

New Housing in High-Productivity Metropolitan Areas: Encouraging Production



PD&R



**NEW HOUSING IN HIGH-PRODUCTIVITY METROPOLITAN
AREAS: ENCOURAGING PRODUCTION**



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Office of Policy Development and Research**

June 2021

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The joint explanatory statement accompanying the *Transportation and Housing and Urban Development, and Related Agencies Appropriations Act, 2021*, requested that the U.S. Department of Housing and Urban Development (HUD) (1) identify metropolitan areas with high housing costs and low production, and (2) recommend best practices for localities and states to help encourage the production of new housing in high-cost metropolitan areas.¹ The Senate Committee specifically noted, “a combination of income concentration and housing supply constraints in high-productivity metropolitan areas has created entry limits harmful to geographic and economic mobility. Upward price pressure on rents resulting from such conditions imposes a greater financial burden on Federal taxpayers through rental assistance programs that respond to private market rents.”² This report is submitted to address requests relating to Fiscal Years 2019 and 2020 and follows the report HUD submitted to Congress in March 2019, *Addressing Housing Affordability in High-Cost Metropolitan Areas in the United States*.³ A report will be submitted at the beginning of 2022 that addresses activities undertaken in Fiscal year 2021.

Section 1. Background

In the United States, housing continues to be unaffordable to many families. Housing markets, like labor markets, operate at the metropolitan level, and housing affordability varies greatly across metropolitan regions. Housing affordability is typically calculated as a ratio between household income and the price of housing, whether home prices or rents. A home is considered affordable when a household spends no more than 30 percent of its pretax income on housing. In 2019, 37.1 million households (20.4 million renters and 16.7 million homeowners) were cost-burdened, paying more than 30 percent of their income for housing. Of these, 17.6 million paid more than 50 percent of their income for housing, making them severely cost-burdened.⁴

Housing plays a critical role in people’s lives. It is a major consumption item, a source of safety and stability, and a means of accumulating wealth. Housing heavily influences education and employment opportunities. Housing policy can play an important role in improving the economic well-being of low-income households. Housing policy can also significantly impede progress when it reduces families’

¹ See Congressional Directives, Division L, <https://rules.house.gov/bill/116/hr-133-sa>.

² See the THUD report, 103, <https://www.appropriations.senate.gov/imo/media/doc/THUDRept.pdf>

³ The report is available at <https://www.huduser.gov/portal/sites/default/files/pdf/Addressing-Housing-Affordability-High-Cost-Metropolitan-Areas.pdf>.

⁴ Joint Center for Housing Studies of Harvard University, *The State of the Nation’s Housing 2020* (Cambridge, MA: Joint Center for Housing Studies of Harvard University, 2020), 34.

access to affordable, safe, and stable housing or when economic and racial segregation leave some communities with reduced financial, social, and human capital.

Much of the literature on housing regulation focuses on areas with “high-cost, highly regulated” housing. HUD has been asked for this report to look beyond high-cost jurisdictions to high-productivity jurisdictions. High productivity refers to places where a high value of goods and services is produced in relation to the number of jobs; the term is not used in this report to refer to the creation of housing units. Section 2 identifies metropolitan areas with high housing costs, which continue to be predominantly on the West and East coasts, and high productivity metropolitan areas, which are spread more broadly throughout the county. The report briefly discusses housing supply trends. Section 3 focuses on strategies that can be used across a wide range of jurisdictions to increase housing production to better enable households of all income levels to access high-productivity areas. Section 4 discusses policy changes requiring additional analysis. Section 5 is the conclusion.

[Section 2. Housing in Metropolitan Areas](#)

High-cost metropolitan areas

Housing affordability can be measured in several ways. Because affordability is based on household income, the price-to-income ratio provides a useful indicator of places where housing is not affordable for many people. The Harvard Joint Center for Housing Studies’ *State of the Nation’s Housing 2020* report found that in 2019, the ratio of median sales price of existing single-family homes to median household income was 4.3 nationally.⁵ In four metropolitan areas, home prices were at least eight times higher than median household income: San Jose (9.8), Los Angeles (9.6), Honolulu (9.3), and San Francisco (8.8).⁶ The largest annual increases in price-to-income ratios, however, were in Denver (5.7), Charlotte (4.0), and Dallas (3.8), although the ratio remained below the national average in Charlotte and Dallas.

Exhibit 1 provides a list of the 25 metropolitan areas with the highest price-to-income ratios, all of which are higher than 5.0. Metropolitan areas in California dominate the list.

Exhibit 1: 25 metropolitan areas with the highest ratio of median home value to median household income, 2015-2019

Rank	Metropolitan Area	Median home price	Median income	Price-income ratio
1	Santa Cruz-Watsonville, CA	\$756,600	\$82,234	9.20
2	Los Angeles-Long Beach-Anaheim, CA	\$613,400	\$72,998	8.40
3	San Francisco-Oakland-Hayward, CA	\$840,600	\$106,025	7.93
4	San Jose-Sunnyvale-Santa Clara, CA	\$968,800	\$122,478	7.91

⁵ Joint Center for Housing Studies of Harvard University, *The State of the Nation’s Housing 2020*, 5.

⁶ Joint Center for Housing Studies of Harvard University, *The State of the Nation’s Housing 2020*, 14.

5	Urban Honolulu, HI	\$678,200	\$85,857	7.90
6	Kahului-Wailuku-Lahaina, HI	\$633,500	\$80,948	7.83
7	San Luis Obispo-Paso Robles-Arroyo Grande, CA	\$574,000	\$73,518	7.81
8	Santa Maria-Santa Barbara, CA	\$577,400	\$74,624	7.74
9	Santa Rosa, CA	\$609,600	\$81,018	7.52
10	Salinas, CA	\$516,600	\$71,015	7.27
11	Napa, CA	\$635,900	\$88,596	7.18
12	San Diego-Carlsbad, CA	\$563,700	\$78,980	7.14
13	Oxnard-Thousand Oaks-Ventura, CA	\$588,400	\$88,131	6.68
14	Boulder, CO	\$497,300	\$83,019	5.99
15	Grants Pass, OR	\$265,500	\$45,616	5.82
16	New York-Newark-Jersey City, NY-NJ-PA	\$450,900	\$78,773	5.72
17	Bellingham, WA	\$345,700	\$62,984	5.49
18	Bend-Redmond, OR	\$364,600	\$67,043	5.44
19	Sacramento--Roseville--Arden-Arcade, CA	\$387,500	\$72,280	5.36
20	Corvallis, OR	\$331,300	\$62,077	5.34
21	Stockton-Lodi, CA	\$342,100	\$64,432	5.31
22	Barnstable Town, MA	\$393,500	\$74,336	5.29
23	Missoula, MT	\$284,000	\$54,062	5.25
24	Medford, OR	\$280,300	\$53,412	5.25
25	Riverside-San Bernardino-Ontario, CA	\$341,300	\$65,121	5.24

Source: American Community Survey, 2015-2019, B25077 median value and B19013 median household income.

Low-income households are more likely to rent than own their homes; it is therefore important to consider metropolitan areas with high rents relative to local wages. The National Low Income Housing Coalition's (NLIHC) annual analysis, *Out of Reach*, identifies the ten most expensive metropolitan areas based on an estimate of the hourly wage a full-time worker must earn to afford a two-bedroom rental home at HUD's fair market rent without spending more than 30% of their incomes, what NLIHC calls the "housing wage" (see Exhibit 2).⁷ For example, in San Francisco, the housing wage is \$64.21, while the estimated mean renter wage is \$46.29. In Boston, the housing wage is \$44.44, and the estimated mean renter wage is \$26.21.

Exhibit 2. Ten most expensive metropolitan areas based on housing wage, 2020

Rank	Metropolitan Area	Housing wage for 2-bedroom FMR
1	San Francisco, CA	\$64.21
2	San Jose-Sunnyvale-Santa Clara, CA	\$57.12
3	Santa Cruz-Watsonville, CA	\$48.44

⁷ Andrew Aurand, Dan Emmanuel, Dan Threet, Ikra Rafi, and Diane Yentel. 2020. *Out of Reach: The High Cost of Housing*. National Low Income Housing Coalition, <https://nlihc.org/resource/nlihc-releases-out-reach-2020>

4	Santa Maria-Santa Barbara, CA	\$44.69
5	Boston-Cambridge-Quincy, MA	\$44.44
6	Oakland-Fremont, CA	\$43.06
7	Santa Ana-Anaheim-Irvine, CA	\$42.62
8	Honolulu, HI	\$41.54
9	Seattle-Bellevue, WA	\$40.37
10	Stamford-Norwalk, CT	\$39.98

Source: Andrew Aurand, Dan Emmanuel, Dan Threet, Ikra Rafi, and Diane Yentel. 2020. *Out of Reach: The High Cost of Housing*. National Low Income Housing Coalition.

The Senate Committee noted that “upward price pressure on rents . . . imposes a greater financial burden on Federal taxpayers through rental assistance programs that respond to private market rents.” A review of the Fair Market Rents (FMRs) calculated by HUD provides another lens for examining high-cost areas (see Exhibit 3).⁸

Exhibit 3: 25 metropolitan areas with the highest fair market rents, 2021

Rank	Metropolitan Area	2- bedroom FMR
1	San Francisco, CA	\$3,553
2	San Jose-Sunnyvale-Santa Clara, CA HUD Metro FMR Area	\$3,051
3	Santa Cruz-Watsonville, CA MSA	\$3,021
4	Oakland-Fremont, CA HUD Metro FMR Area	\$2,383
5	Santa Maria-Santa Barbara, CA MSA	\$2,374
6	Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area	\$2,336
7	Santa Ana-Anaheim-Irvine, CA HUD Metro FMR Area	\$2,331
8	San Diego-Carlsbad, CA MSA	\$2,124
9	Urban Honolulu, HI MSA	\$2,073
10	Los Angeles-Long Beach-Glendale, CA HUD Metro FMR Area	\$2,058
11	New York, NY HUD Metro FMR Area	\$2,053
12	Nassau-Suffolk, NY HUD Metro FMR Area	\$2,035
13	Nantucket County, MA	\$2,023
14	Napa, CA MSA	\$2,018
15	Santa Rosa, CA MSA	\$1,996
16	Dukes County, MA	\$1,976
17	Stamford-Norwalk, CT HUD Metro FMR Area	\$1,958

