

RESEARCH BRIEF: AFFORDABLE HOUSING

ABSTRACT

07.17.2006

This brief provides background information about affordable housing. There are multiple ways to measure the affordable housing problem; the most common is to estimate the percentage of households that pay more than 30 (or 50) percent of their income in rent. In 2000, 45 percent of Boulder households that were renting housing paid more than 30 percent of their income in rent, and in 2004, 100 percent of Boulder households making less than \$20,000 paid more than 30 percent of their income in rent. Affordable housing has been historically, and remains, a serious problem among the poorest income groups; more recently, rents have been rising because of better housing quality and possibly increased government regulation.

A review of the literature finds that:

- Homeownership may provide slight social benefits compared to renting
- The effects of affordable housing on surrounding neighborhoods can be positive or negative
- Moving from affordable housing in a high poverty neighborhood to a lower poverty neighborhood does not appear to impact adults, although it appears to have positive impacts for female children and some negative impacts for male children
- The literature is unclear about whether housing vouchers or constructing new housing is a more effective method of reducing housing problems
- New affordable mortgage finance programs do not significantly overcome financial barriers to homeownership for most poor renters; other programs involving “shared” ownership may be more successful
- Credit counseling may be effective in preventing borrower delinquency

An overview is provided of federal, Colorado, and Boulder programs designed to make housing more affordable. Finally, state and local projects of interest and potential partners are listed.

Measuring the Affordable Housing Problem

Most common definition of affordable housing

- The most common definition is that housing is considered affordable for a household if the household pays less than 30 percent of its annual income on housing; a household that pays more than 30 percent is conventionally labeled “cost burdened” and a household that pays more than 50 percent is conventionally labeled “severely cost burdened”
- The 30 percent definition is commonly used because it is easy to measure, automatically increases along with income, and is policy relevant since the Department of Housing and Urban Development (HUD) uses the 30 percent ratio to determine housing benefits
- There are problems with the 30 percent definition:
 - Some low-income households may need to spend more than 70 percent of their income on non-housing necessities (e.g. food, transportation, health care, etc) and thus cannot even afford to spend 30 percent of their income on housing—these “shelter poor” households would be missed by the conventional definition¹
 - Some people may want to spend more money on housing and less on other things, and if they do so that does not mean that they are necessarily burdened by their housing costs
 - The definition relies on annual, not permanent, income, which can fluctuate and thus provide a misleading picture
 - Like many measures, the numbers can vary somewhat depending on the data used to calculate the numbers and the precise definitions of rent (e.g. is it “gross” which includes utilities or “contract” which does not?) and income (e.g. is it pre-tax or after-tax?)
- Affordable Housing Problem in Boulder (using this definition)
 - Of Boulder renter households making less than \$20,000 annually, 100 percent pay more than 30 percent of their household income in rent; of renters making between \$20,000 and \$35,000, 64 percent pay more than 30 percent of their household income in rent; of renters making between \$35,000 and \$50,000 26.8 percent pay more than 30 percent of their income in rent²
 - In 2000, 45.7 percent of renter households in Boulder paid more than 30 percent of their income in rent and 22.8 percent of renter households paid more than 50 percent of their income in rent³
 - Chart 1 shows the amount of household income that would be required, assuming the household spends 30 percent of their income on housing, to rent different sized apartments in the *Boulder Metropolitan Area*⁴

¹ Michael Stone. 1990. *One-Third of a Nation: A New Look at Housing Affordability in America*.

² Census Bureau. 2004. American Community Survey.

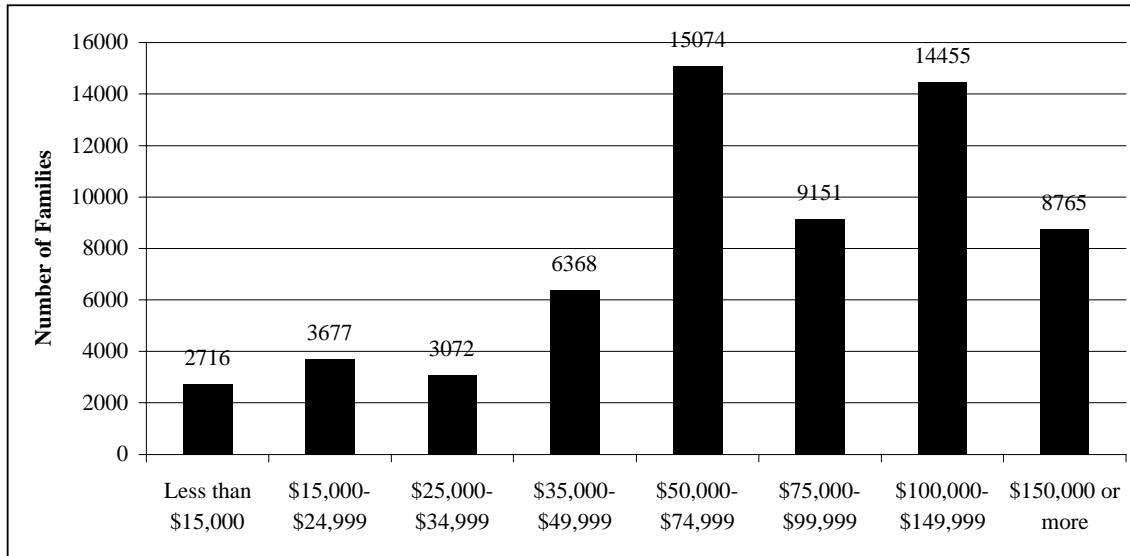
³ Analysis based on Census 2000 data provided by the U.S. Department of Housing and Urban Development to the National Low-Income Housing Coalition.

⁴ U.S. Census Bureau. 2004. American Community Survey.

Chart 1: Fair Market Rents in Boulder County

Size of Apartment	Fair Market Rent (2005) ⁵	Necessary annual income
Efficiency	\$703	\$28,120
One bedroom	\$815	\$32,600
Two bedroom	\$1,022	\$40,880
Three bedroom	\$1,490	\$59,600
Four bedroom	\$1,786	\$71,440

Figure 1: Family Income Patterns in Boulder County in 2004⁶



Other ways of measuring affordable housing⁷

- Vacancy rates: the number of vacancies among affordable housing units provides one indication about the amount of affordable housing that is available

⁵ Determined by the Department of Housing and Urban Development based on the 40th percentile rent for recent movers in the metropolitan area. The numbers were set using Census 2000 data and then adjusted for inflation. These amounts include utilities, except for phone and cable.

