The Affordable Housing Dilemma.

THE HOUSEHOLD INCOME-EXPENSE SQUEEZE.

The affordability of housing in America at the start of the 21st century is an issue for many households. The remedy is complicated since not only are housing costs out-of-whack, but other household expenses are also growing faster than household incomes can absorb.

A growing number of American families are struggling to meet their daily living expenses. The cost of housing is going up as is the cost of transportation, medicine, healthcare and education. Wages are stagnant. The wage/ housing cost relationship is getting squeezed to the point where two income earners per household is common; choices are being made about which expenses to put off or eliminate.

THE HOUSEHOLD BUDGET DILEMMA.

Household incomes are struggling to cover household expenses. In America we hear of food deserts, child hunger, people with three jobs, contract work with no benefits and a plethora of other ills unacceptable in the richest nation in the world. However, here we are.

No relief appears in sight despite efforts by private companies and public agencies to alleviate the crisis.

Education, health care and transportation are at the forefront of the rising household expenses necessary for day-to-day living. The rising costs limit access and inhibit household members from increasing job skills and transportation access to jobs; and the deficiencies become generational.

Breaking the cycle is difficult; increasing the supply of affordable housing is a place to start.

Providing affordable housing for the town's residents is the challenge of the day. Middle- and low-income workers are getting hit from both ends: incomes and wages are insufficient for families to afford housing near their jobs and wages have been stagnating for decades while housing costs rise.

> ***"The Joint Center for Housing Studies at Harvard University finds that the median American rent payment rose 61% in real terms between 1960 and 2016 while the median renter's income grew by 5%."***
> ***The Economist,*** **January 18th–24th, 2020.**

HOUSEHOLD INCOMES.

Wages are affected by a number of factors: globalization, lack of skills, part-time no-benefit jobs, reduced labor force mobility and declining labor force participation. Labor costs in the second decade of this new century have recently begun to grow, but yet not enough to greatly increase the labor pool of the trades or the wages of service workers.

A major factor that inhibits wage growth is reduced labor force mobility. People don't move to find work as often as they once did. Millions of unemployed and under-employed people defy conventional economic theory.

Workers no longer move as freely as they once did to find work in growing labor markets. Labor mobility is constrained by dependence of the extended family, an immobile social safety net and poor systems to train people for new skills.

As a result, people are not moving to higher wage, higher employment areas as labor economists believe they should.

HOUSEHOLD EXPENSES.

Housing costs are increasing dramatically due to steady increases in land and material costs in and near growing metropolitan job markets. Land costs in growth regions are escalating. Material costs are also increasing, tariffs don't help. Labor costs are not growing fast enough to fill the need for labor in growth markets.

BUSINESS INTEREST IN AFFORDABLE HOUSING.

CharacterTowns.org mined recent articles, some of which follow produced in full, focusing on affordable housing and concerns of the industrial sector. The articles drawn from are:

- **Bloomberg Businessweek,** Jan. 20, 2020, Noah Buhayar and Dina Bass, "A Housing Start for Microsoft" and January 15, 2020, Noah Buhayar, "Microsoft Learns Money Alone Can't Fix Seattle's Housing Mess".
- **The Economist**, January 18th – 24th, 2020, "Special Report: Housing, Shaking the Foundations."
- **GeekWire,** Aug. 7, 2019, "Tech companies step up to fund housing, but experts say it is not enough to curb shortages."
- **Associated Press,** Matt O'Brien, Nov. 4, 2019, "Apple commits $2.5B to combat California housing crisis", **https://news.yahoo.com/**.
- **CityLab,** June 6, 2019, Kriston Capps, "Wells Fargo to Donate $1 Billion for Affordable Housing" and January 3, 2020, Kriston Capps, "Denser Housing Is Gaining Traction on America's East Coast".

From The Economist…"governments across the rich world have made three big mistakes:

- They have made it too difficult to build the accommodations [housing] that their populations require.
- They have created unwise economic incentives for households to funnel more money into the housing market, and
- They have failed to design a regulatory infrastructure to constrain housing bubbles."

EXTRACTED IDEAS.

