TERNER CENTER FOR HOUSING INNOVATION UC BERKELEY

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Building a Better Ladder of Housing Opportunity in the United States

A Framework for a Holistic, Equitable, and Sustainable Approach to Federal Housing Policy

Introduction

As the Biden administration embarks on its first 100 days, multiple urgent national crises demand its attention and action. By Inauguration Day, the unchecked COVID-19 pandemic had infected over 25 million people in the U.S. and taken the lives of more than 400,000.[1]

In addition to the heavy toll on human health, the pandemic continues to roil the economy: on January 21st the nation marked 44 straight weeks of total initial Unemployment Insurance claims that outstripped the worst week of the Great Recession.[2] The country has also increasingly felt the effects of a climate crisis that, in the span of just a few months, saw historic wildfires[3] sweep across the West and a record-breaking hurricane season on the Atlantic Coast.[4] The legacy and perpetuation of systemic racism—a crisis which has long manifested itself in racial segregation and racial and ethnic disparities in lifetime health and economic outcomes—has also meant that these calamitous trends have disproportionately impacted Black, Indigenous, and Hispanic or Latinx people and communities.[5]

What is more, these pressing challenges are playing out against the backdrop of a housing crisis that has been decades in the making—a crisis where homeownership has become harder to access and rents have become increasingly unaffordable for millions of households. Those long standing structural hardships have only been exacerbated by the months-long delay in passing a second wave of federal emergency COVID-19 relief. The lag in federal action after CARES Act support expired has left millions of households facing mounting rent shortfalls and the prospect of eviction. Missed rental payments also raise the specter of greater housing market instability, as landlords fall short on income to pay their own bills. December's COVID-19 aid package included $25 billion in assistance for renters and landlords in recognition of the toll the pandemic has taken on renter households. Yet Jim Parrott and Mark Zandi writing for the Urban Institute estimate that as of January, delinquent renters were already behind by $57 billion in missed rent payments, late fees, and utility bill shortfalls.[6] And given the uneven rollout of vaccines and uncertainty around when full reopenings will be able to occur, and the time it will take to recover from record-high unemployment levels, arrears are likely to continue to pile up in the months ahead.

> To emerge from the crises facing the nation and achieve a strong, broadly shared recovery—one that redresses racial inequality and responds to the demands of climate change—will require systemic changes to the ways the U.S. plans for, invests in, and expands access to housing.

Housing and land use policies and practices are driving forces behind these many crises: stymying the supply of affordable rental and entry-level homeownership options that have helped drive up the cost of housing;[7] fueling racial and economic segregation through exclusionary policies and discriminatory market practices,[8] which has, among other ills, driven disparities in the spread and impact of COVID-19;[9] and encouraging car-centered, sprawling development patterns that contribute to greater energy consumption and greenhouse gas emissions.[10]

By the same token, housing policy will need to be an integral part of solving these urgent challenges and advancing the priorities that President Biden campaigned on—which included an ambitious platform of housing initiatives to increase access to affordable rental housing and homeownership and redress the damaging effects of racial segregation and discrimination—and the policy areas he has made a focus in the early days of his administration, including COVID-19, economic recovery, racial equity, and climate change.[11] Housing is foundational to building healthy and stable lives and communities. But the quality, stability, and location of housing available to different people and communities determine how sound a foundation it provides. There is clear and mounting evidence that a child growing up in housing that is secure, stable, and in a safe neighborhood stands to experience better physical and mental health[12], educational[13], and economic[14] outcomes than a child subjected to dilapidated housing conditions, frequent moves, or unsafe surroundings. But access to those favorable conditions continues to elude too many people and places, in no small part because policy has not adequately addressed the scale of the challenge or its inherent inequities. To emerge from the multifaceted crises facing the nation and achieve a strong, broadly shared recovery—one that redresses racial inequality and responds to the demands of climate change—will require systemic changes to the ways the U.S. plans for, invests in, and expands access to housing. And not just subsidized housing for those with the least resources. All types of housing.

