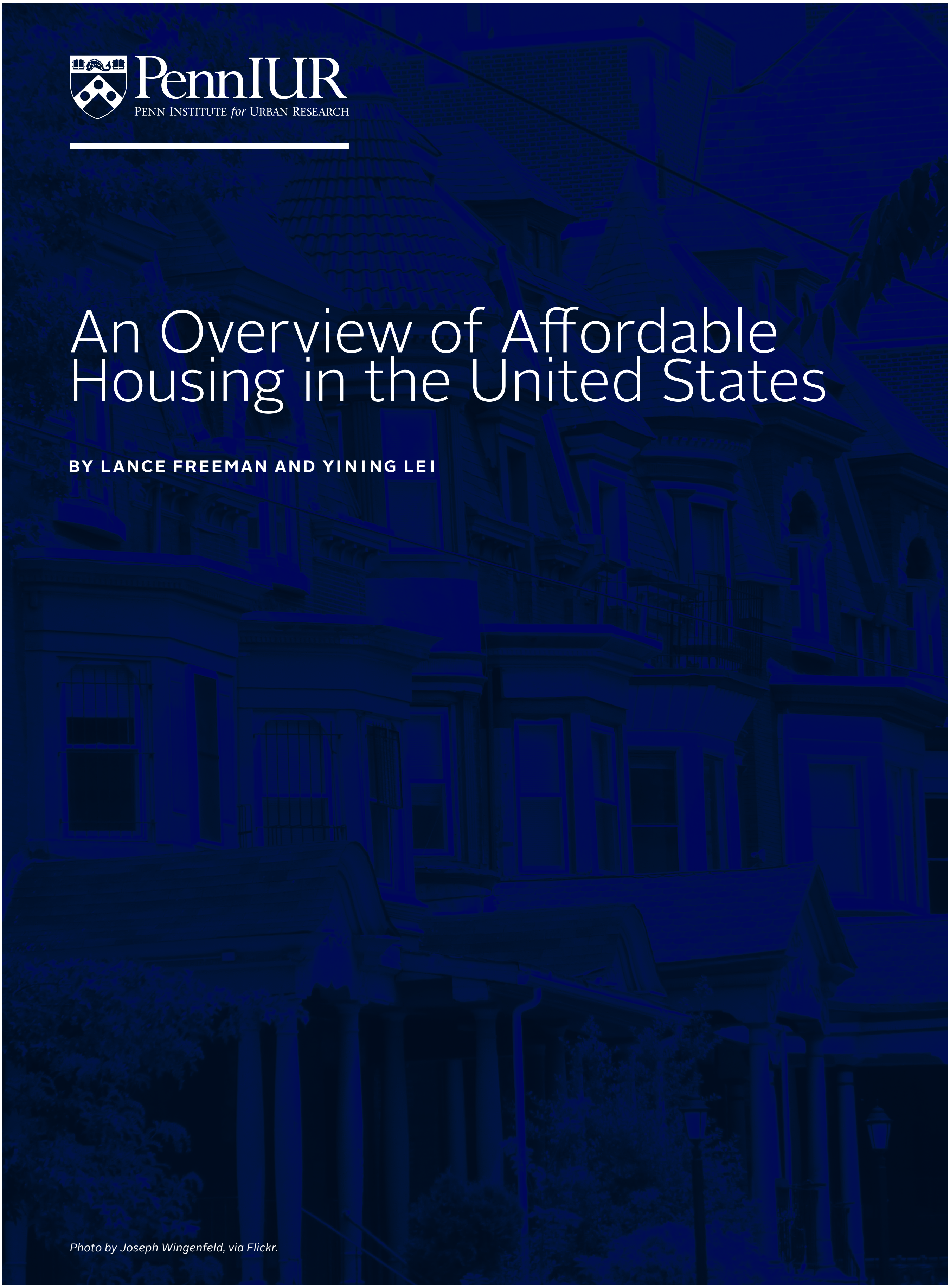

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An Overview of Affordable Housing in the United States

BY LANCE FREEMAN AND YINING LEI

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An Overview of Affordable Housing in the United States

Introduction

This section of the report provides the national context of housing and especially affordable housing in the early 21st century. We follow Freeman and Schuetz (2017) who defined “affordable housing” broadly to mean any housing that (1) must be rented or sold at below-market prices, or (2) can be occupied only by households below a defined income threshold. The chapter gives an overview of the affordable housing system in the U.S. After briefly describing the roles of the private and public sector, we give an overview of some the major approaches to producing affordable housing. A brief example is provided for the various approaches discussed.

Housing, including affordable housing, in the U.S. is produced largely by private actors in a very decentralized system. Private concerns design housing, secure financing from private financial institutions and investors, and ultimately are responsible for marketing, managing, and maintaining housing.