⁶ Typically, income estimates display the number of households with incomes in a certain range. However, households can be composed of college students (the Census estimated that in 2004 there were 28,027 Boulder residents who were college/graduate students not living in dorms). Because students are likely to have very low incomes, including students in any population figures could exaggerate the number of people with real housing problems. Although families (composed of at least two related individuals living together) could include students, they are less likely to include just students and are thus probably a more useful indicator of the housing problem. However, these family numbers do not include any non-related individuals living alone or with other non-family members, and thus certainly underestimate the true extent of the housing problem (the Census estimates there were 110,275 total households and 63,278 families in Boulder in 2004). For comparison, there were 24,631 households with incomes less than \$25,000 and 34,382 households with incomes less than \$35,000. U.S. Census Bureau. 2004. American Community Survey.

⁷ Much of this information is based on: Amy Bogdon and Ayse Can. 1997. "Indicators of Local Housing Affordability: Comparative and Spatial Approaches." *Real Estate Economics*.

- *Problem #1 with measure*: the units may be vacant for a good reason (e.g. run-down or unsafe) and/or there may not be many lower-priced units and thus this measure may overstate the amount of available affordable housing
- *Problem #2 with measure*: it is not clear what a “good” vacancy rate is, i.e. what would the rate be if there was enough affordable housing; obviously 1 percent is too low and 20 percent is too high, but what about 4 percent?⁸
- *Affordable Housing Problem in Boulder (using this definition)*: in 2004, the vacancy rate in Boulder City was 3.5 percent and the average rate for the county was 5.8 percent⁹
- Mismatch ratio: the ratio of the number of metropolitan housing units potentially affordable to an income group and the number of people within the metropolitan area within that income group (e.g. if there are 120 units in a city that are affordable to households making less than \$25,000 and there are 100 households in the city making less than \$25,000, the ratio would be 1.2); ratios under one can indicate an affordable housing problem
 - *Problem #1 with measure*: some household with higher incomes may rent inexpensive apartments, reducing the amount of housing that is available to lower income groups
 - *Problem #2 with measure*: if the income ranges are broad, this measure may greatly overstate the amount of housing available to households at the bottom of the income range
 - *Affordable Housing Problem in Boulder (using this definition)*: There are only an estimated .48 affordable rental units available to low-income renter households, meaning there are roughly two low-income households for every affordable apartment (affordable is defined as 30 percent or less of income)¹⁰
- Shelter poverty¹¹ and the closely related housing induced poverty¹²: a household is defined as shelter poor if, after paying for housing, a household cannot afford to pay for all other necessities (e.g. food, transportation, etc)

⁸ There are some “rules of thumb” about the appropriate rate, but they are typically just rough guesses. Estimating the “equilibrium” rate is difficult because the rate varies by housing market and may change over time. The natural rate is larger than zero because of normal turnover and landlords keeping some units vacant while they try to maximize rent. Eric Belsky. 1992. “Rental Vacancy Rates: A Policy Primer.” *Housing Policy Debate*.

⁹ Denver Regional Council of Governments. Another source of information is the Housing Vacancy Survey (Census), but the survey does not sample enough households from Boulder to be able to make reliable estimates.

¹⁰ Technically, .48 is the number of units affordable to renter households at or below 30 percent of the Area Median Income (AMI) divided by the number of households at or below 30 percent of AMI. Analysis based on Census 2000 data provided by the U.S. Department of Housing and Urban Development to the National Low-Income Housing Coalition.

¹¹ Michael Stone. 1990. *One-Third of a Nation: A New Look at Housing Affordability in America*.

¹² Nandinee Kutty. 2005. “A New Measure of Housing Affordability: Estimates and Analytical Results.” *Housing Policy Debate*.

- *Problem with measure*: it can be difficult to obtain the information required to compute
- *Affordable Housing Problem in Boulder (using this definition)*: I could not find or estimate exact numbers, but this method would probably result in high estimates; for example, for the Boulder metropolitan area, a single parent with a school age child would have non-housing essential expenses of \$21,962 while a single parent with an infant child (requiring a lot more child care) would have non-housing essential expenses of \$28,372¹³

Housing in Boulder County

- In 2004, there were an estimated 76,123 owner-occupied houses, roughly 69 percent of all units; the median house value was \$308,818, the median monthly housing cost was \$1,370, and the median household income for homeowners was \$71,719¹⁴
- In 2004, there were an estimated 34,152 renter-occupied housing units, roughly 31 percent of all units; the median monthly rent was \$880 and the median household income for renters was \$31,510¹⁵
- Overall, there were 110,275 occupied housing units; 31 percent of households had one person, 34 percent of households had two people, 15 percent of households had three people, and 19 percent of households had four or more people¹⁶
- On the whole, severe overcrowding is not a significant problem; only 1.2 percent of units have more than one occupant per room¹⁷
- In 2004, 57.4 percent of housing units were filled by families, 31.3 percent were occupied by individuals living alone, and 11.3 percent were occupied by unrelated individuals living together¹⁸
- Only a minority of households, 28.7 percent contain related children under the age of 18¹⁹
- One report estimates that Boulder has roughly 3,450 homeless people²⁰

¹³ Diana Pearce and Jennifer Brooks. 2004. "The Self-Sufficiency Standard for Colorado 2004: A Family Needs Budget." Colorado Fiscal Policy Institute Report.

¹⁴ U.S. Census Bureau. 2004 American Community Survey.

¹⁵ U.S. Census Bureau. 2004. American Community Survey.

¹⁶ U.S. Census Bureau. 2004. American Community Survey.

¹⁷ U.S. Census Bureau. 2004. American Community Survey.

¹⁸ U.S. Census Bureau. 2004. American Community Survey.

¹⁹ U.S. Census Bureau. 2004. American Community Survey.

²⁰ Boulder County Consortium of Cities and Boulder County Civic Forum. 2005. "Regional Affordable Housing Initiative." Boulder County Reference Report.

Causes of the Affordable Housing Problem

To what degree is the affordable housing “crisis” concentrated among the poor?

- Using the conventional 30 percent of income definition, the problem of affordable housing has become worse between 1960 and 2000, but still remains highly concentrated in the lowest income quintiles²¹
- A comparison of three different data sources in 2000 and 2001 reveals that the number of cost-burdened and severely cost-burdened households is concentrated among the poorest income groups; of all households that are cost-burdened, between 60 and 69 percent are in the bottom income quintile and between 24 and 30 percent are in the second quintile; of those households who are severely cost-burdened, between 85 and 91 percent are in the bottom income quintile²²
- Twenty percent of renters earn less than \$10,600 a year²³ and obviously paying almost any rent would be difficult for these households

Why has the affordable housing problem worsened over time?

