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Rethinking U.S. Rental Housing Policy

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Introduction

In recent years, housing has all but disappeared from national-level debate except for occasional discussions of a possible housing "bubble" and the all-too-brief concern about emergency housing needs in the aftermath of Hurricane Katrina. Despite the lack of sustained attention, our country's housing challenges are changing in ways that not only affect an expanding segment of the population, but also implicate other top domestic priorities. Some states and localities are starting to respond to these challenges in new and creative ways. But federal housing policy – particularly rental housing policy – is not getting the serious national attention it warrants.

One-third of all Americans rent the homes and apartments in which they live.[1] Some are renters by choice – because they are highly mobile or prefer not to assume the responsibilities of homeownership. But most are renters by necessity – because they have limited savings or lack the income necessary to cover the costs of homeownership. A growing share of renters cannot find homes or apartments that they can reasonably afford. Specifically, as of 2005, more than 16 million households – up from about 13 million in 2000 – spent more than 30 percent of their monthly income on housing, a cost burden defined as unaffordable by federal standards. Almost two-thirds of these cost-burdened renters had annual incomes below $20,000. But the share of higher-income renters who are paying unaffordable housing costs is rising; between 2000 and 2005, the share of renters with incomes over $35,000 whose housing cost burdens were unaffordable climbed from 6.4 percent to 12.2 percent (U.S. Census Bureau).

Moreover, as metropolitan areas sprawl outward and jobs become increasingly dispersed, fewer low-wage renters can find housing near their work. While employment growth is fastest in the low-density counties on the fringes of America's metros, affordable housing – and affordable rental housing in particular – remains disproportionately located in inner-city and older suburban neighborhoods. In fact, in many metro areas, a substantial share of the affordable rental stock is concentrated in distressed, high-poverty neighborhoods.

Despite the magnitude and urgency of these problems, the current federal housing policy debate amounts to little more than squabbling over crumbs. At present, federal policy seems defined almost exclusively by the fiscal imperative – that is, the pressure to reduce domestic

[1] According to the U.S. Census Bureau's American Communities Survey, over 36 million households were renters in 2004, 32.9 percent of all households.

discretionary spending – rather than by about how best to address the nation's housing concerns. Moreover, today's congressional housing coalition is a mere shadow of its former self. Congressional attention to the Millennial Housing Commission's report in 2002 paled in comparison to the reception given the National Housing ("Rouse/Maxwell") Task Force in the late 1980s. While that Task Force's efforts resulted in the passage of the National Affordable Housing Act of 1990, the 2002 Commission's findings have been all but ignored.

As long as the federal housing policy conversation remains limited to tinkering with existing programs, no real progress seems possible. But we are hopeful that federal housing policy can be reinvigorated. This optimism stems from the fact that many state and local governments are filling the void with imaginative solutions, thus acting as laboratories for innovative policies that might eventually succeed at the national level. Our optimism also stems from the vibrant state and local political coalitions that are successfully pushing through meaningful housing reforms and initiatives. Notably, these coalitions are using fresh language, deploying new arguments, and involving powerful partners from the business community in their push for change – a potential model for building broader support for a reinvigorated housing policy at the federal level as well.

Inspired by this backdrop of state and local energy, we propose a new blueprint for the nation's rental housing policy. Our blueprint responds to the root causes of current challenges, respects the creativity and increasing capacity of state and local governments, and reconnects housing policy to the larger issues that Americans care about. This blueprint also aims to catalyze local markets – as federal homeownership historically policies have – rather than merely delivering a fixed volume of social housing.

National Rental Challenges Have Changed Dramatically

Today's rental housing market failures reflect a confluence of demographic, economic, and social forces that the current array of federal programs can no longer effectively address. Our country's greatest housing challenges occur at different levels: a *nationwide* housing affordability problem, insufficient housing supply in *prosperous regions*, a problem of housing location *within metropolitan regions*, and a *neighborhood* distress problem.

Nationwide Affordability Problem

Rents are rising faster than incomes for a growing segment of the workforce. Specifically, gross rents (which include utility costs) have been growing faster than inflation, while the median renter's monthly income has declined 7.3 percent since 2000. As a result, average gross rents as a share of renter income have grown from 26.5 percent in 2000 to 30.3 percent today. In 2005, 45.7 percent of renter households were spending more than 30 percent of their income on housing costs. This trend is primarily the result of widening income inequality – with incomes rising much more slowly for low- and moderate-wage workers than for those in high-skill, high-wage jobs.

The fastest growing segment of the U.S. economy today consists primarily of low-wage service jobs, and wages for these jobs are rising slowly. During the 1990s, wages at the very bottom of the distribution were stagnant, while those at the top rose rapidly. More recently, it appears that mid-level wages are also stagnating, while the top continues to gain (Autor, Katz, and Kearney 2006). In part, this is the result of economic restructuring: the decline in the traditionally high-paying U.S. manufacturing sector means that the economy has been shedding jobs that pay more than those that replace them. The median wages in industries that have added jobs since the 2001 recession are 21 percent lower than in industries that have shed jobs (Joint Center for Housing Studies 2004).[2]

If all incomes were rising slowly, keeping pace with housing costs might be less of a problem, but incomes for highly skilled workers are in fact rising much more rapidly. In the Washington metropolitan area, for example, average wage rates for high-level executive occupations were rising as much as three times faster during the early 2000s than wage rates for parking lot attendants or food preparation workers (Turner et al 2004). Rising incomes at the top of the wage distribution put upward pressure on housing prices and rents, contributing to increases that outpace any wage gains achieved by workers further down the distribution. In tighter markets, housing costs are becoming increasingly unaffordable not just for the lowest-wage workers, but for a broader swath of the work force. The average rent for a two-bedroom apartment in the Washington metropolitan area is unaffordable for a family supported by a public school teacher, firefighter, or a receptionist (Turner et al 2006).

[2] In addition, some economists argue that the immigration of unskilled workers into the United States – and the entry of Asian workforces into worldwide industrial markets – will continue to drag down wages at the bottom of the labor market over the long term (Freeman 2005).

Constrained Housing Supply

The problem of slow wage growth and widening income inequality is exacerbated in many housing markets by supply constraints on new housing units. Although the overall housing supply is still expanding, its growth is not keeping pace with population and household growth, so that the net stock of low- to moderate-cost rental units is steadily shrinking (Joint Center for Housing Studies 2006). Local zoning laws, land use controls, and other regulatory barriers limit total housing production, raise the costs of new units, and often prevent the production of low-cost units. As population expands in a market with constrained supply, the increased competition for units causes prices to rise, even for households that do not typically rely on new construction for their housing. In effect, the traditional "filtering" process – in which older housing units become more affordable over time while the most affluent households trade up to new units – cannot function properly when supply is so constrained relative to growing demand (Glaeser and Gyourko 2002; Glaeser, Gyourko, and Saks 2005).

Because of these supply constraints, most of the unsubsidized rental housing being produced in the United States today is high-cost luxury rentals; the median rent for newly constructed units is 37 percent higher than the median rent for existing units (Joint Center for Housing Studies 2006). Some "affordable" rental housing is also being produced, subsidized primarily through the Low-Income Housing Tax Credit (LIHTC) and HOME programs (discussed further below) and targeted explicitly to low-income households. Although LIHTC subsidizes the production of around 90,000 units of affordable rental housing per year, this is not enough to offset losses. Two million low-cost units were demolished or withdrawn from the rental-housing inventory between 1993 and 2003, or 200,000 losses per year on average (Joint Center for Housing Studies 2006). Meanwhile, rental housing affordable to moderate and middle-income households is simply not being produced.

The combination of rising income inequality and constrained housing supply are evident throughout the country, but play out differently in different metropolitan contexts. The problems outlined here are particularly intense in economically prosperous areas, where expanding employment opportunities attract in-migration and businesses pay top dollar for highly skilled workers. Weaker labor markets do not face the same growth pressures, so housing costs are not rising as fast. In these markets, however, unemployment is higher and wages are lower, so the housing affordability pinch is just as severe for those with low-wage jobs. As a consequence, in markets across the country, growing shares of low- and moderate-income households are paying rent burdens that are considered unaffordable by federal standards. In fact, in 2005, more than half of all renter households with annual income below $35,000 were paying more than 30 percent of income towards housing costs in 118 of the nation's largest metropolitan areas.

Housing Location within Metropolitan Regions

Not only are housing costs rising more rapidly than incomes for many renter households, but affordable rental housing is especially scarce in communities where job opportunities are most plentiful. Historically, both jobs and affordable rental housing were concentrated in central-city locations. But over the last few decades, employment growth has become increasingly dispersed, while exclusionary zoning laws have limited the development of rental housing in many suburban communities (Pendall, Puentes, and Martin 2006).

Population and employment have become increasingly decentralized over the last three decades. In 1970, half of all households in the nation's 91 largest metro areas lived within 8.9 miles of the central business district. By 2000, that boundary moved out to 12.2 miles (Joint Center for Housing Studies 2006). Today, employment growth is fastest in the low-density counties on the fringes of America's metro areas. And in many metros, entry-level and low-wage jobs are more widely dispersed than high-wage jobs. For example, the District of Columbia accounts for 34 percent of its region's high-wage jobs (paying over $75,000 annually), but only 20 percent of low-wage jobs (paying under $35,000 annually). In fact, in the Washington metro area as a whole, low-wage jobs are twice as dispersed spatially as are high-wage jobs (Turner et al 2004).

The suburban jurisdictions where job opportunities are most plentiful offer relatively little affordable rental housing. The same regulatory barriers that constrain housing supply overall also severely limit the production of modest, higher-density rental housing in these job-rich jurisdictions. Suburban land use regulations can inhibit the production of affordable housing by imposing direct costs (such as administrative fees, impact fees, and environmental mitigation requirements) or by constraining the range of allowable development types (such as large-lot zoning ordinances, inflexible building codes, density restrictions, or outright bans on multifamily housing).