A central challenge for federal housing policy as it stands—and a stumbling block to the effective integration of housing policy with critical decision-making around transportation, economic development, and health policy—is that there has never been a comprehensive framework or intentional design to address the full continuum of housing needs. Current federal housing policy has accreted over decades to encompass more than 160 programs and activities[15] administered by 20 different entities and targeted to varying combinations of local governments (which can run the gamut from the nation's more than 3,000 counties to more than 36,000 incorporated places, towns, and townships), institutions (e.g., Public Housing Authorities, Community Development Financial Institutions, and non-profit organizations), and individual households. This proliferation of programs and recipients naturally generates advocacy for specific programs rather than for the health of the entire housing system, making it much harder to raise necessary funds and execute broad—rather than narrowly focused—strategies. It also often results in funding flowing through this system in ways that do not match demand—artificially stopping at jurisdictional borders that do not reflect the more porous and regional nature of housing and labor markets. And it tends to flow in ways that draw stark divides between renters with assistance (and with different kinds of assistance) and those without, and between renters and homeowners. The result is a system where programs and policies can be overlapping and duplicative yet also plagued with gaps and cliffs that leave many vulnerable populations and communities without needed support.

This fragmentation is aggravated by the historic divergence between the federal government's management of direct subsidies to help lower-wealth and lower-income households and tax preferences and other policies that overwhelmingly advantage wealthier households. Direct assistance programs for lower-wealth, lower-income households have been dwarfed by "hidden" subsidies for market-rate housing. Both forms of aid have been hindered by discriminatory practices that preserve patterns of residential segregation and unequal access to opportunity. Local jurisdictions continue to put up and maintain regulatory barriers to new production, driving up the cost of housing and contributing to problems of gentrification, displacement, and homelessness. In particular, the imbalance between higher-resource communities that oppose new housing and the intensification of land use in lower-income communities and communities of color makes it harder to confront inequitable patterns of development and disparate environmental and climate impacts.

Effective housing policy should foster a ladder of opportunity, where government policies help people at each rung to thrive and facilitate their ability to advance along that ladder. Put differently, a more cohesive continuum of housing options would allow households to move more seamlessly along it as their needs and circumstances change over time. But the ladder we have today has multiple rungs missing, others spaced too far apart, and many rungs only accessible to certain people or communities. The U.S. needs to rethink and realign how it deploys financial resources and regulatory authority to build a better ladder of housing opportunity—one that would provide a range of rental and homeownership options that make good on the 1949 Housing Act's promise of "safe and affordable housing for all."

In this brief, we outline our proposed parameters for how that kind of re-tooled federal housing policy framework could function. The restructuring we envision is guided by three core objectives that focus on the need to:

- Right size and better target subsidies directed to households,
- Expand and harmonize housing supply-oriented resources and tools to support increased production and a broader array of housing choices, and
- Strengthen incentives and accountability for localities and private market actors to ensure they are advancing fair housing, rooting out systemic racism, and supporting climate resilience.

We describe these objectives in greater detail below, and identify priority action areas that would help advance each one. As a candidate and in the early days of his administration, President Biden has laid out a nuanced and ambitious housing agenda consistent with these broad goals. The recommendations below offer an organizing framework to not only advance that agenda but to lay a foundation for larger-scale, longer-term systemic reform.

This organizing framework is also meant to be a starting point for discussion and debate about what it will take to achieve a more integrated, holistic, equitable, and sustainable approach to federal housing policy. As such, this brief is the first in a series of Terner Center work that will be informed by additional engagement and analysis in the coming months as we continue to build out and refine this proposed playbook.

Building a Better Ladder of Housing Opportunity

Solving the myriad challenges underpinning the nation's housing crisis will require more than simply sending increased funding through the current patchwork of federal policies and programs. Certainly, more investment in the nation's housing infrastructure is needed. But addressing the imbalances, inefficiencies, gaps, and fragmentation in the current system would allow resources already dedicated to housing to reach further and accomplish more. Improving the existing programmatic and funding foundation would also serve to maximize the impact of any new resources approved by Congress without inadvertently creating one more layer of complexity and fragmentation.

To be successful, these efforts cannot be confined to one income group or segment of the housing ladder, or to just the demand side (i.e., households) or supply side (i.e., housing production and preservation) of the equation. Rather, we envision a more cohesive system that starts with more robust assistance for the most vulnerable, lowest-income households, and also extends shallower levels of support further up the income distribution and in ways that would support more and more varied housing production with less (or no) subsidy.

