

Affordable Housing



AFFORDABLE HOUSING IN HAMPTON ROADS: FACTS AND ISSUES

“Today, the nation faces a public policy challenge that reminds me of high blood pressure: acute, growing, and deadly – yet for most Americans, unknown. The issue is affordable housing.”

– W. Paul Farmer, Executive Director, American Planning Association

In recent years, more than 75 percent of all households in Hampton Roads have owned their own homes outright, or had mortgages on them. Nationally, the comparable number has been less than 70 percent. Thus, by this measure, housing has been more affordable in our region than it has been nationally. However, since 2001, housing affordability in Hampton Roads has deteriorated substantially, primarily because of rapidly rising housing prices. Cumulatively, these prices increased more than 97 percent between 1997 and 2006. In 2005 alone, housing prices jumped 20 percent in Hampton Roads, much more rapidly than incomes.

While rising prices are the primary villain in reducing the affordability of housing, there are other causes. Zoning practices that have discouraged density and therefore the construction of lower-cost housing have played a role, as have local and state rules that increase the costs borne by builders and developers. In addition, reductions in federal support for housing programs also appear to have diminished the ability of some to purchase their own home.

It was not always so. **As Graph 1 reveals, in 1999, the annual interest and principal payments required on a typical home purchase constituted only 21.5 percent of the median income of our region’s households. However, by early 2007, these payments had risen to 32 percent, due primarily to rising housing prices. Thus, over the past few years, the cost of housing within the region has outpaced the ability to purchase that housing.**

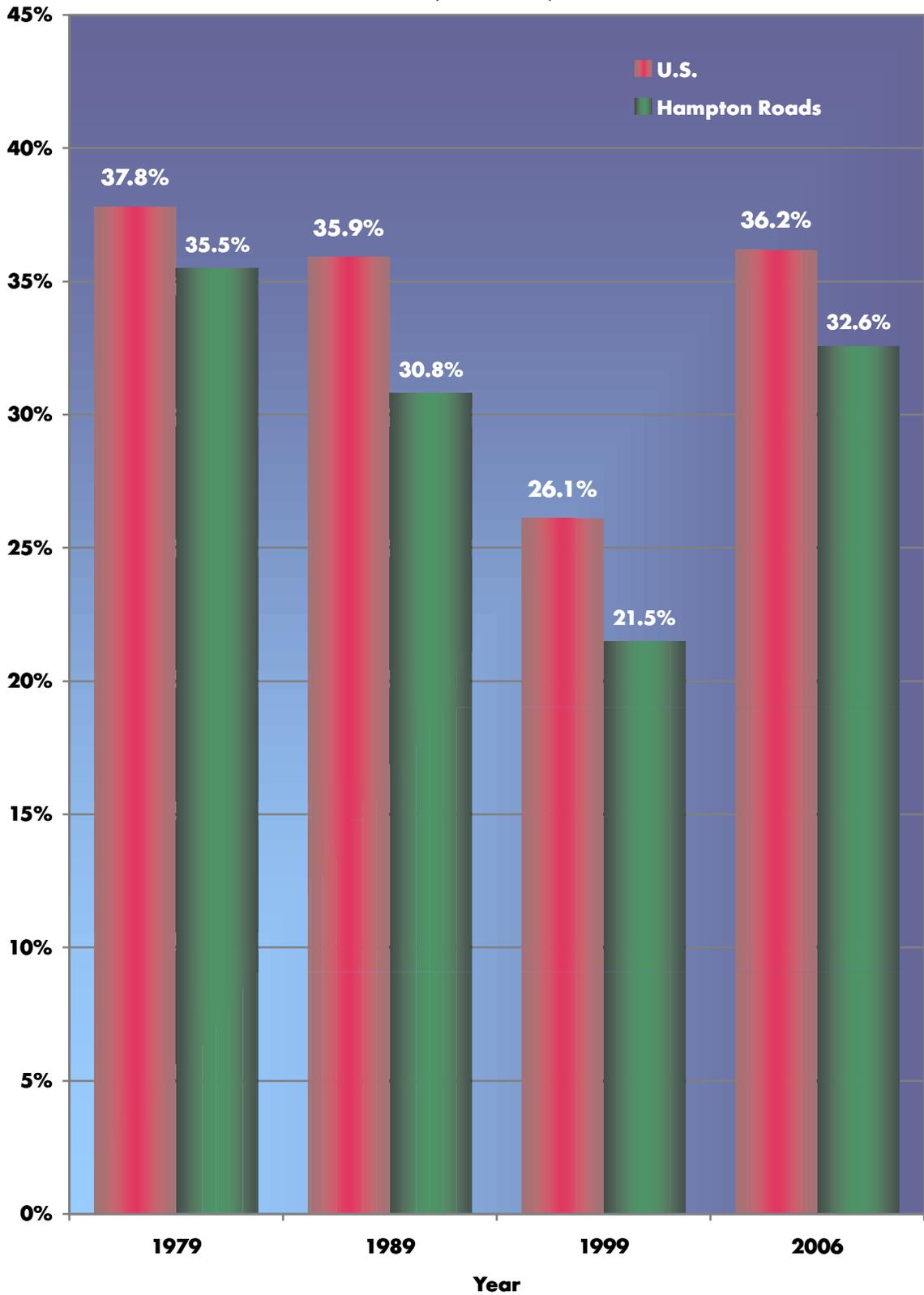
It would be incorrect to say that the current challenges we face with respect to affordable housing in Hampton Roads have sneaked up on us. The post-2001 run-up in housing prices has been well publicized. Further, the inability of many people to pay those prices has not been a secret. In recent months, considerable media attention has been focused upon rising mortgage default rates, which at least partially reflect declining affordability.