Of course, many regulatory barriers reflect competing priorities about land use and development. Many local building code provisions are intended to ensure the safety and structural integrity of housing construction. Some development restrictions are designed to preserve wetlands or protect open spaces for everyone to enjoy. And many zoning provisions focus on subdivision design features such as sidewalks, street widths and other neighborhood amenities that enhance neighborhood quality. All of these are legitimate policy objectives, even if they have the effect of limiting housing production and increasing housing costs.

However, some regulatory barriers are in fact intended to prevent low-cost housing from being built in a local community, to exclude lower-income (and minority) households, and to maintain high property values for current residents. Unfortunately, local governments (which usually control land use decisions) have no incentive to face up to the trade-offs between housing affordability and other legitimate objectives. In fact, political incentives encourage each individual jurisdiction to satisfy existing property owners by attracting jobs while at the same time imposing controls on residential development in ways that enhance community amenities, maximize property values, and exclude lower-cost housing options (Nelson et al 2002; Downs 1994).

Central cities, then, remain the primary source of affordable rental housing within most metropolitan regions. Nationally, 45 percent of all renters and two thirds of poor renters live in central-city jurisdictions (Joint Center for Housing Studies 2006). In the early to middle twentieth century, the concentration of affordable rentals in central cities – typically in close proximity to manufacturing centers – made sense. But in the aftermath of economic restructuring, most of those jobs have long since dispersed, leaving the affordable rental stock behind. In many metropolitan regions, rental housing can also be found in some segments of the inner suburbs, typically in older jurisdictions, close to the central city, where jobs are not locating. And rents remain relatively affordable on the urban fringe where jobs have not yet located and land is still cheap. Much of the rapid population growth since the 1990s is occurring in exurban places as moderate-income families leapfrog over existing suburban communities to find more affordable housing.

Neighborhood Distress Problem

The clustering of affordable rental housing in central-city neighborhoods has served to reinforce concentrations of poverty and exacerbate racial segregation. Although most poor Americans live in non-poor neighborhoods and the incidence of concentrated poverty declined in the 1990s, 7.9 million poor people still lived in "extreme poverty" census tracts in 2000 (Jargowsky 2003).[3] Neighborhoods of concentrated poverty are disproportionately minority; more than half of all high-poverty neighborhoods in 2000 were predominantly (more than 60 percent) black or Hispanic (Pettit and Kingsley 2003). Nationwide, 19 percent of poor blacks and 14 percent of poor Hispanics lived in high-poverty neighborhoods in 2000, compared with only 6 percent of poor whites (Jargowsky 2003). Within metropolitan areas, these disproportionately poor neighborhoods perform unfavorably across a sampling of social indicators. For example, 45 percent of adults in extreme-poverty tracts lack a high school degree compared to only 19 percent metro-wide. And the share of households with children that are headed by single females is 54 percent in extreme-poverty tracts, but only 24 percent metro-wide (Pettit and Kingsley 2003).

Thus, it is unsurprising that residents of such neighborhoods often fall victim to a host of undesirable outcomes. As Jargowsky noted, "[c]oncentrations of poor people lead to a concentration of the social ills that cause or are caused by poverty (Jargowsky 2003)." These ills, which are discussed in greater detail below, include higher rates of crime, teenage pregnancy, and educational failure; higher prices for basic consumer goods; reduced private-sector activity; poor health outcomes; and higher fiscal burdens on local government.[4]

Lamentably, federal housing policy has actually fueled the problem of concentrated poverty – for example, through the siting of public housing and, more recently, LIHTC units within large developments in isolated, distressed neighborhoods (Schill and Wachter 1995; Freeman 2004). More than half of public housing residents still live in high-poverty neighborhoods, and only 7 percent live in low-poverty neighborhoods (where fewer than 10 percent of residents are poor) (Newman and Schnare 1997; Turner and Wilson 1998). Federal programs to assist low-income renters have also exacerbated residential racial segregation. In fact, public housing handbooks originally encouraged local authorities to assign households to projects based

[3] This report defines "high-poverty neighborhoods" as those with poverty rates of above 30 percent, and "extreme-poverty neighborhoods" as those with poverty rates above 40 percent.
[4] For a short survey of these social ills, see Berube and Katz 2005.

on their race and the racial composition of the surrounding neighborhoods (Massey and Denton 1993; Hirsch 1983). Once the public housing system became intensely segregated, it proved to be extremely difficult – both politically and practically – to desegregate it, and efforts to do so have had very little impact (Popkin et al 2003). The clustering of subsidized housing into neighborhoods of concentrated minority poverty undermines the economic and social viability of these communities (Massey and Denton 1993; Wilson 1987).

Housing Matters

For the most part, the three broad challenges outlined above have been narrowly conceived of as "housing" issues to be discussed and debated by self-described housing advocates and practitioners. Increasingly, however, researchers, policymakers, and advocates outside traditional housing policy circles are recognizing that housing is critical to advancing other national issues and agendas. In general, the lack of affordable housing stands in the way of economic productivity and undermines the fundamental premise that full-time workers should be able to achieve a decent standard of living for themselves and their families. More specifically, the concentration of affordable housing in distressed inner-city neighborhoods traps low-income children in places where public schools are failing and life-chances are limited. The lack of affordable housing in the right places also contributes to environmentally and fiscally wasteful patterns of sprawl and decentralization.

Maintaining Economic Competitiveness

High housing costs, sprawling development patterns, and long commutes undermine the economic competitiveness of urban regions, and reduce productivity for the nation as a whole. A shortage of affordable housing may inhibit the economic dynamism of a metropolitan region by reducing its capacity to accommodate new growth, either through the expansion of existing firms or by attracting new ones. More specifically, when reasonably priced housing is in short supply and households have to spend large shares of incomes for housing, a region becomes a less attractive place to live and invest. In addition, high housing costs create pressures on employers to increase wages as jobs go unfilled at lower wages and as current employees demand higher wages to reflect their high costs of living. Commutes from home to work become longer as families locate further from their jobs in order to obtain affordable housing, increasing congestion costs, reducing productivity, and possibly contributing to employee turnover. Ultimately, these trends may constrain or even destabilize a region's labor market, particularly for low- and moderate-wage labor as people quit their jobs, existing residents leave the region, and prospective residents choose not to move into the region (Glaeser, Gyourko, and Saks 2005). Some economists argue that the impacts of high housing costs on regional economies may even undermine overall national productivity (NY-NJ-CT Regional Plan Association 2004; Pill 2000; Family Housing Fund 2001; Houstoun 2004).

Making Work Pay

Affordable housing is essential to fulfilling the implicit promise of welfare reform: that Americans who work hard should be able to achieve a decent standard of living. Today's high housing costs create hardship and instability for families of low-wage workers who "play by the rules" but still do not earn enough to afford decent housing. This failure is particularly distressing because a growing body of evidence suggests that living in decent, affordable housing may provide a "platform" upon which low-income families can get jobs, build their incomes, and achieve financial security. Simply living in decent, affordable housing constitutes a critical support for work because families living in unaffordable housing are financially insecure, vulnerable to unexpected increases in other costs, and more likely to move frequently (Mills et al 2006). This insecurity may make it more difficult for them to get and keep jobs, work extra hours, or advance to higher wages. In addition, the extra income freed up when housing is affordable may enable families to pay for reliable child care, transportation to a better job, additional training, or professional clothing – all investments that can enhance employment success. Several recent studies suggest that people who receive assistance to make their housing costs affordable are more likely to benefit from workforce or welfare-to-work programs than people without assistance. Thus, affordable housing serves to buttress social programs that encourage work and self-sufficiency (Sard and Lubell 2000; Sard and Springer 2002; Sard and Waller 2002; Newman and Harkness 2006).

Improving Access to Opportunity

The concentration of affordable rental housing in pockets of poverty isolates residents from social and economic opportunities. A growing body of social science research indicates that living in a distressed, high-poverty neighborhood undermines the long-term life chances of families and children.[5] In particular, children who grow up in distressed neighborhoods and attend high-poverty schools are less likely to perform at grade level, complete high school, or go on to college. Moreover, young people who are surrounded by drug dealing and crime are more likely to become caught up in dangerous or criminal activities. Concentrated poverty also exacerbates the housing-jobs imbalance through which residents of poor neighborhoods are isolated from opportunities for employment and advancement because of distance or poor access to transportation. This is particularly true for African Americans, whose housing options are most constrained by long-standing patterns of discrimination and segregation (Turner 2007; Raphael and Stoll 2002).

The damage caused by concentrated poverty creates ripple effects extending far beyond the distressed communities themselves. For example, high-poverty neighborhoods lead to increased demands on local government for public safety, child protection, and other social services. Cities often must raise taxes or divert resources from other priorities to fund these necessary spending increases, which in turn encourages the flight of moderate- and middle-class taxpayers out of the city (Pack 1998). Less tangibly but more importantly, the isolation of residents of high-poverty neighborhoods far from mainstream social and economic opportunities perpetuates inequality, reinforces racial separation, and fuels social polarization (Polikoff 2006). These effects all undermine social cohesion in a country that is fast becoming majority-minority and endanger our success as a diverse and open society.

Fighting Sprawl and Promoting Environmental Sustainability

There is a strong connection between the concentration of affordable rental housing in central cities and the sprawling development patterns on the fringes of American metros. This connection is best understood by examining the locational decisions of moderate- and middle-income families. When deciding where to live, these households usually shun poorer areas within central cities based on perceptions (and often realities) of high crime, failing schools, heavy tax burdens, and reduced public amenities. Because such families usually cannot afford to live in high-priced areas, however, they are forced to move further to the outer suburbs and

[5] For a comprehensive review of the empirical literature on neighborhood effects, see Ellen and Turner 1997.

beyond, thus fueling new residential development on the urban fringe. This game of leapfrog unfortunately characterizes most, if not all, American metropolitan areas.