- The affordable housing problem has become worse over time for renters in the lowest income quintiles: between 1960 and 2000, the percentage of cost-burdened renters in the lowest income quintile increased from 62 percent to 79 percent and in the second-lowest quintile the percentage increased from 21 percent to 44 percent²⁴
- What is causing this trend? While rents have been increasing and incomes have been stagnating, one analysis finds that “most decreases in affordability are attributable to higher rents, not lower incomes”²⁵
- The increase in rents is caused, in part, by an increase in housing quality (e.g. size, structural quality, etc);²⁶ another study also finds significant improvement in housing quality over time, especially among low-income households²⁷

²¹ J. Quigley and S. Raphael. 2004. “Is Housing Unaffordable? Why Isn’t It More Affordable?” *Journal of Economic Perspectives*.

²² Eric Belsky, Jack Goodman, and Rachel Drew. 2005. “Measuring the Nation’s Rental Housing Affordability Problems.” Harvard Joint Center for Housing Studies, p. 38.

²³ Harvard Joint Center for Housing Studies. 2006. “American’s Rental Housing: Homes for a Diverse Nation.”

²⁴ J. Quigley and S. Raphael. 2004. “Is Housing Unaffordable? Why Isn’t It More Affordable?” *Journal of Economic Perspectives*, p. 136.

²⁵ J. Quigley and S. Raphael. 2004. “Is Housing Unaffordable? Why Isn’t It More Affordable?” *Journal of Economic Perspectives*, p. 140.

²⁶ For example, while in 1960, 40 percent of households in the poorest income quintile lived in housing without complete plumbing (e.g. hot water, sinks, and a flush toilet), almost all housing today has complete plumbing. J. Quigley and S. Raphael. 2004. “Is Housing Unaffordable? Why isn’t it more affordable?” *Journal of Economic Perspectives*, p. 141.

²⁷ For example, in 1975 about 12 percent of households in the lowest quintile were in “severely inadequate” housing; by 1997, the rate had fallen to 3 percent. J. Orr and W. Peach. 1999. “Housing Outcomes: An Assessment of Long-Term Trends.” *Federal Reserve Bank of New York Economic Policy Review*.

- Another factor pushing rental housing prices up is increased demand due to immigration; one report estimates that without immigrants, the number of renters would have fallen by roughly two million; instead, due to immigration, the number stayed roughly constant at 34 million renters²⁸
- Finally, many studies have blamed increased government regulation for the increase in housing prices

Economic evidence on how government regulation affects rents.

- The conventional economic model proposes that as new housing is built, older housing typically drops in relative quality and in price; thus new housing, even middle or upper income housing, creates more affordable housing as older housing “filters down”²⁹
- In theory, regulation increases the cost of new housing or prevents new housing from being built, thus reducing the amount of housing stock that can filter down and become affordable housing
- What does the empirical evidence say about the effects of regulations on housing prices?
 - Studies examining the relationship between the amount of regulation in an area and housing prices often find that more regulation is associated with higher housing prices³⁰ but inconsistencies in the literature and methodological problems led one review study to conclude that “drawing firm general conclusions about the linkage between local regulations and housing prices is not possible”³¹
 - One study finds that inflation-adjusted construction costs actually declined between 1970 and 2000 (holding quality constant) across the country; the

²⁸ Harvard Joint Center for Housing Studies. 2006. “American’s Rental Housing: Homes for a Diverse Nation.” One paper found that large-scale immigration can significantly increase rents, especially among lower quality units. Albert Saiz. 2003. “Room in the Kitchen for the Melting Pot: Immigration and Rental Prices.” *Review of Economics and Statistics*.

²⁹ For example, one study finds that “high-quality new construction is associated with growth in the low-quality stock as well.” S. Malpezzi and R. Green. 1996. “What Has Happened to the Bottom of the U.S. Housing Market?” *Urban Studies*, p. 1811.

³⁰ For example, one study finds that a large increase in regulations may increase rents by roughly 17-21 percent and housing values by between 49-60 percent. S. Malpezzi and R. Green. 1996. “What has happened to the Bottom of the U.S. Housing Market?” *Urban Studies*, 1811. A significant relationship does not demonstrate that regulations *cause* higher prices. It is also possible that residents of places with higher housing prices prefer more regulation. For a good recent summary of the literature, see: John Quigley and Larry Rosenthal. 2005. “The Effects of Land Use Regulation on the Price of Housing: What Do We know? What Can We Learn?” *Cityscape: A Journal of Policy Development and Research*.

³¹ While some studies do find a relationship between regulation and housing prices, other studies fail to find an effect. John Quigley and Larry Rosenthal. 2005. “The Effects of Land Use Regulation on the Price of Housing: What Do We know? What Can We Learn?” *Cityscape: A Journal of Policy Development and Research*, p. 89.

authors argue that regulation is the best explanation for why housing costs have increased even as the cost of building a house has fallen³²

- Another study concludes that “without a drastic relaxation of land use restrictions, the values of rental apartment buildings are therefore likely to continue their ascent”³³
- One study finds that, assuming regulations do push up housing prices, reducing regulations would not significantly improve the affordable housing situation, because many households would still not have enough income³⁴
- Regulations do, of course, provide benefits such as assuring minimum housing quality and reduced sprawl, and impact fees provide funding for new schools and parks that will be utilized by new homeowners; the standard policy rule applies: *the question is whether the benefits of the regulation outweigh the costs*³⁵

Housing regulation in Boulder

- The lack of affordable housing in Boulder has been blamed on extensive regulation of housing, especially regulations discouraging more dense housing³⁶
- The Colorado Division of Housing estimates that the development fees for a \$100,000 single family house were \$22,245 in Boulder City and \$10,492 in Boulder County; the fees for Boulder City are higher, often significantly higher, than any other municipality in Colorado aside from Arvada³⁷
- In 1971, Boulder voters approved a building height limit of 55 feet
- In 1976, the Danish plan was passed which limited growth in the number of city-issued residential building permits to 2 percent; this plan is still in effect today, but has been expanded to encompass commercial development as well, and both residential and commercial growth rates have been reduced to 1 percent annually
- Boulder does *not* prohibit manufactured housing, a common source of inexpensive housing

³² Even in markets like Boston and San Francisco, construction costs only increased slightly. Edward Glaser, Joseph Gyourko, and Raven Saks. 2005. “Why Have Housing Prices Gone Up?” Harvard Institution of Economic Research Discussion Paper.

³³ Harvard Joint Center for Housing Studies. 2006. “American’s Rental Housing: Homes for a Diverse Nation,” p. 11.

