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DISCUSSION PAPER

Developing Inclusive Communities:
Challenges and Opportunities for Mixed-Income Housing

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Primary issue:

Since the recession, the need for affordable rental housing has outpaced the number of available units while federal funding for housing has declined. Mixed-income communities provide a number of benefits, including deconcentration of poverty, reduction in crime, and improved education and health outcomes. Yet, the production of such communities is increasingly stymied by rising costs, such as the cost of land, and other barriers, such as policies that exclude less costly construction options and development types. Furthermore, the lack of coordination between agencies reduces the effectiveness of limited public subsidies. New ideas are needed about how to develop, scale, and replicate affordable housing in a mixed-income setting in light of fiscal and operational constraints.

Key findings:

Based on interviews with stakeholders in three southeastern cities, three major challenges to building mixed-income communities were identified. These included the high price of land, the disproportionate regulatory burden associated with affordable housing subsidies, and the need for better coordination at various levels of government and with other sectors such as education and health care.

Takeaways for practice:

This paper outlines a number of strategies for increasing the production of mixed-income communities in an environment of declining federal funding. Greater flexibility and streamlining of application, reporting, and monitoring requirements could greatly enhance the effectiveness of available public subsidies. Other considerations include additional dedicated state and local funds and more strategic outreach and education to the public and elected officials.

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Developing Inclusive Communities:

Challenges and Opportunities for Mixed-Income Housing

Abstract:

Over the past decade, housing costs have risen faster than incomes. The need for affordable rental housing has well outpaced the number of available units as well as funding allocations at the federal level. Local regulation and land use policies that increase the cost of subsidized, mixed-income housing construction and preservation have contributed to the affordability problem.

To meet the affordable housing needs in U.S. communities, innovation, creativity, and "out of the box" thinking may be required, particularly as it relates to reducing the rapidly increasing costs of development. Another consideration is pursuing mixed-income development, as it is more financially sustainable than low-income housing. Mixed-income neighborhoods are also desirable as they can lead to substantially better outcomes for families because the higher disposable incomes of a broader economic mix of families attract additional private investment, amenities, and opportunities.

This discussion paper explores new ideas about how affordable housing in an economically integrated, mixed-income community setting could be developed and operated in an environment of declining government subsidies. Based on interviews with housing stakeholders in Atlanta, Georgia, Jacksonville, Florida, and Nashville, Tennessee, we have compiled ideas that could be scalable and replicable and could result in substantial cost savings without compromising mission, integrity, performance, or accountability. Specific suggestions include standardizing qualifying income targets and other standards imposed by funders and reducing building and permitting barriers to development, such as limited zoning for multifamily housing and regulations limiting wood frame construction. More generally, participants thought existing stakeholders could better address the underlying political environment by creating a unified constituency to advocate for more mixed-income communities. These ideas and lessons learned from the mixed-use, mixed-income revitalization experience may inform and assist cities in rebuilding or enhancing their urban core.

JEL classification: H53, H75, I38, K25, R21, R31, R38

Key words: affordable housing, mixed-income housing, housing policy, housing development

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As a nation, we have struggled to understand how best to integrate as a pluralistic, multicultural, and ethnically diverse society. Building healthy, economically integrated, racially and culturally diverse communities and the delivery of quality public education have been particular challenges. These challenges are made greater by the ever-changing context in which housing is generated. More recent changes include shifting demographics, a decreasing homeownership rate, a declining middle class, widening wealth and income gaps, and continued urbanization.

Indeed, public housing policy in the United States has moved through several phases. The enactment of the Housing Act of 1937 was intended to address slum conditions among the poor. Later housing programs addressed the growing need for urban housing with several remedies. The 1974 Housing and Community Development Act moved away from high-rise style public housing and toward increased choice and portability by establishing the Section 8 tenant-based voucher program. By this time, racially segregated housing was outlawed and required by law to become integrated. Local governments were tasked with affirmatively furthering fair housing under the 1968 Fair Housing Act. In addition, public agencies have given more control to the private sector, through both subsidies to for-profit and nonprofit developers of affordable housing and through vouchers used by tenants to lease housing units owned by private entities. Noting the report of the National Commission on Severely Distressed Public Housing, Congress in late 1992 passed the Urban Revitalization Demonstration (URD) as part of Housing Secretary Jack Kemp's HOPE (Homeownership and Opportunity for People Everywhere) series of programs, the first of which were enacted in 1990. URD, which came to be known as HOPE VI, authorized a new major allocation of capital funds for the removal and replacement of the most blighted public housing (Cisneros & Engdahl, 2009). Beginning with HOPE VI, public-private partnerships have emerged as the dominant model to leverage private sector know-how, private funds, and market principles to create, own, and operate sustainable, affordable housing in a mixed-income setting. HOPE VI had at its heart the belief that the solution to public housing problems was not to be found in the nation's capital but in the communities where the most severely distressed public housing was located. The designers of HOPE VI believed that local residents working with local government officials and housing experts could come up with the best solutions for transforming the public housing projects into attractive, livable communities (Cisneros & Engdahl, 2009).

In response to this opportunity, a promising solution came out of Atlanta, Georgia, with the holistic transformation of Techwood/Clark Howell Homes. The project was a public-private partnership between the Atlanta Housing Authority, the Integral Group, and McCormack Baron Salazar. The redevelopment became Centennial Place, the first mixed-income, mixed-use community in the United States, with public housing-assisted units as a component. The U.S. Department of Housing and Urban Development (HUD) adopted the financial, regulatory, and legal framework growing out of the initial financial closing for Centennial Place in March 1996 as its national blueprint for creating mixed-income, mixed-use communities (Cisneros & Engdahl, 2009).