There was a time when affordable housing was considered to be a problem afflicting primarily the poor, or minority groups subject to discrimination. No longer. Our current housing affordability challenges impact young Caucasian adults, many single parents, workforce professionals such as teachers, firefighters and police, and elderly citizens living on limited incomes.

A cynic might well argue that the new public focus on affordable housing is a direct function of the fact that it has become a Caucasian, middle class issue. Many people who thought they were destined to purchase a home have found to their dismay that they now may not be able to do so. This has led to calls for action, often inchoate, that frequently resemble complaints one hears about gasoline prices. Those who are unhappy believe housing prices (and gasoline prices) are too high, though they may not understand why prices have risen, or what can be done to moderate the increases.

This chapter is an attempt to provide information that will clarify the affordable housing problem in Hampton Roads and outline the options available to us.

GRAPH 1
HAMPTON ROADS AS AN EXAMPLE: MEDIAN HOUSE PURCHASE
BORROWING COSTS AS A PERCENT OF MEDIAN HOUSEHOLD
INCOME IN HAMPTON ROADS AND THE U.S.
(1979-2006)



Source: Old Dominion University Economic Forecasting Project

What Is Affordable Housing? How Affordable Is Housing in the Area?

No intelligent discussion of housing affordability can proceed very far without agreement on what “affordable” means. While there is no accepted definition of what makes housing affordable, the most popular one is that provided by the U.S. Department of Housing and Urban Development (HUD). It considers housing to be affordable when a household’s rental payment, or its monthly principal and interest payment, is less than 30 percent of the median gross household income for a typical four-person household. Table 1 reports such data for the seven largest cities within Hampton Roads for the years 2000 and 2005.

The proportion of households required to pay more than 30 percent of their annual income in order to purchase a home increased considerably between 2000 and 2005. In Newport News, that number rose from 20.8 percent to 27.2 percent, while in Hampton Roads overall, it increased from 26.2 percent to 29.3 percent. At the end of the day, mortgage principal and interest payments took a larger bite out of household incomes in 2005 than they did in 2000.

Families potentially can moderate the impact of increased housing expenses by renting rather than owning. However, even here, a typical family could not avoid the impact of the higher costs of the past few years. Taking Newport News as an example once again, one can see that the number of rental households spending more than 30 percent of their incomes on rent increased from 35.6 percent to 45.5 percent between 2000 and 2005 (compared to a climb from 38.7 percent to 46.6 percent in Hampton Roads overall).

Table 1 also combines owner-occupied and rental housing and similarly addresses the question of what percentage of the region’s households must spend 30 percent or more of their income on housing. **The upshot is that today in Hampton Roads, more than one in every three urban households spends 30 percent or more of its income on housing. These figures range from a low of 31 percent in Suffolk and Chesapeake to a high of 42 percent in Norfolk. The regional urban average is 35.8 percent. No city is immune to the challenge of providing affordable housing to its residents.**

What does this mean in terms of specific individuals and the occupations they fill? Table 2 discloses that many people who are in public employment (for example, nurses, teachers, police and firefighters) earn incomes below the regional median household income. Their ability to purchase a home is likely to be limited unless multiple members of their households hold jobs. And, more often than not, this is the case. The labor force participation rate of adult women (those actively in the labor force) was more than 60 percent in Hampton Roads in 2006. For many households, unless they receive financial assistance from relatives or inherit assets, pooling resources is necessary to purchase a home.