1. **Nimby and Yimby.**
   a. Density is perceived as bad by some, but the answer to others. Design makes a big difference. The politics is changing to Yes In My Back Yard [YIMBY].
   b. There is a real fear [as irrational as it is] of "those people": renters or lower income families who are perceived to be dangerous and negative factors in neighborhoods and public schools.
   c. But, what about "generation rent"? The millennials espouse being "asset light", and happen to be the children of the home protecting Baby Boomers.
   d. And, restricting the supply of new, less expensive homes keeps the value of existing homes high.
2. **Land costs** are a big factor affecting housing cost increases. Land costs in and near urban areas are increasing. The supply of "close in" land is limited, hence increasing land costs raise housing costs and prices.
3. **Land development regulations** restrict new building with policies and ordinances that:
   a. Limit density of single-family homes; some larger lot home owners fight building smaller home owner lots.
   b. Restrict the scale of multi-family units in terms of number of units per complex, density and height.

c. Prohibit single family homes from having "accessory dwelling units" [ADUs].
d. Restrict housing in commercial and other non-residential zones.
e. Prohibit the previously acceptable "missing middle" housing in single-family housing neighborhoods.

4. **Down payment assistance** programs offered by local government agencies particularly help first time home buyers. Some programs are designed to keep this subsidy with the housing unit when it is sold to the next buyer rather than letting the market price eliminate the original subsidy.
5. **Federal funding for housing programs has been dramatically reduced.** The United States Housing Act of 1937 (42 U.S.C.A. § 1437) established the public housing program which produced nearly 1.4 million units nationwide. Largely because of dispositions, demolitions and the Rental Assistance Demonstration, there are currently only about 1 million units remaining in the public housing program.
6. **Financial factors:**
   a. Predatory lending practices resulted in re-possessions and mortgage defaults.
   b. Rising home prices relate to financing rates…payments shift as rates shift affecting the affordability of a house.
   c. Non-bank lenders [unregulated] are growing; Quicken Loans originates about one-half of America's mortgages.
   d. Non-banks do good things: SafeRate, a non-bank, offers variable mortgages such that the monthly payment declines when local housing prices decline.
7. **Homeownership subsidies:**
   a. Mortgage interest is not taxed.
   b. Fannie Mae and Freddie Mac subsidize mortgage rates.
   c. Official estimates are that foregone home owner related federal taxes amount to over $200B annually.
   d. For the first time in a century, homeownership rates are declining.
8. **Areas with high rates of home ownership tend to support restrictive building codes.**
9. **Cost inflation factors:**
   a. Rising land costs due to limited supply in and near urban job centers.
   b. Low unemployment increases housing demand as does increased immigration.
   c. Alternative platforms like Airbnb divert housing to "hotels" and reduce supply.
   d. Housing supply in some areas is not elastic, i.e., supply does not increase when demand increases.
   e. Rent control is a market intervention gaining popularity.
10. **Automobiles allow people to "drive 'til they qualify".** Increased commuter trip lengths exacerbate family travel costs and the household budget crisis.
11. **Factors forestalling homeownership:**
    a. Student debt.
    b. "Asset light" generational thinking.
    c. Reduced employee mobility to seek work.
12. **"The notion that home ownership was superior to renting became common**, even apparently self-evident from 1940 to 2000 when America's home ownership rate rose from around 40% to 70%". This belief is fading with the "asset light" generation. *The Economist, Special Report: Housing.*

13. **Demand negates supply in high growth areas.**
    a. In high growth areas, an increase in the supply of affordable housing is precluded by an insatiable demand that consumes all new housing at market rates. Affordable units do not remain affordable. Home buying subsidies only last for the first owner unless otherwise stipulated. Rental subsidies last longer.
    b. In lower growth areas, more affordable housing may stay affordable due to weak demand, but low growth areas, by their nature, are not the areas that most need affordable housing.

CONCLUSIONS.

The complex problem of a mis-match between household incomes and the cost of housing continues to focus on the shortage in the supply of affordable housing; and there certainly is one caused by a variety of factors. However, few of the experts are focused on the demand side of the equation; people are not paid enough to afford the housing in the market.

- **Inadequate supply is the problem.** The supply of housing affordable to low- and moderate-income families must increase.
- **Higher wages or increased transfer payments from the government are important for many reasons, but they alone will not solve the affordable housing crisis.** Increased housing purchasing power that finds no increase in the housing supply will exacerbate the situation.
- **The "All-of-the-Above" approach is required.** The vast number of new affordable homes and apartments required to house American families will require the collaborative efforts of the private, public and institutional sectors.

AN APPROACH.