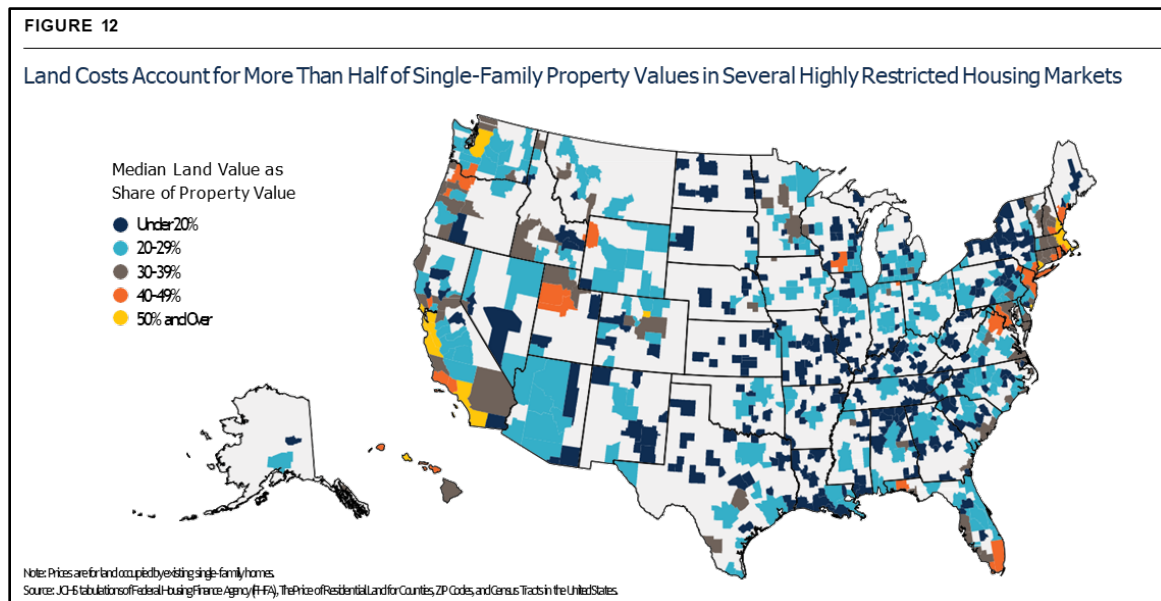
⁸ FMRs are used to determine payment standard amounts for the Housing Choice Voucher program, to determine initial renewal rents for some expiring project-based Section 8 contracts, to determine initial rents for housing assistance payment (HAP) contracts in the Moderate Rehabilitation Single Room Occupancy program (Mod Rehab), rent ceilings for rental units in both the HOME Investment Partnerships program and the Emergency Solution Grants program, calculation of maximum award amounts for Continuum of Care recipients and the maximum amount of rent a recipient may pay for property leased with Continuum of Care funds, and calculation of flat rents in Public Housing units. Fair Market Rents, <https://www.huduser.gov/portal/datasets/fmr.html>.

18	Jersey City, NJ HUD Metro FMR Area	\$1,958
19	Westchester County, NY Statutory Exception Area	\$1,943
20	Oxnard-Thousand Oaks-Ventura, CA MSA	\$1,923
21	Seattle-Bellevue, WA HUD Metro FMR Area	\$1,906
22	Kauai County, HI	\$1,902
23	Salinas, CA MSA	\$1,793
24	Kahului-Wailuku-Lahaina, HI MSA	\$1,772
25	Bergen-Passaic, NJ HUD Metro FMR Area	\$1,768

Source: Fair Market Rents, <https://www.huduser.gov/portal/datasets/fmr.html>

Exhibit 4 identifies jurisdictions where single-family land costs are high, reflecting in part a restrictive regulatory environment. Consistent with the above data, the map shows high land costs in areas along the coasts, but also in a few locations in the interior.

Exhibit 4: Markets with high single-family land costs are predominantly on the coasts



Source: Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2020*, Fig. 12, 12.

The different measures of calculating unaffordability tell a consistent story.

1. Five metropolitan areas show up across the rankings: Honolulu, HI, and San Francisco, San Jose, Santa Cruz-Watsonville, and Santa Maria-Santa Barbara, CA.
2. The metropolitan areas that show up as high cost on multiple rankings are in California, Connecticut, Hawaii, Massachusetts, New York/New Jersey, and Washington.
3. While housing affordability may be a challenge in jurisdictions throughout the United States, the challenge is greatest in metropolitan areas in California and in other states on the East and West coasts.

Housing prices reached new highs in 2020. The Federal Housing Finance Agency (FHFA) seasonally adjusted purchase-only house price index shows U.S. home values are 38 percent above their prior peak, set in April 2007.⁹ The FHFA All-Transactions Price Index shows nominal year-over-year gains in 117 of the nation's 120 largest metro areas and divisions. The most rapid increases were in Boise (up 10.0 percent), Tacoma (up 7.6 percent), and Phoenix (up 7.2 percent).¹⁰ A research brief notes that continued supply constraints will result in low-price home and rental prices continuing to increase faster than prices for high-price homes, widening residual income inequality between low- and high-income households and hurting the ability of low-income households to build financial resources to protect them from future economic shocks.¹¹

High housing costs or significant cost fluctuations can reduce mobility, keeping people from being able to move close to work or, when local jobs are scarce, moving to a community with better job opportunities.¹² The negative effects of high housing costs extend beyond individuals to harm communities and the nation. A balance between jobs and housing is important for maximizing productivity and growth, at both a local and aggregate level.¹³

[High-productivity metropolitan areas](#)

Hsieh and Moretti (2019) estimate that local housing constraints in certain high-productivity and high-cost cities have constrained aggregate economic growth over the past forty years. They conclude that U.S. Gross Domestic Product (GDP) (in 2009) would have been 3.7 percent higher by relaxing land use restrictions in New York, San Jose, and San Francisco to increase housing supply.¹⁴ This would constitute an additional \$3,685 in average annual earnings per worker. Glaeser and Gyourko (2018) re-estimate these effects using more conservative labor demand elasticities and arrive at an upper bound of 2

⁹ U.S. Department of Housing and Urban Development. January 2021. Housing Market Indicators Monthly Update, 1, <https://www.huduser.gov/portal/sites/default/files/pdf/Housing-Market-Indicators-Report-January-2021.pdf>.

¹⁰ Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2020*, 13.

¹¹ Jung Hyun Choi, John Walsh, and Laurie Goodman, *Why the Most Affordable Homes Increased the Most in Price between 2000 and 2019* (Washington, DC: The Urban Institute, 2020). <https://www.urban.org/research/publication/why-most-affordable-homes-increased-most-price-between-2000-and-2019>.

¹² Dao, Mai, Davide Furceri, and Prakash Loungani. 2017. "Regional Labor Market Adjustment in the United States: Trend and Cycle." *Review of Economics and Statistics* 99(2): 243–57.

¹³ Hsieh, C. T., & Moretti, E. 2019. Housing constraints and spatial misallocation. *American Economic Journal: Macroeconomics*, 11(2): 1-39; Duranton, G., & Puga, D. 2019. Urban growth and its aggregate implications (No. w26591). National Bureau of Economic Research; and Herkenhoff, K. F., Ohanian, L. E., & Prescott, E. C. 2018. Tarnishing the golden and empire states: Land-use restrictions and the US economic slowdown. *Journal of Monetary Economics*, 93, 89-109.

¹⁴ This estimate of lost productivity growth is substantial when compared to housing expenditures of 12 percent of GDP.

percent of GDP.¹⁵ These studies highlight the potential damage to aggregate economic growth from restrictive regulatory practices.¹⁶

Ganong and Shoag (2017) find that, in a constrained housing market (measured by a high number of land use related court cases), the net migration of workers of all skill types from poor to rich places is replaced by skill sorting.¹⁷ Skilled workers move to high-cost, high productivity areas, and unskilled workers move out due to rising house prices. The divergence in the location choice of lower-skilled, lower-income workers affects not only their earnings, but their children's social mobility. For example, Acolin and Wachter (2017) find metropolitan areas with higher levels of intergenerational mobility have experienced higher housing cost growth and moderately higher employment growth.¹⁸ Accordingly, estimates of the impact of regulations on housing costs do not fully account for the impacts on the aggregate U.S. economy. Other costs and benefits to consider arise from families' access to opportunity and resources.¹⁹

Productivity can be measured in a variety of ways. One simple measure is gross domestic product. In 2016, the five largest metropolitan areas accounted for almost 25 percent of the national GDP.²⁰ Much of the growth was from three industry groups: (1) professional and business services, (2) information services, and (3) finance, insurance, real estate, rental, and leasing. Calculating per capita real GDP (GDP measured in constant dollars to reflect inflation) provides a means for comparing growth across metropolitan areas. Exhibit 5 shows the five metropolitan areas with the highest per capita real GDP in 2016. The high per capita GDP of Midland, Texas likely results from energy production, a highly volatile industry, rather than the three industries BEA highlighted.²¹

¹⁵ Glaeser and Gyourko. 2018. The Economic Implications of Housing Supply. *Journal of Economic Perspectives* 32(1): 3-30.

¹⁶ Lost growth amounting to only 1 percent of GDP would constitute a cost of \$200 billion. U.S. GDP was \$21,429 billion in 2019 (BEA, January 30, 2020).

¹⁷ Ganong, Peter, & Shoag, Daniel 2017. Why has regional income convergence in the US declined? *Journal of Urban Economics*, 102, 76-90. In contrast, Molloy and colleagues (2016) examine possible causes of declining labor market fluidity, which began in the 1980s. They find no correlation at the state level between tighter land use regulation and declines in labor market fluidity. Raven Molloy, Riccardo Trezzi, Christopher L. Smith, and Abigail Wozniak. 2016. "Understanding Declining Fluidity in the U.S. Labor Market." *Brookings Papers on Economic Activity*. 183 – 252.

¹⁸ Arthur Acolin and Susan Wachter. 2017. Opportunity and Housing Access. *Cityscape*, 19(1): 135-149.

¹⁹ See, e.g., Chetty, Raj, Hendren, Nathan & Katz, Lawrence F. 2016. The effects of exposure to better neighborhoods on children: New evidence from the Moving to Opportunity experiment. *American Economic Review* 106(4): 855-902.

²⁰ Jacob R. Hinson, Sharon D. Panek, and Ralph M. Rodriguez. 2017. "Gross Domestic Product by Metropolitan Area." Bureau of Economic Affairs.

²¹ The Milken Institute report on Best-Performing Cities similarly notes large gains in metropolitan areas dependent on energy and natural resources in its 2020 rankings. See Michael C.Y. Lin, Joe Lee, and Perry Wong. 2020. *Best-Performing Cities 2020: Where America's Jobs are Created and Sustained*. Milken Institute.

Exhibit 5: Highest per capita real Gross Domestic Product (GDP) for selected metropolitan areas, 2016

Metropolitan Area	Population	Real GDP (millions of chained (2009) dollars)	Per capita Real GDP
Midland, TX	168,288	29,591	175,837
San Jose-Sunnyvale-Santa Clara, CA	1,978,816	236,855	119,695
Bridgeport-Stamford-Norwalk, CT	944,177	88,026	93,231
San Francisco-Oakland-Hayward, CA	4,679,166	406,294	86,830
Boston-Cambridge-Newton, MA-NH	4,794,447	371,577	77,502

Source: Jacob R. Hinson, Sharon D. Panek, and Ralph M. Rodriguez. 2017. "Gross Domestic Product by Metropolitan Area." Bureau of Economic Affairs. Table 3.