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Further, money alone will not change exclusionary patterns or practices or curb negative environmental impacts. Our proposal points to ways that regulatory oversight and other tools will need to be arrayed in support of and in coordination with funding to ensure localities and private market actors are doing their part to redraw the housing landscape in more equitable and sustainable ways and enabling the kinds of production that can increase access to homeownership and to areas of opportunity for renters. Achieving the realignment, improved coordination, and implementation outlined below will also require ongoing data collection and research to shape, evaluate, and improve upon interventions as reforms roll out.

Right Sizing and Better Targeting Assistance for Households

Even before the onset of the pandemic, more than 20 million households in the U.S. paid rents that consumed more than 30 percent of their income.[16] In 2019, well over half of renter households that earned less than $50,000 a year faced housing cost burdens that eroded their ability to pay for other necessities, accumulate savings, and stay stably housed. Across the nation, an estimated 900,000 renters are evicted from their homes each year.[17] These burdens are closely linked to the decades-long decline in real wages for working families. In contrast to the housing challenges of dilapidated and unsafe homes that drove the earliest federal interventions to tear down slums and build new housing, millions of renters' housing challenges today boil down to a simple fact: the housing they occupy simply consumes too much of an inadequate income.

Millions of already-struggling households are also now contending with COVID-19-related job and income losses, and have been joined by millions more newly-cost-burdened households in straitened circumstances because of the pandemic.[18] Even though December's relief package included additional unemployment insurance benefits alongside rental assistance, the delay in passing the bill means millions may still see their benefits lapse[19] and rent arrears continue to mount while waiting for the new funding to start flowing. President Biden has already signed an executive order to extend the Center for Disease Control's eviction moratorium through March. But together these measures may not be enough to stave off the looming "eviction cliff"—one that Parrott and Zandi project could see evictions increase threefold[20] compared to typical levels and would carry profound consequences for the health, well-being, and economic precarity of households across the country. There is also potential for wider housing market disruptions, as both landlords and homeowners fall behind on their debt obligations, especially if a prolonged recession makes even forbearance payments difficult to sustain.

To address both the near-term COVID-19-related need as well as long standing affordability challenges, the Biden administration should reorient the federal approach to housing assistance to not only prioritize stabilizing vulnerable households, but also better facilitate transitions to other rungs on the ladder, including homeownership, by easing housing-related cost burdens.

Priority Action Areas:

- **Recognizing the likely long path to full recovery, expand COVID-19 relief to protect against evictions and potential loss of affordable stock.**

  Further augmenting emergency rental assistance, which President Biden has included in his proposed $1.9 trillion package, and strengthening eviction protections in a subsequent round of federal COVID-19 relief is critical to keeping millions of households stably housed, given the length of time it will take to administer vaccines to the general public and for the economy to recover to pre-COVID conditions. Assistance provided directly to struggling landlords on behalf of tenants unable to pay the rent could also guard against foreclosures and/or evictions spurred by owners unable to maintain their properties given mounting arrears. To further protect against foreclosures for vulnerable homeowners facing the eventual expiration of forbearance, relief should also include expanded investments in the Hardest Hit Fund created during the Great Recession, along with standardized and uniform post-forbearance loan modifications, counseling, and legal aid support.

- **Beyond pandemic response, expand and better target rental assistance for households with very low incomes.**