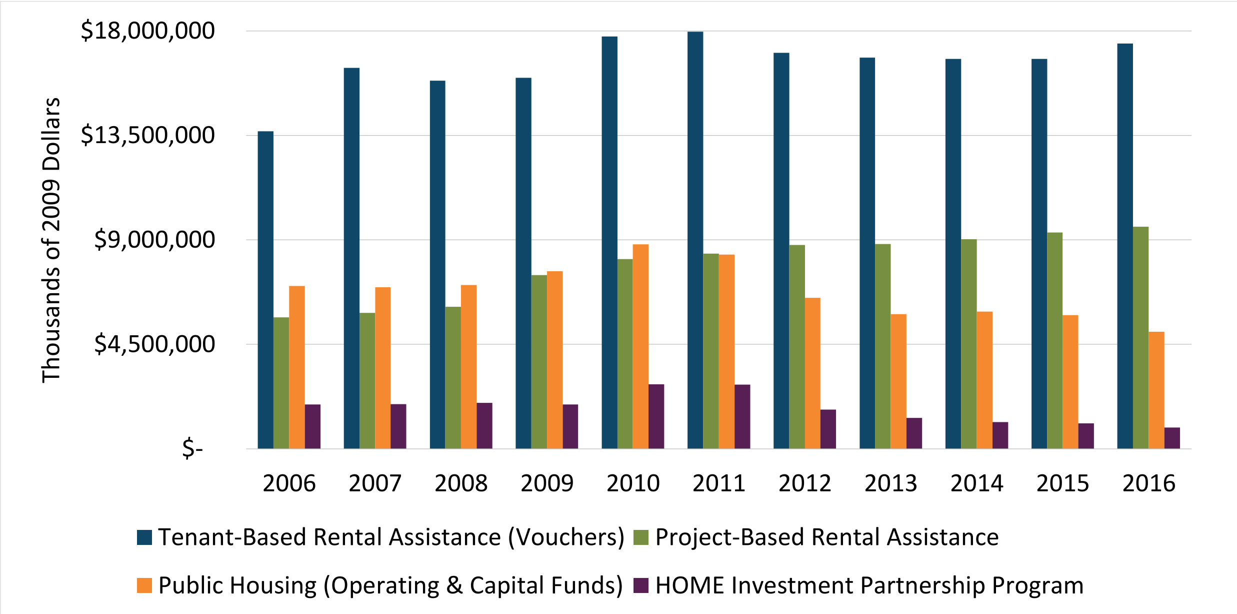
Mixed-income housing may accomplish a number of outcomes—leverage federal subsidies, substantially improve living environments, deconcentrate poverty, reduce crime (Sanbonmatsu et al., 2011), increase workforce participation (Chetty, Hendren, & Katz, 2016), improve education and health outcomes (Ludwig et al., 2013), increase real estate values, increase private investment in surrounding neighborhoods (Popkin, 2010), and strengthen the city as a whole. HUD's Moving to Work (MTW) program has had a particular impact on workforce participation through its emphasis on employment and self-sufficiency. Despite these benefits, a mixed-income housing strategy has not been realized at a material scale in the United States. After a decline in concentrated poverty, or households living in neighborhoods with a poverty rate of 40 percent or higher, from 1990 to 2000, poverty in urban areas has reconcentrated (Jargowsky, 2015).

Of concern, over 21 million renter households are considered housing cost burdened, meaning that they spend more than 30 percent of their household income on housing costs alone (Joint Center for Housing Studies, 2016). A record number of renter households, nearly 12 million, now spend in excess of 50 percent of their income on rent, making them "extremely cost burdened." Median household income remained flat or even declined in real terms in the years following the most recent recession. A gain in median household income and decline in the poverty rate in 2015 have provided a small amount of hope. However, high rent burdens can be devastating to low-income households and those living on fixed incomes. High housing costs can also lead to cycles of eviction and housing instability that cause families to accept substandard housing conditions. Housing instability contributes to declining health, employment, and educational outcomes (Desmond, 2016). The demand for rental housing is strong and growing due to falling rates of homeownership. While largely higher-income homeowner households benefit from the federal mortgage interest tax deduction, only one in four eligible low-income households receives housing subsidies.

A discussion paper published in April 2016 by the Community and Economic Development department of the Federal Reserve Bank of Atlanta, "Declines in Low-Cost Rented Housing Units in Eight Large Southeastern Cities" called attention to the diminishing supply of naturally occurring and subsidized affordable housing (Immergluck, Carpenter, & Lueders, 2016). According to the findings, the increase in cost-burdened households is due in part to the decrease in affordable rented units in urban areas. The number of low-income rented units (defined as those with gross rents of less than $750 per month) decreased in all eight cities (Atlanta, Birmingham, Jacksonville, Memphis, Miami, Nashville, Orlando, and Tampa) between the American Community Survey (ACS) periods of 2006–10 and 2010–14. Based on these data, each of these eight cities is losing hundreds, and sometimes thousands, of low-cost rented units annually. The largest declines were found in Atlanta, Jacksonville, and Nashville, the study areas chosen for this analysis.

Clearly, the need for affordable rental housing has well outpaced the number of available units as well as funding allocations at the federal level. Since the Budget Control Act of 2011 was enacted to avoid default on the national debt, many nondefense discretionary programs, including housing assistance, have been cut, and more cuts have been proposed. To date, this includes a $6.2 billion reduction in annual housing assistance from 2010 to 2013, only about two-thirds of which had been restored as of 2016 (Center of Budget and Policy Priorities, 2016). The largest cuts have come from public housing and HOME (see figure 1). Adjusted for inflation to 2009 dollars, total discretionary spending on housing (including Tenant-Based Rental Assistance, Project-Based Rental Assistance (PBRA), Public Housing, and HOME funding) grew from $28.3 billion in 2006 to $37.5 billion in in 2010 before falling to $33.0 billion in 2016. According to recent data, the number of extremely low-income renters increased by nearly 1.9 million from 2009 to 2014 while the number of federally subsidized units increased by only 294,000, a significant shortfall that is on track to increase (Getsinger, Posey, MacDonald, & Leopold, 2017).

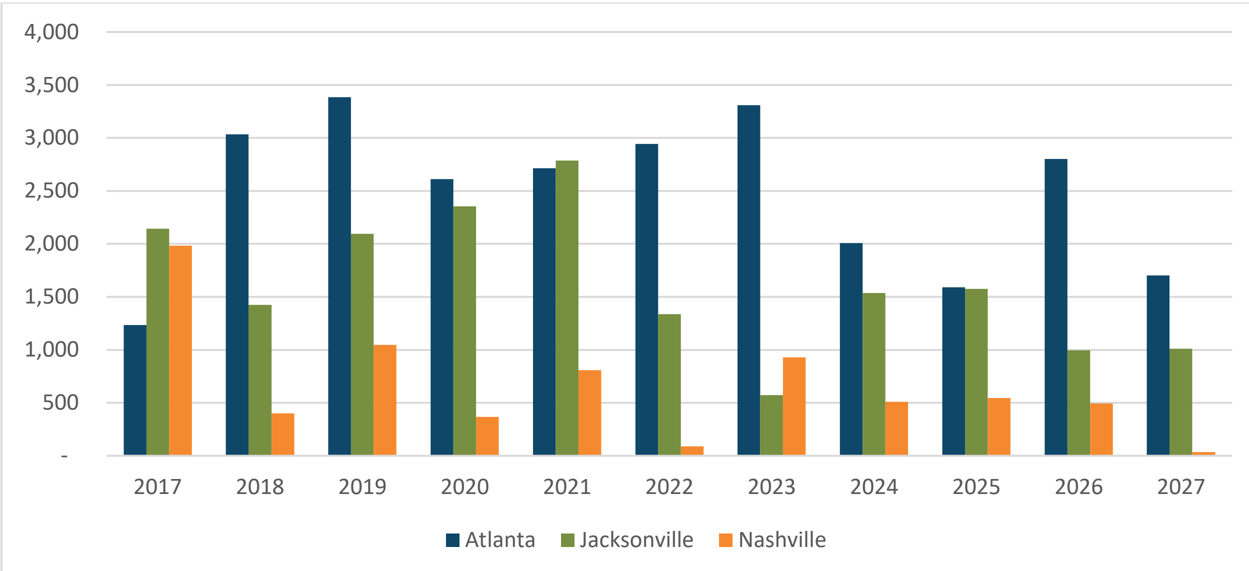
Figure 1: Federal Discretionary Spending on Housing



Source: U.S. Office of Management and Budget

Furthermore, a total of 52,377 affordable housing units with Low-Income Housing Tax Credit (LIHTC), PBRA, and other subsidies are set to expire between 2017 and 2027 in Atlanta, Jacksonville, and Nashville (see figure 2). This total includes 27,333 units in Atlanta, 17,837 in Jacksonville, and 7,205 in Nashville, according to the National Housing Preservation Database. These subsidies typically have a 15- or 30-year affordability clause. Of these, 74 percent of all units are subsidized by LIHTC. Units in weak markets may remain affordable after the subsidies expire; however, the potential for loss, particularly in areas of opportunity, is quite real without an additional subsidy or a refinancing program like the Federal Housing Administration (FHA) LIHTC Pilot launched in 2011 and expanded in 2014. The program provides permanent financing for acquisition or refinancing with moderate rehabilitation of LIHTC properties and properties with Section 8 Housing Assistance Payments (HAP) contracts. In addition, the program aligns FHA's underwriting process timeline with that of the LIHTC cycle, greatly streamlining review.

