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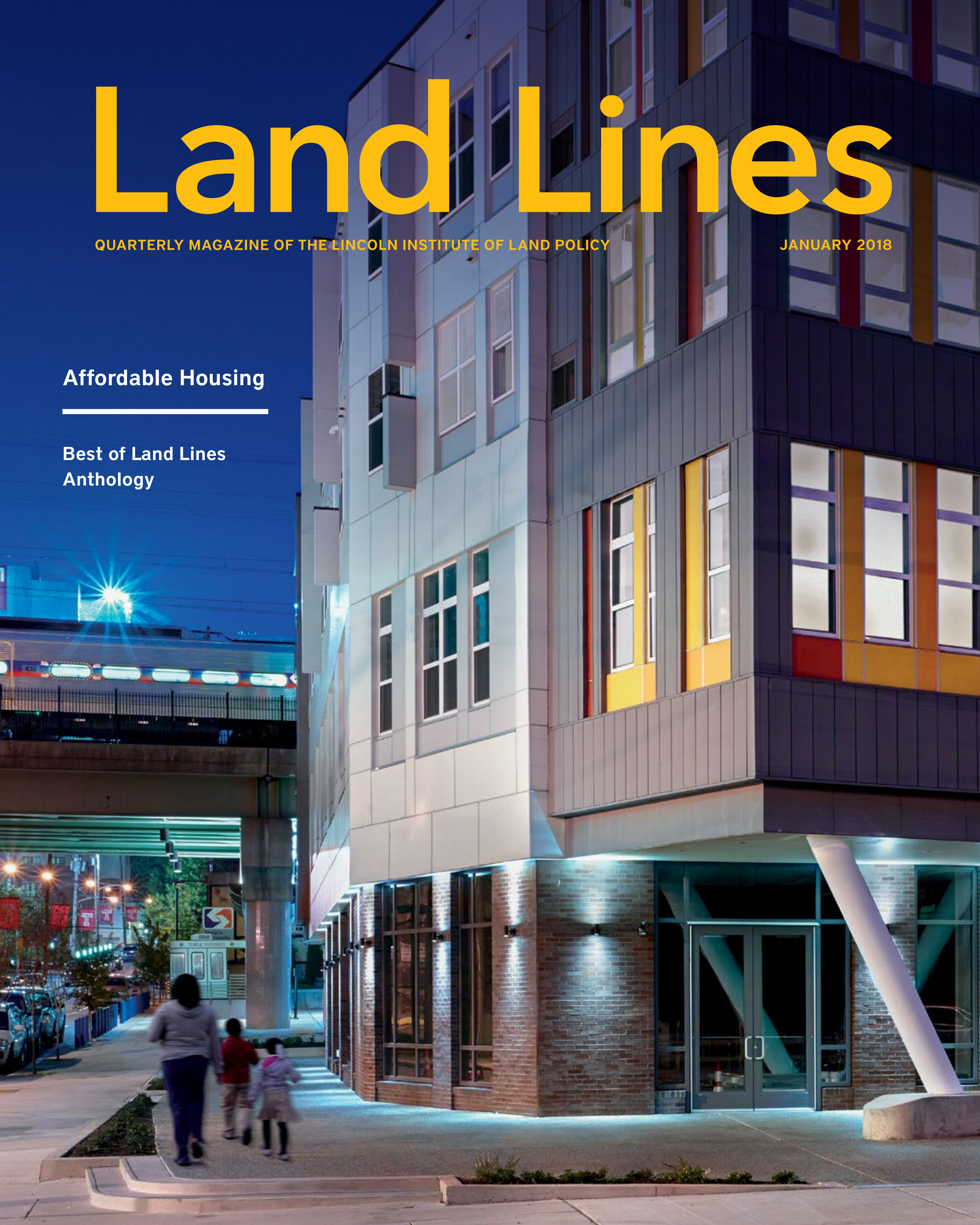

Affordable Housing

Best of Land Lines Anthology

Land Lines

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LINCOLN INSTITUTE OF LAND POLICY

Contents

FEATURES

DEPARTMENTS

Paseo Verde is a transit-oriented affordable housing development in north Philadelphia. Credit: Jeffrey Totaro

Protecting a Share of the Housing Market

PEOPLE WHO WORK WITH ME ARE OFTEN SURPRISED BY THE EXTENT TO WHICH MY PHILOSOPHICAL CANON DERIVES FROM LOW-BUDGET OFFBEAT FILMS, typically from the 1980s. When in need of wisdom, I frequently turn to the teachings of *Repo Man* or, for this essay, Terry Gilliam's allegorical masterpiece *Time Bandits.* In the movie, a group of public workers are employed by the Supreme Being to fill holes in the time-space continuum left from the haste of creating the universe in seven days: "It was a bit of a botched job, you see."

Like the Time Bandits, policy makers are often tasked to fill holes—actual potholes in roadways, or more theoretical holes that are the artifacts of dysfunctional private markets, such as the inadequate supply of affordable housing. For example, housing economists in the United States have become quite adept at tracking the size of the hole, which has only become harder to fill since the federal government committed to address it as a national policy priority beginning with the Housing Act of 1949, part of President Harry S. Truman's Fair Deal.

In his 1949 State of the Union address, President Truman noted that to fill the needs of millions of families with inadequate housing, "Most of the houses we need will have to be built by private enterprise, without public subsidy." Nearly 70 years later, our collective failure to solve the affordable housing deficit may stem from wrongheaded analysis of the problem, and the conclusion that market-based solutions can be designed to solve the mismatch between the supply of affordable housing and demand for it.

To support this claim, permit me a short departure into market theory. From the now-preferred mathematical approach to economic analysis, a market is simply a system of partial differential equations that is solved by a single price. The equations capture the complex decisions made by consumers and producers of goods—reconciling consumers' preferences and budgets with producers' production techniques, capital, and transaction costs—to arrive at a price that clears the market by settling the transactions of all suppliers and consumers willing to trade at that price.

Acclaimed economists Arrow, Debreu, and McKenzie proved the theoretical existence of a single set of prices that can simultaneously solve for the "general equilibrium" of all markets in a national or global economy. One important aspect of this Nobel Prize–winning contribution was the observation that a unique price cleared each market—one market, one price. There was no expectation that a single price could maintain equilibrium in two markets. And this is the fundamental flaw of the housing market—it is actually two markets, not one. Housing markets supply both shelter for local consumption and a globally tradable investment good made possible by broad capital markets that serve global investors. This dual-market status used to pertain to owner-occupied housing, but, with the proliferation of real estate investment trusts, rental markets are now in the same boat.

Markets for consumption goods behave very differently than investment markets, responding to different "fundamentals." On the supply side, prices for consumption goods are dictated by production costs, while prices in investment markets are dictated by expected returns. On the demand side, such things as tastes and preferences, household incomes, and demographics determine the price of housing as shelter. Investment demand for housing is dictated by factors like liquidity and liquidity preferences of investors, expected returns on alternative investments, or interest rates.

In developed countries, global capital markets and the market for shelter collide locally with little chance of reconciliation. Local households compete with global investors to decide the character and quantity of housing that is produced. In markets that attract global investment, plenty of housing is produced, but shortages of affordable units are acute, and worsen over time. This is because a huge share of new housing is produced to maximize investment return, not to meet the needs of the local population for shelter. For example, there is no shortage of global investment willing to participate in developing $100 million apartments in New York City. But affordable housing, being much harder to finance, is in short supply. And in markets that have been abandoned by global capital, house prices fall below production costs, and surplus housing accumulates and decays. In extreme cases such as Detroit, market order can only be restored by demolishing thousands of abandoned homes and buildings.

Perhaps it is time that we question the conclusion that market-based solutions can address the challenge of sheltering a country's population. Truman concluded that "By producing too few rental units and too large a proportion of high-priced houses, the building industry is rapidly pricing itself out of the market." But Truman was thinking about the market for shelter, not investment. Remarkably, the number of housing units in developed countries significantly exceeds the number of households. In 2016, the U.S. Census estimated that there were 135 million units of housing in the country and 118 million households. One in seven housing units was vacant. This oversupply of housing characterizes every metropolitan market in the United States—even markets with extreme shortages of affordable housing. In 2016, 10.3 percent of housing units were vacant in New York, 6.0 percent in the San Francisco Bay area, 8.2 percent in Washington, DC, and a stunning 13.7 percent in Honolulu. The problem is that many households have insufficient incomes to afford the housing that is available.

In the end, rather than fill the holes in the fabric of time and space, the Time Bandits decided to take advantage of them to "get bloody stinking rich." The bandits sought to capitalize on celestial imperfections, the way global investors seek returns from short-term market dislocations. To illustrate the dangers of such naked speculation in unregulated markets, consider an apocalyptic tale from a very different market. In 1974, heavy rains during planting season in Bangladesh suggested that rice might be in short supply at harvest time, and rice prices started to rise. Savvy commodity speculators realized that there would be a good return on any rice that was held off the market. The actual harvest produced a bumper crop, but the interaction between market expectations and market manipulations by commodity investors produced one of the worst famines of the 20th century—with an estimated 1.5 million famine-related fatalities. The famine did not result from real food shortages. The collision of the market for goods and the market for speculative investment priced rice out of the reach of the local populations, with landless families suffering mortality at three times the rate of families with land.

Perhaps shelter and food are too important to be left to unregulated markets to allocate. Perhaps public policy should focus on protecting a share of the market—and the public—from the ravages of speculation. In this special anthology issue of *Land Lines*, Loren Berlin describes efforts to preserve affordable housing in the form of manufactured homes and to promote permanent affordability of that stock through the conversion of manufactured housing communities to limited equity cooperatives. Community land trusts and inclusionary housing policies are also effective ways to insulate shelter from speculation, as demonstrated by Lincoln Institute research. After almost seven decades of failed efforts to get private markets to meet populations' needs for affordable shelter, it might be time to develop, and to export, these other approaches based on a more realistic understanding of the complexity of housing and capital markets.

This article originally appeared in July 2015 Land Lines.

FROM STIGMA TO HOUSING FIX

The Evolution of Manufactured Homes

The latest manufactured homes, such as Next Step's Energy Star "Cottage," are a quantum leap from the 1960s trailers that gave this housing stock a sordid reputation.

By Loren Berlin

LIZ WOOD WANTED TO BUY A HOUSE. IT WAS 2006, SHE HAD BEEN RENTING FOR A DECADE, AND HER MONTHLY PAYMENTS WERE GETTING HIGH. She was 43 and steadily employed, earning $34,000 annually plus benefits as a family educator. She didn't want anything fancy, just a place where she could "gather love and bring stability." She would stay within her means.

Nonetheless, the math was tricky. Wood lives in Duvall, Washington, a town of roughly 7,500 in the foothills of the Cascade Mountains. Steeped in lush forest, Duvall is about 30 miles from Seattle and a mere eight miles from the City of Redmond, the headquarters for Microsoft. The median income in Duvall is nearly twice that of the state of Washington, and homes in this area are expensive. In 2010, the median value of owner-occupied homes in Duvall was $373,500, compared to $262,100 for the state, according to the U.S. Census Bureau.

