



Housing Affordability Position Paper

POSITION: The Real Estate and Building Industry Coalition (REBIC) is committed to ensuring that housing remains affordable for a wide range of individuals and families, especially those with low to moderate-incomes. The private sector is the most capable and efficient provider of this housing, although it is becoming more difficult every year to meet the needs of this large segment of our community. Intrusive governmental policies and burdensome regulations are responsible for an increasing share of the housing price escalation that drives these buyers from the market. The federal, as well as state and local governments should refrain from enacting, and remove existing, laws and regulations that increase the cost of producing and buying homes. Governments can also assist the private sector through innovative programs that provide incentives for the marketplace to provide affordable housing for our workforce.

BACKGROUND: Today, roughly 68% of American families are homeowners. The availability of low interest rates and the rise in home values have given way to a housing expansion never before seen in our nation's history. However, even with all of this prosperity, millions of Americans cannot afford to own a home.

In addition, according to the National Association of Home Builders (NAHB), one in four households (28 million American families), spend more of their income on housing (greater than 30% of income) than the federal government considers appropriate. Government regulations and restrictions at all levels are responsible for either eliminating many of these buyers from the market or causing them to take on more in housing costs than is prudent.

In a 2002 article published by the *Journal for Real Estate Research*, the authors of the article compared several research studies that examined the correlation of housing prices with regulatory growth restrictions. The authors' findings concluded, "local growth restrictions impede housing growth and lead to a larger appreciation in housing prices." (*Journal for Real Estate Research*, Vol. 23, Nos. 1/2 2002, page 11.) This article confirmed that growth controls by state or local governments increased the cost of housing and limited the supply of available land for new housing.

REGULATORY MANDATES INCREASING HOUSING COSTS: As is often the case, state and local governments impose regulations in the form of fees and pre-development conditions or requirements in order to restrict the type, size, and number of homes that can be built, sometimes with the explicit objective of reducing the supply of homes available for entry-level buyers. There are some specific examples of this practice in the Charlotte region.

- ***Exclusionary Zoning in Monroe.*** Many local governments have the ability to impose pre-development conditions and requirements in their local zoning ordinances. In May of 2002, the Monroe City Council adopted an ordinance that required all new single-family residences

and property zoned single-family residential to conform to several new design standards, unless the City of Monroe allowed otherwise.

The most damaging of these standards is a requirement that the minimum lot size and the minimum square footage of a home be *no smaller than the average* of the 10 closest lots and homes, respectively, on the same street. If there are fewer than 10 lots or homes, then the ten residential units or lots within a 2,000-foot perimeter of the lot or home involved are utilized to establish the average. This new requirement will lead to ever-larger lots and homes, adversely affecting the ability of many Monroe citizens to purchase a new home in their own community.

- ***Impact Fees in Rock Hill.*** The City of Rock Hill, SC is a growing community of 50,000 that is facing the normal growth-related capacity issues in its water, sewer and fire services that is typical for a city in a vibrant metropolitan region.

Rock Hill has traditionally utilized broad-based funding options to pay for needed infrastructure expansion because they held the generally accepted belief that all citizens benefit from growth and therefore all citizens should participate financially. However, over the last several years, the City Council has not been willing to raise property taxes or utility rates to cover the cost of needed expansions. The result has been a change in policy that resulted in the adoption of impact fees on new development.

The initial rate of the impact fees has been set at \$1,850 on new homes. These costs will undoubtedly be passed along to homebuyers through higher home prices. NAHB studies show that nationally, for every \$1,000 in impact fees, over 400,000 people can no longer qualify for a new home. Obviously, a similar effect will be felt in Rock Hill as new homebuyers are priced out of the market as a result of this government action.

- ***Density Reduction and Open Space in Huntersville.*** Regulatory policy in the guise of environmental safeguards has become a tool of choice for many local governments. While many of these policies are in place to protect the quality of our air, land, and water, and more ephemeral interests such as “rural preservation” and “view sheds,” an ever-increasing share have been put in place to control growth, adversely impacting the price of housing.

A prime example of this type of regulation can be seen in Huntersville, NC. The Huntersville Town Board adopted revisions to their zoning ordinance in February of 2003 in efforts to curtail growth under the pretext of protecting the town’s watershed. Despite advice that it was not necessary to reduce density to protect the environment and an overabundance of open space by national standards, the town council reduced the base density in a large area subject to the town’s zoning from 2.5 units per acre to .33 units per acre.

Along with this drastic reduction in housing allowed per acre, a mandatory increase in open space requirements, a new tree ordinance and a cost-inefficient water quality ordinance, the price of housing in Huntersville will increase. To further complicate the issue, a provision in the zoning changes prohibited townhome development in these same areas. With demand continuing to increase as jobs come to the Charlotte region, and with the growth in the supply of homes diminishing in Huntersville, affordability will suffer.

INCENTIVE-BASED APPROACHES: It is critical if a community is going to create an environment that fosters the production of housing for its citizens, that regulatory impediments such as those described above be avoided. Equally important is the ability of government to take proactive steps to encourage and create incentives for the production of housing at affordable levels through innovative programs. Two such programs are described below.