These sprawling patterns of development yield a host of adverse environmental consequences. In many cases, the conversion of "greenfield" sites to urbanized land endangers fish and wildlife habitats, exacerbates erosion, and increases pollution from stormwater runoff, among other effects (Benfield et al 1999; U.S. Environmental Protection Agency 2001). In addition, as traffic congestion increases, air quality worsens (Schrank and Lomax 2005). Moreover, the vast quantities of fossil fuels that Americans consume just to drive from place to place are contributing to global warming and climate change through the emission of carbon dioxide and other greenhouse gases (Kahn 2001). Americans account for around one-quarter of worldwide greenhouse gas emissions, with the transportation sector representing the single largest end-use source of carbon emissions (U.S. Energy Information Administration 2005). Observing the connection between low-density development, fossil fuel consumption, and carbon emissions, Kahn has argued that "the major environmental costs of sprawl may be global rather than local (Kahn 2006)." Thus, when affordable housing is concentrated in distressed, high-poverty neighborhoods rather than neighborhoods of opportunity, the outcome is not only more decentralization and sprawl but increased environmental degradation as well.

Federal Policies Are Ill-Equipped to Address Today's Challenges

Over the past seven decades, the federal government has created a complex web of spending, tax, and regulatory programs for financing and subsidizing the production of affordable rental housing, providing rental assistance for tenants to use in the private market, and revitalizing distressed neighborhoods by demolishing public housing and constructing economically integrated housing in its place. These policies have a substantial record of achievement and accomplishment. Yet current and past programs also suffer from serious deficiencies of scale, design, and implementation that need to be remedied.

What Federal Housing Policies Have Achieved

Federal housing policies have three central accomplishments. Since the 1930s, federal *production programs* have stimulated the construction of millions of affordable rental housing units and built networks of private and public practitioners, skilled in the financing and development of affordable housing. Since the 1970s, federal *demand-side rental assistance* efforts have helped millions of renters afford privately owned housing, often in neighborhoods with quality schools, safe streets, and functioning local markets. And since the mid-1990s, the *demolition and replacement of distressed public housing* with economically integrated rental housing is transforming the economic and physical landscape of some of the most distressed neighborhoods in the United States.

Rental Production Programs

Federal rental production policy has gone through three distinct phases. During the first phase, dominant from the 1930s through the 1960s, the federal government financed the construction of over 1 million units of public housing. The federal government contracted with local public housing agencies (PHAs) to produce and manage these units. In effect, these contracts required the PHAs to maintain the affordability of public housing units in perpetuity.

During the second phase of rental production policy, dominant from the 1960s to the early 1980s, the federal government subsidized the construction of over 1.3 million units of privately owned affordable housing through a combination of below-market financing, income tax preferences, and operating support. The focus on private sector delivery altered both the means of production and the management of the built product. Under these programs, the federal government executed contracts directly with for-profit and non-profit developers of affordable housing, rather than with local PHAs. Moreover, the terms of contracts generally limited the period during which affordability restrictions needed to be maintained.

The current phase of federal production policy, dominant since the mid-1980s, has delegated key decisions to state and local governments. These governments are vested with responsibility for allocating federal tax credits and block grant funding in accordance with federally mandated affordability plans. In general, these federal resources have been used to produce quality affordable housing in low-income neighborhoods of distress, often through community-based housing providers. The key subsidy programs of this period (which are still in use) are the Low Income Housing Tax Credit (LIHTC) program, the Community Development Block Grant (CDBG) program, and the HOME Investment Partnership Program. These programs have been complemented by federal regulatory efforts under the Community

Reinvestment Act (CRA) and the Government-Sponsored Enterprises (GSE) modernization law to encourage the provision of private debt capital. In addition, the National Community Development Initiative (NCDI), a joint effort by large philanthropic foundations, major financial institutions and the federal government, builds the capacity of community development corporations and the national housing intermediaries – the Local Initiatives Support Corporation and the Enterprise Foundation – that support them.

These federal programs and policies have been very successful at stimulating the production of affordable housing. The Low Income Housing Tax Credit (LIHTC) program, for example, has created over 1 million units of affordable rental housing since its inception. The HOME program, often used in conjunction with LIHTC, committed close to $13 billion between 1992 and 2003 and supported over 750,000 affordable units of housing. Significantly, state and local governments reserved 19 percent of their federal rental housing resources for nonprofit organizations during this period (U.S. Department of Housing and Urban Development 2004). HOME grants and the tax credits have also helped build and sustain a national network of community development corporations (CDCs) with increasing proficiency in the production, preservation, and management of affordable housing. According to a 1998 national census, some 3,600 CDCs in the country have produced about 550,000 units of affordable housing (about one-fifth of which were located in rural communities) (Steinbach 1997).

Demand-Side Rental Assistance Programs

Beginning in the mid-1970s, rental housing vouchers have emerged as the most substantial subsidized housing program in the United States. They now serve some 2.1 million households. In general, housing vouchers pay the difference between 30 percent of a recipient's income and the rent of a qualifying, moderately priced house or apartment. Vouchers are the most direct way of meeting the principal housing challenge facing very low-income renters: affordability. Unlike production programs, vouchers can be delivered quickly to families who need assistance. They can also reflect and adjust rapidly to changes in local and metropolitan markets.

Vouchers are unique among federal housing programs in that they allow the recipient rather than the developer to decide where the low-income household will live. Voucher recipients can even receive their assistance in one jurisdiction and take it to another as they search for housing that best fits their family needs. Not surprisingly, many voucher recipients exercise this choice, and are dramatically less likely than public housing residents to settle in high-poverty neighborhoods. Specifically, only 14.8 percent of Section 8 recipients live in high-poverty neighborhoods (neighborhoods that are more than 30 percent poor), compared to 53.6 percent of public housing residents (Newman and Schnare 1997).

By helping families relocate from high-poverty to low-poverty neighborhoods, the housing voucher program has the potential to lead to significant improvements in families' well-being and long-term life-chances (Katz and Turner 2000). Specifically, findings from Chicago's Gautreaux initiative, a court-ordered program to help desegregate public housing, suggest that using housing vouchers to help families move away from a distressed, high-poverty neighborhood can provide a route to economic independence. Low-income families who used vouchers to move to resource-rich white suburbs were less likely to receive welfare and more likely to have jobs than their counterparts who remained in low-income black neighborhoods. Children of families who relocated to the suburbs were less likely to drop out of school and more likely to enroll in college than their urban counterparts (Briggs and Turner 2006; Cove et al 2007). Emerging evidence from the recent Moving to Opportunity (MTO) demonstration is also encouraging.[6] MTO participants received vouchers that could only be used in low-poverty neighborhoods, and rigorous research finds evidence of dramatic gains in perceived safety and in mental and physical health. Although the evidence is mixed with respect to employment and earnings effects, some findings suggest that families who moved out of central city neighborhoods may also achieve significant wage gains (Briggs and Turner 2006).

Public Housing Transformation

Over the past decade, the federal government has embarked on an ambitious effort to demolish the worst public housing projects in the country and replace them with housing that is economically mixed, better designed, less dense, and fundamentally integrated into the fabric of local neighborhoods and city economies. Called the HOPE VI program, this transformation effort includes funding for supportive services to help former public housing residents make the

[6] Under MTO, residents of high-poverty public housing projects who volunteered to participate were divided into several groups: experimental households, who were given vouchers but were only allowed to move to neighborhoods of low poverty; households who received a standard voucher and could move to any apartment of their choice; and in-place households, who remained in public housing.

transition to work. Congress also appropriated funds for a separate pool of housing vouchers to aid the relocation of residents who choose to move out of the neighborhood.

The new housing developments produced under HOPE VI differ dramatically from earlier generations of public housing. Not only are they generally well constructed, but the best among them have also successfully applied the latest thinking on housing and community design. These improvements include improving security through smarter building lay-outs (for example, private entrances that face the street); connecting new units to the neighborhood through sidewalks and street grids; and improving building exteriors by adding front porches and landscaping (Holin et al 2003).

Socioeconomic integration has become a central feature at many HOPE VI sites across the country. The expectation is that properties that have to attract and retain higher-income tenants will be better managed and maintained over time, and that a mix of income levels creates a healthier social environment and brings better services – especially schools – to the surrounding neighborhood from both local government and the private retail sector. Some developments are even experimenting with mixed-tenure approaches, with a portion of the new housing reserved for homeowners rather than renters.

The new developments are leveraging substantial resources from the public, private, and philanthropic sectors – resources that were virtually absent (and, in some cases, prohibited) from former public housing developments. They are also experimenting with a range of management approaches: many have employed private sector property management firms on site (and at risk) rather than relying on remote public agencies. Such firms are using basic management techniques – lease enforcement, enhanced screening procedures, improved amenities – to attract and retain a broad spectrum range of residents (Popkin et al 2004).

The quality of many of the new HOPE VI developments is sparking significant improvements in the surrounding neighborhoods. Case studies almost uniformly show substantial declines in neighborhood crime and unemployment and substantial increases in income, property values, and market investment. In several high-profile developments, HOPE VI investments have been accompanied by significant improvements in the quality of the local school and the educational performance of low-income children (Turbov and Piper 2004). With some of these findings, of course, cause-and-effect is not entirely clear. It is as yet hard to tell how much of the precipitous decline in crime, for example, derives primarily from the demolition of the dilapidated public housing projects rather than the construction of the new, economically integrated developments. Only the passage of time will enable these more nuanced questions to be fully answered.

Where Federal Housing Policies Fall Short

Despite this record of accomplishment, the current mix of federal housing policies is ill equipped to address today's affordable housing challenges. The failure of current housing policies is partly due to the modest scale of the federal investment, which is simply insufficient to meet the scale of need. Yet the failure of current housing policies is also the result of flawed design and implementation.

Problems of Scale

The gap between federal housing resources and the needs of low- and moderate-income renters is steadily widening. As discussed earlier, an increasing share of low- and moderate-income renters face serious affordability challenges. Since federal housing assistance is not an entitlement, however, only about one-third of eligible households receive assistance.[7] In essence, low-income renters participate in a national "housing lottery" that has ceased to be fair or rational in its distribution.