Figure 2: Number of Subsidized Units with Expiring Affordability Periods (Atlanta, Jacksonville, and Nashville), 2017 to 2027



Source: National Housing Preservation Database

Given this funding environment, reducing costs appears to be the only viable way to increase the production of mixed-income communities. The costs of predevelopment, development, construction, and operation (including compliance) could be substantially reduced if funding (debt, equity, grants, or rental subsidies) requirements, conditions and systems, compliance, inspections, and reporting could be streamlined, harmonized, and aligned at the federal, state, and local levels of government.

This discussion paper explores new ideas about how affordable housing in an economically integrated, mixed-income community setting could be developed and operated with fewer government subsidies. Based on interviews with housing stakeholders in Atlanta, Jacksonville, and Nashville, we've compiled ideas that could be scaled and replicated, and potentially result in substantial cost savings without compromising mission, integrity, performance, or accountability. These ideas and lessons learned from the mixed-use, mixed-income revitalization experience may inform and assist cities in rebuilding or enhancing their urban core.

Examples and Outcomes of Mixed-Income Communities

Rising housing costs and declining resources for affordable housing development require solutions from all levels of government and private organizations. Many observers have argued that communities and residents benefit most when these solutions also promote integration of income levels within communities. Researchers have shown that concentrated poverty promotes problems such as unemployment, crime, low educational attainment, and persistent, intergenerational poverty (Massey &

Denton, 1993; Wilson, 1987). Mixed-income communities offer an alternative to the ills of concentrated poverty.

Proponents of mixed-income communities theorize on several explanations for why low-income families should experience better outcomes when they live in neighborhoods or developments with a diversity of income levels. Exposure to middle-class neighbors brings low-income families out of isolation and provides access to social capital, or information and connections about employment, financial management, and how to navigate local government services effectively (Joseph, 2006). The presence of higher-income residents also increases, relative to an environment of concentrated poverty, the chance that youth have models of constructive behavior to follow (Chaskin & Joseph, 2011). Research has shown that generally school performance is substantially higher across all income groups where the school's population is economically integrated and diverse (Kahlenberg, 2012).

Higher-income residents have greater disposable incomes and power to influence local government and the private market for goods and services than residents with less education and disposable income; therefore, mixed-income communities feature better retail, infrastructure, and government services than low-income communities (Joseph, 2006). Mixed-income communities are also less stigmatized than low-income housing projects and can more easily attract government attention and private investment.

Advocates of mixed-income solutions also point to the increased order and safety of economically integrated communities relative to communities of concentrated poverty. The presence of higher-income residents, especially homeowners, is thought to lead to stronger informal enforcement of rules and norms, and thus a less chaotic environment with lower crime (Chaskin & Joseph, 2011). Fraser and Nelson (2008) review research on the effects of mixed-income housing strategies and find that previously low-income neighborhoods that gain mixed-income developments experience reduced criminal activity. Not only are low-crime neighborhoods desirable, but an enhanced sense of security helps low-income families achieve better employment and school outcomes. Prolonged exposure to chaotic, stressful environments, like in many communities with concentrated poverty, disrupts brain and organ development in children, leading to lifelong cognitive impairment (Evans & Schamberg, 2009).

Despite these positive findings, many observers have criticized the weakening of social ties caused by relocation programs (Goetz, 2010). In addition, there is little empirical support for theoretical benefits that rely on social interaction between the poor and their more affluent neighbors (Fraser, Chaskin, & Bazuin, 2013; Graves, 2011). Many of the theorized benefits of living in a mixed-income community for low-income families require more than just geographically proximate housing units.

Several programs have tested these ideas and often provided evidence that supports the countervailing effects of mixed-income communities. These include the 1966 Gautreaux fair housing judgment against the Chicago Housing Authority and HUD, the Moving to Opportunity (MTO) housing mobility demonstration program of the 1990s, and HOPE VI, HUD's program to redevelop failing public housing into mixed-income communities.

In the Gautreaux case, residents brought a successful class-action suit against the housing authority (and eventually its funding source, HUD) for continued bias against African-American families, who were disproportionately housed in racially segregated, high-poverty areas. As part of the settlement, the Gautreaux Program provided housing vouchers for thousands of families, with about half relocating to wealthy and majority white suburban areas. The resulting housing policy created a control group and an experimental group, allowing a better understanding of resident outcomes in mixed-income communities versus those who remained in concentrated poverty conditions. Scholars have extensively studied these populations. Notable results include higher employment rates for those who moved to suburban areas with a mix of incomes and higher graduation and college attendance rates for their children, although researchers have cautioned that the findings do not indicate causality (Johnson, Ladd, & Ludwig, 2002). The clearest success for the low-income families who moved to the suburbs through the Gautreaux Program has been improvement in basic neighborhood circumstances, like economic vibrancy, school quality, and public services (Chaskin & Joseph, 2015). Researchers have also found that these movers and their now-adult children remained in areas with lower poverty rates and higher racial diversity than their original neighborhoods (DeLuca, Duncan, Keels, & Mendenhall, 2010).

In 1992, Congress authorized the Moving to Opportunity (MTO) program specifically to test the effect of improved neighborhoods on public housing residents. The experimental program randomly assigned volunteers to three groups: residents who received vouchers to move out of public housing and into high-opportunity and higher-income neighborhoods, residents who received vouchers that could be used anywhere, and residents who remained in public housing. It has provided several observable effects associated with a move out of concentrated poverty. Voucher holders who moved to the high-opportunity neighborhoods experienced lower levels of crime and violence, and reported a greater feeling of safety (Sanbonmatsu et al., 2011). These participants also experienced improved mental health and fewer cases of diabetes and extreme obesity (Ludwig et al., 2013). Despite the improved health and safety outcomes, Ludwig et al. (2013) report scant evidence for economic or educational improvements among MTO movers. However, more recent research by Chetty, Hendren, & Katz (2016) has demonstrated that young children who moved to high-opportunity neighborhoods through the MTO program experienced increased future college attendance and earnings. Their findings on the effects of MTO are supported by other recent evidence from Harvard’s Equality of Opportunity Project, which found that childhood exposure to neighborhoods has a causal effect on adult outcomes (Chetty & Hendren, 2015).

Between 1993 and 2005, HUD’s HOPE VI program funded the demolition of housing projects in decline and provided seed money for their replacement with high-quality mixed-income developments. Like the experimental group in the MTO program, public housing residents in HOPE VI projects who received vouchers moved into better housing in much safer neighborhoods (Popkin et al., 2004). They experienced improvements in mental health and children’s behavior problems, though there are some indications that the move increased housing instability (Popkin, 2010). Other public housing residents returned to their neighborhoods after redevelopment and reported feeling safer than they had pre-HOPE VI (Levy, McDade, & Dumlao, 2010). HOPE VI redevelopment also generated benefits for surrounding neighborhoods (Popkin et al., 2004). However, researchers have also raised concerns about the disruption of individual lives caused by forced relocation (Goetz, 2010).