³⁴ The analysis assumes that rents fall by 15 percent. Even with that reduction, the number of very low-income households who are cost-burdened would fall from 85 to 78 percent. Ron Feldman. 2002. “The Affordable Housing Shortage: Considering the Problem, Causes, and Solution.” Federal Reserve Bank of Minneapolis Working Paper.

³⁵ The economic justification for regulation is that low-quality housing, excessive density, or sprawl can impose external costs—“externalities”—on the public.

³⁶ Arthur Nelson, Rolf Pendall, Casey Dawkins, and Gerrit Knaap. 2002. “The Link between Growth Management and Housing Affordability: The Academic Evidence.” Brookings Institute Urban Center Paper.

³⁷ Colorado Division of Housing. 2002. “Housing Colorado: The Challenge for a Growing State.”

- Boulder does allow some accessory dwelling units (e.g. a living space over a detached garage or a basement apartment with a separate entrance) which provide a source of affordable housing, but there are regulations restricting the number³⁸
- Boulder does have minimum house and lot sizes that, in some zoned areas prevent dense housing; however, other areas are zoned to allow dense housing (up to 27 units per acre)
- The Colorado Division of Housing published a report “Reducing Housing Costs Through Regulatory Reform” in the late 1990’s³⁹
- New development in Boulder is limited by different regulations, including the “Greenbelt”⁴⁰ which divides the Boulder Valley is divided into three major areas:
 1. City of Boulder: development can occur if it serves a necessary purpose and meets regulations (including affordable housing)
 2. Boulder County land that could potentially be annexed by the city for more development
 3. Remaining County land
 - Rural Preservation Area: set aside to preserve rural land uses and character
 - Planning Reserve Area: City maintains the option for expanded urban development after the current 15-yr planning period
- Boulder’s comprehensive plan envisions that “most new development will occur primarily through redevelopment” due to a lack of vacant land⁴¹

³⁸ For example, in some neighborhoods, no more than 10% of single-family lots may contain an ADU. Boulder Revised Code, 1981 (Chapter 9-3.4-13 Specific Use Standards and Criteria).

³⁹ <http://www.dola.state.co.us/DOH/Documents/ReducingCosts.htm>

⁴⁰ The effect of a “greenbelt” or urban growth barrier on housing prices is unclear: the city cannot expand outward as much, but the use of abandoned land and increased density may mitigate any effect on pricing. Two papers with somewhat problematic statistical methodologies find that the Portland’s urban growth barrier had an inconsistent or small positive influence on housing prices. Anthony Downs. 2002. “Have Housing Prices Risen Faster in Portland than Elsewhere.” *Housing Policy Debate*. Justin Phillips and Eban Goodstein. 2000. “Growth Management and Housing Prices: The Case of Portland Oregon.” *Contemporary Economic Policy*. Another review of the literature concludes: “the effects of urban containment [on housing prices] appear to be much more dependent on the style of policy implementation, the structure of local housing markets, the pattern of existing land ownership, and the stringency of other local regulations.” Casey Dawkins and Arthur Nelson. “Urban Containment Policies and Housing Prices: An International Comparison with Implications for Future Research.” *Land Use Policy*.

⁴¹ 2005 Major Update to the Boulder Valley Comprehensive Plan, p. 3.

Should homeownership be encouraged?

- There are some good theoretical reasons to think that homeownership might cause good social outcomes: (1) homeowners have an incentive to improve the community because house prices are based partly on community quality and (2) homeowners are less likely to move and thus more likely to become involved in the community⁴³
- There have been a lot of studies showing relationships between homeownership and positive outcomes (e.g. lower crime, better citizenship, etc), but most of these studies cannot determine whether homeownership causes the positive outcomes or people who are more likely to do good things are also more likely to be homeowners;⁴⁴ a couple of recent studies have done a pretty good job of disentangling the effects
 - One well-designed study finds that homeowners are more likely than renters to vote and know their elected officials⁴⁵
 - Another study finds that homeowners' children have a better quality physical environment and are more cognitively stimulated at home; homeownership may also have positive effects on children's test scores⁴⁶
- It has been proposed that homeownership may benefit children by reducing the number of times they move; however, the impact of moving does not appear to be large: one study finds that moving may have a slight negative impact on children's academic performance⁴⁷

⁴² Some of these summaries are based on an initial review of the literature and may consequently be somewhat limited. A more in-depth study of any topic can be conducted if there is interest.

⁴³ Not surprisingly, many studies find that homeowners are less likely to move. Although some researchers (e.g. A. J. Oswald) have proposed that this can increase unemployment (because homeowners in areas where there are no jobs do not move to areas where there are jobs), there is no good evidence that this is the case, or at least that the effects are large. R. Dietz and D. Haurin. 2003. "The Social and Private Micro-level Consequences of Homeownership." *Journal of Urban Economics*.

⁴⁴ "As a whole, the existing literature suggests that homeownership has a modest impact on social and political behavior. Consistent evidence that homeowners are more likely to vote exists, but mixed evidence is available regarding almost all other behaviors.... No strong conclusions can be drawn at this time." R. Dietz and D. Haurin. 2003. "The Social and Private Micro-level Consequences of Homeownership." *Journal of Urban Economics*, p. 430.

⁴⁵ Denise DiPasquale and Edward Glaeser. 1999. "Incentives and Social Capital: Are Homeowners Better Citizens." *Journal of Urban Economics*.

⁴⁶ Donald Haurin, Toby Parcel, and Jean Haurin. 2002. "Does Homeownership Affect Child Outcomes." *Real Estate Economics*.

⁴⁷ One difficulty in demonstrating that moving by itself is bad for children, is that families who move also tend to have lower socioeconomic status, a factor strongly associated with bad outcomes. The same study that found slight negative impacts due to moving, also indicated that many of the negative impacts often attributed to moving are likely caused by other factors. Shana Pribesh and Douglas Downey. 1999. "Why are Residential and School Moves Associated with Poor School Performance." *Demography*.

How does affordable housing affect neighborhoods?

- Theoretically, new affordable housing can affect neighborhoods in positive ways (e.g. rehabilitation and maintenance of structures) and negative ways (e.g. stigmatization or bad behavior of new residents)
- A study of Denver affordable housing finds that proximity to affordable housing was associated with an increase in property values; this positive price trend was attributed to housing authority investment in properties that were typically vacant (the authors also recommend strict screening and monitoring of tenants); the effect varied by neighborhood with the largest positive effects in predominantly affluent and white neighborhoods and some negative effects in substantially African-American neighborhoods⁴⁸
- A summary of recent studies indicates that affordable housing can reduce the price of neighboring housing; this negative impact can be minimized by using quality design, ensuring compatibility with the neighborhood, and not concentrating affordable housing⁴⁹

How important is the neighborhood when choosing a location for affordable housing?