However, even the current system seems laudable compared to what could emerge over the next decade. Unless current trends are reversed, we can expect the gap between resources and needs to widen even further, for several reasons. First, as discussed further below, the inventory of federally subsidized affordable housing is shrinking. The share of eligible households receiving assistance will necessarily decline because of these predictable losses.

In addition, the federal housing budget is under enormous pressure. For the past several years, HUD has been targeted for significant budget reductions. The Administration's FY 2007 budget, for example, requests only $33.6 billion in discretionary budget authority for the Department, compared to FY 2006 appropriations of $34.3 billion. In a sharp departure from the past, significant reductions have even been proposed for the

[7] This estimate is derived by dividing the total number of directly assisted rental units (4.9 million) by the total number of extremely-low-income (below 30% of AMI) and very-low-income (below 50% of AMI) households (13.7 million), given that most direct federal assistance programs target these income levels.

highly cost-effective voucher program.[8] In recent years, the budget for vouchers has grown only enough to renew existing, in-use vouchers (accounting for inflation) and to offer replacement vouchers to households that are deprived of other forms of federal housing assistance (e.g. public housing demolished through HOPE VI) (Dolbeare, Saraf, and Crowley 2004; Fischer and Sard 2005). Moreover, statutory changes have shifted vouchers from a unit-based program to a dollar-based program, compelling local housing agencies to choose between renewing all vouchers at reduced subsidy level or renewing a smaller number of vouchers at full subsidy.

The absence of incremental vouchers means that, in the end, most remaining federal housing dollars will be used to build new housing for the working poor rather than to accommodate households with extremely low incomes. The LIHTC and HOME programs, for example, target their housing to families at 60 percent of area median income, compared to vouchers which largely serve families with incomes at 30 percent of area median income or below.

Finally, in contrast to the federal government's ten-year plan to end chronic homelessness, there is simply no long-term plan to address the widening gap between resources and needs for low-income renters. This is partly because both political parties in Congress have focused disproportionately on expanding the ranks of homeowners and partly because the cost of closing the renter "affordability gap" is perceived as exceedingly high given current fiscal realities.[9]

Impending Loss of Affordable Rental Units

The growing gap between housing needs and federal resources is exacerbated by the fact that a large portion of the federally subsidized affordable housing inventory is at risk of loss, either through deterioration or gentrification.

The public housing inventory currently has a backlog of unmet capital modernization needs of $18 to $20 billion, and new capital needs are accruing at $2 to $3 billion per year (McCarty et al 2006). The President's FY 2007 budget request provides only $2.1 billion for the public housing capital fund, an 11 percent reduction from the previous year and the third straight annual decrease (National Low Income Housing Coalition 2006). These capital needs are

[8] Over a thirty-year period, tax credit and production programs cost roughly 110-140% the amount of vouchers on a per-unit basis (U.S. General Accounting Office 2002).
[9] Moreover, systematic research has made a compelling case that investment in stable housing for the homeless actually saves public resources over the long-term (Culhane, Metraux, and Hadley 2002). The same case has not yet been made for affordable rental housing.

essentially the legacies of bad policy and implementation – poor quality construction, the concentration of public housing in distressed inner-city neighborhoods, and “insufficient appropriations for operating costs and modernization (Millennial Housing Commission 2002).”

The story of potential deterioration and obsolescence in public housing is mirrored in a portion of the federally assisted inventory. According to the Millennial Housing Commission, “hundreds of thousands of federally subsidized apartments are in very poor physical condition, starved of cash flow to meet backlogged repairs so that they are at a risk of loss.” In 1995, nearly one quarter of private federally-assisted units were “distressed” because they were under-budgeted for operations, maintenance, and renovations. Owners of such properties have limited incentives to maintain properties in good condition given the limitation on profits built into the program design.

In contrast, another substantial portion of the federally assisted, privately owned stock is threatened with loss through gentrification. Subsidy contracts for 196,000 of these units are due to expire over the next ten years, after which owners will be allowed to “opt out” and convert their properties to market-rate.[10] About 200,000 units with project-based assistance have already been lost due to “opt-out” since the mid-1990s (National Low Income Housing Coalition 2006). For owners who want to renew their federal subsidy contracts, Congress currently provides for one- to twenty-year renewals at market rate. However, current federal policy related to affordable housing preservation suffers from a number of weaknesses. First, all funding for housing subsidy contracts must be re-allocated from discretionary funds each year and is “subject to the availability of sufficient appropriation,” thus creating a risk that Congress might fail to distribute necessary funds (U.S. Department of Housing and Urban Development 2006). This “appropriations risk” prevents owners from obtaining advantageous multi-year financing from lenders and provides a serious disincentive for owners to renew their contracts or improve their properties (National Low Income Housing Coalition 2006; Millennial Housing Commission 2002).

Moreover, Congress has defunded many federal programs for affordable housing preservation that once existed. Since 2002, the federal government no longer provides direct grants or loans for the rehabilitation of the existing affordable housing stock (although many states and localities use low-income housing tax credits or block grants for this purpose)

[10] Another 200,000 units financed by 40-year Section 236 mortgages are at risk of loss over the next ten years (Joint Center for Housing Studies 2006).

(National Housing Trust 2006). Additionally, the federal capital gains “exit tax” currently penalizes property owners who choose to sell their properties, even if they sell to a non-profit preservation entity that could guarantee long-term affordability. In weak real estate markets, this tax makes it more economical for owners to disinvest in their properties rather than sell them, leading to eventual deterioration and abandonment (Millennial Housing Commission 2002).

The preservation of federally subsidized rental housing looms as a major policy challenge in coming years, given the structural changes in housing markets throughout the country and the simple fact that it is significantly less expensive to preserve an existing unit of affordable housing than to create a new one. Although the federal low-income housing tax credit program currently adds around 90,000 units annually to the affordable housing stock, this amount is more than offset by the loss of units due to “opt-out” or deterioration and removal. All told, an estimated two million low-cost units were demolished or withdrawn from the rental housing stock between 1993 and 2003, resulting in a net loss of more than a million affordable rentals (Joint Center for Housing Studies 2006). Smaller, older, and privately-owned properties are at greatest risk of removal.

Geographic Concentration of Affordable Rentals

Federal rental production programs have a long history of concentrating assisted units in inner-city neighborhoods – contributing to the concentration of poverty rather than enhancing access to opportunity. As discussed earlier, the location of conventional public housing contributed substantially to the rise of high poverty neighborhoods. We now know that concentrating large numbers of poor families in a few square blocks undermines almost every other program designed to help them – making it harder to find jobs and placing extraordinary burdens on the schools and teachers that serve poor children (Ellen and Turner 1997; Jargowsky 2003).

Troubling signs suggest that the newer forms of affordable rental housing production are still reinforcing concentrated poverty in inner city neighborhoods, though at lower levels than in prior public and assisted housing programs. A recent analysis of the tax credit program’s performance in the 1990s revealed that central cities (where, again, poverty rates are much higher than the national or suburban average) received a disproportionate share of the units. Central cities housed 58 percent of all metropolitan tax credit units built during the 1990s despite the fact that they contain only 38 percent of metropolitan residents. At the neighborhood level, the spatial distribution of tax credit housing presents a mixed picture. As of 2000, the average tax credit unit was located in a census tract with a poverty rate of 19 percent. Among central city units, the average tract poverty rate was higher (24 percent) – but not as high as the tracts where other types of federally subsidized rental units are located (average poverty rate of 28.9 percent). In addition, one out of every seven tax credit projects sited in a central city is in a neighborhood of extreme poverty (Freeman 2004).

Comparable detail on the spatial distribution of HOME units is not available, but the patterns appear to be similar. As of the late 1990s, the average tract poverty rate for HOME-funded rental projects in cities and urban counties was 26.6 percent. And the average within central cities was even higher – 31.2 percent (Walker et al 1998). Moreover, more recent data indicate that about two thirds of the HOME units developed in metropolitan areas are located in central city jurisdictions (Herbert et al 2001). These figures should not be surprising. Community development corporations build affordable rental housing in the neighborhoods they serve because that is what the federal government pays for and because they believe that housing production stimulates neighborhood revitalization. Significantly, they rarely question the legitimacy of consigning low-income families to neighborhoods that do not offer what most middle class families seek in their housing: good schools, proximity to quality jobs, and quality services.

No Incentives for Local Regulatory Reform

As discussed earlier, a panoply of state and local regulations and administrative practices substantially increase the cost of producing rental housing and limit where affordable units can be developed. For the most part, federal rental production programs have ignored this reality, providing few incentives to states and localities to remove regulatory and administrative barriers and reduce the costs of production. In the end, scarce federal production resources do not go as far as they could, with per unit costs of production increased by adherence to burdensome local regulations and administrative procedures. Moreover, exclusionary practices have contributed to patterns of racial and ethnic segregation, since minority households have lower incomes than whites on average and are more likely to be renters.

The current state of federal oversight is fairly limited. The federal government requires local and state governments that receive federal block grant funding to conduct a process to identify and ameliorate local regulatory barriers and impediments to fair housing as part of the "comprehensive housing affordability strategy" within their Consolidated Plans (Turner et al 2002). However, current regulations do not impose any consequences if a local government fails to remove the barriers it has identified, or if it fails to identify any barriers in the first place (Stowell and Shelburne 2004). The weakness of existing federal oversight reflects a widely held view that affluent suburban jurisdictions would balk at receiving federal housing funds if compelled to overhaul regulatory and other practices that constrain the development of affordable housing. To a large extent, therefore, the federal government "looks the other way" when local jurisdictions act in an exclusionary manner. In most metropolitan areas, the absence of any regional mechanism to ensure a fairer and more equitable distribution of affordable housing resources is also a factor.

In recent years, the federal government has stepped up its efforts to collect and disseminate information about promising practices in regulatory reform. And in 2005, HUD awarded the first annual "Robert Woodson Awards," given to state and local governments that exemplify the best efforts in regulatory reform. While these initiatives are helpful, they appear to be primarily geared to removing regulatory barriers to the production of single family homes, rather than rental housing. In addition, they provide few incentives (besides public accolades) for states or local jurisdictions to address the regulatory barriers that constrain rental housing supply.