HOPE VI was widely used in Atlanta, where public housing projects housed 7,722 families in 1994 and only 90 in 2010 (Boston, 2014). These families were relocated with vouchers, project-based subsidized units, and public housing in mixed-income developments. Researchers have found that the Atlanta Housing Authority's ambitious HOPE VI strategy expanded and improved housing choices and quality of neighborhoods accessible to low-income families (Boston, 2011). HOPE VI also appears to have improved the self-sufficiency of public housing residents; those with an exogenous move caused by a HOPE VI project in Atlanta experienced an increase in probability of employment (Anil, Sjoquist, & Wallace, 2010). Further, Boston (2005) finds that public housing residents did not suffer any loss of housing assistance in their moves to higher-quality neighborhoods.

Other scholars, in assessing HOPE VI as implemented throughout the United States, have critiqued certain unintended consequences of the relocation strategy, such as disempowerment of communities and increased mistrust, and the inability to provide the planned one-for-one replacements of subsidized housing units due to insufficient federal funding. The thesis of the critique was that the implementation was more about the real estate than it was about the people. Many of the recommended reforms were crafted to address this concern (Cisneros & Engdahl, 2009).

As our communities become increasingly income-segregated, mixed-income housing helps to eliminate social isolation and provides opportunities for social interactions that enrich the lives of residents. Subsidies to develop affordable housing have been decreasing while the need for units has only increased, creating a notable gap in affordable and available housing for low- and moderate-income households. Given the challenge of meeting this need in a resource-constrained environment, a qualitative study was undertaken to better understand the cost drivers as well as the barriers and opportunities for fostering mixed-income development.

Methodology

During the initial development of this study, a roundtable discussion was held with 28 housing and community development professionals in the Atlanta Fed's District, including many affordable housing developers. The discussion was mainly open-ended and designed to capture the greatest housing needs and challenges in the attendees' respective jurisdictions. Among their concerns were the availability of funding, the need for strategic policies that address concentrated poverty, the importance of public-private partnerships in developing affordable housing, and the misalignment of policies and compliance requirements for grants, tax credits, and subsidies at the federal, state, and local levels. Creation of mixed-income communities was held up as a central goal for the organizations represented. The research question that emerged was thus: how can we create mixed-income communities with an affordable housing component, given the current environment of increased costs and reduced subsidies? One potential area of improvement exposed by the roundtable was the complicated processes involved in layering various types of funding, including applications, monitoring, and compliance.

In order to understand how this could be accomplished, an exploratory, qualitative study was undertaken. The data collection for this study included semistructured interviews with 19 stakeholders from three cities in the Atlanta Fed's District (Atlanta, Jacksonville, and Nashville). These cities were selected due to relatively high net losses of low-cost rental housing, based on an earlier Atlanta Fed discussion paper (Immergluck et al., 2016), and for their representation of three Southeast regions known to be experiencing affordability issues in housing. Each of these cities has a pressing need to quell the losses and increase the supply of affordable housing units, particularly in areas of opportunity. As shown in the tables below, there are critical differences in the size and socioeconomic characteristics of the three study area cities. The figures below are meant to illustrate the diversity of communities captured in this study rather than to provide a comparison. All figures describe central city (city of Atlanta, city of Jacksonville, and city of Nashville/Davidson County) unless otherwise noted.

The cities differ in population and size at the city and metro levels (see table 1). While the Atlanta metro region is the most populous, the central city of Atlanta is the smallest in both population and square miles. Conversely, the city of Jacksonville is the largest in size and population, although the metro region is the smallest in population. This is due to annexation patterns and city-county consolidation in both Jacksonville and Nashville.

The three cities have similar median household incomes of between $46,000 and $48,000 per year. Atlanta has the highest poverty rate at 24.6 percent, while Jacksonville has the lowest at 17.7 percent. Atlanta also has the highest percentage of African-American residents at 52.9 percent (the only city that is majority African-American). The percent of the population with a college degree is highest in Atlanta (47.9 percent) and lowest in Jacksonville (26.3 percent). The percentage of Hispanic or Latino residents is highest in Nashville, at 10.2 percent. The homeownership rate is highest in Jacksonville, at 59.0 percent.

Table 1: Population and Household Characteristics of Study Area Geographies

	Atlanta	Jacksonville	Nashville
Metro area population	5,535,837	1,401,600	1,761,848
Central city population	448,901	846,951	634,512
Central city area	133.2 sq mi	747.0 sq mi	475.1 sq mi
Median household income	$47,527	$46,764	$47,621
Poverty rate	24.6%	17.7%	18.6%
Percent with college degree (age >25)	47.9%	26.3%	36.7%
Percent African-American	52.9%	30.6%	28.1%
Percent Hispanic or Latino	5.0%	8.5%	10.2%
Homeownership rate	43.6%	59.0%	53.7%

Source: U.S. Census American Community Survey 5-year estimates, 2015. All figures describe central city (city of Atlanta, city of Jacksonville, and city of Nashville/Davidson County) unless otherwise noted.

As mentioned previously, these cities were the three with the largest net losses of low-cost rented housing units in the Atlanta Fed's District from 2010 to 2014, according to a previous analysis. These cities collectively lost 16,171 subsidized and unsubsidized units rented at $750 or less per month in gross rent, a level affordable to a household making $30,000 or more per year (see table 2). During this same period, a much larger number of units rented at $1,500 or more per month in gross rent were added to the housing supply. In each of the three cities, at least half of the renter population is considered rent-burdened, or spend more than 30 percent of their household income on housing costs.

Table 2: Declines in Low-Cost Rented Housing in Study Area Geographies

	Atlanta	Jacksonville	Nashville
Percent change in rented units <$750 per month, 2010–14	-15% (-4,826 units)	-9% (-3,355 units)	-17% (-7,990 units)
Percent of renter households that are rent-burdened, 2015	53% (55,277 households)	55% (71,998 households)	50% (58,434 households)

Sources: American Community Survey 5-year estimates, 2010–14, 2015

Data from the housing authorities of each of the three cities—the Atlanta Housing Authority (AHA), Jacksonville Housing Authority (JHA), and Nashville's Metropolitan Development and Housing Agency (MDHA)—are shown in table 3. Although the city of Atlanta is smaller in size and population, the Atlanta Housing Authority has a larger supply of subsidized low-rent housing units (including Project-Based Rental Assistance and Public Housing units) and a larger number of Housing Choice Vouchers (Section 8) awarded due to its density (over twice that of Jacksonville or Nashville) and position as the center of a much larger metro region. The average annual incomes and average monthly payments are highest in Atlanta.