Looking solely at GDP, rather than per capita GDP, the ten most productive metropolitan areas are shown on a map in Exhibit 6. The map also shows other areas of high productivity, which spread across the country.

Exhibit 6: Distribution of areas with the highest economic output, 2018



Article & Sources:
<https://howmuch.net/articles/richest-cities-in-the-us>
 The U.S. Bureau of Economic Analysis - <https://www.bea.gov>

Source: Iman Gosh. 2020. "This 3D map shows the U.S. cities with the highest economic output." World Economic Forum, <https://www.weforum.org/agenda/2020/09/united-states-america-economic-output-new-york-la/>

The Brookings Institution tracks economic performance based on growth, prosperity, and inclusion through its Metro Monitor. Prosperity includes a measure of labor productivity: the average gross metropolitan product (GMP) per job.²² Metropolitan areas are categorized as very large (population over 1 million), large (population between 500,000 and 1 million), or midsized (population between

²² Alan Berube, Sarah Crump, and Alec Friedhoff. *Metro Monitor 2020*. The Brookings Institution. <https://www.brookings.edu/interactives/metro-monitor-2020/>

250,000 and 500,000). Exhibit 7 shows the ten metropolitan areas in each of the three size categories that had the highest 10-year increase in productivity.

Exhibit 7: Top ten metropolitan areas with greatest increase in productivity in each size category

Metropolitan Area	10-year change in productivity	Size
San Jose-Sunnyvale-Santa Clara, CA	41.4%	Very large
Seattle-Tacoma-Bellevue, WA	22.4%	Very large
San Francisco-Oakland-Berkeley, CA	20.9%	Very large
Buffalo-Cheektowaga, NY	19.4%	Very large
Austin-Round Rock-Georgetown, TX	14.3%	Very large
Rochester, NY	14.3%	Very large
Raleigh-Cary, NC	14.2%	Very large
Oklahoma City, OK	13.4%	Very large
Nashville-Davidson-Murfreesboro-Franklin, TN	12.3%	Very large
Cincinnati, OH-KY-IN	12.1%	Very large
Albany-Schenectady-Troy, NY	23.7%	Large
Syracuse, NY	21.3%	Large
Fayetteville-Springdale-Rogers, AR	16.0%	Large
Omaha-Council Bluffs, NE-IA	15.5%	Large
Madison, WI	15.5%	Large
Charleston-N Charleston, SC	14.7%	Large
Toledo, OH	14.5%	Large
Knoxville, TN	14.3%	Large
Wichita, KS	13.1%	Large
Poughkeepsie-Newburgh-Middletown, NY	12.1%	Large
Beaumont-Port Arthur, TX	25.6%	Midsized
Waco, TX	19.8%	Midsized
Utica-Rome, NY	15.9%	Midsized
Fort Wayne, IN	15.8%	Midsized
Flint, MI	15.5%	Midsized
Greeley, CO	15.4%	Midsized
Shreveport-Bossier City, LA	13.8%	Midsized
Tuscaloosa, AL	13.6%	Midsized
Charleston, WV	13.4%	Midsized
Lubbock, TX	13.3%	Midsized

Source: Brookings Metro Monitor 2020.

The Milken Institute uses a formula that incorporates job growth, wage and salary growth, and high-tech GDP indicators to determine the best performing metropolitan areas.²³ Exhibit 8 shows the ten highest performing large and small metropolitan areas.²⁴

²³ Michael C.Y. Lin, Joe Lee, and Perry Wong. 2020. *Best-Performing Cities 2020: Where America's Jobs are Created and Sustained*. Milken Institute.

²⁴ "Large cities" are the 200 largest metropolitan areas or divisions; "small cities" are not defined but also are metropolitan areas or divisions.

Exhibit 8: Milken Institute’s best-performing metropolitan areas

Large Metropolitan Area	2020 Rank
San Francisco-Redwood City-South San Francisco, CA	1
Provo-Orem, UT	2
Austin-Round Rock, TX	3
Reno, NV	4
San Jose-Sunnyvale-Santa Clara, CA	5
Orlando-Kissimmee-Sanford, FL	5
Boise City, ID	7
Seattle-Bellevue-Everett, WA	8
Dallas-Plano-Irving, TX	9
Palm Bay-Melbourne-Titusville, FL	10
Small Metropolitan Area	2020 Rank
Bend-Redmond, OR	1
Grants Pass, OR	2
Logan, UT-ID	3
St. George, UT	4
Coeur d’Alene, ID	5
The Villages, FL	5
Idaho Falls, ID	7
Gainesville, GA	8
Sebastian-Vero Beach, FL	9
Bellingham, WA	10

Source: Michael C.Y. Lin, Joe Lee, and Perry Wong. 2020. Best-Performing Cities 2020: *Where America’s Jobs are Created and Sustained*. Milken Institute.

Use of these different sources and calculation methods provides several important messages:

1. Six metropolitan areas are identified consistently as high productivity: Austin, TX, Boston, MA, Dallas, TX, San Francisco, CA, San Jose, CA, and Seattle, WA.
2. Across the different measures, which include smaller metro areas, high productivity metropolitan areas are located in 29 states. They are not limited to the East and West coasts.
3. High-productivity does not translate to high-cost.
4. Nine metropolitan areas appear as both high-productivity and high-cost places: Los Angeles, San Francisco, and San Jose, CA; Stamford, CT; Boston, MA; New York-Jersey City, NY-NJ; Bend and Grants Pass, OR; and Seattle, WA.

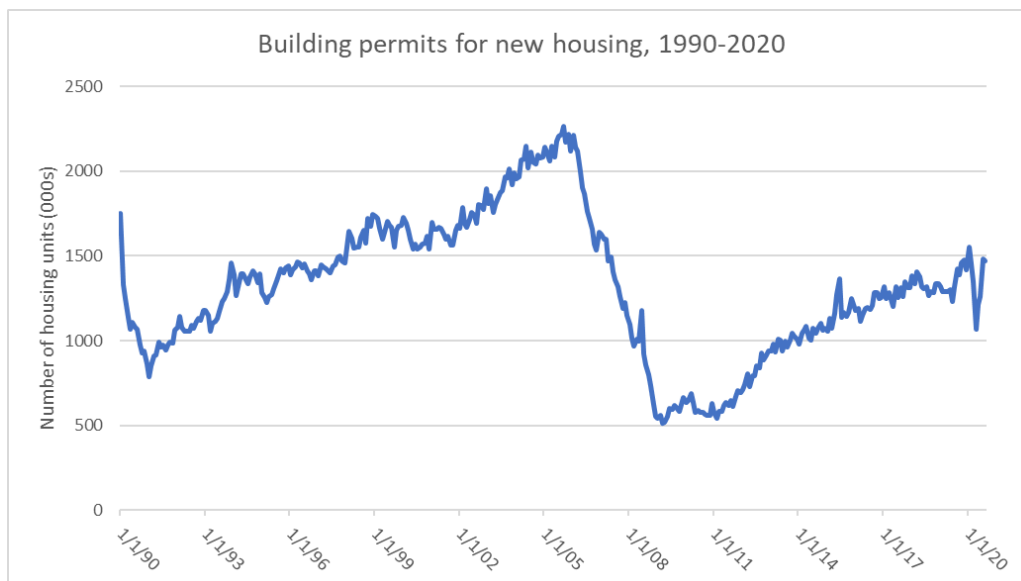
Given the important role of housing policy in promoting or hindering geographic and economic mobility, high-productivity jurisdictions that are experiencing consistent population and job growth may begin to experience the negative effects of insufficient housing in high-demand locations. In addition, because productivity growth may rely on agglomeration economies, restricting population growth may reduce an area’s productivity growth. For example, a study of metropolitan areas in the Sun Belt found that

although a low cost of living has been a driver of the region’s growth, homeownership rates are declining and more households are experiencing housing cost burdens.²⁵ Thus, many state and local governments can benefit from implementing policies and procedures that enable housing supply to meet the wide range of housing needs across income levels.

Increasing housing supply

In the United States, housing supply has failed to meet demand, resulting in higher housing costs. A balanced housing market generally requires construction to equal the rate of household formation plus replacement of existing housing. New housing construction essentially stopped from 2009 to 2011 and has only barely kept pace with population growth since then (see Exhibit 9). Housing permits averaged slightly more than one million annually over the past 10 years, compared with more than 1.5 million permits per year during the previous decade. The drop-off in new housing construction has kept upward pressure on house prices and rents. The shortfall in number of units produced since 2008 is estimated at 3 to 5 million.²⁶

Exhibit 9: Supply is below historical averages



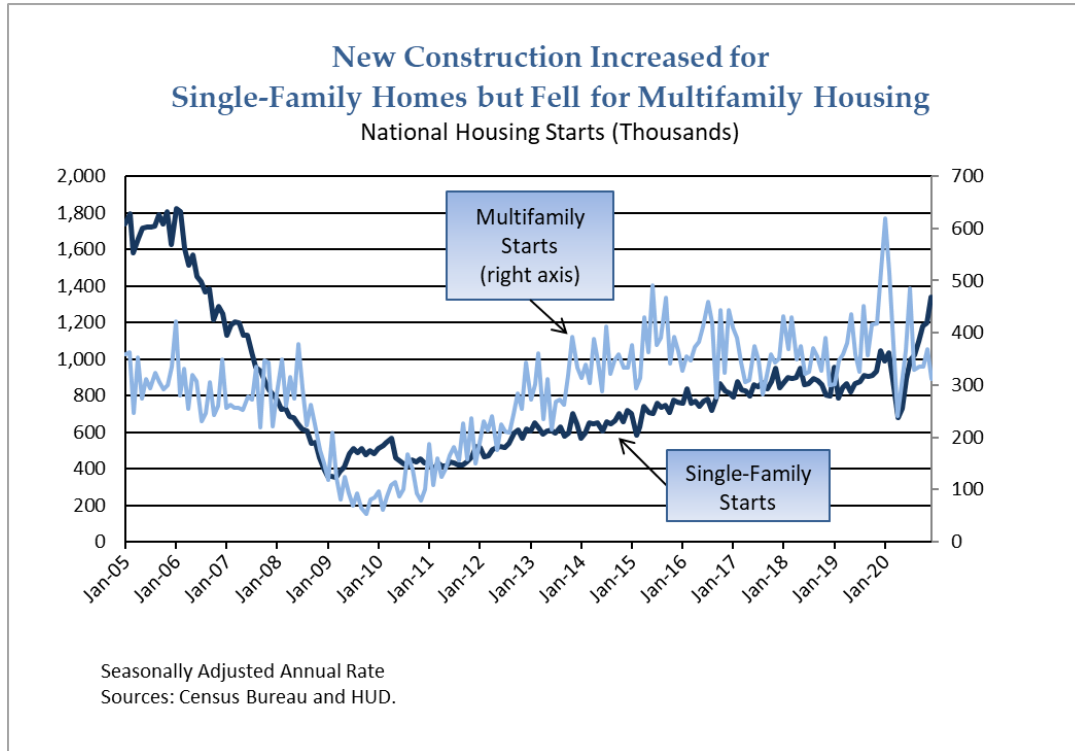
Source: Based on data from U.S. Census Bureau and U.S. Department of Housing and Urban Development, “New Private Housing Units Authorized by Building Permits” (2020 [PERMIT], accessed April 16, 2020, from FRED, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/PERMIT>).