With few options, Wood eventually decided on manufactured housing. For $55,000, she purchased a used factory-built home in Duvall Riverside Village, a four-acre community of 25 manufactured homes in the middle of downtown Duvall. "It's amazing here," she says. "I live on riverfront property, so when I walk out my door I see water, pine trees, and a walking trail that goes from my house to the next town. I wake up in the morning hearing birds. I know all my neighbors. I'm connected to my community. I'm a block from the police station. I feel safe."

Liz Wood relaxes in Duvall Riverside Village in Duvall, Washington—a resident-owned manufactured housing community between an artsy downtown Main Street and the Snoqualmie River. Credit: ROC USA PHOTO / Mike Bullard

But it was still difficult. Wood owned her house, but not the land on which it sits. Instead, she rented the plot for $450 a month, plus water and utilities, as did the other residents of Duvall Riverside Village. As a result, Wood and her neighbors remained largely at the mercy of the property owner, their landlord, and forfeited much of the autonomy and security associated with more traditional home ownership models.

Their landlord prohibited garages, leaving residents limited storage options. He charged them $25 a month per additional car or adult beyond those registered at the time of move-in. He charged $5 a month for every pet and required dogs to be leashed at all times. There was a $5 monthly fee for every extra half-cord of firewood, which Wood needed to fuel her stove. Though he employed a groundskeeper, he didn't install outdoor lights, nor did he maintain the community roads, which were pocked and cracked.

Today's manufactured homes are robust, efficient, and inviting, with the potential to help alleviate the nation's shortage of safe, affordable housing.

In 2012, Wood and her neighbors received a written notice that the owner was selling the land. Unlike many owners, who prefer to sell their properties to a developer, this landlord was open to selling to residents. He had agreed to host a meeting with the tenants, a real estate broker, and the Northwest Cooperative Development Center, a nonprofit that supports cooperatives. The parties discussed the possibility of establishing a nonprofit, resident-owned cooperative to purchase the property. In doing so, they would conserve the land for manufactured housing, continue living there as a community, and collectively manage it to guarantee a safe, affordable, high-quality experience.

The residents voted to go for it. The landlord had two demands. He wanted fair market value, and he wanted to complete the sale by the end of the year. It was already August. They had five months.

In addition to the collaboration with Northwest Cooperative Development Center, the residents also began working with ROC USA, a New Hampshire–based nonprofit organization that offers residents of manufactured housing communities a mix of technical assistance and affordable financing to purchase their rented land when it becomes available for sale. Between its establishment in 2008 and 2016, ROC USA has successfully facilitated 80 of these transactions nationally and secured more than $175 million in financing for them.

ROC USA works with a network of eight regional affiliates, including the Northwest Cooperative Development Center. In Duvall, the nonprofits worked together with the residents to assess the economics of a possible deal and to confirm that the community was a good fit for resident ownership. Next, the organizations helped the residents to hire a third-party lawyer and establish their cooperative, which would operate as a democracy with residents elected into leadership positions by fellow residents. ROC USA assisted the residents to hire an independent engineer and conduct due diligence of the property; secure financing through ROC USA's lending subsidiary, ROC USA Capital, to purchase the property and undertake critical repairs; and organize the real estate transfer.

On December 27 of that year, the newly formed cooperative bought the Duvall Riverside Village with $1.3 million in purchase financing from ROC USA Capital, granting Wood and her fellow home owners control over their living arrangements, and permanently preserving 25 affordable homes in a town where such housing stock is scarce.

The residents continue to pay $450 a month to rent the land, but now they vote to determine community rules, and use the rent to make improvements and to pay the community's mortgage, taxes, and expenses.

"Now, you can have a garage if you want," explains Wood, who is president of the Duvall residents' cooperative and a ROC USA board member. "And we spent $35,000 to fix the roads. We don't have to live in fear anymore, so people are willing to invest in their homes. We have annual meetings to vote in projects. We can lower the monthly rent if we are over-budgeting for things we don't need. The bottom line is that we are in control of our own destiny."

Upon completing the sale, ROC USA and the Northwest Cooperative Development Center have continued providing the residents with technical support to ensure smooth operations.

"If they had just lent us the money and said, 'these are the guidelines, here's what you need to do, have at it,' we would have failed," explains Wood. "But they are an ongoing resource. They help us with tough situations, or when we don't know how to do something legally. The goal is for us to become independent and to be able to run our community like a business. Pay your bills, and your house can stay where it is. Period. Forever."

David Bissaillion tinkers in the greenhouse addition of his home in Wheel Estates, a resident-owned manufactured housing community in North Adams, Massachusetts. Credit: ROC USA PHOTO / Mike Bullard

Benefits

Across the United States, more than 18 million Americans live in factory-built homes, which represent 5 percent of the nation's housing stock in metro areas, and 15 percent in rural communities as of 2015. They range significantly in quality. Roughly 25 percent of today's manufactured housing stock is the stereotyped, rickety trailers from the 1960s and early 1970s, produced before the federal government introduced quality controls in 1976. The remaining 75 percent complies with the federal standards and includes charming, energy-efficient homes, indistinguishable to the untrained eye from their site-built counterparts. Though manufactured homes have long been cast aside as a housing choice of last resort, today's models are robust, efficient, and inviting, with the potential to help alleviate the nation's shortage of safe, affordable housing.

Modern manufactured homes cost approximately half as much as their site-built counterparts and can be built five times faster, making them a genuinely viable option for low-income consumers. The production process is less wasteful, and models that comply with the federal government's Energy Star standards offer home owners meaningful energy savings. And they are durable. Whereas manufactured homes built prior to the 1976 regulations were made to be portable, like recreational vehicles, modern models are built with stronger materials and designed to be permanent. Today's manufactured homes can sit on any foundation that would otherwise accommodate a site-built structure, creating the flexibility to use the housing in a wide range of geographies and environments.

"The manufactured housing stock is a critical component of the nation's affordable housing," says George McCarthy, president and CEO of the Lincoln Institute of Land Policy. "It easily outnumbers our subsidized stock two or three times in almost every market."

Manufactured homes are cheaper to produce than site-built houses because of the manufacturing process. As Andrea Levere, president of the Corporation for Enterprise Development, wrote in the *Huffington Post*, the "term 'manufactured housing' itself has less to do with quality and more to do with the production process, which is a derivative of Ford's assembly lines. This model allows manufactured homes to be built in a more controlled work environment, translating into predictable costs, increased efficiencies, and reduced waste" (Levere 2013).

In 2013, a new, energy-efficient manufactured home cost $64,000, compared to $324,500 for a new, site-built one, according to the U.S. Census, though the price for the latter includes the land. Even after stripping out the land costs, manufactured homes are still significantly less expensive, averaging $44 per square foot, versus $94 per square foot for site-built homes. And they are unsubsidized, which is a boon given the extremely short supply of subsidized housing compared to demand. Only one in four income-qualified families receives a housing subsidy, according to the Bipartisan Policy Commission, leaving the remaining 75 percent in need of an affordable, unsubsidized alternative. By helping to fill that gap, manufactured housing can relieve some of the demand for subsidized housing that state and federal governments are struggling to supply in the face of shrinking budgets. "The majority of families who live in manufactured housing would qualify for subsidized housing, but instead they choose this less expensive and unsubsidized option," says McCarthy.

A resident of Prairie Lake Estates in Kenosha, Wisconsin, paddles along the shore of this resident-owned manufactured housing community on Lake Michigan. Credit: ROC USA PHOTO / Mike Bullard

The stock is also very versatile, argues McCarthy, who cites its role in housing people during the immediate aftermath of Hurricane Sandy. "Recovery workers got 17 manufactured homes on the ground in New Jersey within weeks of the hurricane—permanent homes for displaced renters, not the problematic 'Katrina trailers.' And they did it before most organizations even had a housing plan. This speaks to the efficiency and nimbleness of building manufactured housing. The production times are about 80 percent shorter than for site-built homes, making them the best housing option for disaster response."

Nevertheless, manufactured housing often gets a bad rap, due largely to the widespread misperception that today's models are the same as the earliest generations of mobile homes built prior to the introduction of quality control standards by the U.S. Department of Housing and Urban Development in 1976. Today, there are roughly 2 million of these pre-1976 homes; many are barely hanging together and house the nation's most vulnerable populations, including the elderly and disabled. Though the pre-1976 stock is virtually unrelated to its present-day counterpart, these older, dilapidated dwellings dominate the general public perception of manufactured homes in the United States.

"During the immediate aftermath of Hurricane Sandy, recovery workers got 17 manufactured homes on the ground in New Jersey within weeks of the hurricane—before most organizations even had a housing plan."

The housing stock's reputation is further diminished by the vulnerabilities facing home owners who do not own the land on which they live. Roughly 3 million people live in one of the nation's 50,000 manufactured housing communities, while another 3 million rent on private property. There are manufactured housing communities in every state in the country. Like Duvall Riverside Village, many of them are on prime real estate, and the landowners routinely receive purchase offers from developers.

Advocates working to improve the manufactured home ownership experience, and to promote the stock's viability as affordable housing, are focusing on three critical areas of innovation: conserving mobile-home parks; replacing pre-1976 units with modern, energy-efficient homes; and increasing access to affordable financing, which is virtually unavailable for potential buyers in the current market, and is imperative to building equity and preserving a home's resale value.

Conserving Manufactured Housing Communities

The conversion of Duvall Riverside Village from a privately owned mobile home community to a resident-owned cooperative is not common. For every community available for purchase that is successfully preserved as affordable housing, there are many more that end up sold for redevelopment, displacing residents who may lack good alternatives.

"It's not as simple as just moving the home," says Ishbel Dickens, president of the National Manufactured Home Owners Association. "First, there's the question of whether the home can even be moved. It may be too old or unstable to survive a move. And even if it can be moved, it's expensive to do so, and very hard to find a space in another community. In most instances, when a park closes, the residents are probably going to lose the home and all their equity in it. In all likelihood, they will never own a home again. They'll likely end up on a wait list for subsidized housing, or may even end up homeless."

To some degree, it's an accident of history that so many of today's mobile home parks occupy plots of coveted real estate, says Paul Bradley, president of ROC USA. As he explains it, in the late 1950s and 1960s, Americans began to embrace transportable trailers and campers, in part because of a cultural shift toward outdoor recreation, and in part because post–World War II factories began producing them to utilize excess manufacturing capacity, making them widely available and affordable. As the units grew in popularity, they transitioned from temporary structures to permanent ones, and people began adding makeshift carports and sunrooms. At the time, urban planners accepted the evolution toward permanency. As they saw it, most of the trailers were on land that no one else was using in outer-circle developments. Why not let these campers stay for awhile, until the cities expanded to meet them, at which point the land would be redeveloped?

"These original communities were built with a plan to close them," says Bradley. "Back then, no one contemplated the full implications of creating a housing stock for which home owners lacked control of the underlying land. No one anticipated that these communities would be full of low- and moderate-income home owners who spent their own money to buy these homes and had few alternatives. And that's what we are still grappling with today. That lack of control over the land means that home owners live with a deep sense of insecurity and the feeling that it's irrational to make investments in their properties because they won't get it back. What's the implication for home owners who cannot rationally argue for investing in their home? What does that mean for the housing stock? For neighborhoods?"

