



Cisneros takes on the affordability issue

HENRY CISNEROS, FORMER HUD SECRETARY, OUTLINES THE HOUSING AFFORDABILITY ISSUE AND WHY TACKLING WORKFORCE HOUSING IS A GOLDEN OPPORTUNITY FOR HOME BUILDERS.

By Henry Cisneros, CityView
February 1, 2008
GIANTS

The first of a three-part series addressing the top issues affecting housing affordability.

Affordable Housing Series

Part I: A national perspective

Part II: Planning and public policy

Part II: The future of affordable housing



The United States is experiencing economic turbulence whose origins many experts attribute principally to the deterioration of the nation's housing markets. After a decade of leading an unprecedented economic expansion, the American housing sector succumbed to a debilitating mixture of reduced demand, oversupply, reduced prices, subprime flaws, adjustable interest rate escalations, increased defaults and foreclosures, and credit contractions.

The focus of business decision makers and public policymakers at this time is appropriately on the actions that can provide relief to the damaged parties, forestall further deterioration that would push the economy into a broad recession and install corrective measures to prevent the faulty products, poor judgments and careless abuses that contributed to this crisis.

As a home builder, it is understandably difficult to lift your sights beyond the urgency of the moment to consider housing priorities that must be addressed as the housing market returns to normal over the next several years. Because of the importance of the home builder's role to the nation, to communities and to individual families, we must plan now for the housing demands, challenges and opportunities of the future.

One critical dimension of the nation's housing future presents the greatest opportunity for home builders and developers. Whether there is a market slowdown or a robust market, there is a constant demand for an adequate supply of homes within the price ranges of working Americans.

My company, **CityView**, a national real-estate investor, is successfully meeting this demand by partnering with home builders and developers across the country to produce homes within the price range of our nurses, teachers, firefighters and police officers — the people who keep our communities moving.

In my recent collaboration with former U.S. Housing and Urban Development Secretary Jack Kemp, and **Harvard University's Joint Center for Housing Studies** scholars Kent W. Colton and **Nicolas P. Retsinas**, on the paper "**Our Communities, Our Homes: Pathways to Housing and Homeownership in America's**

Cities and States," we offer a bipartisan approach to addressing the impediments to housing and homeownership at the state and local levels.

There are success stories from all corners of the country such as Boston, as shown in its **Housing Strategy**; Chicago, which has a **Housing Plan Book**; and New York. Another example of an innovative solution is the **CityView Los Angeles Fund**, a \$150 million-plus fund we launched to finance, acquire and entitle land for the development of market-rate, workforce housing in the greater Los Angeles area.

The Importance of Workforce Housing

Housing in the market-rate price range is defined in various ways, but for the purposes of this analysis we will use the term workforce housing to describe housing within the reach of households earning between 80 percent and 150 percent of the area's median income. This is the type of housing that has a pent up demand and provides home builders the most opportunity. Unfortunately in many metropolitan areas across the nation, workers who constitute the foundation of the local workforce cannot afford the housing being produced. In California, only about 12 percent of the housing stock produced in 2006 was within the range of families earning the median income.

The combination of higher costs of materials and construction; home builders' push to concentrate on larger and higher-priced homes; more expensive land; more governmental fees; and community barriers to housing production have resulted in an inadequate supply of workforce housing. Addressing this gap, which continues even in today's housing market turndown, is critical for the long-term.

Why We Need It

It is important to the nation and to communities that our working households be able to enhance their well-being, to sustain stable family life and to amass savings. Many studies show that housing — particularly homeownership — is a pre-condition for the household stability that advances these objectives. Children in decent housing tend to perform better in school. Families take pride in their homes and they are more active participants in community improvements. Those values of responsibility are reflected in workplace productivity.



Henry Cisneros

Importantly, homeownership is the most reliable path to the middle class. For most Americans, the largest portion of their net worth is the equity they have in their homes. It is the enforced savings in the form of accumulating equity that constitutes their wealth.

That equity provides the resources over time to move up to a larger home if desirable, to be able to borrow for college tuition or to use for a start-up business. When families cannot access housing because the newly produced stock is unavailable to their income strata, then the path to the American middle class is blocked. That fact should be of major concern to the nation and to communities — and to home builders.

Community-Building and the Bottom Line

Workforce housing is also important to the **community-building strategies** of cities and regions. Neighborhoods of middle class homes have proven to be the most durable form of economic development. Every new rooftop represents a household budget, which translates into local expenditures, jobs and payrolls. Wherever developments of homes for working families are built, commercial shops and neighborhood retail districts follow.

In truth, cities need homes of all types and prices to be successful. At the most basic level, our cities are places where people work, where they learn, where they recreate, and most fundamentally where they live. For all these functions to fit together requires a mix of housing. Workers must be able to live in reasonable proximity to their jobs.