²⁵ Rice University Kinder Institute for Urban Research. 2020. The Urban Sun Belt: An Overview. Retrieved from: <https://kinder.rice.edu/sites/default/files/documents/KIUR%20-%20The%20Urban%20Sun%20Belt%205.pdf>. See also, Howard, Greg. 2020. "The Migration Accelerator: Labor Mobility, Housing, and Demand." *American Economic Journal: Macroeconomics*, 12 (4): 147-79.

²⁶ Don Layton. January 7, 2021. The Extraordinary and Unexpected Pandemic Increase in House Prices: Causes and Implications, <https://www.jchs.harvard.edu/blog/extraordinary-and-unexpected-pandemic-increase-house-prices-causes-and-implications>.

Recent data show a significant increase in housing starts for single-family homes (see Exhibit 10). In December 2020, single-family housing starts were at 1.34 million homes (seasonally-adjusted annual rates, “SAAR”), up 27.8 percent from the previous year. Multifamily housing (5 or more units in a structure) starts, at 312,000 units (SAAR), were down 40.0 percent from the previous year. Total housing starts were at 1.67 million units (SAAR) and were up 5.2 percent year-over-year. Total construction for new homes reached 1.38 million units for all of 2020, 7.0 percent higher than in 2019 and the strongest pace since 2007.²⁷

Exhibit 10. New construction increased for single-family homes but fell for multifamily housing in 2020



Source: U.S. Department of Housing and Urban Development. January 2021. Housing Market Indicators Monthly Update.

Construction of new homes is on the rise, but these homes continue the trend of being larger and more expensive. Forty-three percent of new homes in 2019 had four or more bedrooms.²⁸ Townhomes and condominiums contributed only a small portion of new supply at 120,000 and 31,000 units, respectively, in 2019.²⁹ While the need for increased housing production is critical throughout the United States, the imbalance between supply and demand is particularly severe in certain metropolitan areas, creating unaffordable housing for a wide range of households.

²⁷ U.S. Department of Housing and Urban Development. January 2021. Housing Market Indicators Monthly Update, 2, <https://www.huduser.gov/portal/sites/default/files/pdf/Housing-Market-Indicators-Report-January-2021.pdf>

²⁸ Joint Center for Housing Studies of Harvard University, *The State of the Nation’s Housing 2020* (Cambridge, MA: Joint Center for Housing Studies of Harvard University, 2020), 10.

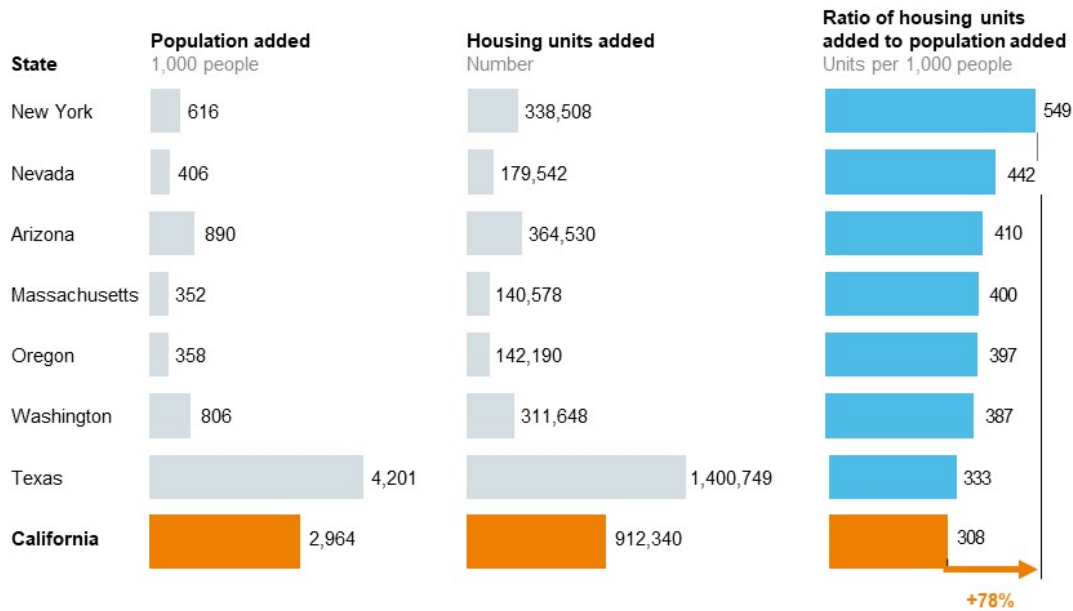
²⁹ Joint Center for Housing Studies of Harvard University, *The State of the Nation’s Housing 2020*, 10.

An analysis by the McKinsey Global Institute in 2016 of housing in California found the state had a significant deficit in housing production, adding only 308 new units per 1,000 new people between 2005 and 2014 (see Exhibit 11). California’s production was far less relative to population growth than other states, such as New York, which had less population growth, and Texas, which had greater growth. Texas has been producing new housing but may still be lagging demand given its substantial population growth in the last decade. An analysis by the Kinder Institute found that the ratio of housing price to income has increased significantly in Texas metropolitan areas: between 2009 and 2018, Dallas-Fort Worth increased from 2.59 to 3.67, Houston increased from 2.71 to 3.58, and San Antonio increased from 3.06 to 3.88.³⁰ All three remained below the national ratio (3.44 in 2009, 4.13 in 2018), but indicate a trajectory of decreasing affordability.

Exhibit 11: California housing production significantly lags population growth

Exhibit 2

California has produced less housing per capita than other US states—80 percent less than New York in 2005–14



SOURCE: US Census Bureau; McKinsey Global Institute analysis

Source: McKinsey Global Institute. 2016. *Closing California’s Housing Affordability Gap*, Exhibit 2, 2.

A significant body of research has examined the relationship among land use regulations, housing supply, and housing prices, finding that increasingly strict local and State government regulations have driven up the cost of building new homes and have prevented housing supply from keeping up with

³⁰ Fulton, William. 2020. Can Texas afford to lose its housing affordability advantage? <https://kinder.rice.edu/urbanedge/2020/04/14/can-texas-afford-lose-its-housing-affordability-advantage>

demand.³¹ For example, Glaeser, Gyourko and Saks estimate the size of the “regulatory tax” by backing out estimated construction costs (using R.S. Means data) from the price of newly built homes.³² They attribute any gap between new housing prices and costs to the impacts of regulation. Of the 21 metro areas they analyzed, 9 markets had a regulatory tax of greater than 10 percent, with the regulatory tax accounting for one-third to one-half of the median home value in several metro areas in California and one-fifth of the value in the Boston and DC metro areas.³³ Glaeser and Gyourko (2018) relate the regulatory tax (reflected as the price to construction cost ratio) to new construction (see Exhibit 12). Their graph shows in jurisdictions with high ratios and low ratios, construction has been low between 2000 and 2013; areas with ratios around one show a greater range of building activity, as supply can respond to demand.³⁴

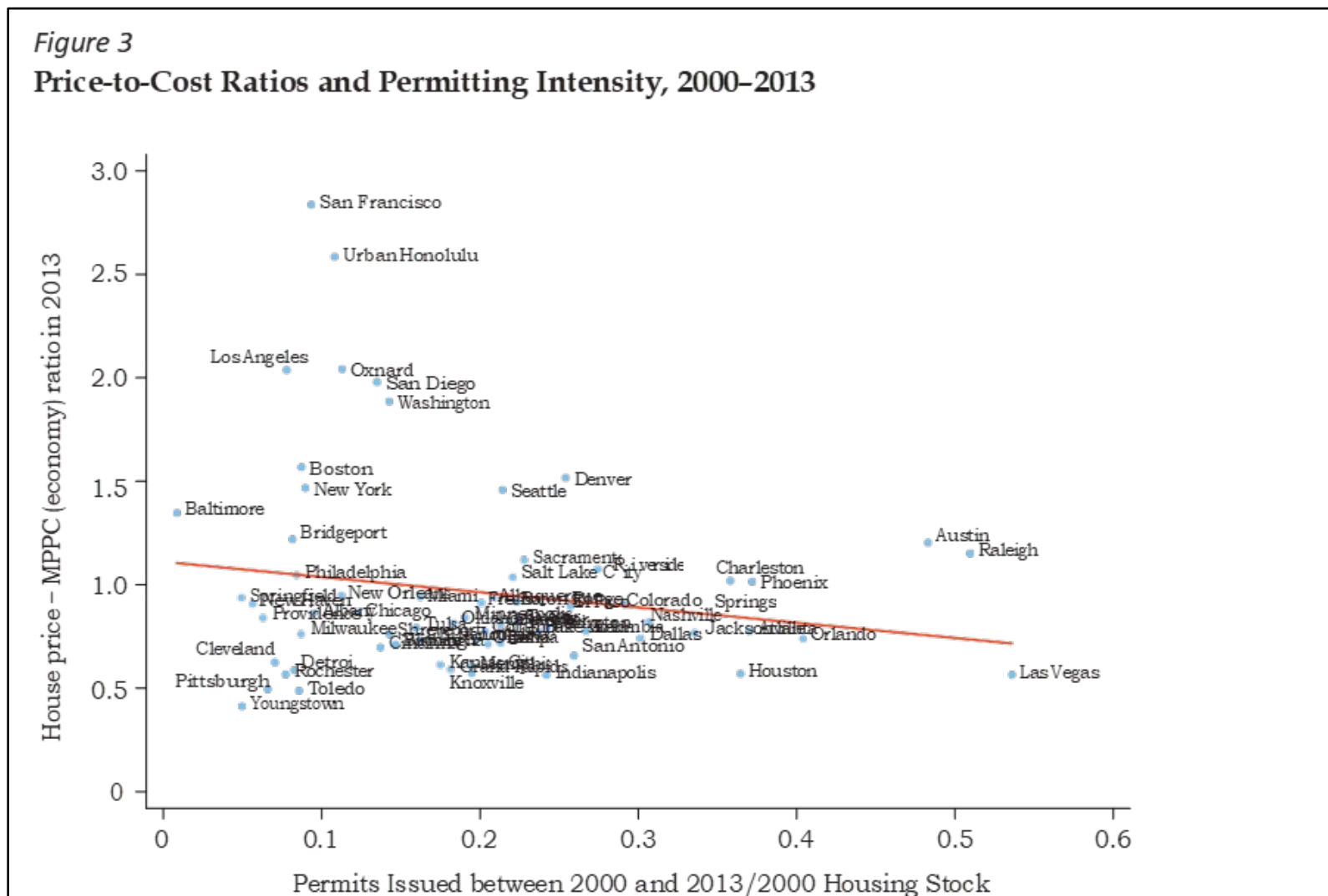
³¹ Gyourko, Joseph and Molloy, Raven. 2015. “Regulation and Housing Supply.” The Wharton School. University of Pennsylvania, Philadelphia. <https://faculty.wharton.upenn.edu/wp-content/uploads/2017/05/Regulation-and-Housing-Supply-1.pdf>, Hsieh, Chang-Tai and Enrico Moretti. 2019. Housing Constraints and Spatial Misallocation. *American Economic Journal*, 11(2), 1-39. <https://www.aeaweb.org/articles?id=10.1257/mac.20170388>.