Table 3: Subsidized Housing Characteristics of Study Area Geographies

	Atlanta	Jacksonville	Nashville
Subsidized low-rent units (Project-Based Rental Assistance and Public Housing)	11,009	9,683	10,479
Housing Choice Voucher units	19,309	6,974	7,017
Average annual income of assisted households	$11,002	$9,901	$9,211
Average monthly total tenant payment	$314 (metro data)	$269	$296

Sources: U.S. Department of Housing and Urban Development (HUD) Community Assessment Reporting Tool (CART), October 2016; HUD Resident Characteristics Report, October 2016

All three cities are experiencing growth. From 2010 to 2015, the population of Atlanta grew at about 10.4 percent, Jacksonville at 5.6 percent, and Nashville at 8.5 percent (U.S. Census Bureau, 2016). While Nashville has a lower median housing value and median gross rent than Atlanta, vacancy rates are significantly lower, making the housing market constrained and therefore sensitive to price increases (see table 4). According to the National Low Income Housing Coalition's *Out of Reach* report (2016), in all three cities, a full-time employee earning minimum wage could not afford a two-bedroom apartment at the median gross rent. An hourly wage of $18.25 is needed in Atlanta to afford the median gross rent. In Jacksonville, the necessary hourly wage is $18.46, while in Nashville, it is $17.79. Minimum wage is the federal minimum of $7.25 in Atlanta and Nashville and the state minimum of $8.10 in Jacksonville.

Table 4: Housing Market Characteristics of Study Area Geographies

	Atlanta	Jacksonville	Nashville
Median owner-occupied housing value	$209,200	$136,400	$167,500
Median gross rent	$975	$935	$872
Hourly wage needed for median gross rent to be affordable (housing wage)	$18.25	$18.46	$17.79
Homeowner vacancy rate	4.0%	2.5%	2.0%
Rental vacancy rate	9.2%	8.5%	5.8%

Sources: American Community Survey 5-year estimates, 2015; National Low Income Housing Coalition *Out of Reach* 2016 report

Interviewees were selected from the private and public sectors, including for-profit and mission-driven nonprofit real estate developers; federal, state, and local administrators and providers of funding for affordable housing; and local government representatives. Many within the group had worked in more than one of these sectors during their careers, often within the past one to five years. Four or five subjects were interviewed in each of the three communities. Subjects were identified using a respondent-driven sampling technique. The first group of subjects was identified through the Federal Reserve Bank of Atlanta's list of community and economic development contacts, which serves nonprofits, financial institutions, and other stakeholders in all three cities. After first making contact with subjects in each study area, interviewees were also asked to identify other possible interview subjects.

"Mixed income" was defined as either developments with both market-rate and subsidized housing units or the development of affordable housing in mid- to upper-income communities—in essence, project-defined or neighborhood-defined mixed-income communities. Both strategies reduce concentrated poverty and increase access to economic and social opportunities for low-income households. Of the developers interviewed, about half have a project with both affordable and market-rate units while the rest have worked to build affordable housing in moderate- to high-income neighborhoods, thus creating mixed-income conditions.

The experts spoke openly about topics such as significant cost drivers throughout all phases of development and operation as well as strategies for reducing costs, increasing efficiencies, building political support for funding mixed-income housing, policy changes or system changes, and additional incentives that would encourage greater development of affordable and mixed-income housing.

The semistructured interviews were transcribed and coded for analysis. Compiled responses to the interview questions are below.

Interview Findings: Challenges to Developing Mixed-Income Communities

There were a variety of responses to questions about the challenges involved in developing mixed-income communities, including cost drivers during all phases of a project, pain points around the requirements and compliance regimes associated with affordable housing subsidies, the regulatory burden associated with development, and other challenges mentioned during the interviews. Across all interview subjects, three major challenges arose. These included:

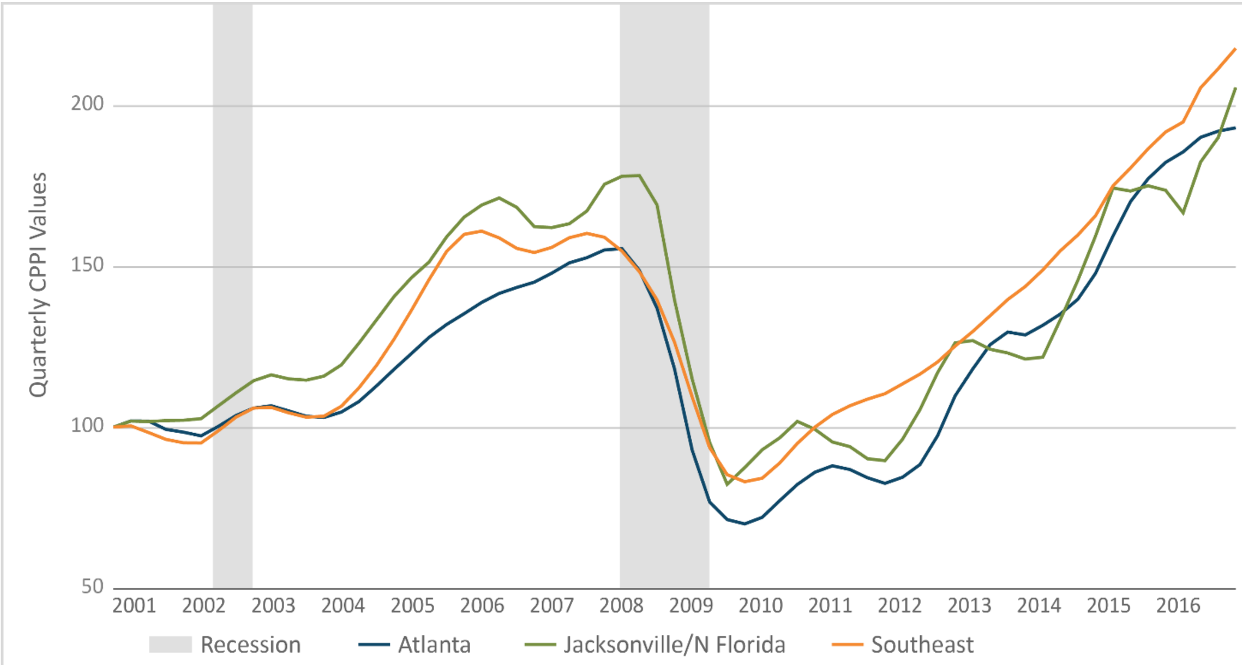
- The high price of land
- The disproportionate regulatory burden associated with affordable housing subsidies
- The need for better coordination at various levels of government and with other sectors such as education and health care.

Land costs

More than any other factor, rising land costs were the top barrier to building mixed-income communities when interview subjects were asked to describe the major cost drivers during all phases of a project (predevelopment, development, and construction and operating phases). During the recent recovery and expansion periods of the real estate cycle, affordable, undeveloped land has become scarce, particularly land that is economical for affordable housing and mixed-income products. Concerns were raised by interviewees about the availability and cost of centrally located land, as transit and employment accessibility is critical for residents and is often prioritized in the allocation of tax credits and other subsidies. Furthermore, urban land—particularly donated land—often has a clouded title or requires environmental remediation, increasing predevelopment costs. Finally, an influx of out-of-state and foreign investment has increased competition in central cities, which has also contributed to rising land costs.

As shown in figure 3, multifamily commercial property prices in Atlanta, Jacksonville, and the Southeast (defined here as Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee) experienced a decline during the recent recession and began to climb through the recovery period, exceeding precrash prices. The Real Capital Analytics Commercial Property Price Indices use a transaction-based, repeat-sales regression methodology to determine changes in price over time by market. Data for Atlanta and Jacksonville (and northern Florida) are compared with a Southeast index. Data for Nashville were not available. Although land costs are clearly rising, land in the Southeast remains relatively affordable compared to coastal regions, for example.