Rental Vouchers Fall Short of Potential

Despite strong evidence of success, the performance of the federal voucher program has been undermined by the exclusionary nature of rental housing markets, fragmented delivery systems, and the lack of supportive services like counseling. First, not all voucher recipients are successful in finding a house or apartment that qualifies under the program. The latest available evidence indicates that in large metropolitan areas, only about two thirds (69 percent) of voucher recipients are successful in finding qualifying units, down from the 81 percent success rate of the late 1980s. As one would expect, success rates vary across metropolitan areas and are influenced by a wide range of factors, including the general tightening of housing markets across the country, exclusionary zoning practices in suburban communities, the competence and capacity of local housing authorities (Kennedy and Finkel 1994).

Moreover, housing vouchers do not provide equal access to low-poverty and low-minority neighborhoods for all poor households. They produce better locational outcomes for suburban recipients than for central-city residents, for white recipients than for African Americans and Hispanics, and for the elderly than for non-elderly families and disabled people. And voucher holders appear to be significantly under-represented in low-poverty neighborhoods relative to the availability of potentially affordable rental housing. Vouchers still consistently outperform public housing, even in central cities, even among African Americans and Hispanics, and even among families and disabled recipients. But they clearly have the potential to offer better locational outcomes for these groups (Turner and Wilson 1998; Turner and Williams 1998; Newman and Schnare 1997).

The stock of rental housing in which vouchers can potentially be used is widely dispersed. Specifically, within the 50 largest metro areas, virtually all census tracts contain at least some units of below-FMR rental housing and more than 8 of every ten tracts are home to at least some voucher recipients. Overall, vouchers are generally not clustered geographically: In 90 percent of all tracts with voucher recipients, the program accounts for less than 5 percent of all households (Devine et al 2003). However, where vouchers are clustered, the clustering is in high poverty, mostly minority central-city neighborhoods. Specifically, in tracts where voucher recipients account for more than 25 percent of households, the poverty rate averages 40.4 percent, compared to 19.5 percent where they account for less than 5 percent of households. Moreover, most of the voucher recipients who live in these tracts (83 percent) are minorities (Devine et al 2003).

Part of the explanation for the voucher program's inconsistent performance is that its administration is highly fragmented and insular. Since the inception of the program, local public housing authorities (PHAs) have enjoyed a near monopoly over voucher administration. Rarely does the administrative geography of PHAs match the metropolitan geography of rental markets. In the Detroit metropolitan area, for example, 31 separate authorities administer public housing; in Philadelphia, 19 do; in Chicago, the number is 15. In these and other metropolitan markets, "too much" devolution has made it difficult for low-income families to know about suburban housing vacancies and exercise choice in a metropolitan housing market (Hughes 1997).

The absence of competition for voucher administration has also, arguably, stifled innovation and accountability. Public housing agencies essentially operate this program in a closed system, where high performance is rarely rewarded and bad performance is rarely punished. Voucher administration has, therefore, failed to realize the benefits of competition that have influenced other areas of domestic policy—such as education or welfare—where administrative responsibilities have been opened up to a wide array of public, non-profit, and for-profit entities (Katz and Turner 2000).

Challenges for the Original Residents of HOPE VI Developments

Although HOPE VI has had a demonstrably positive effect on the economic vitality and social diversity of distressed inner city neighborhoods, questions have been raised about the effect of this effort and similar mixed income housing initiatives on the original low-income residents of troubled housing projects. From the beginning of the HOPE VI program, it was assumed that many residents would not return to the revitalized sites, because fewer public housing units would be available there, because some families would choose to receive vouchers and move out of the neighborhood; and because some would not be capable of meeting the tightened screening procedures in the new developments.

The evidence on tenant return—a very contentious issue currently—is mixed. The most comprehensive tracking report on tenant outcomes from eight early HOPE VI sites found that 19 percent of the households surveyed were living in a revitalized development, 29 percent were living in other public housing properties, 33 percent were renting units using housing vouchers, and 18 percent had left assisted housing altogether (Buron et al 2002). And a recent GAO study using data from the 165 project applications reported a wide variance of expectations regarding the return of existing residents, with applicants expecting, on average, 46 percent of residents to return (U.S. Government Accountability Office 2003).

The evidence on residents who decided, for whatever reason, not to return to revitalized sites is also mixed. In general, residents who received vouchers were able to move to neighborhoods of much lower poverty. On average, the census-tract poverty rate for voucher recipients dropped from 67 percent to 27 percent. Yet many housing authorities failed to plan adequately for relocation or provide sufficient support to residents (with vouchers and without vouchers) during the process. Particular concern surrounds the treatment of “hard to house” families who often cannot meet the screening criteria in the new developments and often end up in distressed public housing or outside the system entirely. These families include custodial grandparents, large families, and "multi-problem" households -- with members who have mental and physical illnesses, substance abuse problems, or criminal records (Popkin et al 2004).

Federal Programs Balkanize Administration within Cities

The administration of federal housing assistance is compartmentalized and inefficient, with various funding streams flowing independently of one another to state housing finance agencies (tax credits and bonds), local public housing authorities (vouchers and public housing), private owners (project-based subsidies and mortgages), and state and local departments of housing and community development (CDBG and HOME block grants). However, the balkanization of administration can be even worse at the municipal level. Cities often have distinct agencies for the separate but overlapping tasks of housing finance, housing production, housing preservation, housing regulation, public housing administration, community development, neighborhood redevelopment, planning and zoning, and other special initiatives.[11] Federal programs exacerbate this problem rather than creating mechanisms and incentives for local agencies to coordinate essential housing investments and regulations.

State and Local Policy Innovation

In recent years, due to the absence of federal leadership on rental housing policy, many local and state governments have stepped into the void, mostly where hot market conditions have made housing an issue of widespread concern. Significantly, state and local leaders increasingly recognize the connection between the availability of affordable housing and future economic vitality. In California, for example, a convening of civic leaders declared that housing affordability is a "key component of the state's economic engine." High housing costs, they argue, prevent the state "from being competitive in attracting and retaining skilled workers" (California Center for Regional Leadership 2004). The latest generation of state and local

[11] Within Washington, D.C. alone, for example, seven separate organizations are all significantly involved in housing production and development—the Department of Housing and Community Development (DHCD), the Housing Finance Agency (HFA), the District of Columbia Housing Authority (DCHA), the National Capital Revitalization Corporation, the Anacostia Waterfront Corporation, the Housing Production Trust Fund, and the Deputy Mayor for Planning and Economic Development—yet there is no single "housing czar" to coordinate or hold accountable the activities of these related agencies.

policies focus primarily on three interconnected objectives: boosting incomes (so that more working families can afford the cost of housing), expanding the supply of moderately priced housing, and re-orienting the regulatory environment.

On the income side, a growing number of states – currently 18 plus the District of Columbia, comprising 46 percent of the U.S. population – are enacting minimum wages higher than the federal standard, some of them significantly so.[12] And 21 states plus DC now have their own earned-income tax credit (EITC) programs, which – like the federal program – supplement the incomes of workers who earn up to double the rate of poverty with a refundable year-end tax credit (Nagle and Johnson 2006). Although local governments generally have less capacity to act on this issue than states, advocates in many communities have campaigned for living wages for public employees, and some jurisdictions have even moved toward enacting local EITCs (Flacke and Wertheim 2006).

States and localities have also taken major steps to expand the supply of affordable housing. Most prominently, 37 states and more than 350 counties and cities have used dedicated sources of public revenue like taxes and fees to create housing trust funds that collectively spend nearly $1 billion annually on the production and preservation of affordable housing. Over the past five years, housing trust funds have grown radically in both size and number. In late 2002, for example, California voters approved a $2.1 billion bond measure to endow a new state trust fund. In Los Angeles – where the homeownership rate is 40 percent and only 12 percent of households can afford to buy a median-priced home – the city's Housing Trust Fund will soon have $100 million in annual dedicated revenues, enabling it to fund 4,000 to 5,000 units of affordable housing annually, making it the largest local trust fund in the country (Archibold 2006; Garrison 2005; Goodno 2002).

In New Jersey, Governor John Corzine has increased funding for the State Rental Assistance Program to provide an additional 1,500 vouchers, and adopted an aggressive plan to produce and preserve 100,000 units of affordable housing over ten years. He has directed the New Jersey Department of Community Affairs and the New Jersey Housing and Mortgage

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[12] The Department of Labor maintains a current list of minimum wage laws in each state at http://www.dol.gov/esa/minwage/america.htm. It is likely that the federal government will increase the national minimum wage in 2007. At the time of this writing, both the House of Representatives and the Senate had passed legislation increasing the minimum wage to $7.25 per hour. The Senate bill, however, would make changes to tax and immigration laws that were not addressed in the House bill, and includes an $8.3 billion package of small business tax cuts.