³² Glaeser, Edward, Gyourko, Joseph, & Saks, Raven. 2005. Why is Manhattan So Expensive? Regulation and the Rise in House Prices. *Journal of Law and Economics* 48(2), 2005: 331-370.

³³ In a more recent study, Glaeser and Gyourko compare house prices to the minimum profitable production cost (MPPC) and find 26 percent of homes are expensive, defined as having a house price to MPPC ratio of greater than 1.25, with 10 percent having a ratio greater than 2. See, Glaeser and Gyourko. 2018. The Economic Implications of Housing Supply. *Journal of Economic Perspectives* 32(1): 3-30.

³⁴ The regulatory tax method gives an estimate of how regulations affect prices of newly built housing, but it does not address how regulatory constraints on building new supply impact the price of *existing* housing, which is a much larger share of overall housing stock.

Exhibit 12: Areas with reasonable price-to-cost ratios have greater construction activity



Source: Glaeser and Gyourko. 2018. The Economic Implications of Housing Supply. *Journal of Economic Perspectives* 32(1): 3-30, Fig. 3, 19. MPPC is the “minimum profitable production cost” of a unit of housing, calculated as the land and construction costs multiplied by the builder’s entrepreneurial profit.

Given the importance of affordable, safe, and stable housing for physical, psychological, and financial well-being, all levels of government have a stake in supporting efforts to increase housing supply, including the production and preservation of units affordable to low-income households. State and local governments throughout the United States have taken steps in the last few years to reduce barriers to housing and increase housing supply. The next section identifies several such actions that may be beneficial to jurisdictions throughout the country, including places currently struggling with high demand, insufficient supply, and increasing housing costs.

Section 3: Strategies to Increase Housing Supply and Affordability

Many of the states with high cost and high productivity jurisdictions have enacted legislation to promote housing production and have issued bonds to fund affordable housing. In California, for example, 15 bills were adopted in September 2020 to support affordable housing production and preservation.³⁵ While California, Massachusetts, and Oregon are often on the forefront of new housing policies to support affordable housing, their cities continue to have high housing costs, limiting opportunities for residents of all income levels. These outcomes reflect two critical elements of housing:

1. The United States' housing market relies primarily on the private market to produce housing units. Developers will not build units if they cannot make the deal work financially, i.e., "pencil out." High land costs from supply restrictions, long and uncertain development processes, and requirements to provide or pay for infrastructure and other amenities add to the costs.
2. Land use regulatory regimes extend beyond specific regulations, such as parking requirements or maximum height limits. Tackling each barrier individually through a regulatory or statutory amendment may create change at the margins but tends to be insufficient to generate enough production. More comprehensive approaches may be needed to recover from decades of undersupply.

In the last few years, state and local jurisdictions have adopted a variety of regulations and practices to reduce regulatory barriers.³⁶ Many of them are new, so their effectiveness cannot yet be evaluated. Furthermore, strategies effective in one housing market may not transfer well to a different housing market; context matters. Nevertheless, the myriad activities occurring at the local level offer opportunities to learn what is possible and for jurisdictions to learn from each other. Rising house prices throughout the country, not just in high-productivity areas, make it important to highlight these efforts.

³⁵ <https://www.gov.ca.gov/2020/09/28/governor-newsom-signs-legislation-boosting-housing-production-in-california-to-fight-affordability-crisis/>

³⁶ See U.S. Department of Housing and Urban Development. 2021. *Eliminating Regulatory Barriers to Affordable Housing: Federal, State, Local, and Tribal Opportunities*. <https://www.huduser.gov/portal/publications/eliminating-regulatory-barriers-to-affordable-housing.html>

Gentle density

Many communities limit residential development to primarily single-family detached houses, which can constitute up to 75 percent of the residential land in many cities, according to one estimate.³⁷ Large apartment buildings are often perceived as the alternative. Many jurisdictions limit the production of diverse, unsubsidized housing options between single-family and large multifamily housing, ranging from duplexes to fourplexes, courtyard apartments, bungalow courts, and townhouses, which are necessary for meeting the range of families' needs. This variety of housing, shown in Exhibit 13, is sometimes referred to as "missing middle housing."

Exhibit 13: Diagram of missing middle housing types



Source: Opticos Design, Inc. <https://missingmiddlehousing.com/>

These types of homes were once common; over time, zoning has restricted their construction (see Exhibit 14). While missing middle housing may be built in a jurisdiction, it typically requires the owner to request a variance or zoning change, which requires review and approval – a potentially lengthy and expensive process. In contrast, “by-right” development means if the proposed housing complies with the rules, it is allowed, though ministerial review is required to ensure compliance. The term “gentle density” reflects that housing supply can be increased by allowing small multifamily buildings – duplexes, triplexes, quadplexes – within a single-family neighborhood without significantly changing its character.

³⁷ Emily Badger and Quoc Trung Bui. June 18, 2019. Cities Start to Question an American Ideal: A House With a Yard on Every Lot. *The New York Times*, <https://www.nytimes.com/interactive/2019/06/18/upshot/cities-across-america-question-single-family-zoning.html>

Exhibit 14: Missing middle housing has declined since the 1970s



Source: Justin Fox. 2019. Housing's 'Missing Middle' Keeps Shrinking. Bloomberg.
<https://www.bloomberg.com/opinion/articles/2019-07-16/apartment-buildings-in-the-u-s-keep-getting-bigger>

States have begun recognizing that allowing gentle density by-right can be an effective way to produce more housing. Regulatory changes that allow gentle density to be built by-right provide developers with certainty about the product and process, which reduces the risks, development time, and costs. Such changes could increase the number of homes available and bring down average housing prices in high-cost locations, while retaining the physical scale of the neighborhood.³⁸

In 2019, Oregon passed a statewide law (HB 2001) that pre-empts local governments from banning duplexes, triplexes, and fourplexes in most residential neighborhoods.³⁹ The Nebraska legislature considered a similar approach, with the Missing Middle Housing Act (LB 794), which would have allowed the development of missing middle housing in areas that were previously zoned exclusively for single-family detached residential units. Instead, the Municipal Density and Missing Middle Housing Act (LB866) was adopted in August 2020.⁴⁰ It requires cities to adopt affordable housing action plans and establishes the Middle-Income Housing Investment Fund, a \$10 million workforce housing investment

³⁸ Alex Baca, Patrick McAnaney, and Jenny Schuetz, *"Gentle" Density Can Save Our Neighborhoods* (Washington, DC: Brookings Institution, 2019) <https://www.brookings.edu/research/gentle-density-can-save-our-neighborhoods/>. As the example provided in Baca, McAnaney, and Schuetz (2019) shows, prices will be lower, but that does not mean they will be affordable to low- and moderate-income households.

³⁹ Andersen, M., Berling, S. January 10, 2019. "Here's Oregon's New Bill to Re-legalize 'Missing Middle' Homes Statewide," <https://www.sightline.org/2019/01/10/oregon-missing-middle-homes-hb-2001/>

⁴⁰ LB866 text: <https://nebraskalegislature.gov/FloorDocs/106/PDF/Slip/LB866.pdf>. An alternative bill, the Missing Middle Housing Act, would have required cities to permit duplexes, triplexes, fourplexes, and townhouses in areas zoned for single family homes. <https://nebraskalegislature.gov/FloorDocs/106/PDF/Intro/LB794.pdf>

grant program for urban areas of the state.⁴¹ Montana is considering legislation, the Montana Housing Choices Act (HB 134), that would authorize duplexes on all low-density residential lots in the state's 20 largest cities and allow triplexes and fourplexes on all low-density residential lots in the four largest cities.⁴²

Other states promote gentle density by permitting accessory dwelling units (ADUs). For example, California (SB 1069)⁴³ and Washington (SB 6617) pre-empted local prohibitions on ADUs.⁴⁴ California's law, enacted in 2016, has resulted in a significant increase in ADUs.⁴⁵ Washington State continues to revisit the rules for ADUs to further reduce local restrictions, such as owner occupancy requirements and stricter rules than those that apply to the principal housing unit. One proposal (HB 1337) would provide jurisdictions with \$10,000 for every ADU created as a result of specific rule changes as an incentive for revising their regulations.⁴⁶

Minneapolis adopted a comprehensive plan, *Minneapolis 2040*, that prohibits neighborhoods from allowing only single-family homes; duplexes and triplexes are allowed in all neighborhoods.⁴⁷ The Minneapolis model is instructive because its proponents focused on equity, having identified the racial discrimination underlying the existing zoning through several tools, including a local Mapping Prejudice project. The campaign involved extensive community engagement with over 200 meetings in two years. In addition to the zoning changes, the city council approved \$3.4 million for the Affordable Housing Trust Fund to preserve and stabilize naturally occurring affordable housing; \$5 million for Minneapolis Homes, which offers loans for down payment assistance and has enabled the purchase of hundreds of city-owned vacant lots and houses; and \$500,000 for the new Missing Middle Housing Pilot Program, to support development of affordable 3- to 20-unit affordable residential housing projects on vacant land along transit corridors.⁴⁸ The Comprehensive Plan became effective January 2020, and the city is now updating its zoning rules to comply with the plan.⁴⁹

⁴¹

<http://update.legislature.ne.gov/?p=28550#:~:text=LB866%2C%20introduced%20by%20Omaha%20Sen,and%20Missing%20Middle%20Housing%20Act.&text=1%2C%202023%2C%20and%20all%20cities,1%2C%202024>.

⁴² Michael Anderson. Suddenly, Zoning Reforms are Popping up Everywhere January 20, 2021.

<https://www.sightline.org/2021/01/20/suddenly-zoning-reforms-are-popping-up-everywhere/>

⁴³ Bill text. Retrieved from: https://leginfo.ca.gov/faces/billTextClient.xhtml?bill_id=201520160SB1069

⁴⁴ Bill text. Retrieved from: <http://lawfilesexternal.wa.gov/biennium/2019-20/Pdf/Bills/Senate%20Passed%20Legislature/6617-S.PL.pdf?q=20200428140813>

⁴⁵ David Garcia. 2017. ADU Update: Early Lessons and Impacts of California's State and Local Policy Changes.