The public sector generally plays a secondary role in the development of housing. At the local and state levels, regulations such as building codes and zoning govern what type of housing and where such housing can be built. The federal government is also sometimes involved in regulating the development and marketing of housing (such as in environmentally sensitive regions or to ensure compliance with fair housing laws) and is the major regulator of financial institutions that finance housing.

The production of affordable housing in the U.S. reflects this decentralized privately led system. The overwhelming majority of affordable housing, defined here as (1) housing that is rented or sold at below-market prices, or (2) can be occupied only by households below a defined income threshold, is produced by the private sector. According to the American Housing Survey (AHS) there are 4.8 million households with incomes below 80 percent of their respective area median incomes, who pay less than 30 percent of their income for rent, and who are not in U.S. Department of Housing and Urban Development (HUD) subsidized housing. In contrast, HUD subsidizes 4.5 million households. There are roughly 3.5 million LIHTC units and perhaps another one-half million units subsidized by state and local governments (Newman and Schnare 1997). Many of the LIHTC, HUD-subsidized, and state and local government subsidized units have multiple subsidies. It is also true that many of the units that are affordable to low-income households but not receiving HUD subsidies likely receive some other type of subsidy. But it seems likely that more households live in unsubsidized “affordable” housing than any single affordable housing program. Such units are affordable typically because they are older, smaller, substandard in some way, located in an unattractive locale, or some combination of all four.

With the private sector overwhelmingly responsible for producing new housing, we can expect that economic principles will govern the basic parameters of housing markets including demand, supply, and price (i.e., sales prices and rents). Housing prices and the amount of housing available are a function of demand and supply. Increased housing, supply *ceteris paribus*, is expected to lower prices. Likewise increased (or decreased) demand will generally increase (or decrease) housing prices. The price/value of a housing unit reflects the bundle of amenities including locational characteristics that come with that unit. For example, housing units that are larger, have more amenities, or are in more convenient locations will generally be more expensive. External shocks such as the opening of a transit station that increases the accessibility of the neighborhood, or a large new employer moving into an area can shift the demand and consequently affect housing prices. External shocks to the supply such as the development of large numbers of new housing units can also impact housing prices, in this case dampening their levels (Rothenberg et al. 1991).

Housing is heterogeneous, and therefore there is not one housing market, but several. For example, a luxury housing market, a suburban single-family housing market, and so on. Nevertheless, these housing markets are closely connected, and often serve as substitutes for one another. Changes in one submarket, such as rising prices in high-rise Center City Philadelphia, will ripple out to impact adjacent submarkets, such as apartments in University City.

The veracity of this simple model of housing supply and prices is increasingly questioned, however, especially in low-income neighborhoods. Instead of seeing new housing as an addition to the supply that will serve to dampen increases in prices, skeptics see new housing as a signal to other developers and landlords to raise rents and develop more luxury housing. One skeptic expressed this view: "…thousands of new luxury units with high rents will signal to other landlords that they can increase residential and commercial rents, resulting in the displacement of long term low-income tenants and small local businesses (Roberts 2015)."

This unconventional view of the impacts of new development, what Been et al. (2019) call "supply skepticism" is often expressed by opponents of new development. The available social science evidence, however, does not support this view. For example, Bhoustan et al. (2022) found that cities that allowed more condominium development after this type of housing arrangement was legalized did *not* experience any increase in gentrification.

Another recent study examined how the development of large apartment buildings impacted nearby rental prices in low-income neighborhoods (Asquith, Mast, and Reed 2019). Contrary to the predictions of the supply skepticism theory, they find that the development of large new buildings *lowers* nearby rents and is associated with an increase of in-migration of renters from low-income neighborhoods.

A third study "…finds that for every 10 percent increase in the housing stock within a 500-foot buffer, residential rents decrease by 1 percent... across neighborhoods, the negative impact is bigger in gentrifying neighborhoods than established high-income areas," (Li 2022).

Casual observations of increases in housing prices after the development of new housing units are likely not illusory. But the observed increase is likely due to changes in the underlying housing market dynamics, such as increased demand for housing overall, rather than the new developments themselves. Developers are likely to be drawn to neighborhoods where they anticipate being able to earn a return on their investment. While casual observers may be somewhat aware that market dynamics are changing in their neighborhood, it is the erection of a new building that is most notable and memorable. The subsequent changes in the housing markets thus come to be associated with the new development, rather than the underlying changes in the housing market that preceded it.

Summary

Through building codes, zoning, and other land use regulations, state and local governments largely prescribe what type of and where housing is built. The federal government acts primarily as a subsidizer, by insuring and regulating the mortgage market for homeownership, and providing subsidies for affordable rental housing. In the remainder of this section, we outline the specific ways affordable is produced in the U.S.

