

# Where do we begin to solve the affordable housing problem? Here are some suggestions

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It is a universal rule of business, mathematics and life, that you cannot solve a problem unless you can define it. One of the biggest undefined and misunderstood problems affecting our community today is the state of housing affordability.

The difficulty in defining the problem, and thereby developing solutions to address the housing affordability crisis is that the entire conversation becomes quickly politicized by syntax. Many people automatically shift gears from “housing affordability” to “subsidized housing” in the same breath. Some even go all the way to thinking affordable housing should solve homelessness (it won’t, the roots of homelessness are a different set of problems beyond the economics of shelter). Policy makers have added a new word to the lexicon in the past decade to avoid using the term affordable by labeling it “workforce housing.” You often hear the term “workforce housing” spoken in tandem with some of our most respected public servants like police, firefighters and teachers to engender community support and public urgency to address the problem because no one wants to envision a society without police officers or teachers.

Housing affordability is generally expressed as an index, by comparing median (or average) housing prices, and median household incomes. In areas where housing costs are rising at a rate faster than median income, the index of housing affordability looks terrible. The real problem is that real estate values have been rising at rates faster than inflation for decades (even adjusting for the great recession), and wages have generally been stagnant. This is a national “crisis” because the way we define the problem serves to reinforce itself.

So, how do we begin to address the problem?

The way we measure housing affordability in our economy is flawed, and provides a distorted picture of the affordability crisis that makes the problem seem insurmountable. When problems seem insurmountable, the psychological reaction is to avoid seeking solutions. The secret is to break the problem down into small measures that can be achieved incrementally, which when taken together over time brings you to the goal.

Here are some of the incremental steps we should take as a society to address the growing problem of housing affordability. Some of these require adjustments in federal tax policy or banking regulations, but others are actionable community initiatives that can be implemented immediately.

**Encourage housing tenure:** The longer you live in your home that you purchased at a fixed price, the more affordable your house becomes (to you) over time assuming you don’t remortgage every five years. In Florida, we have the starting point with homestead exemptions. But the other critical component of tenure is paying off your mortgage (or keeping your mortgage constant over time so that relative to your wage, your housing cost as a percentage of income continues to decline).

National tax policy needs to change so your mortgage deductibility is tied to the mortgage on your initial purchase. If you refinance, the deductibility of new interest goes away. This would create economic incentive to pay off your mortgage. Commercial landlords get to deduct repair and maintenance costs against income. Residential owners should get income tax credit on repairs up to 4 percent of their home’s value annually (the average cost to maintain a

home is about 2-3 percent). Capital projects (new bathrooms, kitchens, etc.) could be amortized as deductions.

**Expand guest house zoning:** One easy fix to the affordability problem is to modify zoning to permit multiple dwellings on a lot zoned for a single-family dwelling. One of the biggest hurdles to creating new affordable housing is land cost. Allowing single-family homeowners in wealthier neighborhoods to add on a guesthouse for their children, elderly parents or their gardener, maid, teacher or firefighter would immediately expand the options for inclusive housing with zero additional land cost. The guesthouse could be rented (at income-restricted rents) or offered gratis, but the primary homeowner would not pay real estate taxes on the guesthouse unless it was rented above median income limits.

**Stop inclusionary zoning charade:** Communities throughout the U.S. have adopted a land-use concept known as “inclusionary zoning” that mandates (through zoning ) that new development projects set aside 15-30 percent of newly developed units as “restricted units” to be sold or rented at affordable levels set forth by the state or municipality. This is essentially a heavy tax on new development that gets priced into the cost of newly developed homes/projects. Some believe the greedy rich developer is paying the cost by accepting a reduced level of profit. The truth is that developers only build when the profit justifies the risk. If the inclusionary set-aside makes a project unprofitable (or less profitable), this slows the creation of all new housing. This supply restriction, in turn, leads to price inflation amongst the remaining stock of housing.

**Community land trusts:** Like housing ownership tenure, the best way to create new affordable housing is to reduce the cost of land to zero. Land generally comprises 25-35 percent of the total cost of a home. If local communities used their housing funds to buy land, and then leased the land back to developers for \$1 over 99 years subject to a requirement to build mixed-income for-sale affordable projects at various income levels, we would create three to four times as much housing with the same dollar of public money.

**Buy and renovate existing housing:** Creating options across an entire spectrum of housing costs is challenging, but one of the biggest obstacles is our implied social mandate to deliver new housing. Why are we not targeting the existing housing stock to meet affordable needs? The public acquisition of housing should focus on acquiring existing homes or larger rental projects in distress from banks or distressed borrowers. Imagine how far along we would be to solving our affordable inventory problem if we had purchased all the fractured condo and failed apartment projects in 2009-11 from the banks at deep discounts?

**Semper Fi:** Some of our most dedicated and productive members of society are our veterans. We need to encourage creation of housing options for veterans through outright public funding of barracks-style housing. This would not be long-term housing, but rather 36-48 months temporary shelter at deeply discounted rental rates (free?) so our veterans can accumulate sufficient equity to purchase a home, find long-term employment and return to civilian life with dignity.

If building barracks in your neighborhood sounds like a terrible idea, let's consider using our existing public spaces and ingenious architecture to complement the effort. Having 100

former Marines housed adjacent to your local elementary school or library couldn't possibly damage the security of our neighborhoods. I would sign up for that Community Watch team.

**Take measure:** The last and most important step to solving the affordability problem is measuring it properly. We need to take proper measure of the existing housing stock, and stop measuring how much affordable housing is needed by using averages. A community should seek to find a balance of housing options (rental and for sale) across price ranges that typical (not average) wages can support. We need to exclude from the housing stock all of the second homes and ultra-luxury housing to avoid skewing the number of new units needed to bring the community into balance.

We will never completely "fix" housing affordability unless we can magically get wages to increase faster than assets over a longer period. But by encouraging housing ownership and tenure, providing the right public incentives, encouraging new and faster housing production, buying and restricting asset prices to a set level on the existing stock, and developing long-term land contracts that support housing creation across all price points, we will have taken a rather large incremental step toward solving the problem.

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