Short-sighted land use policies are not the only challenge to preserving manufactured housing communities. An equally onerous obstacle is the lack of legal protections afforded to residents. In 34 states and the District of Columbia, the landowner can sell the property without giving residents the opportunity to purchase it. In fact, in most states, the landowner doesn't have to notify residents that the community is for sale; the landowner can wait until the property has been sold to inform residents of the transaction, suddenly leaving them in a tenuous position. Even the 16 states that require the owner of a manufactured housing community to provide residents advance notice of a sale do not necessarily afford tenants the necessary protections. "In most of the states with advance notice, there are so many limitations on the notice requirements that it is rarely of any use to residents," says Carolyn Carter, director of advocacy at the National Consumer Law Center.

To better protect residents, advocates support legislative reforms to state laws and tax incentives for landowners who sell to residents. The most effective of these strategies are state laws requiring a landowner to give residents both advance notice of the sale—ideally 60 days—and the opportunity to purchase the property, argues Carter. According to her, six states have laws that "work on the ground and provide effective opportunities for residents to purchase their communities," including New Hampshire, Massachusetts, Rhode Island, Florida, Vermont, and Delaware. She says Oregon passed promising legislation in January 2015.

"In those states with effective notice and opportunity to purchase laws, resident ownership takes off," Carter explains. Roughly 46 percent of the 80 communities that ROC USA supports are in either New Hampshire or Massachusetts—two small states with some of the nation's strongest resident protections. There are 89 additional resident-owned cooperatives in New Hampshire that predate ROC USA's launch.

To understand the value of strong consumer laws for residents, consider the story of Ryder Woods, a 174-unit mobile home park in Milford, Connecticut, 11 miles south of New Haven, just off a major thoroughfare. Connecticut is one of 19 states that either offer tax incentives or provide residents "some" protections when a community is sold, but also contain "significant gaps," according to Carter.

In 1998, Ryder Woods' landowner sold the property to developers. He informed the residents via eviction notices, in violation of state laws requiring him both to give them advance notice of the pending sale and to provide them the right of first refusal to purchase the land. Ryder Woods had an active home owners association, and very quickly they organized protests and petitions and lobbied the state legislature to reverse the sale. Eventually, the local news picked up their story, at which point a Milford-based attorney volunteered her services to help them. As she dug into the case, she realized that the law was on the side of the residents and that the community needed more legal support than she alone could offer. She enlisted help from a friend and fellow attorney—a partner at a prominent, Hartford-based firm—who agreed to take the case pro bono and assigned it a team of attorneys. The case ended up going to trial, eventually making its way to the state's highest court. Uninterested in the unfolding legal headache, the original buyer resold the property to a second developer.

Four years after the original sale, the courts ruled in favor of the residents. In an unprecedented deal, and as required as part of the settlement, the second developer purchased a new piece of land a mile from the original parcel and completely rebuilt the community there. The developer purchased 174 new mobile homes and sold them to the residents at significantly reduced prices with more favorable mortgage terms than any available in the conventional financing market. He built a community center and a pond, complete with swans. And, as required by their agreement, he provided the residents the opportunity to form a cooperative and buy the land, which they did in 2009 with $5.4 million in purchase financing from ROC USA Capital. They closed on their purchase in the offices of the Hartford firm, which had continued to volunteer its services to the residents through the sale's completion. Today, there is a Walmart on the land that housed the original Ryder Woods community.

"Sometimes, when we look back, we think it was crazy. We chartered a bus, went to Hartford, spoke to the legislature, and just fought it. We stuck together and won against two big-time, billion-dollar developers," explains Lynn Nugent, 68, a part-time merchandise associate at Sears, and one of the residents who helped organize the campaign, along with her husband, a retired locksmith. "Now I always say, 'Somebody else used to own us, and now we own ourselves.'"

Improving Access to Quality, Affordable Manufactured Homes

Unlike the residents of Ryder Woods, many owners of manufactured homes struggle to secure a quality unit with affordable financing. Here again, legislation is a primary culprit. Under federal law, manufactured homes are considered personal property, like a car or a boat, opposed to the real property designation assigned to traditional homes. Consequently, buyers cannot access mortgage loans. Instead, financing is available in the form of personal "chattel" loans. More expensive than mortgage loans, they average an additional 50 to 500 basis points and provide fewer consumer protections. More than 70 percent of purchase loans for manufactured homes are these higher-cost loans, which are considered a proxy for subprime products.

"This second-tier status is one of the biggest limitations to increasing the stock of permanently affordable manufactured homes," says McCarthy. "It makes financing the homes more challenging and expensive than it should be, and it diminishes the homes' wealth-building potential because it reduces effective demand for existing units."

While the dream fix would be to change federal titling laws, such revisions are not forthcoming. Instead, Next Step, a Kentucky-based nonprofit organization, has established "Manufactured Housing Done Right (MHDR)." This innovative strategy works to make high-quality, affordable manufactured homes—

and financing—available to low- and moderate-income consumers through a combination of energy-efficient houses, home buyer education, and affordable financing.

First, Next Step gives low-income buyers access to high-quality manufactured homes. The organization created a portfolio of models that are both robust and affordable. Each Next Step home meets or exceeds Energy Star standards, reducing utility costs for the home owner and shrinking the environmental footprint. According to Next Step, testing has shown these homes to be 30 percent more efficient than a baseline code home and 10 to 15 percent more efficient than a baseline Energy Star home. On average, this results in $1,800 in energy savings each year for every pre-1976 mobile home replacement and $360 each year for every new home placement.

Additionally, Next Step homes are "value engineered to ensure affordability while upholding quality standards." They are installed on permanent foundations, providing for greater structural support against wind and reducing settling issues. The homes contain high-quality flooring and insulation, which help to increase durability and reduce energy costs. And because water is the number one problem for foundations, Next Step homes contain additional safeguards to protect against moisture.

Improving Access to Sustainable Financing

Next Step also makes sure the home buyers can secure sustainable, affordable financing. "One of the problems facing the industry is that the capital markets don't participate in a big way," explains Stacey Epperson, CEO of Next Step. "The secondary market is not there in any meaningful way, so there are very few lenders in this marketplace and very few options for buyers. Our solution is to prepare our borrowers for home ownership, and then bring them good loans."

Next Step works with a mix of nonprofit and for-profit lenders, vetted by the organization, to provide safe, reasonably priced financing. In return, Next Step reduces the lenders' risk. The homes are designed to meet the lenders' requirements, and the home buyers receive comprehensive financial education so that they are equipped to succeed as home buyers. Consequently, Next Step home buyers not only secure a better initial mortgage, but also have the capacity to build equity and obtain a good resale price for the home should they decide to sell it one day.

Importantly, each Next Step home is placed on a permanent foundation in order to qualify the home owner for certain government-backed mortgage programs, which are less expensive than a chattel product. Next Step estimates it has saved its 173 home buyers approximately $16.1 million in interest payments as of 2015.

"Close to 75 percent of all financing for manufactured housing is going out as chattel. But 70 percent of new manufactured homes are going out on private land where, in many cases, the home could be put on a permanent foundation, and the owner could get a mortgage with a lower interest rate and a longer term," says Epperson.

The MHDR model is innovative in part because it is scalable. Next Step trains and relies on a membership network of nonprofit organizations to implement the model in their respective communities. Next Step sells the homes to members at competitive prices, and then member organizations oversee the process of identifying and educating buyers, assisting them to secure the loan, and managing the installation.

"The way the industry works, there has never really been a way for a nonprofit to buy a manufactured home at wholesale prices. That's what we've engineered, and that's what makes these homes a lot more affordable than if the nonprofit or home owner tried to buy them on their own," explains Kevin Clayton, president and CEO of Clayton Homes, one of the nation's largest producers of manufactured housing, and one of Next Step's long-time supporters.

"The Next Step program works because it sets people up for success," says Clayton. "Next Step takes them through home ownership counseling, and supports home owners if they have a hardship down the road. They get to buy the house for a lot less than they otherwise could have, build equity in the home, and have a low monthly loan payment and energy costs."

Cyndee Curtis, a Next Step home owner, agrees. Curtis was 27, single, and pregnant when she purchased a used, 1971 Fleetwood mobile home for $5,000 in 2001. She put it on the lot she owned just outside the town of Great Falls, Montana.

"I didn't have money, I didn't have a degree, and I didn't have choices," says Curtis. "The old steel septic tank was a ticking time bomb, with rust holes. The carpet was worn through, the linoleum underneath had burn spots on it, and the ceiling leaked where an addition had been added. Every year, I would buy construction books, go to Home Depot, and ask how to fix that leak. And every year I ended up there by myself, trying to fix it. There was mold on the doorway from that leak, and I had a newborn in there."

In 2005, Curtis went back to school for two years, obtained her nursing degree, and began working as a licensed practical nurse, earning $28,500 a year. "I figured now I am earning a livable wage and can explore my options," says the single mother of two. "I wanted something that my kids could grow up in and be proud of, and to make the most of owning the lot I lived on."

But her credit was poor, and eventually she ended up at NeighborWorks Montana, a nonprofit Next Step Network member that told her about the Next Step program. Over the next two and a half years, Curtis worked with the staff of NeighborWorks Montana to repair her credit. With their assistance, she secured a mortgage and purchased a Next Step home for $102,000, which included not only the house but also the removal, disposal, and replacement of her old septic system. Because the Next Step home is on a permanent foundation that meets certain qualifications—and because of Curtis's improved credit history, income, and geography—she qualified for a mortgage from the U.S. Department of Agriculture's Rural Development program, which was significantly less expensive than the more common chattel products. Additionally, whereas Curtis's previous mobile home was titled like a car, her Next Step home is deeded like a site-built house. Consequently, a future buyer will also be eligible to apply for a traditional mortgage.

Curtis says her Next Step home has provided her significant energy savings. "I have 400 square feet more now than I had previously. I went from having one bathroom to two. And still both my gas and power bills have been cut by about two-thirds."

She continues. "My house is a thousand percent better than what I lived in before. If a person goes inside my house, they can't tell it's a manufactured home. It has nice doorways, nice walls that are textured. It looks like any new home you would want to live in."

"Sometimes people think they have to suffer with poor housing conditions. I know how it is, and I want them to know that if you put in some hard work, you can make a difference for yourself and your family."

This article originally appeared in July 2015 Land Lines.

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GENTLE INFILL

Boomtowns Are Making Room for Skinny Homes, Granny Flats, and Other Affordable Housing

Portland, Oregon, is considering whether to allow more tall "skinny" homes, constructed on half the amount of land required under single-family zoning. Credit: Fred King

By Kathleen McCormick

RECENT NEWS STORIES ROUTINELY FEATURE "HOT MARKET" U.S. CITIES WITH ASTRONOMICAL HOUSING PRICES that end up displacing residents with moderate or low incomes. San Francisco's epic housing battles pit longtime residents against tech workers. In Portland, Oregon, city council extended the state of emergency it declared in 2015 to address the local affordable housing crisis. In Denver, Mayor Michael Hancock pledged $150 million for affordable housing in the next decade. Boston Mayor Martin J. Walsh plans to build 53,000 units by 2030, while neighboring Cambridge adds density in infill areas and near transit. And in Boulder, Colorado, public officials seek to add a host of housing options through an approach they call "gentle infill."