1. **Raise household "housing buying power"** and lower the cost of housing.
2. **Identify "essential" occupations.**
3. **Recognize the interdependence of primary jobs with essential community jobs** and initiate housing programs for police officers, nurses, firefighters, teachers and other defined essential occupations.
4. **Expect corporate support for local housing policies** that improve the political and regulatory environment for affordable housing for low- and middle-income families.
5. **Funnel corporate support to experienced affordable housing providers** such as private builders and federal, state, local and institutional organizations that know how to produce affordable housing.
6. **Revise community regulations, with corporate support, for affordable housing** with programs and regulations designed to increase affordability for low- and moderate-income households.

Deploy an "all of the above" approach.

- ***Raise household incomes to align with housing costs.***
- ***Use regulatory, financial and market tools to reduce the relative cost of housing.***

Pre-covid, many large businesses determined that the affordability of housing was an issue they needed to address. In 2019 and early 2020, several corporations committed monies to improve this situation. Post-covid this ardor may have dissipated, but resolution still is in the corporations' interests.

Excerpts from…Bloomberg Businessweek's

Microsoft Learns Money Alone Can't Fix Seattle's Housing Mess

The company has taken a lead among big tech companies in helping to keep Seattle residents in their homes, but the scale of the problem is much bigger than its commitments.

By Noah Buhayar
January 15, 2020, 11:00 AM EST
LINK:
https://www.bloomberg.com/news/articles/2020-01-15/microsoft-learns-money-alone-can-t-fix-seattle-s-housing-mess

EXCERPTS:

- "Microsoft Corp. unveiled a $500 million pledge last January to tackle the housing crisis in the Seattle area.
- "If Microsoft's experience over the past year is any gauge, the companies are approaching the task thoughtfully. But good intentions and careful investments won't be enough to address a complex, urgent dilemma decades in the making. "We can't expect that a couple of corporate gifts is somehow going to solve the problem," says Jenny Schuetz, a fellow at the Brookings Institution who studies housing policy. "The scale of need is just so much bigger."
- "On Jan. 15, Microsoft—now valued at more than $1.2 trillion—announced an additional $250 million line of credit to the Washington State Housing Finance Commission, along with several new projects and grants.
- "The company's efforts so far are expected to preserve or create more than 6,700 affordable homes, with about half the $750 million total yet to be committed.
- "Last spring, Microsoft asked developers to present their best ideas for building and preserving middle-and low-income housing. "To be honest," Broom says, "we were a little underwhelmed." Most of the 15 or so proposed projects weren't far enough along to fund, she says, or didn't target the suburbs Microsoft wanted—within an hour's commute of Bellevue, Wash., near its Redmond headquarters, areas where there are few affordable developments under way.
- "Last year, Watson's group used a $60 million loan from Microsoft (interest-only for 15 years at 1%) to help buy the complex and four other properties in the region. Its plan is to boost rents only as much as the housing authority's operating costs rise—typically about 3% a year, vs. 5% to 8% a year for a market-rent increase in the area.

- "Preserving a unit of affordable housing costs around $300,000 to $350,000 in the Seattle area, compared with more than $400,000 for new construction, says Stephen Norman, the housing authority's executive director. Preservation, however, requires competing with aggressive private investors looking to gut units and start fresh.
- "Fixing the mess will require new housing, too, which means overcoming some tough math. The companies are looking to stretch their dollars across a wide range of projects in California and contribute land that can be used for residential development. But costs to build are so high that Google and Facebook, which each pledged $1 billion, say they'll probably create only about 40,000 homes combined—in a state that needs millions of them.
- "The pricing out of working-class populations (cops, nurses, firefighters) has rendered these areas less attractive. It's much tougher for, say, schools to hire talented teachers who know they'll be signing up for a 90-minute-or-longer commute each way.
- "While the housing money is helpful, the tech companies would create a more durable legacy if they worked to change policy. The federal government has pulled back dramatically from housing assistance, currently spending about a third of what it did in the late 1970s.
- "Nimby-influenced policies have all but outlawed construction of new affordable housing in many places. Large employers have an outsize ability to sway that sort of thing.
- "The company also backed last year's increase to the state's housing trust fund. "That was really the muscle of Microsoft," says former Governor Christine Gregoire.
- "Challenge Seattle has worked with the company [Microsoft] to advocate for more middle-income housing. Facebook has backed a controversial bill that would force California cities to rezone for higher density.
- Corporate advocacy for such reforms is a relatively new and potentially powerful.

GeekWire

Tech companies step up to fund affordable housing, but experts say it's not enough to curb shortages.