Figure 3: Real Capital Analytics Commercial Property Price Indices (CPPI) Values, Apartment Property, 2000 to 2016



Source: Real Capital Analytics, 2017 (Southeast includes Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee)

Regulatory burden

Interviewees felt that the regulatory burden associated with the development of subsidized affordable housing adds significant costs to a project. In particular, local land use and zoning regulations and procurement requirements were mentioned as problematic for the development of affordable housing. Different types of exclusionary zoning were considered a barrier in all three jurisdictions. These included parking requirements, zoning limiting the use of less expensive wood construction, minimum square footage requirements of both lots and units, and historic designations prohibiting certain types of residential housing. Unnecessarily prescriptive procurement was also found to be burdensome, including, for example, mandates to use certain appliance brands. In Nashville, storm water codes and low-impact development standards enacted after a major flooding event in 2010 safeguard residents from future flooding events but have increased costs.

Many regulations also lead to unintended consequences that limit the feasibility of affordable housing and mixed-income communities. For example, the Davis-Bacon Act, which requires payment of the prevailing wage on all federally funded projects, ensures that laborers are paid fairly. However, it can lead to inflated costs in certain markets in the Southeast, where there is a perception that the Davis-Bacon wage estimates are above market rate. Other regulations that benefit the public also increase costs, such as accessibility requirements set by the Americans with Disabilities Act (ADA) and HUD’s Section 3 program, which requires the recipients of HUD funding for housing construction and rehabilitation projects to provide employment or contract opportunities to public housing residents and low- or very low-income residents. These rules play important roles in extending the benefits of development to more people. The limitations they impose on affordable and mixed-income housing development are trade-offs that should be considered as policies are refined.

In the three cities examined, many interviewees felt that the regulatory burden has not increased in recent years, but that enforcement of regulations has increased as market conditions improved during the economic recovery. All were understanding and supportive of regulations meant to assist workers and protected classes, despite the effects of these regulations on profits and their ability to build affordable housing. However, at current levels of regulation and enforcement, bureaucracy in the form of onerous paperwork and a lack of administrative capacity in government are causing costly person-hours and delays.

Agency coordination

The issue of coordination among agencies also arose as a major barrier to the successful development of mixed-income housing. Primarily, this was related to the challenges of layering various sources of funding, a typical practice in developing mixed-income communities. A mixed-income residential development may include some combination of financing using debt and Low Income Housing Tax Credits (LIHTC) as well as soft funding through HUD's HOME Investment Partnerships (HOME) or Community Development Block Grants (CDBG) programs, the federal Neighborhood Stabilization Program (NSP), the Federal Home Loan Bank's Affordable Housing Program, national or state housing trust fund money, local subsidies, and various other incentive programs, such as grants. Each source of funding typically has its own unique set of requirements, conditions, and compliance regimes. The competitive standards are set by each of the federal, state, or local governmental agencies that administer the programs. For example, HUD administers the Choice Neighborhood program, state housing finance agencies administer the LIHTC program, and cities or counties administer HOME and CDBG programs.

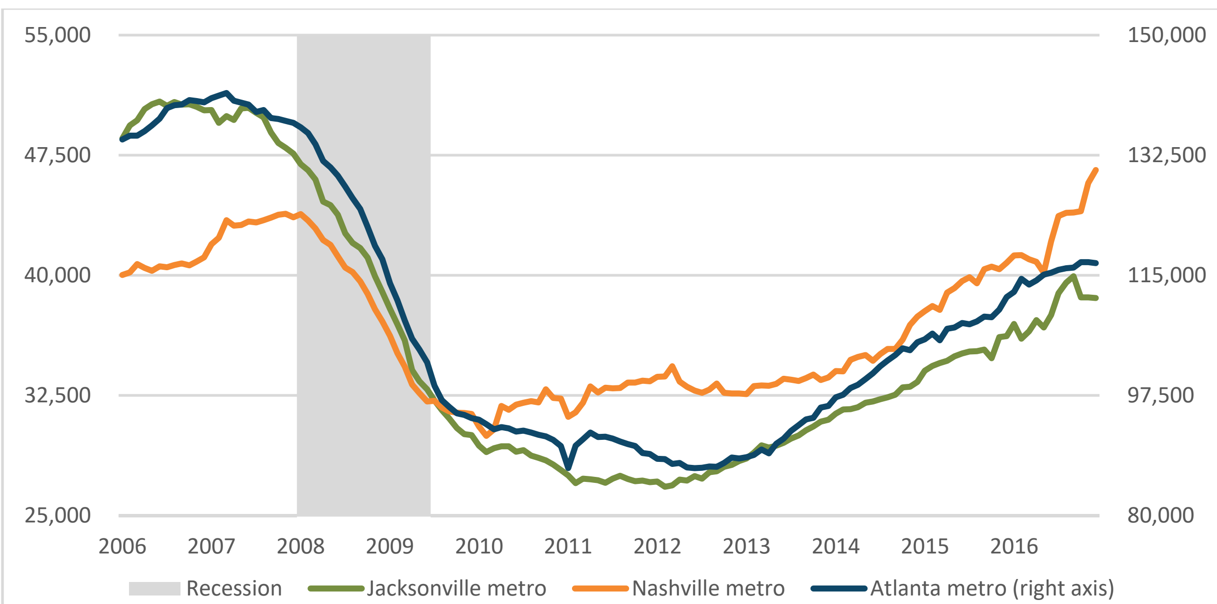
One complication of combining these programs is the deviation in income limits for various sources of funding. Each may require different numbers of units offered at different income thresholds based on the area median income. In addition, state qualified allocation plans (QAPs), which set the criteria for the competitive 9 percent LIHTC program, are often at odds with other funding sources or present requirements that limit the choices of developers. For example, some state QAPs limit the ability of new and unseasoned firms to be competitive. Preference is also given to high-cost locations (such as those near quality schools), which acts as a constraint on affordability. For developers, there is also a premium for using public subsidies, which includes attorney and monitoring fees. State housing finance agencies have experienced increased in-house administrative costs with the introduction of newer programs such as HUD's Section 811 Supportive Housing for Persons with Disabilities program and the National Housing Trust Fund (NHTF), limiting their ability to effectively administer the suite of existing programs.

Another major complication inherent in using multiple sources of funding is that application deadlines and reporting requirements tend to be out of sync. This causes inefficiencies as well as potential delay of a deal. The volume of documentation and application forms tends to add up and the due dates of these documents tend to be poorly coordinated and aligned. Of the program requirements, the need for multiple inspections arose as an acute issue among interview subjects. These inspections may be redundant and also uneven in terms of quality control. Even in relatively large jurisdictions like Atlanta, the supply of trained inspectors is not sufficient to meet the need.

In addition to land costs, regulatory burden, and a lack of coordination among agencies, fees and permitting costs were also cited as significant cost drivers. Of the various fees incurred during development, impact fees—fees levied to offset the cost of infrastructure improvements necessary to accommodate growth—were mentioned most often. Interviewees acknowledged that impact fees are a cost of doing business in the real estate industry in each of the cities surveyed. In Georgia, for example, a change in state law would be required to waive impact fees specifically for affordable housing. In addition to the cost of impact fees, the lengthy processes involved in working through local agencies has led to costly delays.