Public Housing

The public housing program is the oldest federally financed affordable housing program in the U.S. The program originated during the Great Depression primarily to put building tradesmen back to work and to clear slums. Initially the federal government provided funding for site assembly and construction. Local governments and rent revenue from tenants were expected to support the operating cost of the developments. Starting in the 1960s the public housing program clientele transitioned from primarily working class to housing of last resort. A combination of increasing housing opportunities in central cities that were experiencing white flight and federal guidelines that attempted to limit public housing to the neediest were responsible for this transition. The deeply disadvantaged clientele and inadequate funding from Congress resulted in many public housing developments deteriorating significantly, most infamously in the case of the Pruitt Igoe development in Saint Louis (Schwartz, 2021).

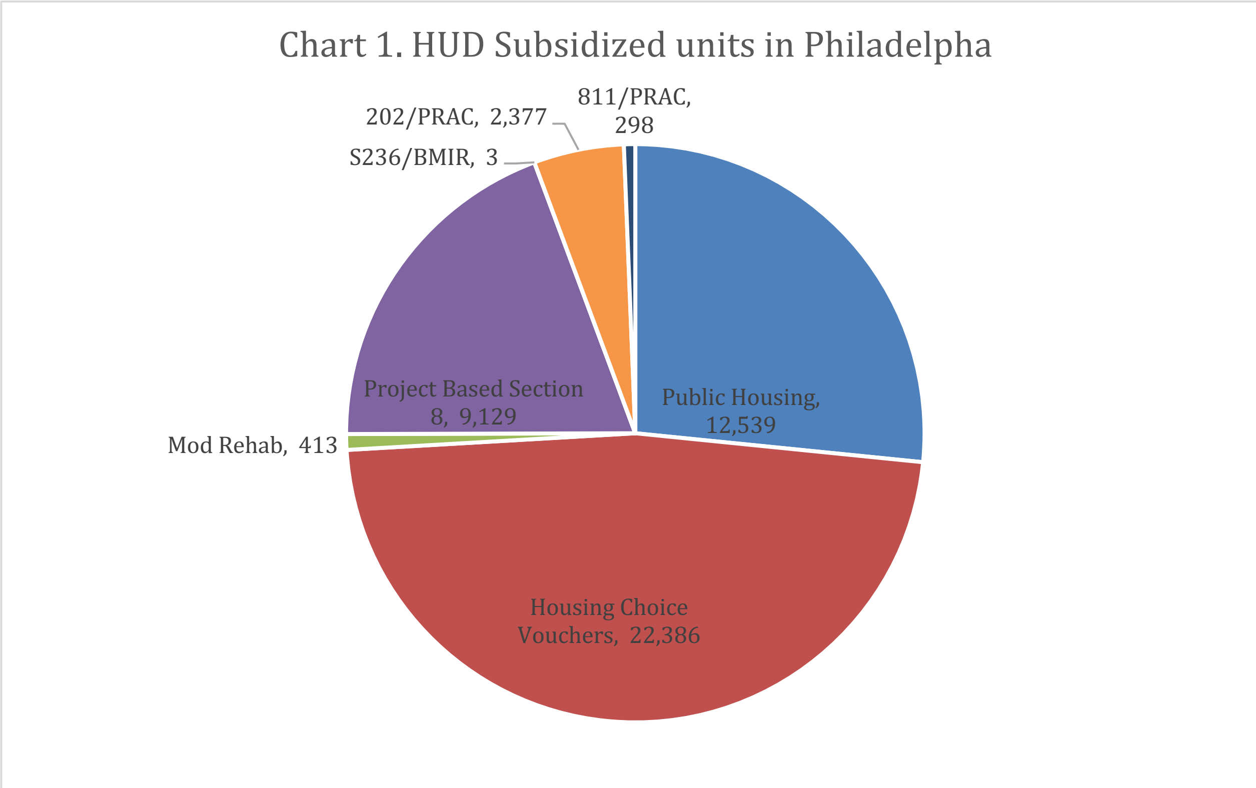
Little new public housing is being built now; indeed, units are being demolished more quickly than new units are being built. As a result, the number of public housing units has decreased steadily since the 1990s. Approximately 20 percent of the total number of units that have been built have since been demolished (Schwartz 2021).

Many of the demolished units have been replaced by mixed-income developments through the HOPE VI program, which targeted distressed public housing, or those developments that were physically under maintained, had high vacancy rates, and served an extremely low-income clientele. HOPE VI developments typically include a very low-income component, like the clientele of the original public housing program, a moderate-income component, and market-rate units.