Berkeley, CA: Terner Center. Retrieved from:

https://ternercenter.berkeley.edu/uploads/ADU_Update_Brief_December_2017_.pdf#page=5

⁴⁶ <http://lawfilesexternal.wa.gov/biennium/2021-22/Pdf/Bills/House%20Bills/1337.pdf?q=20210216054746>

⁴⁷ Minneapolis 2040 Comprehensive Plan. <https://minneapolis2040.com/>

⁴⁸ Kathleen McCormick. 2020. Re-Zoning History: Influential Minneapolis Policy Shift Links Affordability, Equity. Lincoln Land Institute, <https://www.lincolninst.edu/publications/articles/2020-01-rezoning-history-minneapolis-policy-shift-links-affordability-equity>

⁴⁹ City of Minneapolis, Built Form Regulations. <https://minneapolis2040.com/2048>

The Sacramento City Council voted in January 2021 to proceed with a draft zoning plan to allow houses to contain up to four dwelling units.⁵⁰ If the plan reaches final approval in a year, it will legalize four homes by right on every residential lot, remove parking mandates citywide, and allow lots to be subdivided by right. As currently designed, the plan would allow buildings of up to the same square footage as the amount of land on a lot: a 5,000 square foot lot could have a 5,000 square foot building divided into four homes.⁵¹ Housing advocates in San Diego are working to have a similar reform adopted.

Cities, like Olympia, Washington, have undertaken zoning reform to permit a wider range of housing units throughout residential areas.⁵² Olympia previously enacted a Missing Middle Housing Ordinance, which was invalidated by the state's Growth Management Hearing Board in July 2019. Other cities similarly may find state law limits their ability to enact zoning changes, emphasizing the value of state action.

Form-based codes offer an alternative approach to zoning by establishing guidelines for the design of streets, open space, and other physical features of the built environment rather than separating building types or uses, as is typical of traditional zoning. Form-based codes reflect a particular type of built environment based on a collective or shared vision of the community that residents desire. Denver, Colorado adopted a hybrid form-based and context-based zoning code in 2010. Cleveland, Ohio is currently exploring a form-based code, beginning with a few pilot neighborhoods.⁵³

Creating a housing unit within an existing home, often a form of accessory dwelling units, is another way existing housing can serve more households. Programs that support homeowners in designing, financing, and managing those units—such as the Alley Flat Initiative in Austin, Texas⁵⁴—provide an essential resource to enable more units to be created and more households to benefit, while protecting homeowners from potential predatory actors.⁵⁵

Shared housing, a living arrangement in which two or more unrelated people share a house or apartment, ranges from home sharing—in which a homeowner rents a room in his or her home to a

⁵⁰ Associated Press. January 20, 2021. "Sacramento is a step closer to becoming one of the first cities in the country to eliminate traditional single-family zoning," <https://ktla.com/news/california/sacramento-moves-toward-becoming-one-of-1st-u-s-cities-to-eliminate-single-family-zoning/>

⁵¹ Michael Anderson. January 20, 2021. "Suddenly, Zoning Reforms are Popping up Everywhere," <https://www.sightline.org/2021/01/20/suddenly-zoning-reforms-are-popping-up-everywhere/>

⁵² Stephen Fesler. December 14, 2020. Olympia Enacts Targeted Citywide Missing Middle Housing Reform, Using GMA and SEPA 'Safe Harbor,' <https://www.theurbanist.org/2020/12/14/olympia-enacts-targeted-citywide-missing-middle-housing-reform-using-gma-and-sepa-safe-harbor/>.

⁵³ Cleveland, The Land Code project. <https://thelandcode.com/about/>

⁵⁴ The Alley Flat Initiative Proposes a New Sustainable, Green, Affordable Housing Alternative for Austin (Austin, TX: Austin Community Design & Development Center, 2020), <https://thealleyflatinitiative.org/>.

⁵⁵ See, for example, Karen Chapple, David Garcia, Eric Valchuis, and Julian Tucker, *Reaching California's ADU Potential: Progress to Date and the Need for ADU Finance* (Berkeley, CA: UC Berkeley, Turner Center and Center for Community Innovation Report, August 2020), http://turnercenter.berkeley.edu/uploads/Reaching_Californias_ADU_Potential_2020_1.pdf.

person seeking affordable housing—to co-living—in which an individual rents a private room and shares common areas with other tenants. Shared housing provides greater flexibility for existing housing stock to meet current market demands by housing more individuals in a single housing unit. Supporting those efforts may require revising local regulations, such as occupancy limits and density requirements. Resources to help people convert underutilized spaces in their home, safely identify housemates, and learn their rights and responsibilities are needed to support these opportunities.⁵⁶

Boston created the Intergenerational Homeshare Pilot, a collaboration between the City’s Age Strong Commission, the City’s Housing Innovation Lab, and Nesterly, a shared housing entity specializing in intergenerational housing in the Boston area.⁵⁷ The program matched elderly homeowners who had a spare bedroom with students in search of affordable housing. In New York City, the Department of Housing Preservation and Development (HPD) began the ShareNYC initiative in 2018, a pilot program to create or preserve 300 affordable housing units.⁵⁸ Co-living corporations partnered with developers and submitted proposals for co-living developments. Under the initiative, Cypress Hills Local Development Corporation and PadSplit are rehabilitating a two-story single-room-occupancy building to create 11 fully furnished units for low-income tenants.

As gentle density is adopted in more jurisdictions, consideration needs to be given to resources to support homeowners. Barriers range from financial resources to enable homeowners to finance the conversion of their home into a triplex or convert extra space into an ADU to legal resources and tax advice for individuals becoming landlords.⁵⁹ Appraisals, loan underwriting, development application requirements, landlord tenant laws, consequences of rental income on government benefits – each of these issues, among others, may limit households from pursuing greater density on their property. The combination can be overwhelming and prevent homeowners from pursuing adding a unit or two on their land. Cities need to consider how to support their residents and ensure low-income homeowners can benefit from the additional income of an extra unit. Governments and regulators must consider how to protect homeowners from potential scams that may arise in connection with developing additional housing units. If homeowners lose their homes as a result of unscrupulous actors offering development and financing “assistance,” the expected benefits will not be realized.

Conversion from commercial to residential development

Existing properties can be an important resource for increasing housing supply as new construction is typically more expensive than renovation or rehabilitation. Reusing buildings has been found to

⁵⁶ See case study at <https://www.huduser.gov/portal/casestudies/study-09282016-1.html>.

⁵⁷ City of Boston. September 2017. *City Launches Intergenerational Homeshare Pilot Program*, <https://www.boston.gov/news/city-launches-intergenerational-homeshare-pilot-program>.

⁵⁸ New York City Department of Housing Preservation and Development. October 8, 2019. “City Reveals Selected Shared Housing Development Proposals,” <https://www1.nyc.gov/site/hpd/news/092-19/city-reveals-selected-shared-housing-development-proposals#/0>.

⁵⁹ Robert Gins. 2019. *Perspective: How to make accessory dwelling units affordable*, <https://accessorydwellings.org/2019/11/06/perspective-how-to-make-accessory-dwelling-units-affordable/>

generate savings of 10 to 12 percent over new construction. Converting a non-residential use to housing or mixed-use (residential and commercial) may be an effective means to transform underperforming property to a better use. Although abandoned strip malls have often been the focus of these strategies, a growing inventory of vacant office space suggests the strategy may have broader application, particularly as technology, telecommuting, and evolving preferences lead to changes in offices.⁶⁰ This is not a new strategy. In 1999, the City of Los Angeles adopted an Adaptive Reuse Ordinance to encourage conversion of vacant commercial buildings downtown into housing.⁶¹ L.A.'s Department of City Planning estimates that several thousand housing units have been created since the ordinance went into effect.⁶²

Federal, state, and local incentives, such as New Market Tax Credits, can reduce redevelopment costs.⁶³ Two of FHA's multifamily mortgage insurance programs, Section 220 and Section 221(d)(4), have been used to insure loans for projects converting buildings—such as commercial buildings, office towers, schools, and hospitals—to residential or mixed use. Despite the benefits of these conversions, zoning codes may prohibit residential uses in commercial zones.

Recent bills in the California legislature propose requiring cities to allow residential development on commercially zoned land.⁶⁴ A report from The Turner Center for Housing Innovation identifies several policy goals that can be achieved through residential redevelopment of land zoned for retail and office, including addressing the ongoing housing shortage, catalyzing new economic growth, and reducing greenhouse gas emissions through infill development.⁶⁵ The analysis of California cities found 41 percent of commercial zones prohibited residential development. When residential development was allowed in commercial zones, it typically required an extensive review and approval process with significant discretion. If, instead, a ministerial approval process was implemented statewide, developers would have more certainty and be more willing to proceed with residential development. The authors also recommend defining “commercial property” broadly rather than specifying zoning designations, which could limit the potential for residential development.⁶⁶ Planners and researchers could conduct analyses in their jurisdictions to identify (1) commercial zones where residential development would be appropriate and (2) land use regulations that impose barriers or unnecessary costs to converting

⁶⁰ Steven Malanga. 2020. “Home at the Mall: Development projects are converting America’s faded retail structures into livable space.” *City-Journal*. <https://www.city-journal.org/housing-creation-from-empty-retail-spaces>

⁶¹ Los Angeles City Planning, “Preservation Incentives,” <https://planning.lacity.org/preservation-design/historic-resources/incentives-resources>.

⁶² Jenny Schuetz, Genevieve Giuliano, and Eun Jin Shin. 2017. “Does Zoning Help or Hinder Transit-Oriented (Re)Development?” *Urban Studies* 5(8): 1672–1689.

⁶³ Marianne Eppig and Lavea Brachman, *Redeveloping Commercial Vacant Properties in Legacy Cities: A Guidebook to Linking Property Reuse and Economic Revitalization* (Columbus, OH: Greater Ohio Policy Center, May 2014), https://www.mml.org/resources/sample_docs/ordinances/blight/toolkits-and-reports/redeveloping%20commercial%20vacant%20prop-may14.pdf.

⁶⁴ Senate Bill 6: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB6; and Assembly Bill 115: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB115.

⁶⁵ Issi Romem and David Garcia. *Residential Redevelopment of Commercially Zoned Land in California*. (Berkeley, CA: Turner Center for Housing Innovation, 2020).

⁶⁶ Issi Romem and David Garcia. *Residential Redevelopment of Commercially Zoned Land in California*. 2020.

commercial properties to residential and mixed uses as a first step to supporting greater residential development in commercial areas needing redevelopment.

Transit-oriented development

The need to better integrate transportation and housing has become widely recognized over time, as transportation is often the second highest expense households face after housing. Rules that limit mixed use development and higher levels of density may increase the distances people travel, creating higher transportation costs per capita as households are not able to optimally make trade-offs between housing cost and location. Indices such as the Location Affordability Index⁶⁷ provide data on these combined costs. The importance of the connection between housing and transportation extends beyond affordability; it relates to economic and educational opportunities as well. With a growing recognition of the need to reduce emissions to slow climate change, communities will benefit from policies that more effectively link transportation and land use. Some areas have adopted regional planning models to better balance housing, transportation, and economic growth, a model that is more common in Canadian provinces.⁶⁸ Other areas are connecting housing and transportation through transit-oriented development.