**TABLE 1
INCREASING COST BURDEN OF HOUSING, 2000 TO 2005**

Owner-Occupied Households		Chesapeake	Hampton	Newport News	Norfolk	Portsmouth	Suffolk	Virginia Beach	Total
(1)	2000-Households	52,323	31,566	36,528	39,271	22,347	16,823	101,265	300,123
(2)	HH w/30%	12,430	7,138	7,608	10,013	5,806	5,537	25,103	73,635
(3)	Percentage	23.8%	22.6%	20.8%	25.5%	26.0%	32.9%	24.8%	24.5%
	2005-Households	56,894	33,768	39,552	39,718	24,033	21,797	107,472	323,234
	HH w/30%	15,604	9,355	10,752	12,925	8,364	5,012	32,656	94,668
	Percentage	27.4%	27.7%	27.2%	32.5%	34.8%	23.0%	30.4%	29.3%
Owner-Occupied Households									
(4)	Change in HH	4,571	2,202	3,024	447	1,686	4,974	6,207	23,111
(5)	Percentage Change	8.7%	7.0%	8.3%	1.1%	7.5%	29.6%	6.1%	7.7%
(6)	Change in 30% HH	3,174	2,217	3,144	2,912	2,558	(525)	7,553	11,033
(7)	Percentage Change	25.5%	31.1%	41.3%	29.1%	44.1%	5.0%	30.1%	15.0%
Renter-Occupied Units		Chesapeake	Hampton	Newport News	Norfolk	Portsmouth	Suffolk	Virginia Beach	Total
(1)	2000-Households	17,577	22,321	33,158	46,939	15,823	6,468	53,190	195,476
(2)	HH w/30%	6,519	8,367	11,813	18,847	6,643	3,272	20,093	75,554
(3)	Percentage	37.1%	37.5%	35.6%	40.2%	42.0%	50.6%	37.8%	38.7%
	2005-Households	20,927	21,476	33,685	46,588	13,499	7,617	53,881	197,673
	HH w/30%	8,632	8,374	15,341	23,283	6,963	4,113	25,348	92,054
	Percentage	41.2%	39.0%	45.5%	50.0%	51.6%	54.0%	47.0%	46.6%
Renter-Occupied Units									
(4)	Change in HH	3,350	(845)	527	(351)	(2,324)	1,149	691	2,197
(5)	Percentage Change	19.1%	-3.8%	1.6%	-0.7%	-14.7%	17.8%	1.3%	1.1%
(6)	Change in 30% HH	2,113	7	3,528	4,436	320	841	5,255	16,500
(7)	Percentage Change	12.0%	0.0%	10.6%	9.5%	2.0%	13.0%	9.9%	8.4%
All Household Units		Chesapeake	Hampton	Newport News	Norfolk	Portsmouth	Suffolk	Virginia Beach	Total
(1)	2000-Households	69,900	53,887	69,686	86,210	38,170	23,291	154,455	495,599
(2)	HH w/30%	18,949	15,505	19,421	28,860	12,449	8,809	45,196	149,189
(3)	Percentage	27.1%	28.8%	27.9%	33.5%	32.6%	37.8%	29.3%	30.1%
	2005-Households	77,821	55,244	73,237	86,306	37,532	29,414	161,353	520,907
	HH w/30%	24,236	17,729	26,093	36,208	15,327	9,125	58,004	186,722
	Percentage	31.1%	32.1%	35.6%	42.0%	40.8%	31.0%	35.9%	35.8%
All Household Units									
(4)	Change in HH	7,921	1,357	3,551	96	(638)	6,123	6,898	25,308
(5)	Percentage Change	11.3%	2.5%	5.1%	0.1%	-1.7%	26.3%	4.5%	5.1%
(6)	Change in 30% HH	5,287	2,224	6,672	7,348	2,878	(316)	12,808	27,533
(7)	Percentage Change	27.9%	14.3%	34.4%	25.5%	23.1%	2.3%	28.3%	18.5%

- (1)** The number of households that have owner-occupants residing in the housing for the year noted
- (2)** The number of those households that spend greater than 30 percent of their gross annual income on housing
- (3)** The percentage of those households that spend greater than 30 percent of their gross annual income on housing
- (4)** The change in the number of households between the 2000 census and the 2005 American Community Survey estimates
- (5)** The percentage change for the period mentioned for housing units
- (6)** The change in the number of households that spend greater than 30 percent of their household income for housing
- (7)** The percentage change for the period mentioned for housing units