HUD Subsidized Privately Owned Affordable Housing

Starting in the 1960s HUD began providing subsidies for the development of affordable housing, but the developments were to be privately owned. These included Section 202, Section 221, Section 236, Section 515, Section 811, and Section 8 new construction programs. HUD is no longer financing the construction of new development under these programs, but many units developed under these programs are still under contract and provide affordable housing.

Chart 1 shows more than 10,000 units from Section 202, Section 221, Section 236, Section 515, and Section 8 programs that are providing subsidized housing in Philadelphia. The subsidy eventually sunsets for many of these programs, potentially putting many low-income families at risk of displacement. We discuss efforts to address this challenge below.



Source: A Picture of Subsidized Housing, 2023

Low Income Housing Tax Credit (LIHTC)

Adopted in 1986 as part of a tax reform package, LIHTC has become the single largest producer of affordable housing in the U.S. with more than 3 million units put in service since the program's inception. Under the program, investors in affordable housing developments receive tax breaks for 10 years. The Internal Revenue Service (IRS) administers the program and disburses credits to states on a per-capita basis.

LIHTC has been used extensively in Philadelphia with at least 14,318 units produced since the program's inception. In Pennsylvania, the Pennsylvania Housing Finance Agency manages the LIHTC program. Pennsylvania requires affordable units in LIHTC developments to remain affordable for at least 40 years. Failing that, home ownership opportunities to qualified residents after the initial 15-year compliance period must be provided.

The LIHTC program has been perhaps the most successful affordable housing subsidy program in the nation's history. The program has produced more affordable units than any other program and the allocation of LIHTC has never decreased during the history of the program (Freeman 2006).

Inclusionary Zoning

Inclusionary Zoning (IZ) uses zoning regulations to incentivize or require developers to include affordable housing in new developments alongside market-rate units. IZ can be mandatory, meaning all developments that meet certain criteria, typically based on the number of units, are subject to the requirement to provide some affordable housing units. IZ can also be voluntary whereby developers receive a density bonus or some other development-related benefit in exchange for including affordable housing units as part of the development. Under this voluntary incentive- based approach, developers can earn more profits than they otherwise would, and this surfeit of profit has the potential to offset the cost of the affordable units.

For IZ to be effective and produce affordable units, the affordable unit requirements cannot be so onerous to make development unprofitable. Both the number of units required to be set aside as affordable, and the degree of affordability can affect the profitability of and feasibility of IZ to produce affordable units. If the affordability requirements disincentivize new development, IZ could paradoxically reduce the supply of housing that would otherwise exist and contribute to higher housing prices.

Given the tightrope that policymakers must walk to implement an effective IZ program, it's perhaps not surprising that the evidence on the effectiveness of IZ producing affordable units is mixed (Freeman and Schuetz 2017). The evidence does suggest that when done correctly IZ programs do produce affordable housing units. A recent comprehensive study of inclusionary housing in the United States based on a survey of 1,019 inclusionary housing finds at least 110,000 affordable units were produced by IZ programs since the programs’ respective inceptions (Wang and Balachandran 2021). This study obtained detailed outcome data for 258 programs. Given that the majority of the IZ programs surveyed did not provide detailed outcome data, the 110,000 figure must be considered a very conservative estimate of the total number of units produced under IZ programs. The majority (71 percent) of the IZ programs surveyed by Wang and Balachandran are mandatory. Some 71 percent also provide incentives, most commonly in in the form of density bonuses.

As to whether IZ programs dampened the overall production of units, the evidence is mixed. A recent study of an IZ program adopted in England found that after IZ implementation the number of units produced in the IZ area fell. But it appears new development was simply diverted to other areas not covered by the IZ mandate to a degree that offset the loss of new development in the IZ area (Li and Guo 2022). Other studies have found IZ programs to be associated with a reduction of housing supply in some areas while having no discernible impact in others (Schuetz et al. 2011).

IZ Case—Philadelphia

In 2021, Philadelphia adopted an inclusionary zoning ordinance called Mixed Income Neighborhoods Overlay Districts. New development of 10 residential units or 20 sleeping units fall under the purview of this ordinance if they are in such a district. Units must be affordable to households with incomes of 40 percent of the Area Median Income (AMI), or in the case of homeowners 60 percent of AMI. Developments meeting this threshold are required to develop and maintain at least 20 percent of the dwelling units on site as affordable. Under certain circumstances developers are also allowed to provide some of the affordable units off-site but with a half-mile radius of the proposed development or to payment to a housing trust fund maintained by the Department of Planning and Development.