Failure to create such a mix consigns working people to unreasonable commutes, to exhausting hours in transit, to long distances from family obligations and to unnecessary stresses that have effects on their jobs.

After a time, many workers change jobs rather than live with the stresses, thereby costing employers the services of employees with experience and with training within their firms. On the other hand, when the workforce can live affordably within manageable distances from work, employees can be more flexible with their hours, company morale is enhanced, and the local community benefits from a readily available workforce.

Necessary Stability

Housing within the price of working families also has important personal dimensions that we often take for granted. In a very real sense, a home is the basic building block for the stable life that enables individuals to function in society.

A home that an individual or a family can rely upon plays many critical roles. It truly has spiritual, transcendental dimensions that go beyond the utilitarian or the economic. In this sense it is part of the intangible but essential glue of our society, which is strengthened when homes are provided broadly within the reach of more Americans.

What Home Builders Can Do

Though the gap between the supply of workforce housing and the needs of working families has grown to alarming proportions, our national experience proves that we know how to create housing to sustain our middle class, a middle class that we must enlarge in the future from among the surging populations of minority Americans and immigrants.

America's private home builders can bring workforce housing production to scale by focusing their efforts at entry-level price points where constant demand creates a market.

Unfortunately, many builders who try to build at workforce price points are frustrated by the prodigious barriers, including the costs imposed by governmental fees and delays and the "not-in-my-backyard" opposition in many communities.

As a result, many builders gravitate upscale to build at more expensive prices where the profit margins are greater for the same "brain damage," what they refer to as the exhaustive hurdles they must surmount to build workforce homes. Many builders, however, will respond to local governmental goals for workforce housing if comprehensive local housing policies reflect true housing priorities through reasonable fees, expedited approvals and workable financing.

What Municipalities Can Do

Local leaders can help assemble land and make available surplus public properties. Some jurisdictions, such as **King County** in the Seattle region, have passed ordinances requiring that every parcel of public land planned for disposition must be reviewed first for its potential as a site for affordable or workforce housing. Municipalities can re-zone parcels for greater densities to place more reasonably priced homes on urban sites and to allow for a diversity of housing types.

They can expedite permitting and review processes; revise fees; update building codes; and rank workforce housing as a priority in the inevitable trade-offs that characterize urban development decisions.

Governments at all levels can use innovative financing mechanisms, including housing trust funds, housing bonds, tax increment financing and tax policies to lower home prices. They can also work with non-profits to use instruments such as shared equity to sustain affordability over time. Private firms can participate in employer-benefit programs to offset the cost of homes.

A Law to Help

The federal and state levels of government can help as well. A housing tax credit for workforce housing has been pending before the Congress for years, and on Oct. 10, 2007, the U.S. House of Representatives passed H.R. 2895, the **National Affordable Housing Trust Fund Act of 2007**, which will be the largest expansion in federal housing programs in decades, with a goal of producing, rehabilitating and preserving 1.5 million housing units over the next 10 years.

The bill will initially allocate between \$800 million and \$1 billion annually directly to states and local communities, without increasing government spending or the federal deficit. States have invested pension funds in "double bottom line" strategies that seek targeted returns for the funds through the production of needed workforce housing.

Move for the Future

The nation's long-term well-being requires that our people have the benefit of decent and stable housing and that they have a chance to build the assets and net worth that undergird the middle class. These national imperatives are a straight line extension from the concept of workforce housing. Even as the nation weathers the present housing storm, home builders must consider new partnerships and creative approaches that will keep their companies responsive to market demands while keeping working Americans on the path to quality places they can call home.

Author Information

Henry Cisneros is the chairman of **CityView**, a real-estate investment firm and developer that specializes in workforce housing. He served as the Secretary of the **U.S. Department of Housing and Urban Development** and was also a four-term mayor of San Antonio.

CityView Projects that Work

THE BOULEVARD, ANAHEIM, CALIF.

The townhomes in this **John Laing Homes** community must be sold to households with 80 percent to 120 percent to the area's median income.

RENAISSANCE, INGLEWOOD, CALIF.

CityView partnered with John Laing Homes to build 122 single-family homes on remediated land in an area that had not seen new development in more than 30 years.

THE PELOTON, BOULDER, COLO.

Thirty-eight of The Peloton's 390-units are priced as low as \$88,000 as part of Boulder's affordable housing pool.

Needs of the Poor

It's not just the middle-class that's suffering. There is also a tremendous need for housing for people at the lowest income levels: the homeless and households with very low incomes. Cisneros advocates programs be adequately funded to provide homeless shelter beds, supportive housing with services, modernized public housing and low-income subsidized rental units.