is based on energy consumption survey data from the Department of Energy's 2015 Residential Energy Consumption Survey, Table ce1.1 (<https://www.eia.gov/consumption/residential/data/2015/index.php?view=consumption#summary>).
9. Residential land uses currently account for about 20 percent of U.S. CO₂ emissions. A mandatory retrofit strategy that applied to apartments as well as single-family homes, and which kicked-in upon occupant turnover would result in residential sector CO₂ emissions reductions by 2030 (as compared to 2010 levels) of between +10% and -40%, depending on the metropolitan area. These calculations are detailed in: Landis, John D., David Hsu, and Erick Guerra. (2019). Intersecting residential and transportation CO₂ emissions: Metropolitan climate change programs in the age of Trump." *Journal of Planning Education and Research* 39, no. 2 (2019): 206-226.