Finance Authority to develop a comprehensive state housing plan to expand the state's supply of affordable housing by fostering mixed-income housing development in close proximity to jobs and existing infrastructure, coordinating housing development with public transportation systems to minimize traffic congestion, energy consumption, and carbon emissions, and encouraging walkable mixed-use communities.[13]

Moreover, many states are seeking ways to expand the use of tax credits in the production of affordable housing, building off their responsibility for administration of the federal low-income housing tax credit program. Several have shown interest in launching tax vehicles that promote employer-assisted housing. In Illinois, for example, a "donation tax credit" provides donors (both corporations and individuals) with a 50¢ tax credit for every $1 donated to an eligible housing project, including employer-assisted housing and homeownership counseling as well as traditional programs to develop affordable rental and owner-occupied housing.[14]

Finally, on the regulatory side, more than 130 localities nationwide have taken affirmative steps to mandate the production of affordable housing through inclusionary zoning ordinances. The first such ordinance was passed in Montgomery County, Maryland in the mid-1970s. Today, around 5 percent of the U.S. population lives in a community that requires affordable housing to be built in any new development.[15] In 2004, Madison, Wisconsin became the second city in the Midwest to adopt inclusionary zoning. Its ordinance – aimed in part at making it possible for public servants to live closer to work – requires all new developments including 10 or more contiguous units, whether rental or owner-occupied, to set aside at least 15 percent of units in the development for affordable housing. Households earning below 60 percent of area median income (AMI) qualify for the set-aside rental units and those below 80 percent of AMI for the owner-occupied units.[16]

New York City represents an example of pulling all of these pieces together: a higher minimum wage, expanded affordable supply, and reduced regulation. Specifically, Mayor Bloomberg's recently announced 10-year housing plan – the largest municipal housing plan in

[13] It should be noted that in January 2007, a state appeals court invalidated the state's plan for providing affordable housing under the Mt. Laurel decisions. The court gave the state six months to develop new rules that would ensure that towns meet their obligations to provide an adequate supply of affordable housing.
[14] For more information, see the Illinois Housing Development Authority website at www.ihda.org.
[15] Over one hundred of these localities are in California, while most of the others clustered around Boston and Washington, DC.
[16] For more information, see the discussion of inclusionary zoning on the City of Madison's website: http://www.cityofmadison.com/cdbg/iz/.

the country's history – represents a $7.6 billion commitment to build and preserve 165,000 units of affordable housing. According to the Mayor, the plan's commitment to affordable housing represents a "central part" of the city's strategy to "maintain economic competitiveness in a changing world."[17] Among other steps, the 10-year plan establishes a New York City Housing Trust Fund to subsidize low-income housing development; creates a New York City Land Acquisition Fund to prepare new development sites and finance other pre-development costs; reforms the city's historic Section 421-a tax exemption; incorporates the principles of inclusionary zoning and density bonuses; and streamlines other regulatory barriers. In addition, the city's Housing Development Corporation – an entity independent of the city's budget – has now become the nation's largest issuer of bonds to finance lower-cost housing, with $4.8 billion in bonds outstanding at the end of 2005.

Innovations in regulatory reform have also occurred at the state level, where both California and Illinois have compelled suburbs and other localities to open up to affordable housing. In California, for example, every city and county must develop a "housing element" that identifies sites appropriate for new affordable housing. Anti-NIMBY laws prohibit local governments from withholding approval for new low-income housing developments unless certain narrowly drawn conditions exist. The state also has a "density bonus" law requiring local governments to grant up to a 35 percent increase in allowed density if a prescribed minimum percentage of affordable units per development is attained. In Illinois, the 2003 Affordable Housing Planning and Appeal Act (AHPAA) requires most communities to develop affordable housing plans and provides an affordable housing appeals process, which enables developers whose low-income projects are denied by local authorities to appeal the decision to a state-level board. Illinois is the fourth state in the country – and the first outside New England – to create such an appeals system.

[17] The minimum wage – $7.15 as of January 1, 2007 – is set by the state of New York.

A New Rental Housing Policy Blueprint

The burst of state and local energy around housing bodes well for federal policy. Most significantly, state and local efforts illustrate the potential of affordable housing to garner the support of a diverse set of influential constituencies. The political coalitions that have pushed housing innovations across the country draw from interests far beyond the narrow confines of traditional housing advocates: business leaders who see the connection between the costs of housing and employers' abilities to attract and retain skilled workers; advocates for working families who fear that high housing burdens will hinder efforts to grow a strong and resilient middle class; and environmental advocates concerned with the impact of sprawling development patterns on air and water quality and climate change. To a large extent, the success of these broad-based coalitions hearkens back to earlier periods when national housing policy innovation was intimately connected to other clear national priorities, such as economic competitiveness, supporting returning veterans and alleviating racial injustice.

On a substantive level, state and local efforts provide the core elements of a policy framework that can be replicated at the national level: *boosting income* to ensure that a broader portion of the American workforce can afford housing; *growing and maintaining the supply* of affordable housing to meet the growing demand of the American workforce; and *shaping housing markets* to ensure that new affordable housing is located close to employment and educational opportunities.

Yet state and local efforts, for all their political potency and policy innovation, will never be sufficient to address the breadth and depth of today's affordable housing challenge. The nature, scope and complexity of the challenge require a federal response that recognizes both the achievements and the drawbacks of past and current interventions. Instead of quibbling over funding levels for today's programs, we need a new approach that learns from the experience of the last century, builds on state and local policy innovations and political ingenuity, and tackles today's challenges more effectively. Federal rental policies should work to catalyze local markets to produce more housing, at lower costs, and in the right locations.

The Big Picture

No single level of government can or should tackle today's rental housing challenges on its own. Federal, state, and local governments all have essential roles to play. We propose a new division of responsibility – and accountability – between the federal government and states and localities.

Only the federal government has the fiscal capacity to address the consequences of stagnant wage growth and income inequality nationwide. As long as incomes for a substantial segment of the population fall short of what it takes to cover the costs of producing and operating adequate housing, state and local governments simply cannot afford to close the affordability gap for enough households. Therefore, federal policies should target the demand-side of the housing affordability equation, ensuring that all households have sufficient income (or a housing voucher) to make minimally adequate housing affordable.

If the federal government addresses the demand side of today's housing affordability crisis, state and local jurisdictions can and should assume lead responsibility for the remaining, supply-side challenges. Using both regulatory policies and supply-side subsidies, states and localities should create incentives that induce private-market actors (both for-profit and non-profit) to produce and maintain rental housing that is affordable at moderate-income levels. In principle, the federal government should not have to address these supply-side challenges once it has tackled the demand side of the problem.

However, under this basic framework, the federal government would still have a strong interest in the effectiveness of state and local supply-side policies, because federal policies to boost incomes will ultimately be ineffective if the supply of housing in some markets is still artificially constrained, pushing up rents and distancing affordable housing from work. Therefore, the federal role with respect to supply-side policy must create strong incentives for states and local jurisdictions to reduce regulatory barriers that unnecessarily constrain market supply and inflate costs, produce affordable rental housing where it is needed most, and ensure that families are not excluded from opportunity-rich communities based on their race or ethnicity.

The new policy framework outlined here effectively addresses today's housing market challenges, substantially expanding opportunities for low-income households to obtain decent and affordable shelter in safe and healthy neighborhoods. But our proposed strategy goes beyond narrow housing goals to advance a broader set of national priorities that are currently being undermined by the failures of federal housing policy. Specifically, by expanding the availability of affordable housing in regions where jobs are plentiful and population is expanding, this strategy enhances the economic productivity and competitiveness of the nation as a whole. By raising after-tax wages to a level sufficient to cover the cost of decent housing it lives up to the fundamental premise that people who work full-time should be able to provide their families with a decent standard of living. And by tackling the regulatory barriers that have concentrated affordable rental housing in distressed central-city neighborhoods, it expands opportunities for low-income families to raise their children in safe and healthy communities with well-performing public schools.

The Demand-Side Strategy

Ensuring that people who work full-time earn enough to make decent housing affordable is the critical first step in a 21st century housing policy. The federal minimum wage standard and the Earned Income Tax Credit both represent powerful tools for accomplishing this goal. Currently, a full-time worker would need to earn close to $16 per hour (more than three times the federal minimum wage) in order to make the average rent for a modest, two-bedroom house or apartment affordable at 30 percent of gross income (National Low Income Housing Coalition 2005). Clearly, a substantial increase in the federal minimum wage is required as part of a strategy for ensuring that full-time workers can earn enough to make minimally adequate housing affordable.[18]

However, the minimum wage alone cannot fill the entire gap. Currently, the federal Earned Income Tax Credit provides a substantial supplement to wages for many working families. In fact, estimates indicate that the EITC already reduces the number of households with severe housing cost burdens by 18 percent (Stegman, Davis, and Quercia 2003). Increasing the EITC, extending its coverage to include childless workers, and expanding participation would substantially reduce the number of working families paying unaffordable housing costs, even at the current minimum wage. Combining a modest increase in the federal minimum wage with a substantial expansion of the EITC offers an administratively efficient strategy for boosting the after-tax incomes of working households and thereby making housing more affordable for many.

[18] The current federal affordability standard, which considers housing costs “unaffordable” if they exceed 30 percent of household income, may warrant reconsideration. One alternative is to focus on whether a household’s income *net* of housing costs is sufficient to cover basic necessities. This standard yields a smaller total number of households currently paying unaffordable housing costs (Kutty 2005). In addition, some households only pay unaffordable housing costs for a year or two, while others are more “permanently” cost burdened. Focusing on eliminating permanent housing affordability problems may represent a more realistic policy goal.

One of the limitations of a national, income-based strategy is that it fails to reflect variations across markets in the cost of decent housing. In other words, the combination of a higher minimum wage and an expanded EITC could effectively address housing affordability problems in some low-cost markets, while still leaving working families in high-cost markets with unaffordable rent burdens. One option would be to adjust EITC payments to reflect variations in local housing costs, in effect making the credit more generous in high-cost market areas than in low-cost areas. However, the federal government's primary responsibility should be to bring working people's incomes up to a single, national standard, while creating incentives for state and local governments (as discussed further below) to reduce the costs of housing locally and to expand the availability of units that are affordable at this income level.

What about households headed by elderly or disabled people -- who cannot work – and families with children where adults are not working (or are not working full-time)? For these households, we recommend targeted pools of housing vouchers, linked to appropriate incentives and services. For example, one pool might be designed to provide a dignified safety net for households who cannot work and who lack the resources to obtain decent housing. Elderly and disabled households could use these vouchers to live in conventional rental housing or to move into supportive housing facilities that provide health-related services and assistance in conjunction with decent housing. Another pool of vouchers might be targeted to families leaving welfare, with a rent formula that encourages work and a requirement that families enter into a self-sufficiency contract in order to make the best possible use of housing assistance. A third pool of vouchers might be targeted to families with young children living in severely distressed neighborhoods, providing support and help to relocate in communities where their children will be able to attend well-performing schools.