This new IZ program goes beyond the prior IZ program that was voluntary for developers. Under the older IZ program, developers who added affordable dwellings to their projects or paid into a fund that supports affordable housing received a density bonus. At least 10 percent of the project's units had to be affordable for households with incomes at 50 percent or 60 percent of the area median-income and remain so for at least 50 years. Philadelphia's new IZ program is thus following the pattern of most IZ programs in that it is mandatory. Philadelphia's new program only began in 2022; it is therefore too soon to tell if it will be successful in producing a substantial number of affordable housing units or if it will have consequences on the overall supply of housing units and housing affordability.

Tax Abatement Schemes

Tax abatement schemes use property taxes as a lever to incentivize the development of affordable housing. Nearly all local governments rely on property taxes to fund the provision of public goods and services and these taxes are a substantial source of local government revenue constituting some 30 percent of local public coffers in 2019 (Urban Institute, 2022). In addition to being an important source of local revenue, property taxes can also be a significant component of the cost of property ownership. Property tax abatement schemes typically forgive part or all the property tax liability for a property if affordable units alright included in the project. As property taxes can be a significant component of the cost of property ownership, a tax abatement can be and attractive incentive to provide affordable housing.

New York City 421a Program

New York City's 421a program started in 1971 and was seen as an incentive to spur the development of multi-family housing during a time when the city was rapidly losing population and the construction of new housing was stalling in part it was feared due to the high property tax burdens in the city. By reducing the tax burden, it was hoped developers would be incentivized to build more housing.

By the 1980s, parts of New York City were experiencing a major economic renaissance. The wisdom of granting tax breaks to developers to build highly profitable luxury apartments was questioned. As a partial remedy to this potential boondoggle, new developments in “hot” parts of the city (e.g., Midtown Manhattan) were only granted tax breaks if 20 percent of the units were affordable.

The program is undergoing several permutations over the years with changes to the geographic areas that are eligible, the affordability requirements, and the nature of the tax incentives. Under the latest version all new development must set aside 25 to 30 percent of the units as affordable to be eligible for the tax breaks.

Preserving affordable units

Most privately owned affordable housing units have provisions that allow the subsidies to sunset after a specified period. For example, the LIHTC program requires units be affordable for 15 years. Under Philadelphia's new inclusionary zoning initiative units must remain affordable for 50 years. While such sunset provisions may seem like a distant problem when the developments are initially built, the expiration of the subsidies threatens tenants with displacement. Many of the HUD funded, privately owned, affordable housing developments described above have been grappling with this very issue. One remedy is to provide housing vouchers to tenants living in buildings where the subsidies are about to sunset. Providing vouchers has the advantage that it does not require persuading the owner to remain in the affordable housing program. Providing vouchers also circumvents the prohibitively expensive option of buying the properties from the owner.

HUD implemented the Tenant Protection Vouchers (TPVs) to address this problem in 1996. Tenants residing in HUD assisted developments such as public housing, are eligible for these vouchers under a variety of hardship circumstances. A common eligibility event is when a project-based Section 8 contract expires and the owner decides not to renew the contract (the owner "opts out"). Other hardship circumstances could include relocation from a HUD assisted development.

In 2019, HUD also set aside funds that owners of HUD assisted developments could apply for if they were in a low-vacancy area and the subsidy for their development was expiring or a HUD assisted mortgage were maturing.

While TPVs can help addressing the problem of expiring subsidies, they are unlikely to be a panacea for at least two reasons. First, participation is typically voluntary, meaning it is up to the property owner or local housing authority to decide to apply for TPV funds. Second, TPVs are not an entitlement, meaning there is no guarantee the supply of such vouchers will meet the need. Consequently, TPVs are currently a necessary but insufficient resource to address the challenge of expiring subsidies.

Demand Side Approaches

Housing Choice Vouchers (HCV, formerly Section 8) are now the largest quiver in HUD's arsenal for tackling housing affordability problems. Vouchers pay the difference between the Fair Market Rent (FMR) and 30 percent of a household's income. The FMR is set at the 45th percentile of rents in the local metropolitan area. Vouchers are typically viewed as preferable to project-based subsidies because they are cheaper, provide tenants with more choices, and typically lead to better locational outcomes for low-income tenants (Weicher 1990).

Despite the relative success of the HCV program, recipients often confront significant obstacles when attempting to utilize this voucher. Indeed, a nationwide study found only 70 percent of vouchers are successfully used to lease a unit (Finkel and Buron 2001). Below we describe some approaches that have been employed to increase the success of the voucher program.