- There are studies finding associations between living in a bad neighborhood and bad outcomes (e.g. poor health, criminal behavior, etc); however, most of these studies cannot determine whether the neighborhood *causes* the outcomes; there are two studies that use an experimental design and can make causal claims⁵⁰
- *Adult recipients*: one study finds that being in a group that received a housing voucher had no significant impact on the recipients' earnings, employment status, welfare participation, or physical health; recipients who moved to areas with a poverty rate of less than 10 percent did have fewer self-reported mental health problems (e.g. depression, anxiety, distress, sleep, and calmness)⁵¹
- *Children*: some positive impacts for girls and some negative impacts for boys
 - One study found that female children in households that received a voucher to move to areas with a poverty rate of less than 10 percent were significantly less likely to be arrested for property or violent crimes than girls who remained in public housing projects; however, boys who moved into low poverty areas were actually more likely to be arrested for property crimes⁵²

⁴⁸ A. M. Santiago, G. Galster, P. Tatian. 2001. "Assessing the Property Value Impacts of the Dispersed Housing Subsidy Program in Denver." *Journal of Policy Analysis and Management*,

⁴⁹ Mai Thi Nguyen. 2005. "Does Affordable Housing Detrimentially Affect Property Values? A Review of the Literature." *Journal of Planning Literature*.

⁵⁰ This data is based on a randomized study where families living in traditional housing projects: 1) were given a voucher that could be used to move to an areas with less than a 10 percent poverty concentration 2) were given a housing voucher with no conditions, or 3) remained in the projects. Roughly half of voucher recipients actually moved.

⁵¹ J. Kling, J. Liebman, and L. Katz. 2005. "Experimental Analysis of Neighborhood Effects." Kennedy School of Government Working Paper.

⁵² The authors attribute this result to more opportunities for theft in wealthier neighborhoods. Female children whose families received the regular vouchers were significantly less likely to be

- Another study finds that female children in households that received housing vouchers allowing them to move neighborhoods were not significantly different in physical health (a composite measuring things like obesity and hypertension), but had fewer mental health problems, engaged in fewer risky behaviors (a score measuring things like drug use and pregnancy), and had more positive education outcomes (a composite measuring things like dropping out and test scores);⁵³ for male children, there were no differences in mental health or educational outcomes, but voucher recipients had more physical health problems and were more likely to engage in risky behaviors⁵⁴

What is more effective, vouchers or increasing the supply of affordable housing?

- A voucher is a certificate that allows a recipient to rent housing for a below market price that is typically a fixed percentage of the recipient's income (e.g. 30 percent)
- One analysis finds that vouchers benefit recipients (of course) but *harm* non-recipients because the increased demand for housing raises rents by about 16 percent; overall, this analysis estimates that federal housing vouchers increase rents by \$8.2 billion nationally while providing benefits of only \$5.8 billion; based on the analysis, the author concludes, "construction subsidies may do more to improve the housing conditions of the poor than do demand side subsidies like vouchers."⁵⁵
- Another analysis estimates that building more public housing only marginally increases the supply of affordable housing, because private housing is significantly reduced; in contrast, vouchers result in significant increases in the supply of affordable housing⁵⁶
- Another review of the literature concludes that increases in price will induce increased supply, implying that much of the increase in rents due to vouchers will be temporary⁵⁷
- Vouchers can provide flexibility and more choice: one study finds that in the 50 most populous metropolitan areas, only 9.5 percent of federal voucher recipient families live in neighborhoods with 40 percent or more poverty concentration,

arrested for violent crimes; there were no differences for males. J. Kling, J. Ludwig, and L. Katz. 2005. "Neighborhood Effects on Crime for Female and Male Youth: Evidence from a Randomized Housing Voucher Experiment." *Quarterly Journal of Economics*.

⁵³ The education outcomes were only observed in females who moved to areas with poverty rates of less than 10 percent.

⁵⁴ J. Kling, J. Liebman, and L. Katz. 2005. "Experimental Analysis of Neighborhood Effects." Kennedy School of Government Working Paper.

⁵⁵ The basic idea is that vouchers increase demand for affordable housing and since the supply of affordable housing is relatively constant, rents increase. Scott Susin. 2002 "Rent Vouchers and the Price of Low-Income Housing." *Journal of Public Economics*.

⁵⁶ Todd Sinai and Joel Waldfogel. 2001. "Do Low-Income Housing Subsidies Increase Housing Consumption." Working Paper.

⁵⁷ Denise DiPasquale. 1999. "Why Don't We Know More about Housing Supply?" *Journal of Real Estate Economics and Finance*.

compared to 48.6 percent of public housing families who live in neighborhoods with 40 percent or more poverty concentration⁵⁸

- The GAO estimates that government housing production programs are significantly more expensive than government housing vouchers;⁵⁹ whether this comparison would apply to non-profit built housing is unknown

What about temporary housing assistance?

- A recent longitudinal study found that most families who spend more than 50 percent of income on rent do so for a short period of time i.e. problems affording housing are often temporary, not permanent or chronic⁶⁰
- Thus it may be possible to help many families by just providing *temporary* housing assistance (alternatively, the focus could be on the “hardest” cases)
- Transitional housing is rental housing provided to homeless families for a set period of time with the families paying 30 percent of household income; recipients may also benefit from social services and training; Boulder currently has 68 units⁶¹
- Emergency shelter is housing for individuals who have just lost their housing; Boulder currently has 150 units⁶²

How does density affect housing prices?

- Conceptually, sprawl can lower housing costs by utilizing cheaper land, but dense housing on more expensive land can remain affordable by shrinking housing size
- One analysis finds that housing in more centralized areas is slightly cheaper than less centralized areas, i.e. they find “no evidence to support the contention that a successful effort to further centralize an urban area raises the price of homes in an urban area.”⁶³

⁵⁸ U.S. Department of Housing and Urban Development. 2003. “Housing Choice Voucher Location Patterns: Implications for Participant and Neighborhood Welfare.”

⁵⁹ Per unit housing costs are between 32-59 percent greater the first year, and 12-27 percent greater over the first 30 years. General Accounting Office. 2001. “Federal Housing Assistance Programs: Costs and Housing Characteristics,” p. 2.

⁶⁰ For example, of those household heads who faced a severe rent burden during a seven year period (1990-1996), 64 percent only faced the burden for one year and 19 percent only faced the burden for two years. Of course, this also means there is a sizable minority facing chronic rent burdens. Martha Hill. 2005. “Measuring Housing Affordability: Duration of Severe Rent Burdens.”