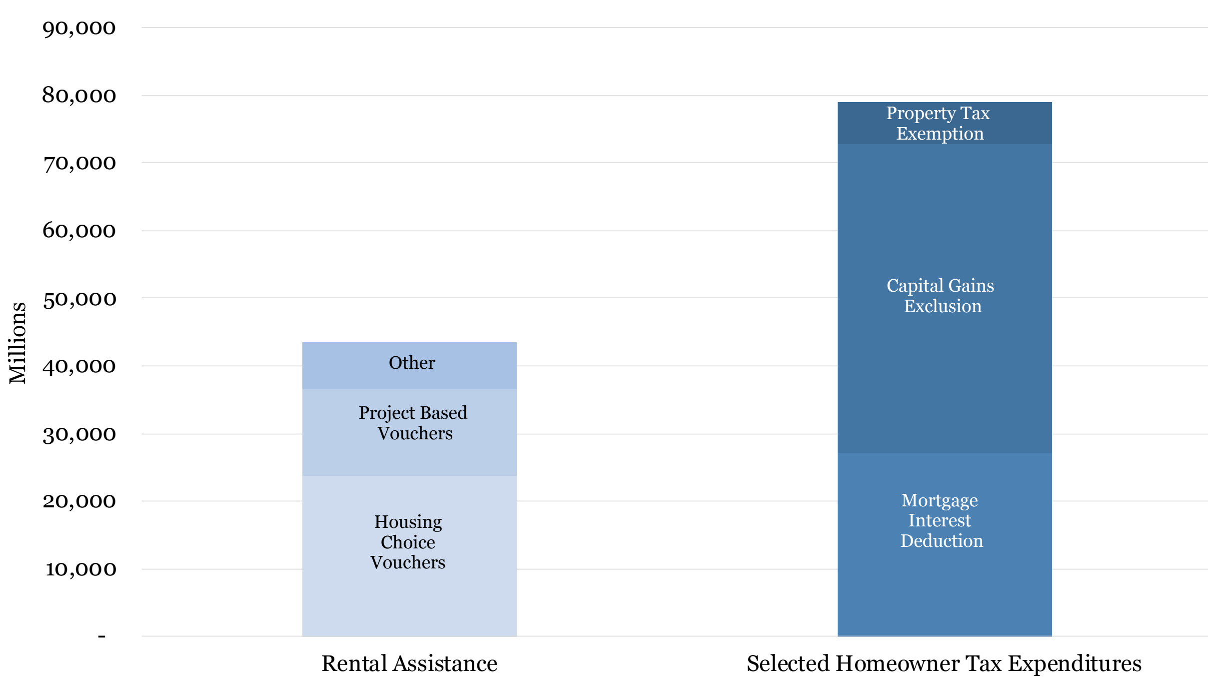
  To ensure that vulnerable and at-risk populations receive access to critical housing assistance, make housing assistance "universal" for extremely and very low-income households who need it. This assistance could take the form or make use of an expanded and modernized housing voucher.

- **Reorient housing-related tax expenditures to better support low- and moderate-income households, including renters.**

  Create a targeted renters tax credit for those phasing out of eligibility for rental assistance as their incomes rise. This could help mitigate unintentional work disincentives as earnings increase. It would also allow low- and moderate-income renters to shift some of their budgets from overly burdensome housing costs to other priorities that could encourage economic stability and upward mobility, such as investing in education or in savings for a down payment on a home purchase. Reforming the Mortgage Interest Deduction could also make housing-related tax expenditures more progressive and do more to support access to affordable homeownership.

Since its founding, the U.S. government has prioritized investments in homeownership, through its early efforts to expand property ownership in the Homestead Act of 1862 to its creation and oversight of institutions like the Federal Housing Administration, the Federal Home Loan Bank system, Fannie Mae, and Freddie Mac. Homeownership is also subsidized through measures that allow homeowners to deduct mortgage interest and property taxes paid on their homes and exclude home sales from capital gains. Together those three tax expenditures cost the federal government foregone revenue of more than $79 billion in 2020. That outstrips HUD's entire net discretionary budget in that same year by more than $30 billion dollars and is almost twice the amount the federal government currently spends on rental assistance (Figure 1).

Figure 1: Fiscal Year 2020 Budget Allocations for Rental Assistance Compared to Selected Tax Expenditures for Homeowners



