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 The Guru Is In

The States of the States' Housing



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When it comes to housing innovation urgency, states are where the action is. Stories in this issue ably document what and how, and as a big-picture counterpoint, allow me to tell you why, and what that means for your state.

Alongside our three branches of government, America has three levels of government that have different areas of 'natural primacy' in housing policy:

- *National: Demand side.* The federal government dominates in the financial arenas: macroeconomic policy, income taxation, capital markets regulation and credit enhancement for long-term, fixed-rate mortgages.
- *Local: Supply-side.* Zoning and land use. Real estate taxes. Place-based localized essential service delivery: schools, police, fire.

In between are the states. Over the last three-plus decades, slow prevailing winds have blown them further and further into the gathering storm of clashing housing politics and turbulent housing policy.

Before 1986, the states had it easy. Localities ran public housing; the federal government, with HUD omnipresent, had the rest. Low Income Housing Tax Credit changed all that. Though it is a federal *resource*, LIHTC is a *state* program: each state's money is its own to spend how it chooses, according to rules each state makes up and changes however frequently it wants. In the program's early years, that was great fun, and the housing finance agencies (HFAs) grew dominant. As time passed, increasing economic pressure, driven by urban growth from the 21st century's sustainable job engines grinding against fixed land availability and anti-growth zoning, made metropolitan housing affordability a rising priority. To this, the states responded by singing to Washington in chorus: *Give us more money and leave us alone.*

Under the current administration, only half of that message got through. When it's come to housing, the federal government has left the states alone—but with less money to work with

(caps on mortgage interest and SALT deductions). For many states, that fiscal shock, coming after the presidential-election shock, turned what had been building pressure into a full-fledged housing crisis, both economic and political—and with it came a sudden potent imperative: *Find new solutions that don't depend on Washington.*

Caught most by surprise have been the purple states where most of the land, and most of the state senators, are level-population and conservative, while few metropolitan areas with rapidly growing job bases (whether economic, academic, political or a melange of these) and their state representatives are swiftly coloring progressively bluer. The political pressure is intense. The old game of blaming Washington doesn't work for long. Deficit spending is often state-constitutionally taboo. The neighboring states' situations offer no nifty solutions. Longstanding state-level political alliances are completely scrambled, with NIMBYism camouflaging itself behind both colors. Suddenly, both blue and red elected have their heads on swivels, beset by fierce criticism from unexpected directions.

What to do when desperate for provocative new ideas? Summon a housing guru!

During 2019, I've given keynote presentations for state-level conferences in California, Ohio, Virginia, Colorado, and most recently North Carolina. Each such conference has been a must-go event for the sheer number of sessions; for the breadth and topicality of the subjects covered; for the housing newcomers (technology, healthcare and hospitals, municipal officials and employers); for the visible demonstration of housing's importance in the state; and for the palpable energy creating pressure to do something, anything, as long as it's new. No wonder they're growing fast. In each situation I've made these key points:

1. Affordable housing is urban infrastructure, because affordable housing is where essential urban jobs go to sleep at night. The farther these essential jobs have to commute between work and home, the worse for them, for cities, and for everybody who lives and works in cities – namely, for all of us;
2. Quality affordable housing is the control valve on job growth in desirable urban areas;
3. Grow the economy, but as it grows, grow the housing supply alongside it;
4. Bipartisan growth unites voices and thrives; partisan growth divides and then withers;
5. Large employers that are growing their workforce of sustainable jobs have a vested interest in seeing more affordable housing created;
6. Look beyond LIHTC: avoid federal resources (and federal rules) wherever possible. Otherwise, you'll be stuck in federal ruts from which you can never escape.
7. Think state-level, and distribute both the imperative and the resources;

8. Find the latent state resources, often non-cash, that with a bit of creativity can be tapped and blended into new paradigms;
9. On the supply side, make housing cheaper to produce.

Rethink every mandated cost surcharge Washington once imposed. Look systematically along the supply side value chain to identify strategically every off-budget resource: state owned land and properties; trunk infrastructure flexibility; inclusionary zoning or density bonuses; state sales tax exemptions on construction materials; real estate tax abatements or exemptions;

10. Rewind or unwind anachronistic building codes. Embrace modern modular. Embrace smart-tech as a vector to smaller home, smarter home, better home. Reboot 21st century 2.0 versions of housing typologies that dominated even a century ago, such as boarding houses;
11. On the demand side, bring in new players. Large employers (universities, hospitals, technology, finance, and leisure industries) have powerful resources: demand aggregation, credit enhancement, payment deduction at source, long-term borrowing capacity at lower cost, down payment assistance and concessionary financing; and
12. Ultimately, the solution is its own salesware. Create and demonstrate a better open-source paradigm for needed new affordable housing. If you pilot it, they will fund.

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