Source of Income Discrimination Policies

In most jurisdictions in the US landlord participation in the voucher program is voluntary. For at least two reasons landlords are often reluctant to participate. First, the voucher program still is stigmatized even though it is generally seen as an improvement over the public housing program that preceded it. The experience of one voucher recipient with a landlord encapsulates this sentiment:

> *''And this one lady [landlord], she [said], "No, I don't want any of that around here." She—and I asked her, I said, "Well, why?" And she said, "Well, they bring the property value down." I said, "They?" And she's like, "Yes, they bring the property value down." I was like, "Well what do you mean by they?" She's like, "The ones from Chicago. They have all of the kids and they're running—"* (Quoted in Greenlee 2014)

The stigma associated with the voucher recipients can make it difficult for voucher recipients to find landlords who will accept their voucher.

A second reason landlords are sometimes reluctant to except vouchers is because of the associated “red tape” and standards associated with the program. One landlord participant described the program:

> *“You know you’re dealing with the government, so you just kind of—you just learn to deal with it, but there’s not a whole lot—there’s not a whole lot of cooperation, in the sense of it’s hard to get calls back, and I mean it’s, they’re really busy.”* (Quoted in Greenlee)

As noted above the voucher program requires that a unit leased using the voucher meet certain quality standards. If the landlord's property is at or below such standards, the landlord may not feel it worth it to invest in their property to bring it up to the standards of the program. In his ethnographic account of the eviction crisis in America, Matthew Desmond describes one landlord couple: “Sherrena and Quentin didn’t accept rent assistance in most of their properties because they didn’t want to deal with the program’s picky inspectors. ‘Rent assistance is a pain in the ass,’ Sherrena said.” (Desmond, p. 147.)

For these reasons voucher recipients are often unable to find units to lease. Landlord reluctance to participate in the voucher program thus contributes to large numbers of voucher recipients failing to find an apartment to lease (Freeman 2012).

Source of Income Laws

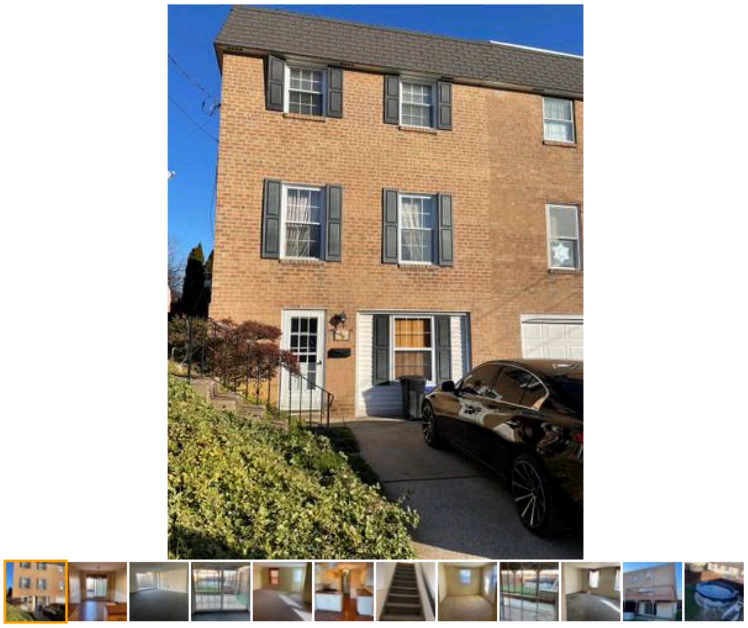
One approach to discouraging landlords from refusing to accept vouchers is to make it illegal to deny someone a unit based on the source of income. In this instance landlords would be obligated to let someone their apartment regardless of if their income comes from paid employment, pension, or a housing voucher. Several States and localities have adopted source of income discrimination laws. A study by the Urban Institute found that landlords in jurisdictions with source of income discrimination laws were much less likely to reject tenants with vouchers than landlords in jurisdictions without such laws (Cunningham et al. 2018).

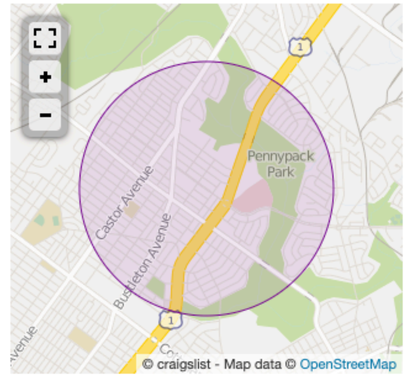
Philadelphia is one such city to have a source of income discrimination law. Philadelphia’s law makes it illegal to deny a unit based on “any lawful source of income, [including]…housing assistance programs.” Despite the existence a SOI law since 2011, discrimination against voucher recipients is rampant in Philadelphia. A study by the Urban Institute found that in paired audit tests in Philadelphia and Bucks Counties, 67 percent of landlords refused potential tenants that had vouchers.