Labor and material costs were also mentioned, although there was not a clear consensus on whether these input costs are a major concern. Of the three areas examined, Florida is experiencing the tightest labor market as demand for construction has rebounded. Interviewees in all three areas acknowledged that the labor market is competitive, particularly among skilled laborers, which has increased labor costs. As shown in figure 4, construction employment has been increasing in all three markets, and is at an all-time high in the Nashville area. Given the rising demand, it is possible that labor costs will continue to increase.

Figure 4: Construction Employment, Seasonally Adjusted, 2006 to 2016



Source: U.S. Bureau of Labor Statistics, State and Area Employment, Hours, and Earnings, seasonally adjusted, Construction Employees, 2006–16 (Nashville data include construction, mining, and logging industries combined)

The above challenges represent significant barriers to the development of an adequate supply of affordable housing as well as the creation of vibrant mixed-income communities. The following section introduces responses to these barriers from the perspectives of experts in the affordable housing community as well as additional strategies for fostering mixed-income communities.

Interview Findings: Strategies for Facilitating the Development of Mixed-Income Communities

Despite the challenges and constraints identified by interview subjects, a number of practical and creative solutions were advanced in order to increase the effectiveness of currently available subsidies. Interview subjects were asked for policy and funding recommendations, ideas to preserve affordable housing, ideas to build political support, and ambitious or disruptive "moonshot" ideas that could foster production of mixed-income housing. A summary of these findings is found in table 5.

Table 5: Summary of Strategies to Foster Mixed-Income Housing

Address high land costs	Implement land banking and community land trusts
	Limit exclusionary land use regulations
Decrease regulatory and administrative burdens	Allow for more flexibility in use of funds from existing programs
	Streamline application, reporting, and monitoring requirements across agencies
Increase incentives	Advocate for more federal and new state tax credits for affordable housing investment
	Create dedicated state and local housing trust funds
Preserve existing affordable units	Incentivize owners to renew affordability commitments
	Set aside funds for preservation without competition from new development
Build political support	Frame affordable housing as a competitive economic advantage for localities
	Improve messaging, outreach, and education to the public and elected officials
Improve coordination with other sectors	Utilize available land owned by transit agencies, public schools, and development agencies
	Coordinate programming with workforce development and transit agencies

The most significant cost driver, the high cost of land, was also the most challenging issue to address. An increased demand for rental housing in the wake of the downturn in the housing market has increased competition for scarce land in urban areas. As a result, luxury rental units that produce a greater profit are placing pressure on the existing unsubsidized or naturally occurring affordable housing stock. However, a number of policies were advanced that could address land costs. First, greater use of land banking (and land banking enabling legislation, where necessary) was promoted. Of the three cities examined, only Atlanta has a formal land bank authority, and Florida lacks the state enabling legislation necessary to institute land banking. It can be an effective strategy for acquiring and holding land, particularly during market downturns. Donated public or private land may also be utilized, although clouded title issues often arise, as noted previously. As an intermediary, land banks are able legally to overcome this hurdle. Community land trusts, generally used in single-family, owner-occupied neighborhoods, may also be used for the development and long-term preservation of affordable rental housing. While acquisition strategies are a useful piecemeal strategy, limiting exclusionary zoning and land use regulations are most likely to reduce land costs more broadly, given the geographic and market realities in each study area. Zoning could accommodate greater density and a greater mix of uses.

Exclusionary zoning, or policies requiring minimum lot and unit sizes, off-street parking, use of cost-prohibitive building materials, and other neighborhood character standards, could be limited.

Decreased regulation on the use of funds was suggested to address the costs associated with regulatory burden. Many stakeholders spoke of the effectiveness of flexible existing programs like Rental Assistance Demonstration (RAD) and Moving to Work (MTW). In particular, MTW has allowed qualified public housing agencies to develop unique strategies that promote housing choice and the self-sufficiency of residents using locally appropriate techniques. For example, the Atlanta Housing Authority has chosen to create healthy mixed-income communities in partnership with the private sector under the program. In the 35 participating sites, under an agreement negotiated by an agency with HUD, HUD can waive statutes and most regulations (other than the Fair Housing, Civil Rights, Davis Bacon, ADA/504, and demolition and disposition statutes and regulations), and allow Section 8 and Section 9 operating subsidies and capital funds to be combined and flexibly utilized in order to implement the agency's MTW Strategic Plan and Annual Implementation Plan. Of the three study areas, only Atlanta is currently a MTW demonstration site.

One of the most logical interventions to reduce the costs of mixed-income housing development was the streamlining of applications, reporting, and monitoring and compliance on projects that use local, state, and federal subsidies. Agencies that fund and administer these subsidies could better coordinate goals and programs and allow greater flexibility. Many interview subjects expressed a desire for "one-stop" solutions for the entitlement process (review, approvals, and permitting). Other ideas included creating common forms and applications among agencies, a universal inspection among agencies, and one set of reporting requirements, possibly using the requirements of the highest tier of funding. Standardized underwriting criteria were also mentioned. Other interviewees felt that, at the least, a checklist or matrix of requirements that highlights the most restrictive aspects of each housing subsidy program would be beneficial.

Better coordination with other sectors could also be used to build efficiencies in the system. For example, employers expanding or relocating to an area naturally have a stake in the quality and supply of housing for their workforce and may see mixed-income housing as an attractive prospect, making it a competitive advantage for state and local governments to support affordable housing. Conversations should be initiated between employers and local government economic development, planning, and housing departments. The need for a greater balance of jobs and housing to reduce commute distances and congestion could also be met. Furthermore, coordination with transit agencies could increase ridership and benefit residents by locating affordable housing near transit stops. Workforce development agencies could partner with housing authorities to provide job training services. Many interview subjects noted the need for better household financial stability, achievable through not only the provision of affordable housing but also through skills development and wraparound services that promote self-sustainability. Interviewees also expressed a general need for programs and policies that improve household financial stability and economic mobility. In addition to these efficiencies, transit agencies, public school districts, and state and local economic development agencies often own well-located and underutilized land, a portion of which could be used to develop mixed-income, mixed-use communities.

Interview subjects identified several additional incentives and cost saving strategies that could foster mixed-income communities. Of the suggested solutions, increasing the supply of LIHTC was the most frequent response, although pricing has become less stable several years into the recovery period, especially with the prospect of comprehensive tax reform. Given that federal funds have been declining, dedicated state and local funds are necessary to increase the pool of available resources. Florida's dedicated funding through document stamp taxes, which fund the State Housing Initiatives Partnership (SHIP) and State Apartment Incentive Loan (SAIL), and the Maryland Affordable Housing Trust (MAHT) were cited as effective programs that could be replicated. At the local level, the Barnes Affordable Trust Fund in Nashville, a housing trust fund that also collects Airbnb taxes, is a promising dedicated funding source. State tax credits on donations toward affordable housing projects, such as the Florida Community Contribution Tax Credit Program and the Tennessee Community Investment Tax Credit program, reduce interest costs and offset debt. Real estate tax reductions in urban enterprise zones and tax exemptions on long-term affordable housing reduce operating costs. In addition, low-interest revolving loan funds, particularly for holding land in high-cost markets, provide needed short-term bridge financing.