"Hot markets exist for many reasons, but in Portland, San Francisco, Boulder, and other cities, housing issues are clearly a result of strong economic development," says Peter Pollock, FAICP, manager of Western programs for the Lincoln Institute of Land Policy. In these places, a jobs-housing imbalance leads to inadequate shelter options. The "gentle" or "sensitive" infill approach is about "trying to find ways to make infill compatible with surroundings to achieve urban design goals and enable production of more housing," he says. The term also "puts a positive spin on something that may not be universally accepted"—namely, density—"and suggests that we can do a better job."

While half of all households nationwide are spending more than 30 percent of their income on housing, many residents in hot market cities are spending more than 50 percent and being forced to leave. Housing activists, such as those at the annual U.S. YIMBY ("Yes in my backyard") gathering, are challenging city planners and elected officials to create more diverse infill options to house people, stem displacement, make better transit connections, and create more environmentally sustainable communities.

How Did We Get Here?

Desirable cities are growing rapidly because they're attracting millennials and cultural creatives for job opportunities and lifestyle amenities, and the newcomers have gravitated in numbers that far exceed places to live. The tech industry, with its influxes of well-paid workers, is often blamed for driving up housing costs and causing displacement. But other factors are also in play. Many cities built little if any housing during the Great Recession. Mortgage credit is tighter. Construction costs are escalating. New housing is priced at market rates that drive up the cost for existing homes. Zoning that favors single-family detached houses or luxury apartments has led to expensive housing monocultures. What's being viewed as a crisis in many cities is the loss of housing not just for lower-income residents but also for workforce and middle-income residents—teachers, nurses, firefighters, small business owners, young professionals, young families, and others who typically provide a foundation for communities.

Restoring the "Missing Middle"

The good news is that cities across the United States are already working on solutions. Communities are overturning policies that prohibit housing or place tight restrictions on where and how it can be built, to allow for more diverse and affordable places to live. Many urban planners and public officials are focused on developing housing types that restore the "missing middle," to shelter moderate and middle-income households.

The missing middle, a concept that grew out of new urbanism, includes row houses, duplexes, apartment courts, and other small to midsize housing designed at a scale and density compatible with single-family residential neighborhoods. Since the 1940s, this type of development has been limited by regulatory constraints, the shift to car-dependent development, and incentives for single-family home ownership. Three- or four-story buildings at densities of 16 to 35 dwelling units per acre used to be a standard part of the mix in urban neighborhoods. Many urban planners say this scale and density of housing is needed again to offer diversity, affordability, and walkable access to services and transit. Cities are using a variety of additional approaches to inject more moderately priced housing into residential neighborhoods, from shrinking or subdividing lots to adding accessory dwelling units (ADUs) to expanding legal occupancy in homes. Some of these gentle infill approaches are showing great potential or in fact adding needed units on a faster track.

How does gentle infill work? It depends on the city, as demonstrated by the following examples from Portland, Oregon; Boulder, Colorado; and Cambridge, Massachusetts.

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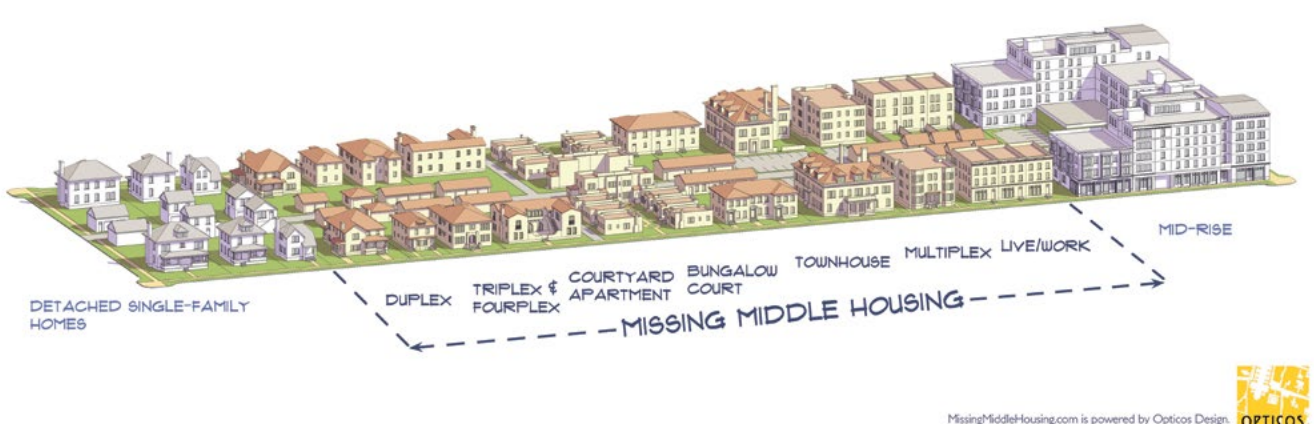

"Missing middle" housing types typically have small to medium-size footprints, with a body width, depth, and height no larger than a single-family home. They can blend into a neighborhood as compatible infill, encouraging a mix of socioeconomic households and making more effective use of transit and services. Credit: Opticos Design.

PORTLAND, OREGON: MORE HOUSING IS BETTER

Portland typically ranks atop lists of "best places" to live but has recently slipped a few notches because of its housing prices, which ballooned 13 percent in 2015. According to a recent study released by Metro, the regional government organization, Portland area rents increased 63 percent since 2006, while the average income of renters rose only 39 percent. The population grew by 12,000 in 2015, to more than 632,000 residents in 250,000-plus households.

Since 1973, Portland has been living with statewide urban planning that mandates an urban growth boundary to protect farmland and forests from urban sprawl and to ensure efficient use of land, public facilities, and services within the urban boundary. This city has an ambitious agenda to meet its growth projections with several big planning efforts: a new zoning map and the 2035 Comprehensive Plan, its first update in 30 years, adopted by city council in June 2016; a new land use code with regulations that affect a range of growth from multifamily and mixed-use development to transportation corridors and parking; and Central City 2035, a long-range development plan for the city center and its districts.

The city is relying on policy changes in view of the 142,000 additional jobs, 135,000 extra households, and 260,000 more people that it will need to accommodate by 2035, according to Metro. About 30 percent of new housing will be built in the city center, 50 percent in mixed-use centers and corridors, and 20 percent in Portland's single-family residential zones, which comprise about 45 percent of the city's 133 square miles of land. The city has about 12,000 buildable lots, assuming that some current lots can be subdivided to provide more sites.

Since 2010, an estimated 20,000 new residential units have been built or are in the pipeline, and tax increment financing in designated urban renewal areas has invested $107 million in new and preserved affordable housing. In 2016, the state legislature lifted a 17-year ban on inclusionary zoning, which will allow the city to require builders to set aside units for new workforce housing. The city is focused on funding strategies to provide more affordable homes for households below 80 percent of the area median income (AMI). To increase the number of middle-income units for people earning more than 80 percent of AMI, the city is relying on policy changes, rather than funding strategies.

By the end of 2016, a stakeholder advisory committee for the Residential Infill Project (RIPSAC) will provide advice regarding the size and scale of houses, small-lot development, and alternative housing types. One proposal under consideration is to allow more internal conversions of large historic houses into multiple units, an approach that would provide more housing while avoiding teardowns and preserving the historic fabric of neighborhoods. Building on the legacy of small homes that exist from a century ago, Portland is looking to add little houses on undersized, pre-platted lots. And the city is considering whether to allow the development of more tall "skinny" homes of up to 1,750 square feet on 2,500 square-foot lots, half the square footage of land required under R-5 single-family zoning.

"Five or ten years ago, people would ask, 'Why is this house being built on a narrow lot?'" says RIP project manager Morgan Tracy. "Now it's not so surprising. They're really becoming popular because they're at a lower price point for buyers."

Policy changes regarding accessory dwelling units have helped generate new moderately priced housing and have drawn the attention of public officials from other cities in search of solutions to their own housing crises. ADU construction has exploded since 2010, when the city waived development fees covering sewer, water, and other infrastructure connections, reducing construction costs by $8,000 to $11,000 per unit. The waiver inspired a surge in construction: almost 200 ADUs were permitted in 2013—six times the yearly average from 2000 to 2009. In 2015, the city granted 350 new ADU permits, for a current total of more than 1,500 units. Tracy says ADUs "are a well-accepted means of producing more housing because they're better integrated into a site and don't necessitate a home being demolished."

Any single-family house in the main zoning districts can have an ADU, and a proposal would allow up to two units—an interior apartment plus a separate carriage house or granny flat. The city does not limit the number of ADUs within a neighborhood or require off-street parking. It has also streamlined some ADU standards to allow for improved designs with slightly greater height and setbacks. RIPSAC is considering proposals to allow any house to have two ADUs, both interior and detached, triplexes on corner lots where duplexes are now allowed, and duplexes on interior lots, with a detached ADU. Allowing duplexes on interior lots and triplexes on corners "doesn't mean everyone will take advantage" of the policy changes, says Tracy, noting that only 3 percent of corners now have duplexes. But "if every property owner took advantage of additional unit potential, we would double the number of housing units in each neighborhood."

This "stacked-unit duplex" in Sunnyside, featured in Portland's Infill Design Toolkit, "continues the pattern of nearby detached houses" and echoes the form of the many nearby duplexes from the early 20th century. Credit: Bill Cunningham, Portland Bureau of Planning and Sustainability.

The next phase of infill housing policy considerations will address how medium-density housing types might fit into small infill and multi-dwelling sites. The city has already been moving in that direction: Portland's *Infill Design Toolkit* guide focuses on integrating rowhouses, triplexes and fourplexes, courtyard housing, and low-rise multifamily buildings into neighborhoods.

"What may be shocking and alarming for some people becomes more acceptable as you see it more," says Tracy. "We're seeing that with duplexes and triplexes in single-family neighborhoods. The last time we built them was in the 1930s and '40s. We're trying to promote a wider diversity of housing forms, and some folks are supportive because they understand the need to be able to house more people on available land."

BOULDER: MORE HOUSING IS BETTER, BUT THERE ARE DOWN SIDES

Boulder is studying what other cities are doing to encourage gentle infill, and a recent trip to Portland by city officials, staff, and business leaders offered perspective on what could work at home. Like Portland, Boulder has determined to halve carbon emissions by 2030, provide more infill housing in the developed city core, protect open space, and encourage public transportation use. But with one-sixth of Portland's population and different challenges and opportunities, Boulder seeks its own consensus on what gentle infill means.

Located 25 miles northwest of Denver in the foothills of the Rockies, Boulder also ranks high on the lists of healthy, livable, and entrepreneurial places. The natural beauty and high quality of life in this 25.8-square-mile city of 105,000 have attracted start-ups and established tech firms such as Google and Twitter. The influx has fed a digitally paced lifestyle and "1 percent" housing market in which the median single-family detached house costs over $1 million.

In the past two years, housing prices overall have risen 31 percent. Factors beyond the tech industry have limited affordability for many years (disclosure: for nearly 25 years, I've lived, worked, and raised two kids in a formerly modest Boulder neighborhood that has been largely rebuilt with higher-end homes). The University of Colorado-Boulder, a key economic driver with 38,000 faculty, staff, and students, generates significant housing demand. A jobs-housing imbalance translates to an estimated 60,000 cars arriving and departing daily, despite regional and local bus service.