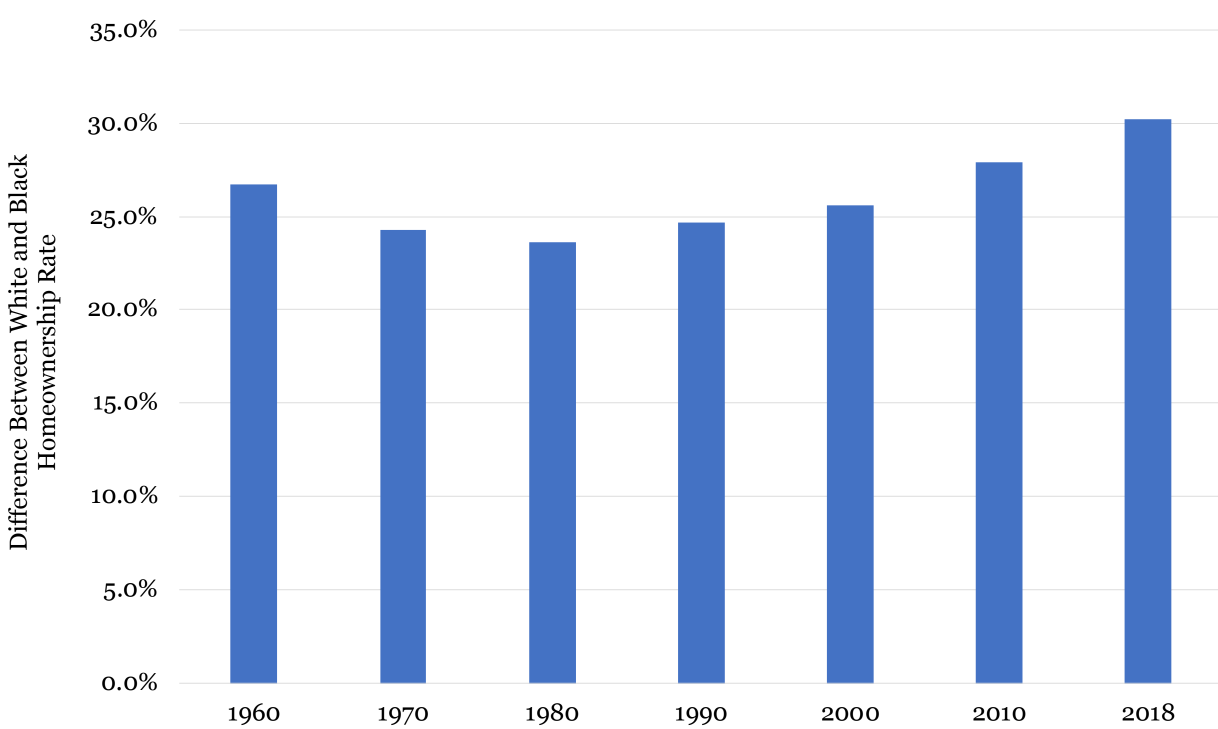
Note: "Other" rental assistance includes Public Housing, Supportive Elderly and Disabled Housing, and USDA Rural Rental Assistance.
Sources: Department of Housing and Urban Development 2021 Congressional Justifications; Department of Agriculture FY2021 Budget Summary; Department of the Treasury FY2020 Tax Expenditures.

The disparities in federal housing subsidies by tenure are emblematic of the way policy decisions perpetuate racial inequities. Because of discriminatory policies that have excluded people of color from access to safe and affordable financing for homeownership, they are less likely to own their homes. In 2018, the Black homeownership rate trailed that of Non-Hispanic White households by 30 percentage points, higher than in 1960 despite the passage of the Fair Housing Act (Figure 2). These households are also far less likely to have savings with which to make a down payment and retain sufficient funds to weather the predictable (let alone unpredictable) costs of homeownership. Thus, given the current skew of federal housing subsidies, those dollars disproportionately accrue to higher income and non-Hispanic White householders who are more likely to own their home.

It is time to shift the balance of federal investments in service of a more seamless and better functioning continuum of housing options. That will require reorienting funding and tax expenditures to more effectively target federal resources to renter and owner households that most need them, and dismantling disparities in access to those resources by race and ethnicity.

A first order priority in that rebalancing must be near-term assistance to help vulnerable households weather the pandemic. The $25 billion in rent relief included in the December COVID-19 relief package was a critical step, but it is insufficient given the magnitude of back rent that has already accrued and the likelihood that a return to "normal" is still many months away. And even the additional $30 billion proposed by the President is likely to fall shy of the underlying need. In addition, absent additional federal relief or flexible financing tools for property owners, the risk of foreclosure and property loss looms, especially for smaller landlords providing naturally affordable rental options.[21] While renters have been particularly hard

Figure 2: The Black/White Homeownership Gap, 1960 - 2018



Source: Laurie Goodman, Jun Zhu, and Rolf Pendall (2017). "Are Gains in Black Homeownership History?" The Urban Institute. Retrieved from: https://www.urban.org/urban-wire/are-gains-black-homeownership-history.

hit by pandemic-related housing insecurity, the lessons learned from federal assistance programs created in the wake of the Great Recession have helped stave off a parallel foreclosure crisis. Providing assistance through the Hardest Hit Fund, for example, and quick adoption of standardized and uniform mortgage modification steps could help avoid an uptick in foreclosures once forbearance ends. Additional relief will be needed to address the rent and mortgage bills that will eventually come due, and assistance for counseling and legal aid will be important to help renters and owners navigate these often complex processes.