Source: American Community Survey, 2005

TABLE 2

HOUSING AFFORDABILITY BY OCCUPATION: OCCUPATIONAL SALARIES VERSUS MEDIAN INCOMES

Category	Percentage AMI/ Salary Range	Percentage of Households as Percentage of MSA	MSA Median Occupation and Wage Estimates
Upper	120% AMI and above \$76,920	32.9%	
Moderate	80% - 120% AMI \$51,300 - \$76,920	39.7%	Construction Manager - \$74,620 Medical/Health Service Manager - \$73,090 Civil Engineers - \$65,650 Detectives - \$57,080 Nursing Instructor - \$52,290 School Counselors - \$51,820
Low - Moderate	60% - 80% AMI \$38,450 - \$51,300	17.5%	Registered Nurses - \$50,960 Teachers - \$50,500 Mail Carriers - \$46,970
Lowest	Under 60% of AMI \$38,450	9.9%	Police Officer - \$38,360 Firefighter - \$35,100 LPN - \$32,160 Dispatcher - \$28,340 Municipal Clerk - \$23,340 Retail Salesperson - \$17,430 Cashier - \$15,040

Note: 2005 median income for a household of four was \$64,100 in Hampton Roads

Sources: 2005 U.S. Census, 2007 Department of Housing and Urban Development Income Report and Bureau of Labor Statistics

Demand and Supply Once Again

Housing prices in Hampton Roads are not arbitrarily determined by a mullah in Iran, but rather by the interaction of demand and supply. The demand side of the market is relatively more stable and predictable than the supply side. The demand for housing is a function of reasonably predictable economic variables such as household incomes, labor force participation rates, employment levels, population growth, mortgage interest rates and the like. **There is relatively little that decision makers in our region can do in the short run to influence the demand for housing. In the long run, this inability to affect change may not hold true, for decision makers can support a variety of educational and transportation policies that gradually either will stimulate or retard housing demand.**

The most important determinant of housing supply is its profitability to those who own it, or who would build it. Profit, of course, is nothing more than revenue minus costs. Given any level of demand for housing, the costs that housing suppliers incur are a vital key to housing supply. When an owner decides to put his or her housing on the market for sale or rental, or a builder or developer is considering new construction, they are profoundly influenced by the cost of doing so.

Builders and developers in particular are sensitive to the supply of available land, which gradually has dwindled within the region. Restrictions such as Virginia Beach's Green Line and zoning regulations often totally eliminate the possibility of new construction on land parcels, or limit the type of housing that can be built. Restrictions that limit housing density; environmental laws and regulations; mandated financial proffers that require builders and developers to provide funding for roads, schools and other

infrastructure; and real estate and other taxes – all of these raise building costs and tend therefore to reduce the supply of new housing.

Needless to say, it does not follow that every law or regulation that increases the cost of housing is a bad idea, at least where economic analysis is concerned. **If new housing generates specific costs, then those who build and purchase that new housing should bear some or all of these costs. What proportion of these newly generated costs are borne by builders and home buyers rather than by cities or others always has been a sticky economic and political issue. Builders and home purchasers argue that they generate additional income and tax revenues that benefit all of society and therefore this should be weighed against fees and taxes that the builders and home purchasers might otherwise pay.**

Zoning Laws and Regulations

The term “zoning” means that a property in question is subject to some type of land-use regulations. That is, the rights of the property owners to do as they see fit with the property are restricted. In the United States, it is customary for governmental units to utilize their power to “zone” land and thereby restrict its use. The primary argument in favor of zoning is that segregated land use maximizes welfare by reducing the adverse impact one land owner can have upon another, as where a hog farmer might decide to locate next to a luxury home, or by increasing the welfare of the many, as where an attractive new park increases residential property values.

Predictably, zoning laws tend to be favored most by those who wish to protect their land from adverse impacts, by those who wish to restrict competition, or by those who believe they will gain access to property that otherwise might be denied them. Hence, if I don’t want that hog farmer to have the right to locate next to me, then I may seek zoning regulations that prevent him from doing so. Or, if I operate a gasoline station and don’t want another station to disrupt my market, I may seek zoning restrictions that would prevent such a competitor from setting up shop across the street. Or, if private-property ownership might deny me access to an attractive beach, then I might favor zoning that forces public ownership and relatively unconstrained access.

Another common goal of zoning regulations is to control housing density. Property values would plunge in some neighborhoods if dense, apartment-style housing were constructed adjacent to expensive, single-family homes. Zoning restrictions that limit density therefore may preserve and increase the property values of existing residences. Many people would be reluctant to invest in a home in the first instance if it really were possible for the hog farmer or an apartment house to locate next door. To no one’s surprise, existing homeowners tend to favor more restrictive zoning regulations and reduced housing density. Owners of certain businesses, on the other hand, may hold the opposite view.

However, there is an obvious trade-off between zoning that limits housing density and the affordability of housing. Single-family homes constructed on two-acre plots necessarily are expensive and typically will not house many people. Lower housing prices, then, frequently are synonymous with increased housing density. This usually means several houses per acre, multiple family dwellings or apartment houses.