State law prohibits rent control, and the state's "condominium construction defects legislation" has squelched that type of construction for middle-income housing. Boulder is also home to many independently wealthy "trustafarians" and speculative buyers who purchase homes with cash from selling property in other high-end markets. Some are second or third residences; others are reserved for short-term rentals like airbnb. In June 2015, city council voted to restrict short-term vacation rentals, saying they impacted affordability and reduced the number of long-term housing opportunities.

Development limitations include few residential lots, a 45,000-acre ring of protected open space around the city, and a height limit, to preserve mountain views, capped at between 35 and 55 vertical feet, depending on planned development intensity and location near transit. The city is within sight of a theoretical build-out; a forecast of 6,760 additional units by 2040 is being considered for the current update of the Boulder Valley Comprehensive Plan. A 2015 housing survey conducted for the plan indicated that most residents were willing to increase density and building height to allow for more housing, at least in some parts of the city.

Since 1989, while the percentage of lower-income households has held steady, middle-income households have declined from 43 percent to 37 percent of the populace. The segment disappearing at the fastest rate is households earning between $65,000 and $150,000 as well as families with children. City council, the planning board, and local newspaper op-ed pages field lively debates over the

"Aspenization" of Boulder and infill housing options that could slow or reverse the city's momentum toward greater exclusivity and less diversity.

To increase the number of middle-income units for people earning more than 80 percent of AMI, Portland is relying on policy changes rather than funding strategies.

Boulder has been working on affordability and inclusivity for some time. Its inclusionary zoning ordinance produced 3,300 affordable housing units between 2000 and 2016. Developers of projects with five or more units are required to construct 20 percent as permanently affordable, build off-site, donate land, or make a cash-in-lieu payment to the city's affordable housing fund. The city's goal is 10 percent permanently affordable housing; some 7.3 percent of the city's housing stock now qualifies.

Part of the affordable program is aimed at middle-income housing: the city has a goal of creating 450 permanently affordable units for households earning 80 to 120 percent of AMI. Between 2000 and 2016, 107 units for middle-income households were built in new mixed-income neighborhoods on land annexed in north Boulder. Many are in the Holiday neighborhood, a mixed-use model of 42 percent affordable units integrated within a total of 333 townhomes, row houses, flats, live-work studios, and cohousing. Recently built middle-income units are located in the Northfield Commons neighborhood, where half of the 43 percent of affordable units in duplexes, fourplexes, sixplexes, and townhomes are reserved for middle-income households.

"It's very expensive to subsidize people making $70,000 to $130,000 per year," says Aaron Brockett, a city council member and former planning board member, referencing a middle-income housing study prepared for the city that defined Boulder's middle market as 80 to 150 percent of AMI. He advocates for "market solutions like smaller units as a trade-off in those areas that have amenities and services such as mixed-use areas where people can walk to transit and redeveloping areas."

In preparing a comprehensive housing strategy, Boulder is exploring ideas for middle-income infill housing in transit corridors, commercial strips, business parks, and industrial areas that could be rezoned and redeveloped, and in walkable mixed-use neighborhood centers in residential areas. "The 15-minute neighborhood is the Holy Grail for a lot of communities, but it takes a lot of work," says Jay Sugnet, project manager for Housing Boulder. "Are they in single-family neighborhoods or at the edge of service-industrial areas? Where are you willing to locate those, and what's appropriate? You also need a concentration of people to support retail. Boulder has lots of commercial corridors, but they need a sufficient number of people to support all of them."

The city also plans to adjust the ADU ordinance to achieve more middle-income affordability in neighborhoods of mostly single-family detached houses, which comprise about 41 percent of the city's 46,000-unit housing stock. An ADU ordinance in effect since 1981 has permitted only 186 ADUs and 42 OAUs (owner's accessory units) because of requirements regarding off-street parking, minimum lot size, and limits on ADU density. "We'd like ADUs for diversity of housing in neighborhoods," says David Driskell, executive director of planning, housing, and sustainability. "Physically we could put in quite a few here, but, politically, there will be quite a lot of discussion about parking and traffic impacts."

City council is considering "creative adjustments" to existing housing that could have less impact on the footprint and "character" of residential areas, such as loosening code restrictions on the number of unrelated people who can share a home. In most residential zones, no more than three unrelated people can share a house, even if it has six bedrooms and multiple bathrooms. A ballot measure petition launched recently by University of Colorado graduate students asks Boulder voters to overturn the occupancy limit and adopt a "one person = one bedroom" policy. Allowing higher occupancy is controversial. Although it would provide more places for students and others to live legally, it could further drive up housing costs for families, as monthly rent in group houses, particularly close to the university, often costs as much as $1,000 per bedroom.

The city is also discussing a revision of its 20-year-old cooperative housing ordinance. No co-op projects have been permitted because the ordinance was "essentially a path to No," says Driskell. Three affordable rental co-ops were established under other measures. City council is considering a more welcoming ordinance that supporters say would benefit the city by offering a sustainable and community-oriented lifestyle for single residents, young families, seniors, and people who work lower-wage jobs.

"We tend to be a regulatory city, and we have really embraced deliberative planning," says Susan Richstone, deputy director of planning, housing, and sustainability. "It hasn't always been easy, but we're having the discussions and making changes in planning and zoning levels within a regulatory framework. It's in our DNA."

"Density is a bogeyman here, and people are up in arms," says Bryan Bowen, an architect and planner who is a member of the Boulder Planning Board and the city's Middle Income Working Group. Residents are anxious about both modest homes being scrapped and replaced with 5,000 square-foot $1.5 million new homes and the possibility of greater density with more large edgy-looking multifamily apartment

These live/work units are one of many affordable housing types in Boulder's Holiday neighborhood, a mixed-use community on the redeveloped site of a former drive-in movie theater. Credit: Boulder Housing Partners.

This carriage house ADU, in the mixed-use Holiday neighborhood, is part of Boulder Housing Partners' affordable rental program. Credit: Boulder Housing Partners.

ACCESSORY DWELLING UNITS (ADUS): A PREFERRED INFILL HOUSING APPROACH

Demographic changes such as aging populations, shrinking household size, college-loan-strapped millennials, and cultural preferences are leading many cities to allow home owners to build ADUs, also known as in-law apartments, granny flats, and carriage houses. Advocates say ADUs—built in the interior of a home, rebuilt from a garage, or newly built as a separate cottage—offer affordable options for elderly parents, adult kids, and caregivers. They're also a source of rental income that can help residents stay in their homes. As older home owners wish to downsize and age in place, some are choosing to live in the ADU and rent out their main house.

Typically ranging from 200 square feet to more than 1,000 square feet, ADUs are part of a long tradition of modest apartments and multigenerational houses that were common before the era of single-family suburban homes. Many housing advocates are keen on ADUs as a way to add units quickly, with home owners financing the infill of existing neighborhoods, compared to the lengthy and costly process of land acquisition and development of larger-scale multifamily projects by municipalities, nonprofit affordable housing organizations, and private developers. At Denver's Bridging the Gap housing summit in May, a session on small-scale affordability posed a potential scenario for the city: 70 neighborhoods multiplied by 300 ADUs per neighborhood would equal 21,000 moderately priced housing units.

At the 2015 YIMBY conference in Boulder, Susan Somers of AURA (formerly Austinites for Urban Rail Action) in Austin, Texas, described a coalition effort to become "an ADU city" and achieve much greater housing density in the mostly single-family detached city. They accomplished their mission; in November 2015, the Austin City Council passed a resolution relaxing ADU regulations and allowing them on smaller lots. AURA hopes to help home owners entitle 500 new ADUs annually. The units provide "affordable housing and a source of income to allow folks to stay in their homes," says Somers. In gentrifying East Austin, "this is how families stay together."

buildings. "That's probably why gentle infill feels good, though it has an interpretive quality. It's a question of what people find to be compatible and palatable." There's no consensus yet about which infill approach will work best, Bowen says. "But frankly, in moderation, some application of all of them might be needed."

CAMBRIDGE: BRIDGING THE INCOME GAP

Cambridge, located across the Charles River and three miles west of Boston, has the most expensive housing in Massachusetts and bears keen pressure to produce more missing-middle options. The population has increased more than 10 percent since 2000, to 110,000 residents within a compact 6.5 square miles, and is projected to grow by 6,200 homes before 2030, according to the Metropolitan Area Planning Council (MAPC), the regional planning agency for Metro Boston. The city has 117,000 jobs and more than 52,000 housing units, about half of them located in mixed-use commercial areas. The average listed single-family home price in 2015 exceeded $1.2 million. Median monthly rent for a one-bedroom apartment was $2,300.

"Cambridge has become a bifurcated place of very high income and very low income," says Andre Leroux, executive director of the Massachusetts Smart Growth Alliance. "It's hard for middle-class people to live there." Cambridge has the infrastructure to support much greater density and to add significantly more residential development and huge residential towers, "but it doesn't want to be downtown Boston."

The city is in the first year of a three-year comprehensive plan process, its first since 2000 (the state does not require municipalities to develop comprehensive plans). Affordable housing for low, moderate, and middle incomes —a resounding theme through the public process—is the number-one priority, says Iram Farooq, assistant city manager for community development.

"For a lot of working people, there are fewer affordable options in the city," says Farooq. The greatest population decline has occurred among residents earning between 50 and 80 percent of AMI, she says. Middle-income households earning between 80 and 120 percent of the area's AMI are also leaving the city for housing options elsewhere in the urban region. She notes that a city program that offered low-interest financing to home buyers earning up to 120 percent of AMI experienced little demand.

"Just creating the program doesn't mean people are going to use it. With the same financial commitment, they are able to go three miles down the road and find a nicer or bigger house for the same money. Being able to hold onto the middle is more challenging than at other income levels."

> Allowing duplexes on internal lots and triplexes on corners "doesn't mean everyone will take advantage of the policy changes," Tracy says. "But if every property owner did we would double the number of housing units in each neighborhood."

The city is using regulatory strategies to fund more affordable housing. An incentive zoning ordinance enacted in 1988 required linkage payments to offset the effects of commercial development on the housing market. In 2015, the city updated the ordinance, increasing the rate for developers from $4.58 to $12 per square foot and broadening the requirement to include any nonresidential development, including healthcare and university facilities, labs, and office space. The city is also considering new zoning for infill sites and an expansion of its inclusionary housing ordinance, which now requires 11.5 percent affordability in new projects, to 20 percent affordable units for moderate, middle-income, and low-income households.

Cambridge has been building infill housing, mostly in projects ranging from 50 to 300 units, on larger sites. East Cambridge, for example, has seen the development of thousands of housing units in the past decade, along with millions of square feet of office space and restaurants, on land that was formerly industrial. The city is requiring residential units with all new development; 40 percent of a new commercial project in East Cambridge's Kendall Square will be dedicated to housing. Some of this new development is subsidized for the middle class. But few parcels exist in residential areas, land costs are high, and residents are pushing back.