A casual perusal of Philadelphia Craigslist real estate listings easily finds landlords openly refusing to consider tenants with housing vouchers as figure 1 illustrates. This suggests SOI laws need not only be on the books but enforced as well.

reply favorite hide flag share Posted 19 days ago print

$2,700 / 4br - HOME FOR RENT (Philadelphia, PA)





4BR / 2.5Ba available mar 1

air conditioning
furnished
house
w/d in unit
no smoking
off-street parking
rent period: **monthly**

Hi everyone, I have a fully furnished home for rent. Beautiful home located in Northeast Philadelphia, PA. Quiet neighborhood and minutes away from the nearest public elementary school. Home is near Northeast Airport and close to the Blvd.

The home includes:
- 3 floors (including walk-in basement)
- 4 bedrooms (additional rooms in basement)
- 2.5 bathrooms
- living room
- dining room
- kitchen
- backyard space includes deck and pool
- washer and dryer included
- driveway
- central heating/ AC

All rooms and bathrooms mentioned above look brand new and fully furnished. Please see the pictures which show everything. If you're interested feel free to contact me at show contact info . You will not regret this home which looks beautiful, it will go fast!!!

NO PETS, NO SMOKING

MUST PROVE EMPLOYMENT

SECTION 8 NOT ACCEPTED

SECURITY DEPOSIT WILL BE REQUIRED

RENT (NEGOTIABLE): $2700.00 PLUS UTILITIES (GAS, ELECTRIC, WATER)

Landlord Outreach and Tenant Counseling

In addition to landlord reluctance to participate in the voucher program, many tenants only consider a limited set of potential housing options. As Maria Krysan and Kyle Crowder (2017) show, most people rely on social contacts and their personal experience when seeking housing. Consequently, many voucher recipients, particularly those who are African American, will rely on their social networks, which due to homophily are disproportionately African American, to use their vouchers, and their personal experiences which will likely be limited to the types of places they have worked and/or have social contacts. Large swaths of a given housing market might therefore be excluded if the voucher recipient doesn't know anyone living in these neighborhoods or has never worked or had other reason to travel to those neighborhoods. These neighborhoods that voucher recipients may not consider in their housing search might have greater opportunities, and simply provide additional opportunities for using their housing voucher.

To facilitate voucher recipients being able to successfully use their voucher and to move to higher opportunity neighborhoods than they likely otherwise would, several local housing authorities have undertaken mobility programs that provide counseling to voucher recipients on successful strategies for utilizing their vouchers and identifying housing opportunities in higher opportunity neighborhoods. These counseling programs often contain a component to reach out to landlords in neighborhoods frequently overlooked by voucher recipients. Many of these programs were the result of court rulings, such as the Gautreaux program in Chicago, while others are deliberate policy choices undertaken by local housing authorities sometimes with encouragement from HUD.

One of the most promising voucher counseling programs has been undertaken recently by the Seattle Housing Authority. According to the Abdul Jamil Poverty Action Lab at the Massachusetts Institute of Technology this counseling program includes:

- Rental application coaching to help families prepare to lease, including resolving or preparing families to discuss poor credit or rental histories, and coaching on how to work with landlords;
- Information in opportunity areas, including information on schools, amenities, and community resources;
- Housing search assistance to support families in seeking out rental units, including referrals to units where landlords are interested in leasing to families participating in Seattle’s voucher program;
- Flexible financial assistance that families can use towards application fees, security deposits, and moving costs.

Services were also provided to landlords to encourage their participation in the voucher program including a damage mitigation fund that provides landlords with up to $2,000 in reimbursement for damages above and beyond the security deposit of units leased by program participants, and additional outreach conducted by contractor staff to landlords in opportunity neighborhoods to increase the number of units available to families.

Preliminary evidence suggests that the program improves the types of neighborhoods in terms of opportunity that voucher recipients move to. Notably the mobility services did not increase the likelihood of a voucher family successfully leasing a unit. The increase or improvement was confined to an improvement in the portion of families moving to higher opportunity neighborhoods. (Poverty Action Lab)

Encouraging the development of less expensive housing

To tackle the vexing problem of affordable housing some communities have also undertaken initiatives that might create housing that is affordable without subsidies. Various ideas have been floated for such housing, including mini housing units, which are much smaller than standard units, manufactured housing, and encouraging the development of other housing types besides the single-family home. Two approaches appear to be catching on in terms of popularity: encouraging the development of accessory dwelling units (ADUs) and relaxing zoning regulations to allow housing types beyond single-family homes. We briefly discuss instances of these approaches below.

According to the American Planning Association ADUs "can be converted portions of existing homes (i.e., internal ADUs), additions to new or existing homes (i.e., attached ADUs), or new stand-alone accessory structures or converted portions of existing stand-alone accessory structures (i.e., detached ADUs)." (American Planning Association, 2020).