Transit-oriented development (TOD) is a term used to describe dense, walkable, mixed-use development near transit. Transit agencies may provide funds or property and benefit by sharing the costs of the transit improvements and the revenues from the real estate development. As more people live, work, and shop in the developments, transit agencies benefit from increased ridership and revenues. Like much housing development, it typically depends on the private market to create the housing that is expected to support the transit investment. TOD provides jurisdictions with an opportunity to harness the power of the market to create value in connection with the development of a transit station.

TODs, by definition, connect land use and transportation. A lack of coordination between transit and land use groups at all governmental levels can create significant barriers to optimizing housing and transportation. The Twin Cities' Metropolitan Council, which has control over land use and transportation, can serve as a model for coordination. It developed Metro Transit TOD, a one-stop shop for developers and urban planning professionals to maximize the development impact of transit investments by integrating transportation, jobs, and housing; support regional economic competitiveness by leveraging private investment; advance equity by improving multimodal access to opportunity for all; and support a 21st century transportation system through increased ridership and revenues.⁶⁹ Seattle, Washington, took a more common approach to TOD, revising its zoning regulations

⁶⁷ <https://www.hudexchange.info/programs/location-affordability-index/about/>

⁶⁸ Ray Tomalty and Alan Mallach. 2015. *America's Urban Future: Lessons from North of the Border*. Washington, DC: Island Press.

⁶⁹ <https://www.metrotransit.org/transit-oriented-development>

in 2019 to allow greater density near transit hubs, support transit ridership, promote more affordability, and serve a wider range of housing needs.⁷⁰

Los Angeles city voters approved Measure JJJ in 2016, which included authorization to create the Transit Oriented Communities Affordable Housing Incentives Program (TOC program), a by-right inclusionary zoning program. The TOC program, which became effective on September 2017, is designed to encourage the development of more affordable housing and cluster more of the future growth near transit stations to support ridership by increasing the allowable floor area ratio (FAR) in transit-rich areas. Recent research from a team at the University of Southern California examined the value proposition to developers of a FAR or density increase.⁷¹ They found the TOC program resulted in more building permits and shorter review times than the previous density bonus program. A financial simulation indicated that the combination of density increases and affordability requirements in the TOC program is financially more attractive than exclusively market-rate development in many of the neighborhoods that saw the largest use of the TOC program. They conclude that LA's TOC program "provides a tenable solution by allowing for by-right and expedited discretionary entitlement processes, which enable developers to eschew the risky and lengthy process of entitling a project."⁷² They conclude that the TOC program has provided the right balance to incentivize private construction of affordable units without giving developers a windfall. It can serve as a model for other jurisdictions.

The Massachusetts legislature, in enacting a jobs bill (H 5250) in January 2021 to support recovery from the coronavirus pandemic, recognized the relationship between economic development, housing, and transportation. The bill conditions eligibility for funds from the Housing Choice Initiative, the Local Capital Projects Fund, and the MassWorks infrastructure program (Section 18) on communities served by the Massachusetts Bay Transportation Authority (MBTA) allowing multi-family housing to be built within a half-mile of an MBTA station.⁷³ The bill also enables local officials to approve certain zoning changes with a simple majority rather than a two-thirds majority in an effort to increase housing production (Section 19).

Improve development process

The examples above identify zoning changes that offer opportunities for state and local jurisdictions to reduce barriers to housing supply in their communities. Other approaches are available to reduce barriers that drive up direct costs or that increase development risks by creating uncertainty about the

⁷⁰ Ordinance 125791, retrieved from: <https://seattle.legistar.com/View.ashx?M=F&ID=7138164&GUID=A3CAC34A-AE95-406E-BAED-280FDD8B7316>

⁷¹ Linna Zhu, Evgeny Burinskiy, Jorge De la Roca, Richard K. Green, and Marlon G. Boarnet. 2021. "Los Angeles' Housing Crisis and Local Planning Responses: An Evaluation of Inclusionary Zoning and the Transit-Oriented Communities Plan as Policy Solutions in Los Angeles." *Cityscape* 23(1): 133-160.

⁷² Linna Zhu, et al. "Los Angeles' Housing Crisis and Local Planning Responses: An Evaluation of Inclusionary Zoning and the Transit-Oriented Communities Plan as Policy Solutions in Los Angeles," 12.

⁷³ Bill text: https://d279m997dpfwgl.cloudfront.net/wp/2021/01/01-06_EcoDev_H5250.pdf

process or final product. Innovations throughout the country offer models for jurisdictions to consider in identifying what may work in their local context. A few areas of recent activity are discussed below.

Design requirements

Local regulations may dictate that new housing meet certain design features or use specific construction materials, especially on building exteriors. Design standards can be an important component of preserving a neighborhood's identity and ensuring architectural integrity and diversity. However, design standards can also raise direct costs or act as barriers to affordable housing development. For example, discretionary approval processes allow existing neighbors the opportunity to weigh in on design features, effectively giving them veto power based on their aesthetic preferences, which can push developers to use more costly materials or incorporate expensive design features.⁷⁴ Several states allow greater flexibility on design standards. Texas has limited cities' ability to reject building materials if they are accepted by international building codes.⁷⁵ Arkansas prohibits counties from regulating residential building design elements, which include exterior building color; type or style of exterior cladding material; style or materials of roof structures, roof pitches, or porches; the minimum square footage of a structure; and other architectural components.⁷⁶ Indiana is considering prohibiting a municipality from regulating design elements of residential structures.⁷⁷

Dimensional requirements

Zoning rules limit how much housing can be constructed on a given site in numerous ways; the specific rule that is the binding constraint varies across locations. Even on land parcels zoned to allow multifamily housing, dimensional requirements such as maximum floor-to-area ratio, lot width, or setbacks may make a particular lot unusable or financially infeasible. Relaxing those requirements could allow developers to make more efficient use of vacant parcels. For instance, Philadelphia allows multifamily buildings on "skinny" lots (as narrow as 11 feet, compared with the typical 16-foot width) to support more infill development.⁷⁸ North Carolina eliminated a minimum unit size for one- and two- unit dwellings.⁷⁹

⁷⁴ Hannah Hoyt, "More for Less? An Inquiry into Design and Construction Strategies for Addressing Multifamily Housing Costs" (working paper, Harvard University Joint Center for Housing Studies, Cambridge, MA, 2020), <https://www.jchs.harvard.edu/research-areas/working-papers/more-less-inquiry-design-and-construction-strategies-addressing>.

⁷⁵ Brandon Morris, *Cities in Texas May No Longer Restrict Building Materials Approved in International Codes* (Randle Law Office, Houston, TX, July 29, 2019), <http://www.igradyrandlepc.com/local-governmental-entities/cities-texas-building-materials-international-codes/>.

⁷⁶ Arkansas State Legislature, "Concerning County and Municipal Regulation of Residential Building Design Elements," Arkansas SB170: 2019: 92nd General Assembly, <https://legiscan.com/AR/drafts/SB170/2019>.

⁷⁷ Bill text: <http://iga.in.gov/legislative/2021/bills/house/1114>

⁷⁸ Philadelphia City Planning Commission. 2016. *Philadelphia Zoning Code Information Manual: Quick Guide*, https://www.phila.gov/media/20200213115058/NEW-ZONING-GUIDE_2020.pdf

⁷⁹ General Assembly of North Carolina, "2019 Building Code Regulatory Reform" (HB-675) (bill text), <https://www.ncleg.gov/Sessions/2019/Bills/House/PDF/H675v4.pdf>.

Review times

The time needed to obtain all required approvals for development can substantially increase the cost of new housing. Some states are granting automatic approval to projects if local governments do not review and decide on applications within a given time. North Carolina requires localities to make decisions on permit applications for one- and two-family structures within 15 days.⁸⁰ Texas requires all cities and counties to respond to a subdivision application within 30 days and to subsequent submissions within 15 days; otherwise, the plat or plan will be considered approved. A conditional approval or disapproval must be directly related to statutory requirements or ordinances and may not be arbitrary.⁸¹ Dallas created a “gold card” plan that reduced permit approval times for smaller projects to just 45 minutes by giving by-right approvals to developers who have completed mandatory training and consistently submit quality requests.⁸² Florida requires municipalities complete permit reviews within 30 days of application if they have enacted inclusionary zoning programs, providing an additional incentive to developers.⁸³

Community engagement

Jurisdictions are exploring ways to reshape the mechanisms by which they obtain community input.⁸⁴ Traditionally, neighbors attend planning meetings or developer presentations, which requires time and resources, often preventing input from people with less knowledge of the development, less familiarity with the process, and less flexibility in their schedules. Research shows that people who participate in local planning meetings tend to be older, wealthier, more likely white, and male than the community overall.⁸⁵ Changing the process may engage a more diverse group of community members. Finding the right balance of input and the appropriate stages for community engagement continues to be an unresolved area.

⁸⁰ General Assembly of North Carolina, “An Act to Make Various Changes and Clarifications to the Statutes Governing the Creation and Enforcement of Building Codes,” (bill text), Session Law 2019-174, House Bill 675, <https://www.ncleg.gov/Sessions/2019/Bills/House/PDF/H675v7.pdf>.

⁸¹ Legislature of the State of Texas, “An Act Relating to County and Municipal Approval Procedure for Land Development Applications” (bill text), H.B. No. A3167, <https://capitol.texas.gov/tlodocs/86R/billtext/pdf/HB03167F.pdf#navpanes=0>.

⁸² City of Dallas, “Gold Card Announcement 2019–2020,” <https://drive.google.com/file/d/1ZaZ-wBdZQ8iNzKxZ44hNPFgnUoKYQoR-/view>.

⁸³ Florida House of Representatives, “An Act Relating to Community Development and Housing; Amending S. 125.01055,” CS/CS/HB 7103, (bill text), <https://www.flsenate.gov/Session/Bill/2019/7103/BillText/er/PDF>.

⁸⁴ See Local Housing Solutions for strategies and models: <https://www.localhousingsolutions.org/plan/community-engagement-overview/2422-2/>.

⁸⁵ Katherine Levine Einstein, Maxwell Palmer, and David M. Glick. 2019. “Who Participates in Local Government? Evidence from Meeting Minutes,” *Perspectives on Politics* 17(1): 28–46.