Therein lies the potential rub. If builders and developers construct non-dense, single-family housing, then it is likely to be expensive and that may price many people out of the market. On the other hand, in order for them to be convinced to build less expensive housing, then ordinarily they must be provided with incentives to do so. One such incentive can be the privilege to construct more housing units on a given acreage. The bottom line is this: Affordable housing typically requires greater housing density. Otherwise, builders and developers will not find it profitable to construct lower-cost homes.

In recent years, Inclusionary Zoning has attracted significant notice as an effective regulatory approach to generating affordable housing. In a nutshell, inclusionary zoning either requires or allows the increased housing density necessary in order for lower-cost housing to be constructed. The Center for Housing Policy estimates that more than 100 local governments throughout the United States have embraced various forms of inclusionary zoning and that increasing numbers are considering enacting such ordinances.

Inclusionary Zoning is one of the strategies discussed in an ever-growing “tool kit” approach utilized by governments and community organizations in an effort to develop partnerships with local governments, builders and neighborhood citizens groups that

will generate more affordable housing. There are other tools as well. Table 3 summarizes the tools and methods typically used today via three basic categories: (1) bonus density; (2) supply-side assistance that helps increase the supply and/or decrease the cost; and (3) demand-side assistance that helps increase the buying power of renters and owners.

TABLE 3
SMART GROWTH TOOLS AND METHODS: CREATING OR PRESERVING AFFORDABLE HOUSING

Methods and Tools	Development of New Units or Redevelopment	Financing of Existing Units to Increase Affordability	Preservation of Existing Affordable Units
YES (Tools Can Be Used)		NO (Tools Cannot Be Used)	
1. Bonus Density	Yes	No	No
2. Supply-side Assistance – Development Cost Reduction	Yes	Partially – financing options apply	Partially – financing options apply
3. Demand-side or End-user Assistance	Yes	Yes	Yes

■ Creating new value through density bonuses: The theory is this approach, inclusionary zoning (IZ), will actually increase the value of the land. If some of the increased land value is captured, then it can be used either to provide incentives or to decrease costs. Ideally, this is a zero-cost approach for both the government and the developer. However, that is unlikely to be true, since increased density usually carries with it increased costs – for example, those relating to education and law enforcement. Nevertheless, in theory it is plausible that the benefits will outweigh the costs.

Local governments may establish IZ ordinances that mandate a minimum percentage of housing units believed to be accessible to low- and moderate-income households, or even require the developer to sell or rent to such people. Participating developers might receive fee waivers, fast-track permits, density bonuses and help in obtaining zoning variances. All of these benefits are designed to decrease construction costs.

The Code of Virginia allows localities to adopt IZ ordinances for housing developments. Such developments need to include at least 17 percent “affordable” units in exchange for allowing up to a 30 percent increase in density. The pricing of the housing then is geared toward low- to moderate-income households. Hampton Road localities that have moved forward with IZ proposals include Virginia Beach, Suffolk and Isle of Wight County.

■ Supply-side assistance that helps reduce costs to the developer: If housing markets are competitive, then policies that reduce costs to builders and developers will result in lower housing prices. On the other hand, if housing markets are not competitive, then policies that reduce costs to developers and builders will not lower housing prices, but will increase the profits of the builders and developers. Most economists believe that housing markets in Hampton Roads are reasonably competitive. The four most commonly utilized policies to reduce builder and developer costs are:

- (1) Direct subsidies, fee waivers and direct contributions of land or infrastructure.
- (2) Reducing the time needed for review and approval; time is money for builders and developers.
- (3) Guarantees, partnerships, buy-downs or direct financing that benefit builders and developers.

(4) Changes in laws and regulations that allow greater housing density or flexibility, use of different materials, use of different layouts of land, or different infrastructure requirements. Historically, however, some policies in this scenario actually have increased costs rather than reduced them.

- Demand-side and end-user assistance: In addition to the earned income tax credit (EITC) and minimum wage laws, which are discussed below, vouchers can be provided to low-income individuals that enable them to purchase housing and/or pay rent and deposits. **The advantage of the voucher approach is that it does not distort housing prices, which send highly desirable signals to the economy and encourage efficient use of resources. But vouchers do not encourage increased housing density and can be very difficult for a single jurisdiction to implement. Like differential welfare benefits, housing vouchers can cause people to move across city, county and state lines.**

Instructive Regional Examples

The Fairgrounds, Suffolk, is a mixed-income development that is redeveloping 16.8 acres of former industrial and blighted residential area into 170 units of affordable and market-rate units. The development utilizes a HUD Section 108 Loan Community Development Block Grant and locally derived capital funding to provide public subsidy for land assembly and infrastructure design and development to support this new urban neighborhood. A public-private partnership development agreement between the city and a private developer is infusing private investment into the project. The Suffolk Redevelopment and Housing Authority is a partner in this effort.