⁶¹ It is estimated that there is an unmet need of 910 units. Boulder County Consortium of Cities and Boulder County Civic Forum. 2005. “Regional Affordable Housing Initiative.” Boulder County Reference Report.

⁶² Boulder County Consortium of Cities and Boulder County Civic Forum. 2005. “Regional Affordable Housing Initiative.” Boulder County Reference Report.

⁶³ The authors estimate that a 10 percent increase in centralization in Boulder would reduce median houses prices from \$302,300 to \$295,649. Robert Wassmer and Michele Baas. 2006. “Does a More Centralized Urban Form Raise Housing Prices.” *Journal of Policy Analysis and Management*.

Can different mortgage instruments make owning housing more affordable?

- Roughly 41 percent of renters choose to rent, and for these households, new mortgage instruments would presumably not make a difference in their ability/propensity to buy a house⁶⁴
- New mortgage instruments encouraged by federal legislation have increased homeownership by requiring less stringent credit and lowering down payment requirements
- However, one study finds that even “aggressive mortgage” innovations will not significantly increase homeownership, most poor renters just do not have enough assets or income⁶⁵
 - Because most poor renters have very few assets, the study finds that asset supplements of \$5,000 or \$10,000 could be an effective way increase homeownership
- Another study estimates that affordable mortgage programs can increase homeownership, and the impacts are moderate; difficulty in obtaining a down payment (asset requirement) also appears to be a bigger barrier than income requirements⁶⁶
- Another financial option that could increase homeownership is a Shared Appreciation Mortgage (SAM): the borrower receives a lower interest rate in return for giving the lending bank a share of the appreciation of the house; for example, the buyer gets 2 percent off their mortgage rate and when they sell the house, the bank gets 60 percent of the *appreciation* in the house’s value
- Another option, not implement yet, would give investors the ability to buy fractional ownership in houses; the investors would contribute money and would receive a share of the proceeds when the house is sold⁶⁷
 - In addition to making houses more affordable, this method would enable owners to avoid concentrating all the assets in their house, a poor risk diversification strategy

Can credit counseling reduce the rate of default among poor homeowners?

- The Denver-Boulder-Greeley metropolitan area had the fifth-highest foreclosure rate in the country in the first quarter of 2006 (roughly one foreclosure for every 105 households)⁶⁸
- Credit counseling is typically administered by non-profits, government agencies, lenders, or mortgage brokers; participants are given information about: money

⁶⁴ Fannie Mae. 2001. National Housing Survey.

⁶⁵ The paper uses simulations to estimate that the new mortgages would only increase the percentage of poor renter that could afford a house by a couple of percentage points. Although the simulations likely underestimate the percentage, they do provide a useful baseline. David Listokin, Elvin Wyly, Brian Schmitt, Ioan Vocu. 2001. “The Potential Limitations of Mortgage Innovation in Fostering Homeownership in the United States.” *Housing Policy Debate*.

⁶⁶ Roberto Quercia, George McCarthy, and Susan Wachter. 2003. “The Impacts of Affordable Lending Efforts on Homeownership Rates.” *Journal of Housing Economics*.

⁶⁷ A. Caplin, C. Joye, P. Butt, E. Glaeser, M. Kuczynski. 2003. “Innovative Approaches to Reducing the Cost of Home Ownership.” Menzies Research Center.

⁶⁸ www.realtytrac.com

- management, qualifying for a mortgage, comparison shopping for the best rate and terms, the costs and benefits of homeownership, how to prevent foreclosure, and a personalized analysis of whether the participant should rent or own⁶⁹
- Counseling agencies will often refer participants to lenders if the participant can show that they can make monthly mortgage payments after accounting for all their expenses
 - The empirical literature examining the benefits of credit counseling is often methodologically flawed, and the wide variety of programs means that it would be difficult to generalize;⁷⁰ two recent studies are exceptions:
 - One analysis finds that counseling can substantially reduce 90-day delinquency rates; some types of counseling (e.g. individual and classroom counseling) are more effective than others (e.g. telephone)⁷¹
 - The second analysis finds that counseling can significantly reduce borrower default over longer periods of time, possibly because counseling agencies can offer lenders a more accurate understanding of the borrower's ability to pay⁷²

⁶⁹ "Credit Counseling and the Incidence of Default on Housing Loans by Low-Income Households." Ohio State University working paper.

⁷⁰ Stephen Hornburg. 2004. "Strengthening the Case for Homeownership Counseling: Moving Beyond a Little Bit of Knowledge." Harvard Joint Center for Housing Studies Working Paper.

⁷¹ The control group for this study was not ideal, but the authors do make an effort to control for selection bias. Abdighani Hiram and Peter Zorn. 2001. "A little knowledge is a good thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling." Freddie Mac Working Paper.

⁷² The default rate was reduced by about 50 percent (from 20 percent to 9 percent). The study sample size was small (fewer than 400 people), so these results should be used cautiously. Valentina Hartarksa, Claudio Gonzalez-Vega, David Dobos. 2002. "Credit Counseling and the Incidence of Default on Housing Loans by Low-Income Households." Ohio State University working paper.

Current Housing Programming

Federal Affordable Housing Programs⁷³

- Americans have no legal right to federal housing benefits (i.e. housing is not an entitlement), instead federal housing funding depends on annual appropriations by Congress; a GAO study found that while the government provided housing assistance to about 5.2 million households, almost 9 million households who qualified for housing assistance were not able to receive it due to budget constraints⁷⁴
- *Housing Choice Vouchers*: recipients of the vouchers choose private housing (must meet certain quality and rent requirements); the federal government provides funding to local public housing authorities (PHA), and, upon approving the housing, the PHA pays landlords the difference between 30 percent of adjusted family income and the rent or a rent the PHA determines is appropriate;⁷⁵ this allows recipients access to quality housing including utilities for 30 percent of their household income⁷⁶
 - The Boulder County Housing Authority vouchers can be used to help recipients buy housing (i.e. help cover mortgage payments); Boulder City Housing Authority vouchers are limited to rentals
 - In general, recipients' family income may not exceed 50% of the median income for the county or metropolitan area; PHA must provide 75 percent of its vouchers to applicants whose incomes do not exceed 30 percent of the area median income
 - Only one-third of eligible families receives vouchers, in part due to a lack of government funding⁷⁷
 - Households that are issued vouchers are often unable to find housing that meets program requirements; in 2000, roughly 69 percent of voucher recipients were able to find housing; this rate varied substantially depending on the housing market and the practices used by the local housing authority⁷⁸
 - *Obtaining a housing voucher in Boulder can take years*

⁷³ The largest federal housing program (expected 2005 cost: \$72.6 billion), the mortgage interest tax deduction, does not significantly help poor households or appear to increase homeownership. Edward Glaeser and Jesse Shapiro. 2003. "The benefits of the Home Mortgage Interest Deduction." *Tax Policy and the Economy*.