BY JAKE GOLDSTEIN-STREET on August 7, 2019 at 8:00 am

Microsoft pledged $500 million for affordable housing in January. Five months later, Google said it would invest $1 billion to help the Bay Area housing crisis. Amazon and Salesforce also announced contributions of their own this year.

Major tech companies are stepping up to help mitigate affordable housing shortages, caused in part by the influx of high-income labor they have imported to the Seattle and San Francisco regions.
But can that cash truly make a dent when hundreds of thousands of units are needed? Some experts say that while this is a welcome response, it won't do nearly as much as some hope to generate sufficient housing.

"If there's just someone who steps up and says, 'Hey, I'm a really rich person, I want to give $500 million to affordable housing,' everyone will think it's great — until you actually do the math" said Gregg Colburn, an assistant professor of real estate at the University of Washington's College of Built Environments.

The math shows that if each unit costs between $250,000 and $350,000, that seemingly huge investment would yield less than 2,000 housing units. Microsoft does plan to commit $475 million in loans that, once repaid, would be lent out again to support additional projects.

But these corporations simply don't have the scale necessary to close the wide gap between affordable housing needed and that which is currently available, Colburn said. The gap is just under 185,000 units in Seattle alone, according to data Microsoft compiled from Zillow, the Census, and the Bureau of Labor Statistics. Across the entire Puget Sound region, that gap is some 305,000 units.

Another estimate from a December report by the King County Regional Affordable Housing Task Force states that the current need is 156,000 additional affordable homes today, and by 2040, the county will need 244,000 units to keep up with population trends.

"This is not a millions of dollars of problem, it's a tens of billions of dollars of problem," Colburn said. The contributions have coincided with more and more pressure on these large corporations. Though they have created an economic boom, many feel as though the companies have a responsibility to help alleviate affordable housing shortages in the communities where they are based.

"I think everybody is seeing now how the housing crisis is intersected, that it matters that there's not places to live, not just for engineers, but for teachers, and for nurses, and for people who work in retail, and for people who grew up here," said Kevin Zwick, CEO of Housing Trust Silicon Valley, which supports affordable housing projects in the tech hub. "When there's not enough housing for any of those people, then everybody is affected negatively."

Read more at:
https://www.geekwire.com/2019/tech-companies-step-fund-affordable-housing-experts-say-not-enough-curb-shortages/

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https://news.yahoo.com/

Apple commits $2.5B to combat California housing crisis.

MATT O'BRIEN
Associated Press • November 4, 2019

Apple on Monday said it will put up $2.5 billion toward easing California's housing crisis.

The sum from Apple eclipses pledges by fellow Silicon Valley giants Google and Facebook for addressing the lack of affordable housing in a region where affluent tech workers have helped drive up the cost of homes.

Apple's commitment Monday includes a $1 billion statewide fund creating an "open line of credit" for the state to build new homes for households with low to moderate incomes. Another $1 billion is a mortgage assistance fund for first-time homebuyers.

"It's a recognition that the San Francisco Bay Area is in a major housing crisis," said David Shulman, a senior economist with the Anderson Forecast at the University of California, Los Angeles.

Shulman said it's a good step but might not make much difference if it's just creating "cheap financing" for development and down payment relief for people who earn enough to be able to buy a home in the expensive region.

The company's promise also includes $300 million to make Apple-owned land in San Jose available for affordable housing — a strategy that Shulman said is more effective because sky-high land prices are at the root of the housing crisis. Apple's roughly 40-acre (16-hectare) San Jose property is expected to be able to accommodate about 3,600 new housing units.

"If they make the land available for free or very cheap, then you can do something," Shulman said.

Apple is also investing in a $150 million partnership with a Bay Area nonprofit to support new affordable housing projects with long-term forgivable loans and grants; and $50 million to address homelessness in the region.

Lisa Jackson, Apple's vice president of environment, policy and social initiatives, said in a statement that the company worked closely with experts to craft a plan "that confronts this challenge on all fronts, from the critical need to increase housing supply, to support for first-time homebuyers and young families, to essential philanthropy to assist those at greatest risk."

Story continues:
https://news.yahoo.com/apple-commits-2-5b-combat-145602599.html

From CITYLAB.com

Wells Fargo to Donate $1 Billion for Affordable Housing

KRISTON CAPPS
JUNE 6, 2019

Three unnamed cities are on a shortlist to score a philanthropic windfall from the Wells Fargo Foundation, the scandal-plagued megabank's charitable arm.