A range of approaches are being implemented. Raleigh, North Carolina, eliminated its neighborhood councils in favor of a more systematic approach to public outreach.⁸⁶ In Seattle, policymakers are working to transform community input methods, transitioning away from the volunteer Neighborhood District Councils that had been a mainstay in neighborhood planning since the 1990s. A Community Involvement Commission seeks to identify better ways to reach all city residents, including low-income people, homeless residents, and renters.⁸⁷

Minneapolis undertook an extensive 2-year outreach program in developing its Comprehensive Plan, which involved new ways of engaging community members. Activities included interactive and family-friendly design meetings; participation in local cultural events and festivals; small focus groups; and use of maps and graphics on which residents could mark locations and leave notes. Outreach members returned to the communities throughout the process to share how community feedback was used in decision making.⁸⁸

Boulder, Colorado, launched Housing Boulder in 2013 to develop a next-generation housing strategy that would (a) define community priorities for the expansion and preservation of diverse affordable housing choices and (b) identify key ideas and strategic directions for near-term action. The city partnered with Code for America to build more inclusive, transparent, collaborative, and interactive community engagement strategies, after learning a majority of the in-person event participants were homeowners between the ages of 56 and 74, whereas 65 percent of the city's population is younger than 40, and 52 percent rent their home.⁸⁹ To reach a broader constituency, the outreach team used a tool that creates text message (SMS) surveys and analyzes the results to bridge digital and physical channels for communication to reach more people. Meetings were supplemented with digital tools so residents could participate remotely. At one event, 200 people attended in person and 636 viewers used livestream. By diversifying the spaces and channels available for residents to participate in the housing conversation, participation significantly increased among underrepresented constituent groups.

Local government officials' experiences communicating remotely, necessitated by the COVID-19 pandemic, may lead to greater flexibility and innovation in designing community engagement mechanisms. However, reliance on technology can exclude some community members, so multiple pathways for communication and input should be explored.

⁸⁶ Sarah Holder. February 6, 2020. "Raleigh Wants to Raze and Rebuild the Community Meeting," *Bloomberg CityLab*. <https://www.citylab.com/equity/2020/02/raleigh-community-planning-citizen-advisory-councils-housing/605770/>.

⁸⁷ Next City. April 3, 2017. "How Seattle is Dismantling a NIMBY Power Structure." Retrieved from: <https://nextcity.org/features/view/seattle-nimbys-neighborhood-planning-decisions>.

⁸⁸ Heather Worthington. 2020. "The Minneapolis 2040 Comprehensive Plan: Community Engagement and Policy Development Addressing Housing," *Technology|Architecture + Design* 4(1): 120–123.

⁸⁹ City of Boulder and Code for America, *Final Report*, [https://www-static.bouldercolorado.gov/docs/FinalCityofBoulderReport_\(4\)-1-201602031413.pdf](https://www-static.bouldercolorado.gov/docs/FinalCityofBoulderReport_(4)-1-201602031413.pdf).

Section 4. Solutions to Explore

Activities at the state and local level to increasing housing production have largely been focused on land use regulations and funding for affordable housing development. Several other ideas hold promise for addressing barriers and inequities. These include financing for developers and home purchasers, tax policy, and infrastructure investment. While this report does not identify models in these areas, it recommends additional analysis on strategies that could create a housing ecosystem that can better meet the needs of households of all income levels across life cycle stages and conditions.

Financing

The current United States housing finance system can make it difficult for households to become homeowners and for landowners to create additional housing supply. Rules developed in response to prior crises guide appraisals, income analyses, and other credit components. For example, households in Detroit were unable to access credit because of distorted property appraisals from a lack of comparable properties and a high number of distressed sales.⁹⁰ Rural areas struggle, as the absence of construction workers, greater distances to get construction supplies, lack of capital for construction projects, and other factors make it more expensive to build new housing. This is an even greater challenge for tribal communities.⁹¹ Research on accessory dwelling units indicates a need for ADU-specific construction lending programs.⁹² Microunits, home sharing, and other innovations to meet housing needs may similarly face financing challenges. Consideration of these needs by federal regulators and financial institutions when designing products could support a greater diversity of housing throughout the country.

Tax policy

Tax policy, like financing, has a substantial impact on housing development. The Joint Center for Housing Studies notes, “Tax policy at all levels of government has a powerful influence on the location, type, and cost of both new and existing homes, and should be used more strategically to reshape residential development patterns and make housing more affordable.”⁹³ The federal tax system transfers huge sums to housing through tax exemptions and deductions, although this sum was reduced by the Tax Cuts and Jobs Act. State tax systems provide incentives for certain investments and disincentives for

⁹⁰ Erika C. Poethig, Joseph Schilling, Laurie Goodman, Bing Bai, James Gastner, Rolf Pendall, and Sameera Fazili. 2017. *The Detroit Housing Market: Challenges and Innovations for a Path Forward*. (Washington, DC: The Urban Institute). <https://www.urban.org/research/publication/detroit-housing-market>

⁹¹ <https://archive.curbed.com/2019/4/2/18291233/rent-apartment-rural-affordable-housing>

⁹² Karen Chapple, David Garcia, Eric Valchuis, and Julian Tucker, *Reaching California’s ADU Potential: Progress to Date and the Need for ADU Finance* (Berkeley, CA: UC Berkeley, Terner Center and Center for Community Innovation Report, August 2020), http://ternercenter.berkeley.edu/uploads/Reaching_Californias_ADU_Potential_2020_1.pdf.

⁹³ Joint Center for Housing Studies of Harvard University, *The State of the Nation’s Housing 2020* (Cambridge, MA: Joint Center for Housing Studies of Harvard University, 2020), 6.

others. Shoag (2019) recommends states reduce tax incentives that support antidevelopment policies.⁹⁴ McKinsey Global Institute proposes states increase the property tax revenue allocated to cities that approve housing to encourage greater supply.⁹⁵ Many jurisdictions use tax abatement or tax increment financing to promote affordable housing developments. As all levels of government consider housing supply, access to opportunity, and equity, more attention needs to be given to the incentives created by current tax policies and opportunities for better alignment.

Infrastructure financing

Reports on regulatory barriers routinely identify impact fees as a significant barrier to development, particularly for affordable housing projects. However, properties need access to roads, water, and sewage systems; households want parks, libraries, and schools. These resources need to be funded. At a time when federal funds for infrastructure investments have declined, state and local tax and revenue systems determine the money available for infrastructure investments. Impact fees can be a critical component, without which development would not be possible. State and local governments should consider how to distribute these costs in an equitable manner given existing constraints.

When jurisdictions rely on impact fees, they can adopt certain practices to reduce the burden of impact fees. These include:

1. Providing certainty and transparency. Fee schedules should be transparent and readily observable to developers. Fees agreed to at the beginning of the project should not be changed during the development process.⁹⁶ Florida recently enacted a bill that requires counties and municipalities to include data on their impact fees in their annual financial reports, including the purpose and amount of each fee.⁹⁷
2. Structuring the timing of the fee determination and collection to reduce unnecessary uncertainty and cost. Requiring payment upon issuance of the permit rather than issuance of the certificate of occupancy makes a difference. When possible, payments for infrastructure should not be frontloaded because expenses will not be recouped until the units are sold or occupied. One recommendation was to have the jurisdiction issue infrastructure bonds that could be funded from impact fees paid over the course of development, giving the jurisdiction access to funds for necessary infrastructure immediately but delaying the imposition of the cost on the developers before they have produced units.
3. Designing fees in a manner that does not discourage efficient development. The basis on which the fee is imposed (e.g., unit size, unit type, infill/greenfield) influences development. Charging

⁹⁴ Daniel Shoag. 2019. Removing Barriers to Accessing High-Productivity Places. The Hamilton Project. https://www.hamiltonproject.org/papers/removing_barriers_to_accessing_high_productivity_places

⁹⁵ McKinsey Global Institute. 2016. *Closing California's Housing Affordability Gap*.

⁹⁶ Turner Center. August 5, 2019. *Residential Impact Fees in California* http://turnercenter.berkeley.edu/uploads/Residential_Impact_Fees_in_California_August_2019.pdf.

⁹⁷ Florida House of Representatives, CS/CS/CS/HB 1339, Engrossed 3, bill text, <https://www.flsenate.gov/Session/Bill/2020/1339/BillText/er/PDF>.

impact fees on a gross land or square footage basis rather than per unit could encourage higher density construction.

Other mechanisms for funding infrastructure—beyond impact fees—may better encourage development. A report by the National Association of Home Builders presents several alternatives as possible solutions, including tax increment financing, community development districts, and state infrastructure banks.⁹⁸ State and local governments may want to explore the range of options to find the best way to fund infrastructure in their communities while supporting housing development.

Section 5: Conclusion

Despite the many statutory and regulatory changes to support housing development, too many households continue to be unable to afford safe and stable housing. The supply has not kept up with demand and housing costs continue to rise, particularly in metropolitan areas on the East and West coasts. The rising costs put additional stress on Federal resources to support low-income households. More importantly, they may prevent households from being able to live in high-productivity areas, effectively pricing them out of opportunities for higher wages and access to local resources. Keeping people out of metropolitan areas through a lack of sufficient affordable housing does not just harm the families; it has a negative impact on the nation's economic output. Not all high-productivity areas have high housing costs, but many of the highest-cost metro areas are also high-productivity areas.

The last few years have seen significant activity among state and local governments to increase housing supply by reducing barriers. One promising approach is to adopt zoning changes that make it easier to build accessory dwelling units, duplexes, and other missing middle housing types. Allowing gentle density by-right in neighborhoods increases supply while maintaining neighborhood character. Revising zoning and related land use regulations to allow underutilized or abandoned commercial developments to be converted to residential use is another promising strategy for increasing housing supply while promoting economic development. Transit-oriented development enables jurisdictions to provide more housing in transit-rich areas and better coordinate housing and transportation, which will be of growing importance amid efforts to support economic recovery, lower the amount households spend on housing and transportation, and reduce greenhouse gases.

Local solutions go beyond zoning changes. The current development approval process offers multiple opportunities to improve processes and reduce costs, which ultimately supports housing production. State and local jurisdictions are adopting various strategies, including eliminating some design requirements, allowing more flexibility in design, and setting standards for review times. New approaches to community engagement are being considered across the country as local governments seek to communicate with more residents and ensure a broader range of voices are included in

⁹⁸ National Association of Home Builders. 2007. *Infrastructure Solutions: Best Practices from Results-Oriented States*, <https://www.nahb.org/-/media/NAHB/advocacy/docs/industry-issues/land-use-101/infrastructure/infrastructure-solutions-best-practices.pdf>.

developing community plans. The accomplishments of jurisdictions throughout the United States warrant evaluation and dissemination. Meanwhile, significant policy issues need further consideration, specifically financing, tax policy, and infrastructure.

The accomplishments of jurisdictions throughout the United States warrant evaluation and dissemination. Meanwhile, significant policy issues need further consideration, specifically financing, tax policy, and infrastructure. Illustrating the magnitude of the challenge to reduce regulatory barriers and increase housing supply, California, which has the greatest number of high-cost jurisdictions, has enacted scores of legislative actions to address its housing needs, but continues to be unable to produce enough units to satisfy the demand.

Despite the many statutory and regulatory changes to support housing development, too many households continue to be unable to afford safe and stable housing. The supply – number and type -- has not kept up with demand. HUD will continue to disseminate promising practices through the Regulatory Barriers Clearinghouse. HUD will also explore other available tools for reducing regulatory barriers and supporting state and local government efforts to provide housing across the income range to meet residents' diverse needs.