⁷⁴ General Accounting Office. 2001. "Federal Housing Assistance Programs: Costs and Housing Characteristics."

⁷⁵ The PHA determines a "fair market value"

⁷⁶ If participants want to pay more than what their PHA determines is a fair rent, they can pay the landlord the difference. Consequently, roughly 38 percent of voucher recipients pay more than 30 percent of their income for rent and utilities. Kirk McClure. 2005. "Rent Burdens in the Housing Choice Voucher." *Cityscape: A Journal of Policy Development and Research*.

⁷⁷ Margaret Turner (Urban Institute), Congressional Testimony, June 2005.

⁷⁸ Meryl Finkel and Larry Buron. 2001. "Study on Section 8 Voucher Success Rates." Abt Associates Final Report Prepared for Department of Housing and Urban Development.

- In Boulder City there are 400 names on the wait list; this year they had 30 vouchers open up, but since many applicants no longer needed vouchers, they contacted 150 people to fill those spots
 - In Boulder County the wait time to obtain a voucher is 3-5 years; however, they have not accepted new names for the waitlist since February 2005 and there is no time in the foreseeable future that more names will be added⁷⁹
 - The federal government budgeted \$15.6 billion in FY 2006 for vouchers
- *Low-Income Housing Tax Credit* provides tax credits to projects that have at least 20 percent of their units rent controlled and reserved for low-income renters; the program has produced close to 90,000 units annually since the mid-1990's⁸⁰
 - Each state is allocated funds on a per capita basis and the 2006 per capita amount is \$1.90; the number is adjusted annually for inflation.
- *HOME Investment Partnership Program*: provides block grants to state and local governments to build, buy, and/or rehabilitate affordable housing for low income people to rent; HOME grants can also be used to increase homeownership or provide rental assistance
 - The federal government budgeted \$1.8 billion in FY 2006 for HOME
- *Community Development Block Grant*: provides grants to states and municipalities with funding that benefits low-income people by creating affordable housing and expanding commercial development
 - The federal government budgeted \$4.2 billion in FY 2006 for CDBG
- *Emergency Shelter Grants*: provides homeless persons with basic shelter and essential supportive services; ESG funds are available for the rehabilitation or remodeling of a building used as a new shelter, operations and maintenance of the facility, social services, homeless prevention, and grant administration
 - The federal government budgeted \$160 million in FY 2006 for ESG (roughly \$919,000 was allocated for Colorado)
- *Sections 202 and 811*: capital funding for housing for low-income elderly and low-income disabled, respectively
 - The federal government budgeted \$742 million in FY 2006 for Section 202 and \$239 million for Section 811

State Affordable Housing Programs

- Colorado Housing and Finance Authority: issues bonds to finance low- and moderate-income rental housing; assists low- and moderate-income home buyers by providing mortgage financing
- Colorado Division of Housing
 - In 2002, the Colorado Division of Housing helped build 1,523 rental units and helped 5,130 households purchase a home by providing down payment assistance and grants and loans for closing costs

⁷⁹ Communication with County of Boulder employee.

⁸⁰ Harvard Joint Center for Housing Studies. 2006. "American's Rental Housing: Homes for a Diverse Nation."

- Combining federal and state funding, DOH has begun a Tenant Based Rental Assistance program that provides rental assistance and social services; this program has not yet expanded statewide and does not cover Boulder

Local Affordable Housing Programs

- Boulder Housing Partners (local housing authority): organization chartered by Colorado to build, own, and manage affordable housing for low income Boulder citizens
 - They changed their name to “Partners” because they are interested in forming partnerships with non-profits
 - Rent over 1000 homes and provide rental assistance to an additional 600 households
 - Revenues in 2004: \$13.7 million (43 percent from HUD and 30 percent from rent payments); expenses in 2004: \$13,477,030 (33 percent housing assistance and 23 percent administrative)
- Regional Affordable Housing Initiative (Boulder County Civic Forum/Boulder County Consortium of Cities)
 - Goal is to enhance the affordability of housing in Boulder County and Broomfield for its resident and workers through regional cooperation
 - Sponsored a summit “Affordable Housing: Cornerstone to a Healthy Regional Economy” in February 2005 (a daylong event with panel discussions and workshops)
- City of Boulder Inclusionary Zoning Ordinance: requires 20 percent of new residential units to be made permanently affordable to low-income households: the law is flexible, allowing developers to dedicate off-site units, donate land, or provide cash to fulfill a portion of the requirements⁸¹
- City of Boulder Division of Housing programs to provide affordable homeownership
 - The House to Homeownership (H20): deferred loans to low to moderate income households; there are no payments for 10 years or until the house is sold, when the loan amount is then due in its entirety plus interest
 - First Home: helps low to moderate income households purchase a home in Boulder by providing 20% of the purchase price of market rate homes; the houses become permanently affordable and the grant amount remains invested in the property even after it is sold
 - 3% solution: provides grants to low to moderate income households; the grant amount remains invested in the property even after it is sold
- Forty percent of revenues from a 1 percent sales tax have been used for public lands acquisition in Boulder County to create a 36,000-acre greenbelt that surrounds the city of Boulder; the land is mostly farms, prairie, and recreational green space between the city’s outskirts and the Boulder county line

⁸¹ “Permanently affordable” means there is an ongoing sales restriction that requires the unit to be affordable in perpetuity. For more information, see: <http://www.bouldercolorado.gov/files/HS/HS/Inclusionary%20Zoning%20Summary.pdf>

Non-Profit providers involved in affordable housing in Colorado/Boulder

Thistle Community Housing

- Largest non-profit provider, 501(c)(3), of permanently affordable housing in Boulder (roughly 700-800 homes serving 1,500 people annually)
- Operates a homeownership program (Community Land Trust) that buys or builds homes that are then sold at below market prices; the resale price of the home is limited by covenant, ensuring that the home remains affordable for future buyers
- Owns and manages many affordable rental units
- Thistle's projects use construction practices that incorporate renewable, recycled, and recyclable materials and sustainable development practices; received E-Star and XCEL Awards for green building designs