Broad Creek Renaissance, Norfolk, is a showcase of innovation east of that city's downtown. Broad Creek was the first mixed-use, mixed-income development in Hampton Roads. When built out in 2008, there will be approximately 300 rental units and 350 homeownership units. Houses and in price from \$145,000 for financially assisted first-time buyers, to \$600,000 for upper-tier units. Broad Creek's rental units and homes are a blend of styles, sizes and price ranges, which reflect the latest thinking in urban design. Rental and market-rate units are seamlessly blended, providing opportunities for former public-housing residents, working families and upper-income buyers alike. A partnership consisting of the Norfolk Redevelopment and Housing Authority, city of Norfolk and HUD through a \$35 million grant, the project has won numerous awards.

James City County has supported a flexible public-private partnership since 1990. Its *Affordable Housing Incentive Program* (AHIP) offers homes for sale at below-market prices and the buyers qualify for special reduced-rate mortgages and/or down payment assistance. The James City County Office of Housing and Community Development works with participating builders, developers, lenders and government financing agencies. The objective is to provide moderate-income citizens assistance to become home buyers and simultaneously encourage production of affordable homes. As of December 2006, 365 first-time home buyers have purchased homes with special low-interest first mortgages and/or down payment assistance provided through AHIP.

Local Housing Advocacy

Empower Hampton Roads (EHR), a coalition-building, faith-based effort, is working to impact public policy on housing with some of these approaches. The roots of EHR can be traced to 2001 when members of several religious communities met with the Gamaliel Foundation and the Catholic Diocese of Richmond. The dialogue centered upon issues such as race, economics, poverty and inequality. These conversations led to the founding of Empower Hampton Roads, a multiracial, multidomination coalition of congregations in South Hampton Roads. EHR leaders have been trained by the Gamaliel Foundation, a national community-organizing resource. The foundation, like many housing advocacy groups, has religious roots, in this case the early Christian Church and the work of St. Paul and his followers.

EHR chose Virginia Beach as the first city to initiate its Housing Equity Campaign. A 2005 Virginia Tech housing study done for Virginia Beach identified a deficit of 12,500 affordable housing units in that city at existing price and income levels.

The Virginia Beach City Council responded by creating a Committee on Workforce Housing with a directive to “identify solutions to the workforce housing crisis.” The committee included representation from EHR, Tidewater Builders Association, local bankers, business people, developers, the city of Virginia Beach Planning Commission and other community organizations.

The plan developed by the committee calls for voluntary inclusionary zoning to produce additional mixed-income developments totaling 3,420 units, both owner-occupied and rentals. Beneficiaries would be families with incomes between \$36,000 and \$72,000. Neither the developer nor the city would subsidize the units because the additional density allowed to the builders would create value that could be used to provide the discount. The committee estimated the units would result in an additional assessed real estate value of \$2.5 million. At a tax rate of 99 cents per \$100 of assessed valuation, this would generate \$2.5 million in additional tax revenues.

The Commonwealth’s Tax Code and Policies

Virginia currently does not offer any type of income tax break, or earned income tax credits, for first-time home buyers. However, there are other types of assistance available to first-time buyers. This assistance is based on different sets of criteria, most of which are income based. The Virginia Housing Development Authority (VHDA), the state’s public housing finance agency and a self-supporting authority that issues bonds to raise capital for its lending programs, provides consumers with low-interest loans to purchase or renovate homes. Created in 1972 by the General Assembly, its mission is to help low- and moderate-income Virginians attain quality, affordable housing.

One interesting new VHDA initiative is referred to as SPARC (Sponsoring Partnerships and Revitalizing Communities), which offers loans at below-market rates for first-time home buyers through special allocations to local housing groups. The purpose is to help housing groups address critical housing needs facing their communities. Allocations are made annually on a competitive basis. A complete description of loan programs and eligibility requirements is available online at www.vhda.com.

Selected Federal Programs

Chesapeake, Hampton, Norfolk, Newport News, Portsmouth, Suffolk and Virginia Beach receive funds from the federal government under the HOME program, which was created to help expand the supply of affordable housing to low-to-moderate-income families. As an illustration, in Norfolk, one of the uses of these funds is to provide down-payment and closing-cost assistance to qualified first-time home buyers. The Norfolk Redevelopment and Housing Authority screens the applicants. NRHA applies the household income maximums for eligibility shown in Table 4.