For years, housing advocates have been urging the city to add more infill housing and increase density in Central Square, the historic municipal center of the city. Located on Massachusetts Avenue, Central Square has a subway station and a bus-transfer station where eight bus routes converge. The area has some three- and four-story buildings as well as one- and two-story buildings that could be redeveloped for dense mixed-use housing next to transit. The square historically had taller, denser buildings before some third and fourth stories were removed to reduce taxes during the Depression. In 2012, however, some neighbors tried to persuade the city to downzone Central Square.

"Downzoning is not appropriate in a crisis in which we're so restricted in our ability to build housing," says Jesse Kanshoun-Benanav, an urban planner and affordable housing developer who started the civic group A Better Cambridge in response to the downzoning effort, to promote increased density for infill housing opportunities. The city council tabled the downzoning effort and since then has been allowing zoning changes in Central Square and providing incentives such as additional height and density in exchange for the development of more affordable housing.

At the eastern end of Central Square, Twining Properties is developing Mass + Main, a multi-parcel mixed-use project with a 195-foot tower and 270 apartments, 20 percent of which will be affordable for low, moderate, and middle-income residents. The project required a zoning variance, notes Farooq. "We're now hearing political desire to rezone the rest of Central Square. People don't seem to be as opposed to density as height, so we'll have to explore what that means in terms of urban form."

Mass + Main, a mixed-use development in Central Square, Cambridge, required a zoning variance to allow for greater height and density in exchange for 20 percent affordable units. Credit: Twining Properties.

Townhouses, duplexes, and triple deckers are the norm in Cambridge, and only 7.5 percent are single-family detached homes. New rules passed in May that allow the conversion of basements into accessory dwelling units in single- and two-family homes throughout the city could enable 1,000 legal ADUs. The ADUs don't need a zoning variance, and off-street parking is not required. The square footage of the new units won't count as gross floor area (ADUs previously were prohibited in most cases due to the existing floor-area ratio and requirements for lot area per dwelling unit). Supporters say the rules won favor because they allow for more efficient use of large homes and won't alter the look of the neighborhood.

"It's important that there are people in the city who are willing to accept trade-offs," says Farooq, noting that the YIMBY movement has "great political capital" to counter NIMBY pushback against infill housing. "There is a community desire to see more housing, and many young people, including a lot of renters, recognize that it's important to increase the supply and not have steep increases in rent, to make housing more manageable and accessible."

Regional Approaches

Leroux from the Massachusetts Smart Growth Alliance and others across the nation say that housing needs should be addressed as a regional issue, and cities and towns should work together to allow urban infill housing and approaches like ADUs under state zoning laws. In June, the Massachusetts Senate passed a bill that would reform 1970s-era zoning laws to permit ADUs and multifamily housing districts in every community. A coalition including the Alliance; the Senate President; mayors; and advocates for the environment, public health, affordable housing, and transportation supported the bill, which is poised to become state law next legislative session. A legal and policy strategy, it includes a fair-housing clause that prohibits communities from making discriminatory land-use decisions, which Leroux and others say increase segregation in many metropolitan areas, as low-income residents, including people of color, get pushed out of redeveloping urban neighborhoods.

"There's a grand bargain to be made between cities and towns and the real estate development community to unshackle development near walkable places, infrastructure, and transportation while curbing sprawl and protecting natural areas."

Suburban communities also need to do their fair share, he says. Many suburbs are still zoning and building for the auto-oriented market, with "a lot of modest homes being torn down and replaced with McMansions," he says. "We think there's a grand bargain to be made between cities and towns and the real estate development community to unshackle development near walkable places, infrastructure, and transportation while curbing sprawl and protecting natural areas." To allow for more diverse housing growth, he says, the Alliance and others are promoting "as-of-right," or permitted zoning uses, in walkable areas, commercial centers, villages, town centers, and urban squares, because "that's where the market is and where we need to let the market do its job."

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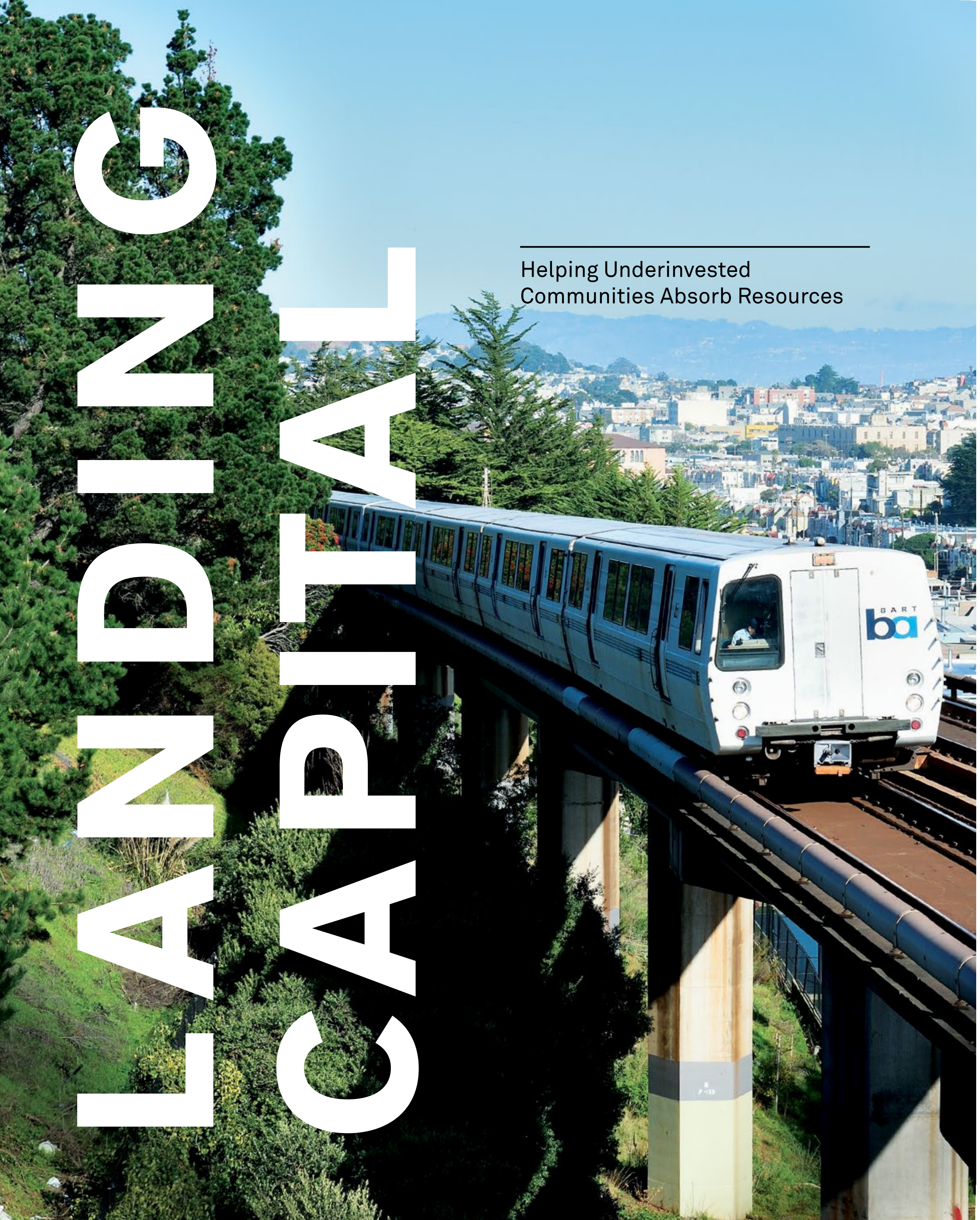


LANDING CAPITAL

Helping Underinvested Communities Absorb Resources

By Loren Berlin

IN 2015 AND 2016, REPRESENTATIVES FROM VARIOUS PUBLIC AGENCIES, FOUNDATIONS, AND NONPROFIT GROUPS in the San Francisco Bay Area, Los Angeles, and Denver participated in "capital absorption" workshops, to forge solutions to local affordable housing shortages through strategies that attract land, capital, and other resources. They represented not just housing, but transit, planning, and economic development organizations—stakeholders that often don't join forces to solve problems, even though they work on overlapping issues in identical geographies.

At one of these meetings in 2016, Abigail Thorne-Lyman, program manager for transit-oriented development (TOD) at Bay Area Rapid Transit (BART)—a public transportation system that annually shuttles more than 125 million passengers across the region—realized her agency might be able to make a game-changing contribution to solving the local housing crisis, which is among the nation's largest. More than 250,000 of the region's very low-income households lack access to affordable housing. The median home value is San Francisco is $1,147,300, compared to $197,500 nationally; the median monthly rent is a whopping $4,350, more than three times the national median rent of $1,500. Nearly half of local renters spend more than 30 percent of income on rent.

Each six-member team of participants from each region had drafted a spreadsheet of all pending development projects that included affordable housing units. "Staring at our list, we realized that capital wasn't the primary constraint to building more housing," explains Thorne-Lyman. "What we needed—the missing piece, so to speak—was land."

"We realized that capital wasn't the only constraint to building more affordable housing. What we needed–the missing link, so to speak–was land. . . . BART already owned 300 acres across the region."

In San Francisco, the Daly City-bound BART train passes the Outer Mission (opposite, credit: Tim Adams/flickr), and passengers disembark on Market Street near the Montgomery BART station (above, credit: Sharon Hahn Darlin).

In the Bay Area, developers don't buy land until they are confident they can assemble the necessary financing for their project, making it difficult to compete in a hot real estate market, Thorne-Lyman says. But BART already owned 300 acres across the region.

That evening, Thorne-Lyman started imagining scenarios in which BART made all its land available for developments that included affordable housing. She ran the numbers.

"I saw that we could produce maybe 30,000 units if we put our land in play," she explains. Ten thousand units could be affordable—which is significant, given that the typical affordable housing development in the Bay Area produces 50 to 200 units. "And if we put ourselves out there first, maybe other transit agencies in other counties would come along," as BART serves only four of the Bay Area's nine counties. Together they could make an even bigger dent. "The 30,000 units could turn into 60,000 units, all on public land," says Thorne-Lyman.

Thorne-Lyman and the rest of the capital absorption team delivered the analysis to BART's general manager, Grace Crunican. Both Crunican and the BART board of directors decided to increase the agency's commitment to both market-rate and affordable housing on BART land. Then they asked Thorne-Lyman and the team to model scenarios above and beyond any they had privately imagined.

"That conversation with Grace was like a slingshot," says Thorne-Lyman. "We had these ideas and played them out. Then the board asked for an even more ambitious vision for our land. Through our work with the capital absorption team, we had all these willing partners—including the affordable housing advocates, community development financial institutions, and foundations—who backed up the idea and pushed it out to the public."

BART's new TOD development targets, adopted in December 2016, call for production of 20,000 new housing units and 4.5 million square feet of office space on BART land by 2040. At least 35 percent of these units—7,000, to be exact—will be affordable to low- and very low-income households. So far, BART has produced 760 affordable units on its land, meaning the agency has some work to do. Nonetheless, Thorne-Lyman is encouraged by the challenge. "California has this affordable housing crisis, and we can say that BART will be part of the solution," she explains. "We have land. And we are willing to offer it up."