- ***Affordable Housing Density Bonuses.*** The City of Charlotte recently commissioned a housing strategy stakeholders group tasked with identifying and addressing critical issues surrounding the City's housing program, and what efforts may be taken by both the public and private sectors to increase the availability of affordable housing. The group of 25 was composed of real estate professionals, mortgage lenders, local developers, local government officials, and affordable housing advocates. The stakeholders group met for over a year and in April of 2000, released a report detailing how the City could learn from their existing housing policies, utilize successful housing policies in other cities, and develop policies to increase the stock of affordable housing in the Charlotte region.

One of the key elements this group endorsed was a 'density bonus zoning program' as an incentive to encourage private development of low and moderate-income housing. This voluntary program would provide a developer with a density bonus above the maximum density otherwise allowable, if the developer allocated a minimum percentage of the specific development to affordable housing. This is a classic win-win incentive program that the development community can embrace, and it is in the process of being reviewed by a committee of the Charlotte City Council.

- ***Establishment of a Housing Trust Fund.*** A key recommendation by the aforementioned stakeholders group was the establishment of a local Housing Trust Fund. Created by the Charlotte City Council in 2001, this innovative trust fund will provide capital for affordable housing projects and to leverage public/private partnerships. In the fall of 2002, the Housing Trust Fund received a major boost in revenue as Mecklenburg County voters approved a \$20 million bond to provide 'seed' capital for the fund.
- ***Affordable Housing and Stream Buffers.*** At the request of the Mecklenburg County Board of Commissioners, a citizen stakeholder group spent over two years considering ways to implement a stream buffer program to protect water quality and preserve habitat in the County. The panel, also known as the Surface Water Improvement and Management (SWIM) Advisory Committee, devised a program that was flexible, targeted and sensitive to impacts on housing affordability.

A key element of the SWIM program was a density bonus provision, coupled with reductions in minimum lot setbacks and sizes, so that the landowner or developer did not sacrifice density to achieve the environmental objectives. In fact, if SWIM buffers are dedicated or if more than the minimum is set aside, densities greater than the maximum normally permitted can be achieved. Environmentalists, the real estate industry, and local government consider this program to be an enormous success.

AWARNES PROGRAMS: Maintaining housing affordability requires a constant effort to create awareness of the problem and to stimulate innovative programs. The following are two especially noteworthy local initiatives:

- ***HBAC Affordable Housing Tour.*** For a number of years, the Home Builders Association of Charlotte has organized an Affordable Homes Tour as part of its Parade of Homes. The Charlotte City Council, the Charlotte-Mecklenburg Planning Commission, and candidates for election and reelection to the Mecklenburg County Commission and the North Carolina General Assembly were invited to attend the tour this year. The HBAC rented a bus to transport the participants and the tour highlighted a number of homes that were priced in the range for low- to moderate-income homebuyers.

At each stop, a senior representative of the developer or homebuilder for that project explained the challenges of producing affordable homes for the Charlotte market. With the realization that a “picture is worth a thousand words,” these on-site visits and in-person discussions with builders and developers have been very effective in conveying the message of how government, for better or worse, can impact housing affordability.

- ***CRRA Affordable Home Giveaway.*** For the first time in 2002, the Charlotte Regional Realtor® Association (CRRA) in association with HBAC and the Charlotte Mecklenburg Housing Partnership (CMHP) sponsored the 2002 Affordable Home Giveaway. Throughout 2002, Realtors® had been raising money to purchase the home that would be given away. First-time homebuyers earning between 50 and 80 percent of median income, as defined by the U.S. Department of Housing and Urban Development, were eligible to register for the program. All applicants were required to attend and complete a homeownership-counseling program offered by CMHP in order to be eligible for the giveaway. Hundreds of potential new homebuyers registered for the giveaway and completed the homeownership-counseling program. The house was awarded on December 2, 2002 at a luncheon at the Adam’s Mark Hotel in Charlotte, NC.

The 2002 Affordable Home Giveaway is part of CRRA’s ongoing Home Ownership Merit Endowment (H.O.M.E.) program. Programs such as this one show the dedication and commitment on part of the real estate industry to make the dream of owning a home a reality as well as increasing awareness of the necessity for affordable housing.

CONCLUSION: The community as a whole has an obligation to address the need of all Americans to enjoy a safe and affordable home. Governments at every level can either help or hurt in this most important endeavor. In many circumstances, government interference and over-regulation, sometimes well intentioned and sometimes not, have decreased the availability of affordable housing. Those in the government sector must come to realize that price of a home does matter to buyers, and many of those buyers cannot pay the premium exacted for government mandates.

On the contrary, by working with the private sector, government can devise innovative and effective ways to promote the production of affordable homes through market-based mechanisms, while also addressing other priorities such as the environment. The private sector, unfettered and with meaningful incentives, can produce far more affordable homes far more efficiently than the government. Only through dialogue, cooperation and constant focus can we hope to meet these challenges. The real estate community is dedicated to making this happen.