That said, this first wave of rental relief offers an opportunity to think through and explore mechanisms for deploying an expanded rental assistance program beyond the pandemic. Both types of support (emergency and longer-term) envision reaching a broader pool of households than those currently receiving assistance. Thus, both are likely to require increased capacity to administer and could potentially benefit from regional collaboration and/or different deployment structures from what is currently in place.

The lessons learned from providing near-term assistance could help inform whether a longer-term scaling up of assistance would best be deployed through coordinating and expanding existing vehicles, such as the Housing Choice Voucher program, or through a newly designed program that could achieve the Biden administration's goal of a universal entitlement. Whatever form it ultimately takes, it will be important for expanded assistance to avoid the pitfalls encountered in existing programs. For instance, not all households issued a Housing Choice Voucher are able to use it. Voucher holders often encounter a range of issues in trying to find a suitable rental, such as landlords discriminating based on income and/or race, payment standards not aligning, difficulty taking the subsidy across jurisdictional boundaries, or challenges finding units that meet nationally-mandated housing quality standards.[22] In a pilot study conducted for HUD, researchers screened more than 341,000 online listings and found fewer than 9,000 that appeared to be eligible for voucher use.[23] Expanded assistance must be coupled with housing counseling supports and strengthening protections for renters (e.g., barring source of income discrimination, a prohibition against removal of tenants after assistance is received, removing requirements that tenants must meet exacting credit thresholds) to ensure that renters are able to use their assistance, especially in higher opportunity areas where barriers are often greatest for assisted households. Addressing administrative challenges would also help assuage landlord concerns about the complexity of navigating housing assistance programs.[24]

One delivery mechanism for rental assistance that does not require interfacing with landlords—which should ostensibly increase flexibility and reduce potential stigma or income discrimination—is the tax code. Expanded assistance for very low-income households should be paired with a renters tax credit for those with low to moderate incomes who still struggle with housing burdens.[25] Creating a targeted tax credit could ensure expanded assistance avoids the twin challenges of the "subsidy cliff" and asset limits, where renters lose their assistance if their income goes above a certain level and where they are prohibited from building savings that can facilitate greater economic mobility.[26] Research has shown that these cliffs can serve as a disincentive to work, particularly when even moderate incomes are insufficient to cover the gap between subsidized and market rents. Enacting a renter's tax credit targeted at working households who earn low incomes yet still face high housing cost burdens would create a more robust ladder of housing opportunity. This type of credit would also bring more parity in the use of tax expenditures. It could be executed with far lower administrative costs. And it could support transitions out of rental assistance and potentially into affordable, entry-level homeownership, if those renters were able to accumulate more savings for a down payment.

At the same time, reforming the Mortgage Interest Deduction, which does little to boost homeownership in its current form, would make the use of tax expenditures more progressive and could better support first-time homebuyers.[27] Since the 2017 changes to tax law increased the standard deduction, roughly only 1 in 10 taxpayers itemize on their tax return, which is the only way to claim the deduction. Households in the top 20 percent of the income distribution claim 80 percent of the benefits.[28] Transitions to home ownership would be better supported if the current Mortgage Interest Deduction were converted to a credit or replaced with a first-time homebuyers credit targeted to lower and moderate income households, and paired with explicit strategies to close the racial homeownership gap.[29]

Taken together, this "right sizing" and rebalancing of assistance would help stabilize burdened and vulnerable households by ensuring a continuum of rental support for low-income, low-wealth households and better targeted support for households making the transition to entry-level homeownership. But such assistance cannot permanently solve for labor market conditions that have contributed to a growing low-wage workforce.[30] The majority of low-income households are employed, but stagnant wages (even before the pandemic) are also responsible for the affordability crisis and will require their own targeted federal policy interventions to address. That should not forestall action on expanding access to rental assistance now, given the urgency and scale of the need. But that assistance should be planned for as part of a broader federal strategy, which could anticipate when the need for housing assistance might be greater and when it may diminish with other concerted actions (e.g., alongside an increased minimum wage or expanded, improved Earned Income and/or Child Tax Credit).