Household Size	Maximum Household Income
1 Person	\$35,900
2 Persons	\$41,050
3 Persons	\$46,150
4 Persons	\$51,300
5 Persons	\$55,400

Source: www.nrha.norfolkva.us

The Thorny Unrelated Persons Issue

At one time, rooming and boarding houses were a common and largely desirable mode of housing that catered to members of a wide range of social classes and professional occupations. However, over the years, this sector of housing has become associated with less fortunate and disadvantaged individuals, or with other groups such as university students whose presence sometimes is perceived as a mixed blessing. As a consequence, most cities nationally have adopted ordinances that limit the number of unrelated individuals who may occupy certain dwellings. The argument is that such rules are necessary in order to avoid a degraded housing stock, reduced property values,

and even abusive blockbusting that stimulates massive home sales and injures middle-class homeowners. The commonwealth’s attorney general has ruled that such restrictions are neither a violation of fair housing laws nor an unjust “taking” of property by the government without compensation.

In May 2006, however, the city of Norfolk confronted this issue in a very specific context – the housing of mentally ill and mentally retarded citizens in boarding houses. Ten boarding houses, occupied by approximately 70 people, were operated by Marilyn Hernandez, who by all media accounts served her residents well. Although she had operated these houses for many years and was well known by city employees, her houses did not have the appropriate permits. A local civic league, concerned about the impact of such houses and residents on neighborhoods, challenged the situation. Although the houses were in good repair, the behavior of the residents was a worry to some, and this concern was not assuaged when it was revealed that two sex offenders were living in the housing.

As a result, the city of Norfolk moved quickly to close the facilities. Most residents were placed temporarily in motels, residential facilities and with relatives. Subsequently, all 10 houses were allowed to reopen, but no more than four former residents would be allowed to stay in each facility. This met the standard of the number of unrelated persons allowed to live in a unit in Norfolk unless the dwelling is a licensed group home. Such a license is granted by the Commonwealth and overrides local zoning deci-

**TABLE 5
THE UNRELATED PERSONS ISSUE IN SEVEN HAMPTON ROADS CITIES**

UNRELATED PERSONS PER DWELLING UNIT	Chesapeake	Hampton	Newport News	Norfolk	Suffolk	Virginia Beach	Williamsburg
Maximum if any unrelated occupants	4	4	3	4	4	4	3
Relationship includes foster children	Yes	Yes	Yes	Yes	No	Yes	No
Domestic servants not counted	Yes	No	Yes	No	No	No	Yes
Two unrelated persons with children of either	Yes	Yes	Yes	Yes	No	Yes	Yes
Licensed group home maximum	8	8	8	8	8	8	8

sions. Table 5 displays the “unrelated persons” housing rules of seven Hampton Roads cities. Note that the maximum is only three individuals in Newport News and Williamsburg.

Many believe that group living provides a major solution to affordable housing challenges. Among those most often affected are students, immigrants, the homeless and those on limited incomes who find it difficult to pay market rents for non-group housing. Is group housing a better solution for them than the alternatives, which could include homelessness?

Further, how does one determine who is unrelated? Are unmarried adults who have lived together for years unrelated? Are cousins, uncles and aunts close enough to be termed related? What if a dozen such relatives all occupy a house or apartment

that ordinarily would house a much smaller number of individuals? What if multiple immigrant families pool their resources in order to purchase a home?

The relevant point is that there are at least two sides to the unrelated-persons issue. Few typical homeowners would relish having a group home open next to them, if their neighborhood contains only homes with single families. There are seemingly legitimate NIMBY-motivated economic reasons for them to fear the results. Even so, if group housing is discouraged or even eliminated, then a variety of other social maladies is likely to arise as the prospective group-housing residents spill out into the community. One way or another, these people will occupy some sort of housing. This once again underlines one of the more difficult and almost unavoidable choices that cities must make with respect to housing. Whatever decision is made, some constituents are bound to be unhappy with the result.

Final Observations and Recommendations

Nobel Prize-winning economist Milton Friedman famously observed, “There’s no such thing as a free lunch.” This notable advice applies to affordable housing as it does to everything else. If we desire more affordable housing in Hampton Roads, then we are going to have to incur costs in order to make this happen. The relevant questions are these: What are those costs and who should bear them?

Housing prices, like all other prices, reflect demand and supply influences. On the demand side, the incomes of prospective home buyers and renters are crucial. It is beyond the ability of any individual city or housing authority to do much in the short run that will affect the financial resources or ability to pay of prospective home buyers and renters. In the long run, cities actually can affect the incomes of their citizens if they develop highly productive educational systems that increase the labor market talents of most or all of those citizens. This is expensive and, given the nature of how public schools are funded in Virginia, probably means higher property taxes.