Wells Fargo Bank has been rocked by a series of scandals over its lending in recent years: Since 2017, Oakland, Miami, Philadelphia, and Sacramento have sued the megabank over claims of predatory practices that violate the Fair Housing Act. The cities accuse Wells Fargo of writing high-risk loans for African American and Hispanic borrowers whose credit enabled them to apply for better loans. The bank also faces an ongoing federal probe over its alleged role in a fraudulent scheme to undermine affordable housing tax credits.

So the recent announcement that the Wells Fargo Foundation plans to commit $1 billion in philanthropic funds through 2025 to address housing affordability is more than just the usual proclamation of corporate good citizenship. This is Wells Fargo's most serious effort yet to repair its tarnished reputation in urban America.

It's an ambitious slate of programs: With grants and other initiatives, the Wells Fargo Foundation aims to deliver hundreds of millions in annual funds to address rental, transitional, and supportive housing, among other needs. The bank further announced that, starting in 2019, it will set aside 2 percent of its after-tax profits to put toward its goals in housing affordability, small business development, and financial wellbeing. For a few select cities, this giving will mean multi-year, collaborative efforts to address housing affordability and homelessness.

Wells Fargo has a shortlist of about seven cities in mind for its placed-based housing philanthropy—the bank won't give their names—and will likely name three soon, with the expectation that it will add at least two more at a later date.

"Doing a little bit of everything was starting to gnaw at some of us," says Jon Campbell, executive vice president and head of corporate philanthropy and community relations for Wells Fargo, of the new focus on housing. The company donated $444 million to some 11,000 nonprofits in 2018, a 40 percent increase in corporate giving over its 2017 levels. Going forward, the bank will more specifically tailor its giving to match its expertise, Campbell says, starting with housing.

The $1 billion figure is aside from any traditional activity in lending over the next 6 years. While the details are still in the works, the bank says that partnerships with nonprofit housing organizations such as Enterprise Community Partners and the Local Initiatives Support Corporation are likely in the offing. While the Wells Fargo brand may have seen better days, $1 billion can buy a lot of good will.

The bank's role in housing affordability has lately not been viewed as positive. The bank is currently negotiating with the U.S. Justice Department to settle an investigation into its potentially fraudulent procurement of housing tax credits. Justice officials are looking into whether Wells Fargo (along with other banks) colluded with developers to low-ball bids for housing tax credits. The Low Income Housing Tax Credit (LIHTC) program is currently the nation's best engine for producing new affordable housing units, and Wells Fargo is one of the nation's biggest LIHTC investors.

Here's how the program works: State housing agencies allocate these federally funded credits to developers, who sell them to banks in exchange for developing affordable housing units. Investors buy housing tax credits to offset their income tax liability; in addition to the tax write-off, banks that purchasing housing credits can fulfill their obligations under the Community Reinvestment Act [CRA], a fair-lending law that requires banks to serve all members of a community, including poor areas. If a bank worked with developers to fix bargain-basement prices for LIHTCs, it would decrease costs for developers, increase returns for the bank, and limit the revenue received by the federal government. Wells Fargo's settlement with the DOJ could exceed $100 million, according to *Bloomberg*.

The housing tax credit investigation is just one of several episodes of bankerly malfeasance that Wells Fargo has been entangled recently. The bank earned a failing grade from a federal regulator testing its compliance with the CRA in 2017, and the Federal Reserve moved to restrict the bank's growth in 2018 in response to consumer abuses.

Those include the notorious fake account scandal—a scheme to charge customers fees associated with some 2 million unauthorized accounts—but also auto loan and mortgage violations that led to an unprecedented $1 billion fine from the Consumer Financial Protection Bureau.

"Wells Fargo's ongoing lawlessness and the failure to right the ship, suggests the bank … is simply too big to manage," said Representative Maxine Waters, chair of the House Financial Services Committee, during a recent hearing. The bank's CEO, Tim Sloan, resigned abruptly in March, following years of calls for his resignation from Senator Elizabeth Warren and other critics.

While the Wells Fargo brand may have seen better days, $1 billion can buy a lot of good will, and cities that the bank has approached in talks over its place-based philanthropic strategies have welcomed the bank, according to Campbell. **"**As we narrow the group of cities, we've been in dialogue both with the city governments and the housing leaders in those markets," Campbell says. "There are certainly headlines, but when we are at the city level talking to the nonprofits that are expert in the housing space and the mayor's office, we are not seeing [any] reservation."

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