Relaxing land use regulations to allow ADUs can contribute to housing affordability in several ways. First, by making it legal to develop ADUs, the supply of housing is increased, which should contribute to lower housing prices either absolutely or relatively. Secondly, ADUs are typically cheaper to build than conventional housing, thus enhancing their affordability. Indeed, studies have found ADUs to typically rent for lower prices (Chapple, Ganetsos, and Lopez 2021; Harris and Kinsella 2017). ADUs can also provide a source of income for the occupant of the primary housing unit on the parcel which can be important if they are a homeowner with a mortgage. Finally, ADUs are often leased to friends and family members at a discount (Chapple and Zuk 2016; Chapple, Ganetsos, and Lopez, 2021).

Boston ADU Pilot Program

The City of Boston implemented an ADU pilot program for 18 months, from November 2017 to May 2019. After the completion of the program in May 2019, Boston expanded the program beyond its three initial neighborhoods to the entire city and launched a second round of pilot programs. The three initial pilot neighborhoods had different contexts: in one neighborhood, ADUs were already being adopted illegally; in the second, widespread tenant displacement was occurring; and in the third neighborhood, homes had ample space to build ADUs on the parcels.

In addition to the contributions that ADU development makes towards affordability, Boston's program also provided subsidized loans to the homeowners if their incomes were below 135 percent of the area median income and they agreed to rent the units at below market rents levels. As of February 21, 2019, 72 people had applied online to the ADU pilot program. Fifty-five of those applications, or 76 percent of the online applications, met all eligibility criteria. Of those 55 eligible applications, 33 had successfully passed the Preliminary Review (46 percent of all online applications), 12 had received a Building Permit from ISD (17 percent of all online applications), and two had received a Certificate of Occupancy.

Since at least the late 19th century the single-family home has been held up as the ideal for Americans (Hirt 2015). The single-family home has been viewed as consistent with American norms of rugged individualism and For dense city life (Hirt 2015). Consequently, many local zoning ordinances preference the single-family home over other types of housing, going as far as to zone majorities of their residential land for single-family homes exclusively.

Single-family zoning can make housing more expensive in at least two ways. First, land is a major, sometimes *the* major, component of a housing unit's cost. By being able to build multiple units on a single parcel of land, the cost of land can be spread across multiple units, resulting in a lower per unit price. Second, as described in the beginning of this chapter, the price of housing, depends in part, on the overall supply. Zoning that allows for more units to be built on a given parcel of land results in a greater supply, and consequently lower housing prices. Thus, efforts to relax zoning by allowing or more multifamily and other types of non-single-family housing have the potential to help make housing more affordable.

Missing Middle Housing

Tacoma, Washington is making efforts to make housing more affordable by allowing more multi-family housing to be built. The city's Home in Tacoma Plan seeks to allow more "missing middle" and other types of housing by easing zoning regulations and offering incentives. Towards this end, Tacoma is taking steps to update its zoning codes to allow a broader mix of housing types including multifamily housing. More specifically, the city is trying to permit small multi-family developments (5-12 units) in low-scale residential areas where this type of development is not typically allowed. In addition to those allowed in low-scale neighborhoods, the city will further allow mid-scale multifamily housing in areas close to shopping and transit, with the potential to increase in appropriate areas. In addition to relaxing their zoning regulations Tacoma also incentivizes the development of multi-family units through its Multi-Family Property Tax Exemption (PTE) Program.

These efforts are beginning to bear fruit. Between 2016 and 2020, 85 percent of the residential units permitted in Tacoma were multifamily developments. The plan seeks to continue the trend by updating and expanding PTE to mid-scale residential areas and developing the missing middle housing with 4+ units in low-density residential areas.

Conclusions

This chapter gives a brief overview of how housing that is affordable is developed in the United States. Important take away lessons are that the U.S. housing system is largely decentralized and driven by private sector actions. This applies to housing at the lower cost end of the spectrum as well. It is therefore the case that housing is a market good subject to the laws of supply and demand. Consequently, efforts to address housing affordability problems must keep in mind that to be successful, increasing the supply of housing will likely to have to be part of the equation. Cognizant of this reality, several state and local governments are undertaking efforts to make it easier for both market-rate and NOAH housing to be built, with the aim of both increasing the overall supply of housing and having housing units built that are low cost.

The chapter also gives a brief overview of the major government subsidized housing initiatives. For the most part these efforts involve government dollars but private sector ownership and management of for housing. The LIHTC and inclusionary zoning are among the most popular new construction subsidy programs. The housing choice voucher is the single largest subsidizer of affordable housing. The chapter also briefly highlights the risk posed by expiring housing subsidies and strategies that have been employed to address this.

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