A potential strategy for encouraging states and localities to expand rental housing production and reduce market rent levels would be to set a single national payment standard for these new vouchers in conjunction with a supplemental fund that local authorities would be required to use to "top up" vouchers to a level sufficient to cover the costs of adequate housing in the local market area. As other state and local policies brought local housing costs down and expanded the stock of moderately priced units, money from this fund that was not needed to supplement federal voucher payments could be redirected to other, locally determined housing purposes.

These federally funded vouchers should all be administered at a regional scale, not by individual, local jurisdictions (as the current Housing Choice Voucher Program is). The current system of administration by local public housing agencies fragments the metropolitan rental market, making it difficult for low-income families, particularly minority families living in central cities, to know about and act on the full range of housing options that a voucher makes affordable. Moreover, by automatically assigning responsibility to local public housing agencies, the current system prevents other capable public and private sector entities from administering the program, stifling the innovation that competition can bring. Therefore, we recommend that vouchers should be administered regionally rather than locally in urban areas, and by a state-level entity for non metropolitan-areas (Katz and Turner 2000).

Experience confirms that metropolitan-wide administration of federal housing vouchers is feasible, and that it has the potential to address many of the pitfalls created by the current system of localized administration. However, there is no single right answer to the question of what type of organization is best qualified to administer housing vouchers for any given metropolitan region. Under these circumstances, one strategy for accomplishing a shift in governance would be to conduct a competitive process that is open to a wide array of public and private entities, with either the federal or state government selecting one well-qualified organization to administer the program for each metropolitan region. This would shift the governance of the housing voucher program from the parochial to metropolitan level and open up the administration of vouchers to a wider variety of public, for profit and nonprofit entities.

The Supply-Side Strategy

Given this new demand-oriented approach, federal supply side interventions would become more deliberate and focused. It is inconceivable that the federal government can subsidize the production of a sufficient volume of affordable housing to meet demand. Simply put, the federal government cannot "build its way out of the nation's affordability problem." The role of federal production programs must, therefore, be more targeted, namely to leverage the full panoply of state and local powers and activities.

State and local governments wield enormous influence over the quantity, location and quality of affordable housing production, because of their role in regulating the real estate market, administering federal tax and spending programs and, increasingly, designing and implementing their own production efforts. Federal production resources should be designed to encourage state and local governments to be “affordable housing friendly” in the design and application of their regulatory regimes. In this way, federal programs will catalyze the production of substantially more affordable housing than is possible given current or even substantially higher funding levels. Federal production resources should also be allocated so as to ensure that affordable housing is built in the right places -- in communities of choice and opportunity that can boast of good schools and quality jobs.

What combination of carrots and sticks could the federal government deploy to effectively guide state and local action? We propose to start by providing metropolitan planning organizations (MPOs) with federal funding (and technical assistance) to prepare regional housing strategies that complement the regional transportation plans already mandated by federal law. These housing strategies would be designed to ensure that all communities in a metropolitan area, including those that are economically prosperous, participate in the production of housing that is affordable to families with a broad range of incomes. MPOs are a logical choice for the development of regional housing strategies given that they (a) are generally governed by elected representatives of city and county governments; (b) have been responsible for metropolitan transportation decision making since the early 1990s; and (c) are increasingly staffed with professionals with planning expertise.

To complement the metropolitan focus of the MPOs, new federal resources would also be made available to support and nurture the creation of non-profit regional housing corporations. These corporations would have the principal task of developing and preserving affordable rental housing in growing suburban areas. Some of these regional housing corporations would, by necessity, be new non-profit entities; others would likely evolve from existing community development corporations.

Within this new regional planning framework, cities and urban counties would continue to receive HOME and CDBG, but would be required to implement housing programs in ways that further and are consistent with regional housing strategies. MPOs would have the authority to certify compliance, and cities and counties that were found in non-compliance with these metropolitan strategies would be given a designated period of time to correct the identified deficiencies. Failing that, the jurisdictions would no longer be eligible to receive either federal housing production funds or federal transportation resources.

In order to induce more affordable rental production in suburban communities – many of which do not currently qualify for either HOME or CDBG funding – we propose a new federal incentive fund. Jurisdictions would be eligible to receive awards from this fund if they reduced regulatory barriers and expanded the supply of moderately priced rental housing within their borders.

States would continue to administer the Low Income Housing Tax Credit (LIHTC), but the formula for allocating credits would be recalibrated to increase the availability of credits where new rental production is demonstrably needed. And LIHTC income limits and targeting incentives should be adjusted so as to discourage the concentration of more affordable housing in distressed neighborhoods, but rather to support *both* developments serving a broad range of incomes within revitalizing communities, and developments that expand the availability of rental housing for low and moderate income households in opportunity-rich communities.[19]

How Do We Get There From Here?

The policy framework proposed here represents a fairly radical shift from the array of federal programs that exist today. Even if the basic thrust of our proposal gained wide acceptance, it would take time to transform federal programs and incentives and to build local, state, and regional capacity to perform more effectively. Moreover, the transition to a new system of federal responsibilities would have to include a responsible strategy for dealing with the existing stock of federally subsidized housing units, including both public housing and the privately-owned stock of housing that receive federal project-based rent subsidies. In the short-term, therefore, we recommend four priority next steps that could begin the process of transitioning toward a more rational and effective system of federal rental housing policies.

First, we recommend that the federal government require existing Metropolitan Planning Organizations (MPOs) to produce regional housing plans in conjunction with their already-mandated transportation plans. This requirement would begin the process of linking regional housing and transportation plans and could encourage some metropolitan regions to begin addressing regulatory barriers and other rental housing supply constraints. To support MPOs in

[19] For an excellent review of the strengths and weaknesses of the LIHTC program and recommendations for reforms, see Khadduri and Wilkins 2006.

this expanded mandate, the federal government should provide funding (to hire qualified housing staff) as well as technical assistance.

Next, we recommend the creation of new pools of federal housing vouchers, to be awarded competitively to local and regional entities that can demonstrate their capacity to effectively implement innovative programs linking vouchers with effective support services. Three decades of experience with the federal housing voucher program have shown that providing rental assistance directly to tenants is an effective and efficient mechanism for addressing the basic housing needs of low-income families. The majority of households who are given a voucher are successful in finding a house or apartment for which they can receive assistance (Kennedy and Finkel 1994). And vouchers enable recipients to live in better quality housing and pay more affordable rent burdens than similar, unassisted households (Schussheim 1998). Moreover, vouchers provide a potentially powerful tool for addressing the failures of past housing policies. Effectively implemented, they can promote mobility and location choice, helping to deconcentrate poverty and enabling poor households to find affordable housing in safe neighborhoods with well-performing public schools and better access to areas of job growth.

The new voucher pools would be explicitly targeted to promote two goals: first, encouraging and supporting work among welfare-leavers; and second, enabling low-income families with children to relocate from distressed communities to communities with high-performing public schools. Given limited resources, it makes sense to shift from the current lottery system for allocating vouchers to a system that prioritizes recipients who are prepared to make the best possible use of housing assistance. Research suggests that when families receive housing assistance in conjunction with case-management many are able to improve their education or skills and enter the labor market, and some are able to increase their earnings and assets (Blomquist, Ellen, and Bell 1994; Lubell and Cramer 2005). And there is a strong case to be made for limiting the use of federal housing vouchers to neighborhoods served by well-performing public schools. Many of the central city neighborhoods in which affordable rental housing is currently concentrated are served by failing schools, which leave children unprepared for success in today's labor markets. While efforts to improve the performance of these schools deserve support, federal housing assistance resources should not be subsidizing families with children to live in neighborhoods with failing schools. Research evidence suggests that when families use vouchers to move to communities with effective public schools, their children benefit. But vouchers alone do not necessarily result in families moving to neighborhoods served by quality schools or enrolling their children in those schools (Briggs and Turner 2006; Briggs et al 2007).

Our third priority recommendation is to expand and retarget the Low Income Housing Tax Credit program (LIHTC). First, the nationwide pool of LIHTC resources should be retargeted to provide more credits to states where rental housing is in short supply and fewer credits to states with sufficient (or excess) supply. In addition, we recommend adjustments to LIHTC income limits so that credits can be effectively used to produce two distinct types of housing developments: *both* mixed-income housing in distressed communities (where the broadest possible mix of incomes is needed) *and* affordable housing in opportunity-rich communities (where more of the LIHTC units should be targeted to low- and moderate-income levels, within the context of mixed-income neighborhoods).

In conjunction with these LIHTC reforms, the nonprofit housing delivery system should also be expanded beyond the current network of community development corporations. Production and other funds should be invested in creating a network of regional housing corporations to develop and preserve affordable rental housing in suburban areas. A national network of regional housing corporations can build on the achievements of community development corporations, many of which can naturally graduate to operate at the metropolitan level. A recent study of a national network of large-scale housing nonprofits finds that these organizations are substantial producers of affordable rental housing and have the capacity to operate effectively in their metropolitan regions, developing and managing units in suburban as well as central city communities (Mayer and Temkin 2006).

Finally, we recommend that the federal government implement new initiatives to preserve and transform the current inventory of public and federally assisted housing.
With regard to public housing, the successful HOPE VI program should be renewed for another decade of investment. As with the current program, heavy emphasis should be placed on quality design, integrated approaches, and public/private partnerships. Special preference should be given to proposals that use housing redevelopment efforts to leverage school reform. In addition, broader public housing reforms are needed to accelerate the shift to project-based management that has the powers and tools necessary to maintain affordable housing for the long haul. On the financing side, the notion of converting operating and capital funding to long term project-based

rental assistance should be explored. Such conversion would enable public housing agencies to secure private financing for rehabilitation purposes.

With regard to the federally assisted inventory, ambitious efforts should be made to preserve currently affordable units. As the Millennial Housing Commission argued:

> "U.S. housing policy must recognize that preservation is cheaper than new construction, that the rehabilitation and preservation of units returns the units to lower-income use faster than new construction can provide such units, and that maintaining and renovating existing units combats blight and contributes to healthy communities."