Some affordable-housing advocates are strong supporters of legislation to increase the minimum wage. Unfortunately, while higher minimum wages and/or “living wage” laws will result in many low labor-market workers earning higher incomes, they also will result in increased unemployment. A 10 percent increase in the minimum wage usually carries with it a 1 percent or 2 percent increase in unemployment for the workers realistically affected by the increased wage. Further, the costs associated with the higher minimum wage tend to be passed on to all consumers in the form of higher prices.

Santa Fe, N.M.’s, recent experience with its relatively new living-wage law underlines these effects. In 2004, that city passed a living-wage ordinance increasing its minimum wage in increments from \$5.15 per hour to \$9.50 per hour in 2006, and to \$10.50 per hour in 2008, for all firms with 25 or more employees. Thereafter, the minimum wage will be indexed to inflation. The unemployment rate increased by more than 3 percent overall in the city, but only .7 percent of that increase could be directly attributed to the living wage. Workers with 12 or fewer years of education found that their workweeks declined by an average of 3.5 hours. Individuals in Santa Fe with more education were unaffected. Prices in businesses affected by the living wage rose 1 percent to 3 percent. Finally, there has been a noticeable disincentive for employers to expand their number of employees to 25 or more (Aaron Yelowitz, Employment Policies Institute, 2005; Jon Gertner, *The New York Times*, Jan. 15, 2006).

A more efficient way to support and increase the incomes of low labor-market workers is the federal government’s earned income tax credit (EITC). It rewards those who work with supplementary income; more work translates to more income. Note that it does not require employers to increase workers’ wage rates, which typically results in unemployment. Nor does it result in costs that are passed directly on to consumers. The problem, of course, is that the EITC, which has existed for more than 30 years and actually is a variant of Milton Friedman’s negative income tax, is a federal government program. It would be difficult (though not impossible) for a city or county to implement such a program, despite its superior economic incentives and effects.

The bottom line is that local governments really can’t influence the demand side of the housing market effectively. Hence, they must focus on the supply side of the market. Here, there are many possibilities. The “tool kit” approach outlined earlier describes most of the available alternatives. When all is said and done, either the costs of builders and developers must be reduced (for example, by allowing increased housing density), or govern-

ment itself must become involved in financing and constructing housing. The record nationally of local governments as direct participants in housing supply is mixed. Government tends to be most effective in the housing arena when it works through the private sector by providing incentives that stimulate private activity and participation, rather than operating solo.

With those provisos in mind, the following public policy recommendations make sense in the area of affordable housing:

- *Embrace Inclusionary Zoning:* Inclusionary zoning works, but involves trade-offs that include increased housing density and the possibility of higher governmental costs. It takes political courage to increase housing density and provide public services to more dense communities. But, this is one of the most effective ways to provide incentives to builders and developers.
- *Initiate "Smart" Revitalization of Neighborhoods:* Governments can usefully "seed" developments with tax abatements and funding to get them started and thereby overcome neighborhood effects that otherwise might discourage private investors. Governments can reduce regulations, speed approvals and establish "one stop" processing for revitalization efforts. Norfolk's pattern book, tax abatements and other fix-up incentives provide a good example. The city now maintains a "builders guild" in order to help citizens choose reputable builders to undertake building renovations.
- *Support and Fund a Regional Forum on Affordable Housing:* Empower Hampton Roads already has achieved a great deal in promoting a regional conversation on affordable housing. An important next step is a forum that includes representatives of all of the area's governmental units, builders and developers, and housing advocates. No individual city can solve its affordable housing challenges alone; regional coordination and solutions are required. Still, we should not minimize the value of major stakeholders brainstorming with each other and communicating on a regular basis.
- *Support Housing Trust Funds:* Virginia is one of 13 states in the nation without such a dedicated source of state-provided funding supporting local housing developments in low- and moderate-income areas. Provided trust funds are used to stimulate private-sector development rather than to construct exclusively public housing, these funds represent a highly desirable form of pump priming and can reduce the costs and risks incurred by builders and developers. Note that Norfolk (\$500,000) and Suffolk (\$138,000) have established modest housing trust funds. Isle of Wight County and Virginia Beach have discussed establishing trust funds.
- *Promote Public-Private Partnerships:* Again, the name of the game is reducing the financial barriers to desired builder and developer activity. Developments such as Broad Creek Renaissance and The Fairgrounds have involved both public and private funding. Public funding and guarantees potentially can reduce the risks faced by private builders and developers and thereby stimulate them to construct affordable housing.
- *Be Innovative:* Advising someone to "think outside the box" is commonplace now that it has become almost an ineffective bromide. Yet, innovative approaches are needed. For example, Wilmington, N.C., has sponsored a competition for the development of infill lots, with those submitting the best idea gaining the right to do so. The juried competition led to the development of a design catalog of economical single-family and duplex housing infill units within Wilmington's historic districts.