According to interview subjects, greater use of green, resource-efficient construction and design could reduce operating costs for owners and tenants. Green projects have been shown to increase development costs by an average of 2.4 percent, while the net present value benefit over the life cycle of the project is $15,363 per unit largely due to reduced utility costs for tenants (Bradshaw, Connelly, Cook, Goldstein, & Pauly, 2005). Additional benefits include improved health, enhanced performance, environmental benefits, and benefits associated with green "branding." The Stewards of Affordable Housing for the Future (SAHF) found that green retrofit of existing subsidized housing resulted in a savings of $213 per unit per year in energy costs, $95 in water costs, and $195 in gas costs, with lower-efficiency buildings naturally resulting in larger cost savings (Braman, Kolberg, & Perlman, 2014).

Interview subjects, including for-profit and nonprofit affordable housing developers, were specifically asked their opinions on the strengths and weaknesses of mandatory inclusionary zoning (IZ) as a strategy for increasing mixed-income housing in their respective markets. Nashville and Atlanta have enacted forms of inclusionary zoning with incentives. In Atlanta, developers receiving a local subsidy are required to build a certain percentage of affordable units. In Nashville, developers receive a density bonus for affordable housing. In Jacksonville, inclusionary zoning is required whenever rezoning is conducted in an area of regional impact. All three study area cities have some requirement that includes a possible waiver with payment of an in lieu fee. Most interview subjects felt that inclusionary zoning will be most successful when designed in partnership with public and private entities and with incentives and flexibility. While interview subjects believed strict mandatory inclusionary zoning has flaws, there was also an overwhelming feeling that for-profit developers in many southeastern markets have been able to do as they please without providing benefits back to the community at large. Because of this, local government should leverage its ability to control growth in order to increase affordable housing options. All cities surveyed are somewhat hampered by state laws that minimize the ability to enact bold, mandatory IZ.

In order to address the need for preservation of existing subsidized (and unsubsidized) housing, interview subjects suggested a number of innovative strategies, such as lower-cost moderate rehab of properties, longer-term affordability requirements, dedicated funds for preservation to reduce competition with new development, and incentive-based solutions. It was clear to all that the current portfolio of subsidized units requires recapitalization and that past investments in affordable housing should be preserved, particularly in transit-accessible and centrally located areas of opportunity. Incentives were thought to be more effective than mandates, as owners and developers of subsidized housing with expiring affordability requirements should not be punished with new requirements for building affordable products in the first place.

It was also believed that education and support for nonprofits that are interested in purchasing and maintaining units is needed. Programs like RAD, Project-Based Section 8 Rental Assistance, 4 percent LIHTC financing, and HUD's new Small Area Fair Market Rents rule were mentioned as opportunities for preserving affordable housing, particularly in mixed-income areas. Some interview subjects mentioned that a data repository on expiring subsidies is needed, which exists for federally subsidized housing in the National Housing Preservation Database, hosted by the Public and Affordable Housing Research Corporation and the National Low Income Housing Coalition (http://www.preservationdatabase.org/).

The top strategy for increasing political support for affordable housing was quite clear. Many spoke about the unfortunate effects of "not in my back yard" (NIMBY) attitudes of the public, in which residents oppose housing they believe will lower their property values or increase crime and congestion. These beliefs have been repeatedly challenged and largely debunked by research (Diamond & McQuade, 2016; Woo & Joh, 2015). Interview subjects felt that a change of message along with public outreach and education is necessary. For example, the term "workforce" housing is often used in place of "low-income" or "affordable" housing, signifying a tenant or family who is not reliant on government aid. Elected officials should also be informed of the need for mixed-income solutions and the potential benefits. Florida's Sadowski Coalition was upheld as a model for bipartisan and broad support for affordable housing. Other strategies for building political support included hosting tours of successful mixed-income communities and making housing a priority in long-term planning efforts. As discussed above, we found better coordination with prospective employers to be a potential strategy for promoting mixed-income housing development. A change of message could also include framing mixed-income housing in economic development terms as a business advantage for cities and regions, a piece of infrastructure as vital as a well-functioning transportation system. A recent report from Enterprise Community Partners (Manuel, 2016) provides commentary on how current messaging outlining an affordability crisis has backfired and how to reframe the issue by connecting housing challenges to broader economic issues and presenting a narrative that does not alienate households of any income level.

Finally, interview subjects were asked for their most forward-thinking and audacious ideas for fostering mixed-income housing. Included were ideas to create new housing typologies, to use prefabricated materials, and to design new types of subsidies. Among the types of housing suggested, modest materials and smaller units were highlighted, including greater use of stick-frame construction, modular construction, and micro units or tiny housing. The Terner Center for Housing Innovation at the University of California, Berkeley recently noted the potential time and cost savings of off-site construction of multifamily housing—up to a 20 percent reduction in cost of construction for a three- or four-story wood frame apartment building (Galante, Draper-Zivetz, & Stein, 2017). A suggestion was also made to engage architecture programs and university researchers in projects and competitions to develop new housing solutions.

Additional subsidies mentioned included those for utility payments and for property insurance. Particularly if public incentives are offered, utility companies could reduce costs or subsidize operating costs of mixed-income housing developments. In some instances, utility discount programs for income-qualified homeowners are not available for renters. Without a direct subsidy and utility allowance, it may be difficult for renters to reduce their utility costs. Insurance companies could be also incentivized to reduce costs for affordable housing and mixed-income developments.

Conclusion

The findings from this study underscore the need for a reexamination of mixed-income housing production. The various challenges expressed by the development community as well as local, state, and federal agencies need to be addressed in order to foster mixed-income communities. Many of the cost drivers are identical to those of market-rate development. However, when compared with low-income housing, additional expenses exist, such as the need to provide an identical product for both market-rate and income-restricted units within a complex. It is also much less expensive to build low-income housing in a low-income community where land costs are lower. Given the knowledge gained through decades of U.S. housing policy, we understand the consequences of concentrated poverty and the benefits of mixed-income communities. Therefore, regulations, policies, and funding must better align to encourage their development.

Additional federal funding could mitigate many of the challenges identified above. However, that is clearly not a sustainable solution without major overhaul of the tax code and fiscal policy. The National Low Income Housing Coalition has suggested mortgage income deduction reform to increase funding for affordable housing via the National Housing Trust Fund. A proposed 15 percent mortgage interest tax credit with a $500,000 mortgage cap would not require a homeowner to itemize his or her tax return, unlike the current tax deduction, and would increase the number of low- and middle-income homeowners that benefit (Crowley & Weiss, 2016). The savings in tax deduction expenditures could be allocated to the National Housing Trust Fund for affordable housing.

Given the challenges to funding, solutions initiated at the local and state level that address local conditions were popular among interview subjects. These include land acquisitions strategies, eliminating exclusionary zoning and land use regulations, allowing more flexibility for the use of subsidies, streamlining various protocols and procedures, new messaging and public awareness for housing issues, and strategies to preserve existing subsidized housing. At the state and federal level, regulations that complicate the use of layered funding for housing need to be revisited. As the need for affordable housing exceeds the supply and as affordability requirements expire on subsidized housing, these solutions may provide much needed reductions in the barriers to development.

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