"Someone has to be thinking big about how to address this crisis. We are putting forward something big," she says.

The Capital Absorption Framework

The capital absorption workshops that Thorne-Lyman attended were part of a pilot program designed to help cities attract and deploy community investment and to leverage other critical resources, such as land and expertise, to achieve their goals. Community investment is defined as "investments intended to achieve social and environmental benefits in underserved communities—such as loans, bonds, tax-credit equity, and structured investment vehicles."

The program's chief architect, Robin Hacke, says, "It's a way to make resources go to places where they're not going by themselves, to address the failures of mainstream finance to produce enough affordable housing, reduce health disparities, or minimize the impact of climate change on vulnerable places, among other factors tied to land use."

Hacke, who is the director of the Center for Community Investment at the Lincoln Institute, is utilizing a new "systems change" strategy that she designed in collaboration with colleagues David Wood of Harvard University's Initiative for Responsible Investment, Katie Grace Deane, and Marian Urquilla. Called the Capital Absorption Framework, the model is predicated on this idea that mainstream capital markets frequently fail to address the needs of low-income communities, requiring a systemic approach to repair this breakdown and achieve meaningful outcomes at scale (opposed to one-off projects that are difficult to accomplish and, even when successful, fail to move the needle in a significant way). By "bringing to the table" stakeholders who rarely join forces to solve problems despite having aligned interests, the model also augments available assets and power, helping to identify effective new tools and strategies to address unmet community needs.

The framework is a response to challenges Hacke and Urquilla faced while working on The Integration Initiative, an $80 million program begun in 2010 to improve the lives of low-income residents in five pilot cities—Baltimore,

A transit-oriented development on BART land in Hayward, a city in the East Bay. Credit: BART

SYSTEMS CHANGE

In order to overcome the effects of discrimination and the market's failure to deliver adequate goods, services, and opportunities to disadvantaged communities, we need to ensure that capital can flow to those places. Ensuring that residents can thrive means finding ways to finance affordable housing; developing healthy environments with access to fresh food and safe places to walk, bike, and play; and providing access to quality education and jobs. It is not enough simply to invest in a single project and expect places to be transformed. The Center for Community Investment is committed to strengthening the systems that engage a community in planning for its future, creating a platform and network of relationships that unite the institutions and individuals with the capacity to advance the community's vision; developing and executing investment transactions that implement that vision; and shaping the policies and practices that accelerate how transactions proceed.

—Robin Hacke

Cleveland, Detroit, Minneapolis/St. Paul, and Newark. Administered by Living Cities, the idea was to align interests across a range of players and invest capital in neighborhoods that traditionally can't access funds.

The Integration Initiative demonstrated that participating cities not only lacked capital; they lacked the capacity to absorb and deploy the funds allotted to them through the program, says Hacke.

"Spatially inequitable distribution of low-income people across the United States grew from decades of public policy that basically starved communities of capital, through redlining by banks or redlining aided and abetted by the Federal Housing Administration," says George McCarthy, president and chief executive of the Lincoln Institute of Land Policy, who was involved in The Integration Initiative during his tenure at the Ford Foundation.

The capital absorption workshops are part of a program designed to help cities attract and deploy community investment and to leverage other critical resources, such as land and expertise, to achieve their goals.

"Because we starved communities of capital, we think the way to help them recover is just to provide them with money. But that misses the point that over the years we didn't just strip out the capital but also the capacity of those places to help themselves. Many people in the community development movement believe that if we just find a way to get more capital to places, then good things are going to happen. But one of the hard lessons we have learned is that, even if you can get the money to those communities, they don't necessarily have a way to use it. It may sound like I'm blaming the victim, but that's not it. Rather, it's understanding that when you deny a place critical resources for long enough and then suddenly provide it, the community may not be ready to deploy it. It's like people. If you starve someone for too long and then provide food, that person may not be able to eat it."

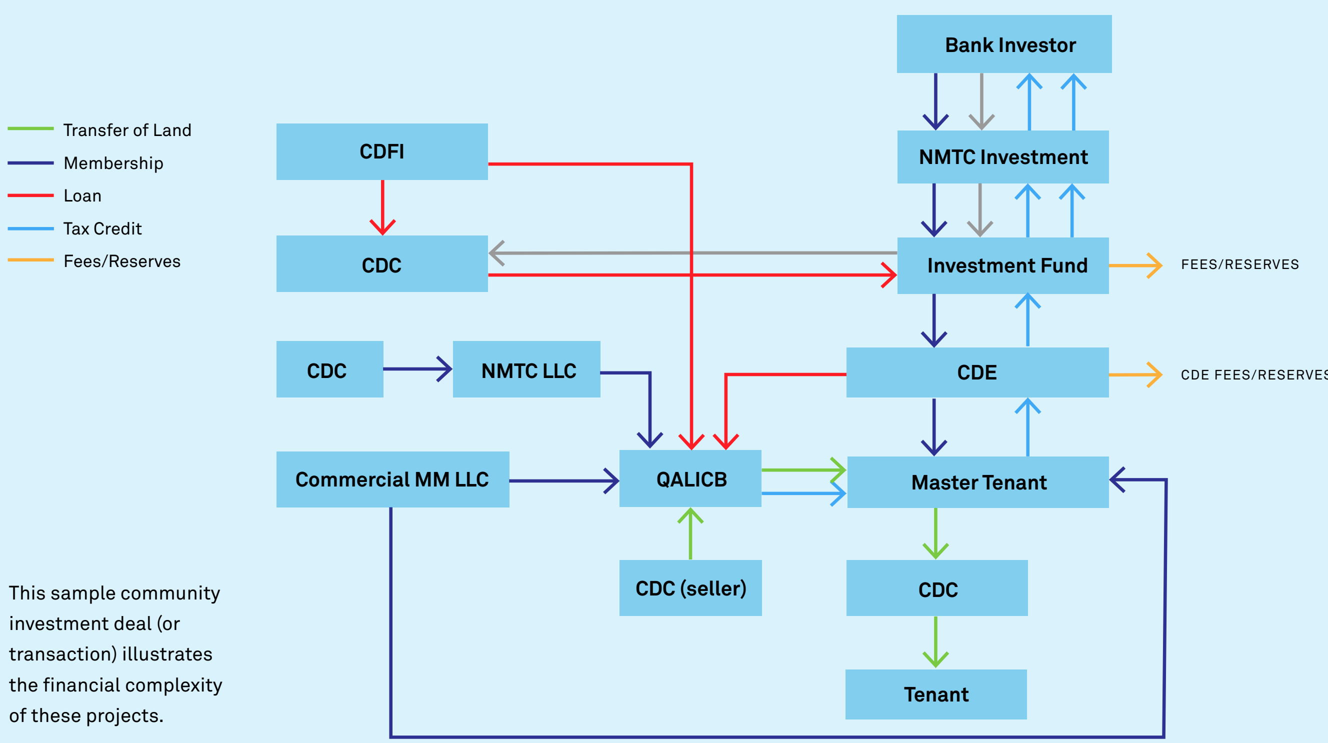
Managing the Pipeline

"To deploy capital successfully, places need to identify sources of capital as well as projects that can use it. Proponents of impact investment have focused on organizing capital *supply*; our focus is organizing *demand* for investment," Hacke says. "For example, in Detroit, Baltimore, and Cleveland, they were not primarily looking at housing. They wanted to accelerate all kinds of development, including commercial and mixed-use developments. Getting the right set of deals and the right conditions to supply capacity to those deals required much more than just investment capital. The work took longer than we expected and required much more upfront arrangement of the plumbing than we had anticipated," she adds.

"Despite the great need in disadvantaged communities, stakeholders have to overcome major obstacles to complete projects," says Hacke. "If people don't believe that the deals have a decent-sized chance, they give up on them. So we organize stakeholders around what is most urgent at that time and organize the resources that way as well to increase the probability and the confidence that the critical deals will get done."

Figure 1

Why is Community Investment So Hard?



This sample community investment deal (or transaction) illustrates the financial complexity of these projects.

The lack of confidence stems from the cold truth that community development projects are usually difficult to realize (figure 1). Hacke confronts that fact head-on by asking participants to identify what she calls "exemplary community impact deals. The ones that stick out in people's minds as representative of the field tend to be complex, time-consuming, and politically fraught, balancing the interests of many stakeholders and blending many different sources of capital with varied constraints and requirements. Practitioners evoke the language of heroic quests to describe these deals."

Identifying and examining "exemplary deals" is helpful in two ways. First, it highlights the complex and convoluted nature of many community investment projects, clarifying the need for a more efficient, scalable strategy. More importantly, analyzing exemplary deals can help stakeholders determine the potential resources and constraints of the larger community development system, including the engagement level of various players, the availability of an array of skills and resources, and opportunities for collaboration.

3 Components of an Effective Community Investment System

Once stakeholders in a region have used the exemplary deals framework to examine how the community investment system is currently operating, the next step is to identify ways to improve the functioning of that system so that it can deliver impact at greater scale. As organized by the framework, an effective system requires three things, which are the focus of Hacke's work with communities.

IDENTIFY SHARED PRIORITIES

First, stakeholders must articulate a well-defined set of priorities that are widely embraced across the community. Affordable housing is not always the anchor for establishing these priorities, but it was the easiest starting point in Hacke's pilot program—in part because the field has reliable, effective funding sources, such as the Low-Income Housing Tax Credit, and a robust network of experienced organizations.

"We work really hard to convene and build cross-sector relationships so that we can operate from a set of shared priorities," says Thomas Yee, the Initiatives Officer at LA THRIVES, a nonprofit that works to advance the equity agenda around smart growth and participated in the Capital Absorption Framework pilot.

"There's going to be disagreement among really progressive advocates, elected officials, and private developers, so it takes a lot of working together, building trust, and finding common ground. But that's the way to organize system-level approaches. It allows you to boil down the work to a few principles that excite people and keep them focused on the system instead of their particular neighborhood or project."

One of the shared priorities to emerge out of the Los Angeles work is the importance of ensuring that LA Metro, the public agency responsible for bus and rail services in Los Angeles County, effectively serves low-income residents, who are the agency's core riders.

Prior to joining the workshops, LA Metro knew its core riders were low-income. Based on the findings of a research study the agency had commissioned prior to joining the Los Angeles team, the agency also understood how it could assist those riders to live near transit lines. It was developing aggressive housing targets on agency-owned land when it joined the LA THRIVES collaborative.

"The sea change was coming together to get LA Metro to think about what that means for how the agency runs its business—about the bottom-line question of what happens if those core riders are living farther and farther away from existing transit systems," explains Yee.

According to Yee, LA Metro was interested in additional ways to counter displacement, and joining the collaborative was "really the water needed to grow those seeds."

The idea that low-income riders would be pushed farther afield disturbed the other members of the pilot's Los Angeles team.

The transportation planners balked at the cost and inefficiencies of expanding service to outlying areas, while the conservationists worried about the environmental impact. The community advocates were concerned about economic and social isolation, and the housing folk feared there was a lack of affordable housing in the outer ring areas. Resolving this issue correctly would present an opportunity to simultaneously address these seemingly unrelated concerns, and so it became a shared priority among the collaborative. In response, LA Metro adopted a new term for thinking about transit in the context of displacement: the Transit-Oriented Communities frame.