An effective federal preservation policy would include three essential elements. First, the federal government needs to appropriate funding for the renewal of section 8 contracts in a timely and predictable manner. Given the vagaries of the appropriations process, it would obviously be best to eliminate appropriations risk and shift the renewal of project-based contracts to the mandatory side of the budget. Absent that, the federal government, perhaps in concert with state or local governments, could offer some form of guarantee to minimize risk and encourage for-profit owners to renew their contracts for as long as practicable.

Second, the federal government should enact a separate block grant for the preservation of federally assisted housing. Such resources, matched with state and local investments, could be used to provide low- or no-interest loans to finance the acquisition and recapitalization of affordable housing by qualified preservation entities. Such preservation entities would be required to maintain the affordability restrictions of the transferred housing for a prolonged period, say fifty years.[20] Finally, the federal government could eradicate or significantly reduce the tax liabilities that owners of federally assisted housing face upon sale or transfer of their properties. The provision of "exit tax" relief could be triggered by the sale or transfer of a property to a nonprofit preservation entity that commits to guarantee long-term affordability.

These next steps, all of which could be implemented immediately and at varying scales, offer the potential to begin moving federal rental housing policy in a new direction – toward a framework that addresses the fundamental market challenges facing the country today. How much would these initiatives cost the federal government? Although the scale of each of our

[20] In the 109th Congress, legislation was introduced in the House and Senate to create such a block grant program.

proposals is flexible, we recommend a package that would include one million new incremental vouchers (phased in over ten years), a 20 percent expansion in the LIHTC, restoration of the HOPE VI program to its original scale of $500 million per year, a comparable annual investment in preservation matching grants, and exit tax relief for the owners of older subsidized properties. The estimated cost of this package totals about $2.6 billion in the first year, rising to $6.3 billion in year five (see Table 1).

Table 1: Estimated Cost of "Next Step" Recommendations

POLICY	YEAR ONE	YEAR FIVE	5 YEAR TOTAL
Incremental Vouchers	$766,400,000	$4,229,810,997	$12,284,243,897
LIHTC	$850,000,000	$1,044,000,000	$4,718,000,000
HOPE VI	$500,000,000	$500,000,000	$2,500,000,000
Preservation Grants	$500,000,000	$500,000,000	$2,500,000,000
Exit Tax Relief	$28,400,000	$28,400,000	$142,000,000
	$2,644,800,000	**$6,302,210,997**	**$22,144,243,897**

One potential source of funding for an increase at this scale could come from a modest adjustment to the homeowner capital gains tax exclusion (*not* the deductibility of mortgage interest or property taxes). This exclusion was expanded in the mid-1990s in part to assist older owners of large, high-valued homes who wanted to downsize to smaller, lower-valued homes. The cost of the capital gains exclusion is estimated to climb from $35 billion in 2006 to $47 billion by 2012.

Is This Politically Feasible?

Our recommendations draw from a rich and growing housing literature and practice. Given the diversity of experience and perspective, we have no doubt that advocates, practitioners and policymakers will debate both our choices and priorities. Yet, in the current environment, the most serious question facing any proposal for federal housing policy reform is whether it is politically feasible. Can recommendations that call for significant new federal investments in housing (even when potentially offset by reforms to housing tax expenditures) be taken seriously in an era of federal deficits, ideological polarization and partisan gridlock?

We fully understand the impediments to change. It has been almost a decade since Congress engaged in a serious discussion on housing policy, and the political and fiscal environment has worsened considerably since then. Yet we firmly believe there are signs of hope and that many of the transition recommendations we have made can be enacted in the aftermath of the 2008 presidential election.

First, the burgeoning of state and local innovation and investment offers lessons on issue framing, issue labeling and political coalition building that provide a roadmap for federal action. As evidenced by myriad state and local examples, housing advances are being made under the broad rubric of enhancing economic competitiveness and rewarding work rather than the traditional frame of enhancing social equity. In fact, political, business and even advocacy leaders are increasingly using terminology like "workforce housing" to emphasize this shift in focus and positioning. The result, not surprisingly, is that strong, powerful coalitions are being forged across disparate constituencies that reach far beyond traditional affordable housing advocates or even real estate interests.

The heavy involvement of business leaders and major employers in these new coalitions alters the political calculus in important ways. Most importantly, business engagement signals to elected officials that supporting housing is good politics as well as good policy. It also enables elected officials, in an increasing number of metropolitan markets, to position affordable housing as an issue of job growth, job retention and economic competitiveness.

As with other domestic issues, state and local innovations and coalitions are likely to bubble up to the national level, particularly as state and local leaders find that their interventions require federal engagement to be fully successful. The issue, therefore, is not whether state and local housing efforts will influence federal engagement, but when and to what extent.

Second, the political geography of housing is shifting across and within metropolitan areas in some salutary ways. In the 1980s, a few major metropolitan areas like New York, San Francisco and Boston drove national housing policy, because the lack of housing affordability had reached crisis proportions there. The number of metropolitan areas facing "crisis" housing affordability conditions has grown dramatically in the past five years: from only 2 metros in 2000 to 16 metros today (U.S. Census Bureau). When rent burden is analyzed as a percentage of income, the weight on low- and moderate-income renters is clear: in 62 metropolitan regions, more than half of renter households with income below $75,000 a year were paying more than 30 percent of their income towards housing costs in 2004. The new political geography of the housing affordability crisis stretches from Cleveland--Akron, Ohio to Tucson, Arizona;

Lancaster, Pennsylvania to Jacksonville, Florida. The geographic—and political—diversity of these metros has significantly expanded the potential coalitions in both the House and Senate.

Similarly, past housing coalitions tended to be led out of the central cities, where the bulk of housing needs were traditionally felt. Today, the reality of high housing costs and the mismatch between the location of moderately priced rental housing and the location of jobs is being experienced in both cities and suburban areas, thereby expanding the legislative coalition for a new federal engagement.

Third, the housing needs of immigrants increasingly alter the political calculus of housing. In a growing number of states and metropolitan areas, both political parties are competing intensely for the votes of these new citizens, and have been compelled to dedicate greater attention to basic issues like access to health services, education and child care for this population. Housing should be no different: because many immigrants have lower incomes and fewer assets, this population lives in rental housing in higher numbers than the general population. Fully 45 percent of the foreign-born population lived in rental units in 2004. In addition, immigration has played a significant role in buoying the total number of renters nationwide over the past decade. New immigrants prevented a decline in the number of renters nationwide. Rather than a nationwide decline in the number of renters, a projected loss of 2 million renters, we saw a slight increase over the past decade. Immigrants filled the gap created by growth in homeownership, and then some (Joint Center for Housing Studies 2006). Reducing the rent burden for these households is necessary to help new citizens build assets and become homeowners.

Fourth, a decade of public housing demolition has begun to remove from national consciousness the very projects that shaped the negative image of affordable housing for the past generation. These projects, when they stood, were stark reminders of the mistakes of past housing policies and fueled community opposition to new affordable housing across the nation. With their demise – and the emergence of replacement housing that is well designed, livable and economically integrated – housing advocates have the potential to move on the offensive and cite the positive, value enhancing, market shaping effect of new affordable housing.

Fifth, the 2008 presidential election promises to set off an intense competition for ideas at the federal level – since this is the first time since 1952 when neither ticket will have an incumbent running. This has already set off a scramble for ideas as individual “unannounced” candidates struggle to distinguish themselves from the pack. In June 2006, for example, former

Senator John Edwards gave a major policy address at the National Press Club calling for a radical overhaul of HUD by placing work at the center of our housing policy (Edwards 2006). His plan would create 1 million new housing vouchers for working families over the next five years by cutting back HUD's role in managing public housing, slashing the number of HUD-retained contractors and reducing the size of the agency by at least 1,500 employees. On the Republican side, Governor Mitt Romney has been recognized for his Office for Commonwealth Development (OCD), a state agency promoting smart growth through the integration of housing, transportation, energy and environmental policies, programs, and investments.

Finally, we believe that our proposed reformulation of federal housing policy has the potential to appeal to a robust coalition that crosses partisan and ideological lines. Our program blends ideas espoused by liberals, centrists and conservatives: increased investments in programs that work, carrots and sticks for regulatory streamlining, a shared responsibility for housing among different levels of government, an emphasis on individual responsibility and self-sufficiency. The fact is that housing has a long history of bipartisan support at the federal level and it is possible to imagine a fresh start for housing in the aftermath of the 2008 presidential election.

Conclusion

Since the 1930s, federal rental housing policy has been constantly evolving, responding to new market trends, changed political circumstances, and the shifting philosophies of the day. We argue that the pressing housing challenges facing the nation at the start of the 21st century require federal rental housing policy to renew itself once again and become relevant to the realities of a dynamic period in American life.

A new federal, state and local housing partnership will demand, first and foremost, a full understanding of the nature and scope of the rental housing challenge, state and local restrictions that hinder production, and federal housing policies that often limit individual choice and family success. It will necessitate a repositioning of the housing issue as one that, left unchecked, undermines other national economic, social, welfare, educational, and environmental priorities. And it will compel a fundamental re-imagination of the federal housing role as one principally of supplementing the incomes of low-wage workers rather than subsidizing the production of rental housing in which these workers can live.

Our recommendations build on the energy and innovation that is emerging from state and local leaders across the country. In that spirit, they are meant to be federalist rather than federal and fully acknowledge the preeminent role of state and local governments in setting the rules of housing production in this country. The recommendations focus primarily on closing the growing gap between wages and rental prices in the country and, as such, must be seen as one of a series of responses to globalization and our changing economic landscape. They also insist that the federal role in producing affordable housing must be clear and structured to catalyze markets, stimulate the overhaul of regulatory restrictions, promote mixed income housing, decommission federal enclaves of poverty, support city and suburban collaboration, and diminish the ill effects of balkanized, duplicative, and fiscally wasteful administration.

There are no doubt risks to pursuing this strategy, and many constituencies will find greater comfort in protecting their piece of a shrinking pie than in striking out for new, uncharted territory. Yet political risk and political leadership are essential if the current stalemate over housing policy is to be broken. We call for a new national compact on housing and hope that this proposal and others can help unleash a period of meaningful policy debate, reform, and action.

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