Habitat for Humanity of Colorado

- Partners with people in need and community volunteers to build affordable housing, which is then sold at no profit and with no interest charged
- Serves as a support organization by developing funding sources, public awareness, and volunteer resources for the 27 local affiliates within the state
- Environmental Initiative encourages affiliates to adopt best practices for energy efficiency, cost effectiveness, and environmental sustainability
- Flatirons Habitat for Humanity serves Boulder

Mercy Housing

- National not-for-profit organization that develops, constructs, operates, and finances quality, affordable, service-enriched housing
- Work benefits families, seniors, formerly homeless populations, people with HIV/AIDS, and individuals with chronic mental illnesses and physical impairments
- Operates a regional office in Colorado, which has built or rehabilitated 856 units with another 480 currently in development
- Has incorporated sustainable design elements into previous projects

Affordable Housing Alliance of Boulder

- Develops affordable home ownership opportunities for individuals and families in Boulder earning between 40% and 75% of the local AMI
- Employs innovative site and architectural design and a sweat equity-volunteer approach to home construction
- Seeks to develop an affordable housing home ownership model that is reproducible locally and sustainable through self-perpetuating funding

Notable Projects in Boulder/Colorado

Regional Affordable Housing Initiative

Sponsored by Boulder County Civic Forum and Boulder County Consortium of Cities

- This project had three goals
 1. Foster collaboration between agencies and organizations
 2. Provide information to elected officials
 3. Inquiry into whether communities could collaborate to receive more HOME funding
- In February 2005, convened a summit with over 200 participants (private-sector, government, and non-profit) to present information (many reports) and build relationships

Colorado Blue Ribbon Panel on Housing

Sponsored by University of Denver and Colorado Division of Housing

- Examined affordable housing in Colorado; very diverse board
- Issued a final report (March 2006) that advocates: dedicated funding stream for affordable housing, one-stop housing information, more private-public partnerships, and standardized regional housing assessments

Mapleton Hollow Mobile Home Park- Boulder, Colorado

- 132 permanently affordable manufactured homes
- A collaborative effort between Thistle Community Housing and Boulder's Department of Health and Human Services
- Part of the Thistle Community Land Trust

Poplar Project- Boulder, Colorado

- The first publicly assisted, for-sale housing project developed in Boulder
- Includes 14 single-family units
- Developed by the Affordable Housing Alliance of Boulder.

Woodlands-Boulder, Colorado

- Joint project with city and county housing authorities and Project Self-Sufficiency
- Has 35 units of affordable housing
- Low-income residents are offered job training and childcare

Monarch Mills

- Developed by Urban Ventures
- Has 13 market rate units and 56 affordable housing units
- Complex sits along Denver's reemerging riverfront

Affordable Housing Private Funders (Colorado)

Anschutz Family Foundation

- Supports Colorado nonprofit organizations that “assist people to help themselves while nurturing and preserving their self-respect.”
- Grants range from \$2,500 to \$10,000
- Low income housing funding in 2004: 11 grants totaling \$86,500
- Strong activity in Boulder (30 grants, most of any county)

Enterprise Community Partners, Inc.

- Nation’s largest foundation dealing with affordable housing
- Develops and supports innovative low-income housing models by providing financial and consultative resources to organizations across the affordable housing and community development spectrum
- Also a leading advocate for federal and local policy in these areas

John S. & James L. Knight Foundation

- Funds programs in 26 U.S. communities, one of which is Boulder, CO
- “Housing and Community Development” is one of six funding areas

Calvert Social Investment Foundation

- Makes loans to community development organizations that focus on affordable housing, small business, microcredit and other community development

El Polmar Foundation

- Contributes more than \$20 million annually to support Colorado nonprofit organizations involved in health, human services, education, arts and humanities, and civic and community initiatives
- Most contributions directed within Colorado’s front range (including Boulder)

The following foundations are listed in the Funding Information Center database. These foundations, which list no website for additional information, are based in Colorado and lists housing/shelter as an area of funding interest.

C & J Foundation: Monte Vista, CO

The Collier Foundation: Golden, CO

Gregoire Family Foundation: Bayfield, CO

The Marson Foundation: Colorado Springs, CO

McDonnell Family Foundation: Golden, CO

The Edmund T. & Eleanor Quick Foundation: Centennial, CO

The Carl George Bjorkman Foundation: Colorado Springs, CO

Eleos Foundation: Loveland, CO

Affordable Housing Private Funders (National)

The Ford Foundation

- Community & Resource Development is stated area of funding interest
- 2005 grantmaking activity included multiple affordable housing-related grants

Rose Community Foundation

- Serves the seven-county Greater Denver community in several ways: financial grants, program expertise, donor development, and community leadership.
- Supports expanding access to affordable housing as part of their commitment to family self-sufficiency

Daniels Fund

- Largest foundation in the Rocky Mountain Region
- 65 percent of total grant money directed to Colorado (50% to Metro Denver area)
- “Homeless & Disadvantaged” is one designated area of support
- Grants directed mostly at short-term/transitional or emergency housing, vocational training programs, childcare, and substance abuse treatment.

Greenlee Family Foundation

- Grantmaking philosophy focuses attention on smaller, grassroots, and local organizations that preserve and promote the well-being, education, welfare and enlightenment of fellow citizens
- Geographic preference to Colorado charities, particularly Boulder County

Weaver Family Foundation

- Funds Colorado-based, non-sectarian, charitable programs that focus on education, community service, and the preservation of the natural environment
- Has supported numerous housing assistance or homeless shelter programs

Boulder County Grantmakers Forum

- Group of private and corporate foundation representatives that convene in an open dialogue about the challenges and opportunities faced by Boulder’s nonprofit sector, and their role in addressing those issues
- The BCGF is a "fundraising free" zone where members share ideas, best practices, and general information, and hear presentations on a variety of topics

Raymond J. and Mary C. Reisert Foundation, Inc.

- Supporting programs that “improve the living conditions of the homeless and those living in substandard housing” is one of five stated areas of support
- Particular interest in programs on the East Coast, but they consider and welcome proposals from across the nation

Further Resources:

Regional Affordable Housing Initiative
<http://www.bococivicforum.org/housing.html>

Boulder Housing Partners
<http://www.boulderhousing.org>

Colorado Division of Housing
<http://www.dola.state.co.us/doh/>

Harvard Joint Center for Housing Studies
<http://www.jchs.harvard.edu/>

Lincoln Institute of Land Policy
<http://www.lincolnst.edu/>

Fannie Mae Foundation
<http://www.fanniemaefoundation.org/>

Rocky Mountain Land Use Institute
<http://www.law.du.edu/rmlui/>

List of builders, designers, programmers in Boulder area:
http://www.boulderhousing.org/html/other_resources.html