But LA Metro wanted to do more. It was clear that, unlike BART, the agency did not have much additional land that could allow for thousands of new affordable housing units. Instead, LA Metro, in partnership with other members of the team, created a loan fund to support the development of affordable housing and retention of existing low-rent, nonrestricted units near the agency's transit lines. Critically, the units do not have to be on agency-owned land, but they must be close enough to provide easy access to the transit.

"We are so excited that LA Metro is willing to make investments off their property," says Yee. "Making it easier to develop affordable housing on agency-owned land is one thing—and obviously a huge step in and of itself. But for them to go beyond agency-owned land is a big innovation and demonstrates a commitment to limiting the displacement of core riders."

Developed by Abode Communities in partnership with landowner T.R.U.S.T. South LA, Rolland Curtis Gardens—a mixed-use, transit-rich development along Metro's Expo/Vermont rail line—is expected to provide 140 affordable family homes in a culturally rich, historic South Los Angeles neighborhood. Credit: Courtesy of Abode Communities

ESTABLISH A PIPELINE OF DEALS

Once stakeholders identify a set of strategic priorities, they can then focus on establishing a pipeline of deals—the second step in implementing the framework. Stakeholders begin by examining deals in progress, analyzing whether they support the priorities and where there may be gaps.

The practice of examining the deal pipeline also helps to highlight the resources that are necessary for success.

For the Denver team, analyzing the city's pipeline resulted in the recognition that the team needed to focus more on attracting mission-driven private capital, says Dace West, a leader of the Denver pilot and, at the time, executive director of Mile High Connects, a nonprofit with a mission to ensure that the Metro Denver regional transit system fosters communities that offer all residents the opportunity for a high quality of life.

In Denver, Mile High Connects ensures that the Metro Denver regional transit system, including the light rail shown here, opens opportunities for residents from all walks of life. Credit: Evan Semon/City and County of Denver

"We had this powerful moment as a community when we realized that the way we are doing community development work is really driven by specific, restrictive funding sources that are more mature systems—like tax credits, which are oversubscribed—or, in other cases, sources of capital that are not very predictable," says West, referring to the takeaways from the pipeline analysis.

"We realized that we are so often falling short in the developments we are working on because of an inability to be very systematic about the way we draw down and deploy capital. So, going forward, we are very focused now on how we leverage private-sector impact investment capital into the system, looking at traditional capital sources in new ways and at what we need to do to unlock significant capital seeking a place to land," West says.

"We have discovered, from deep and intentional work, that impact means really different things to impact investors. When some say they want impact, what they are really saying is that they want to be able to squint and see something good; that is good enough for them, because what they really want is liquidity and rates of return. We think, 'That's good to know, because we have been wasting our time on these things that aren't real issues.' Now we can focus on questions such as: what is that target rate of return, and where are the right places to leverage that capital versus other kinds of capital? And that's been a real 'aha' moment—this recognition that real estate, which is something we had been thinking of as a more traditional investment, can be an actual community impact investment, which creates new and interesting connections."

One of those connections is to Denver's housing finance agency.

"As we have been thinking about ways this new capital could land, we have discovered that we have a very unusual housing finance agency. It is very creative and flexible and is already managing a huge number of siloed, structured funds that have a community purpose in some way," says West. "We are working to build out a platform that uses the agency as a base to draw in capital that can go to specific sleeves but can also flow across those gaps and allow us to pursue projects driven by the community and its needs. The housing finance agency is not responding merely to existing funding sources any longer; it's acting as a broad-based intermediary that can work across and among agencies in the system."

CREATE AN ENABLING ENVIRONMENT

After building out a pipeline of deals, it's a natural next step to the final piece of the framework—strengthening the "enabling environment." This is defined as "the latent conditions that shape the system's operations," including but not limited to "the presence or absence of needed skills and capacities, political realities, formal and informal relationships among key actors, and the cultural norms and behaviors that manifest differently in different places."

In the capital absorption workshops, participants are asked to figure out which areas of the environment are or are not working well, and which policies and practices directly affect their strategic priorities. In doing so, they can better grasp the opportunities and limitations inherent in the current system.

For Thorne-Lyman and the rest of the San Francisco team, it was analysis of the enabling environment—of what resources are and are not available and functioning well in the ecosystem of affordable housing—that immediately revealed that shortage of land.

The Richmond development provides affordable housing near transit on BART land in the San Francisco Bay area. Credit: BART

Center for Community Investment

Thorne-Lyman is not the only one excited by the work that has come out of the Capital Absorption Framework. McCarthy is also encouraged.

"Land is one of a community's most valuable and scarce resources," he says. "Land policies can play a central role in attracting or generating the investment needed to tackle vacancies and blight produced by dysfunctional land markets or to address the disparate impact of pollution and climate change on poor and disadvantaged families."

For that reason, the Lincoln Institute of Land Policy launched the Center for Community Investment in 2016 with support from The Kresge Foundation, Robert Wood Johnson Foundation, John D. and Catherine T. MacArthur Foundation, and Surdna Foundation. The Center is a leadership development, research, and capacity-building initiative to help communities mobilize capital and leverage land and other assets to achieve their economic, social, and environmental priorities. Hacke will direct the new center and use it as a platform to advance the capital absorption model.

"We have seen over and over again that land really is an important part of the solution, whether we are talking about the health of people or green infrastructure and the health of natural ecosystems. Being at the Lincoln Institute, which has such tremendous expertise in the use of land to generate and capture value, is a real boon for us," says Hacke.

Building on the success of the pilot, the Center for Community Investment has launched a new initiative, Connect Capital, aimed at helping cities and regions across the country improve access to opportunities so that everyone has a fair chance to lead a healthy and productive life. The Center is working with cross-sector partnerships that are reshaping local systems and deploying capital to make their communities healthier, more cohesive, resilient, and vibrant. Selected teams receive coaching and the opportunity to participate in learning sessions to help them strengthen their local community investment system.

Fruitvale Transit Village is about to enter a second phase of development to include more affordable housing near a BART station in Oakland, California. Credit: Peter Beeler

At Lincoln, Hacke hopes to expand her work by piloting it in additional communities. Participants in the pilot cohort encourage those cities to seize on the opportunity. "When we started this work two years ago, it felt like an abstract academic exercise replete with homework assignments. But we hung in there with their approach and have seen such value in the framework," says Christopher Goett, a senior program officer at the California Community Foundation, one of the supporters of the Los Angeles pilot. "Robin, Katie, David, and Marian pulled together a safe space that allowed us to tackle difficult work and created a support system that strengthened over time. In hindsight, these activities have been critical moments for us in our evolution and growth."

"Community and economic development work is often addressed through programs in their own respective silos, but that's not how the world operates," Goett says. "Average Angelenos wake up and use transit to get to work or drop off their children at school. Systems such as housing, employment, and education all interact, and that's how the Center's frame is laid out."

"For someone who manages a smart growth portfolio here at the California Community Foundation, the framework continues to become increasingly useful; smart growth is, by its nature, integrated. We have to think about public health at the same time we think about infrastructure and housing, and with this frame we can walk through the transit-oriented development door and still see the anti-displacement and housing angles."

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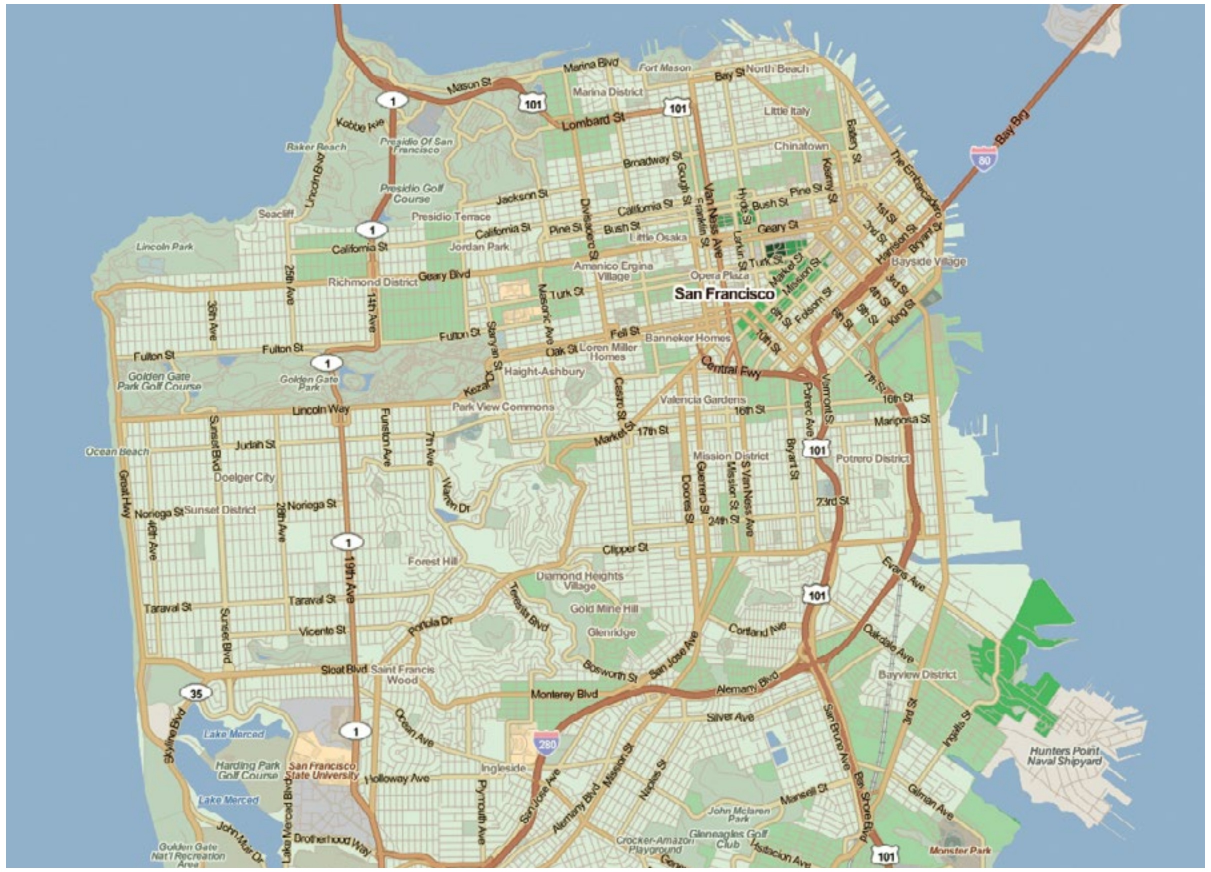
San Francisco's Affordable Housing Shortage



Percent of All Homes Affordable for 80% AMI Family in San Francisco, 2015

- Insufficient data
- 8.32% or less
- 8.33% - 24.21%
- 24.33% - 46.01%
- 46.01% - 69.03%
- 69.04% or more

In most of San Francisco, indicated by the lightest green areas of the map, only 8.32 percent or less of homes in 2015 were likely to be affordable for a 4-person family earning $81,500, or 80 percent of the Area Median Income (AMI).

Source: The Place Database
www.lincolninst.edu/research-data/data/place-database

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