Nor will expanded demand-side subsidies be effective over the longer term unless they are paired with a robust production-oriented strategy. It could take several years to build and deploy universal rental assistance. That critical period must be used not just to get the design of the rental assistance (and the protections and enforcement mechanisms that will need to accompany it) right, but also to ensure the "supply side" of the housing market can support that expansion. Addressing supply needs is essential to avoid market distortions, especially where supply is most constrained, and to make sure the housing stock that is coming online creates access to a diverse array of communities and in ways that support climate imperatives and racial equity.

Expanding and Harmonizing Housing Supply-Oriented Resources and Tools

Creating a better ladder of housing opportunity in the U.S. will require a greater mix and balance of housing options that facilitate a range of affordability. And those options need to be located in places that can expand access to opportunity for more people, dismantle residential segregation, and create climate resiliency. This is a two-pronged solution. As with demand-side subsidies, the federal government needs to streamline and harmonize its programs that subsidize the production of affordable housing, as well as take steps to remove the regulatory barriers to building affordable housing in higher-resourced areas. But it will also require strategies that facilitate the market provision of lower-cost and more diverse housing types.

To expand the supply of affordable housing, the federal government provides billions of dollars in subsidies each year through both direct funding and tax preferences. However, given the overlaps, gaps, and specialized targeting attached to many programs, the funding deployed through the legacy system that has emerged over decades is less than the sum of its parts.

Part of the challenge is that, in addition to being allocated through dozens of programs, federal funding for housing is also deployed across a fragmented jurisdictional and institutional landscape. The parochial nature of most federal programs is a challenge not only of administration. It also reflects the nature of the committee structure in Congress used to appropriate funding, which makes the default funding process a piecemeal one. The resulting programmatic fragmentation often does not recognize, and can thwart, efforts to plan for and implement supply-oriented housing strategies at the scale at which housing markets operate. This fragmentation encourages more narrowly focused advocacy to protect specific programmatic funding levels, mitigating against systemic reforms that could deliver resources more effectively and equitably. Moreover, pursuing housing policy primarily through a jurisdiction-by-jurisdiction approach—given the imbalance between higher-resource communities opposed to development and the institutional capacity gaps in less-resourced places—also makes it harder to confront racial and economic exclusion and rein in unsustainable patterns of development.

Unlocking the scale and range of housing production needed to create a more robust housing ladder will require marshalling existing funding differently so it stretches further. That realignment of resources should start with direct subsidies for affordable housing production, which when paired with the expanded demand-side household assistance proposed above, could also allow for more production with shallower subsidy. In addition, to facilitate the production of a greater mix of housing options for more people in more places, the regulatory framework must be deployed to support that diversity of supply and ensure its inclusiveness and accessibility. While the funding and regulatory levers are intrinsically linked, in this brief we address them individually, focusing first on financial resources in this section and the regulatory landscape in the next.

Priority Action Areas:

- **Create flexible supply-side subsidies that operate at a multi-jurisdictional scale, and invest in capacity to administer those funds.**

  Adapt, combine, and augment a subset of existing federal funding sources to create a flexible pool of subsidies that would enable production and preservation of a more diverse set of housing options than the status quo. That subsidy source should be deployed through entities working at a regional level. While the definition of "region" may vary in different places, adopting a multi-jurisdictional lens would better align housing policy with the scale at which housing markets function, facilitate efforts to dismantle racial segregation, and allow closer coordination with economic development, transportation planning, and climate mitigation goals.

- **Harmonize and better allocate existing production-oriented resources.**

  Revisit and rationalize allocation formulas for key existing funding sources, such as the Low Income Housing Tax Credit (LIHTC) program, to address diverse housing supply needs in different markets and advance equity, sustainability, and efficiency goals. Those sources should also be better coordinated to reduce administrative burden and costs associated with the complexity of funding housing construction and preservation.

- **Align other financing tools in support of unsubsidized housing production that advances broader affordability.**

  The missing rungs that make it difficult for assisted households to transition to unsubsidized options[31] emerge in part from treating affordable housing policy and market-rate strategies as separate issues. To rebuild those rungs, other federal tools (like Federal Housing Administration, the Federal Home Loan Banks, Fannie Mae, and Freddie Mac financing products) should be leveraged to support moderate- and middle-income housing options that are affordable without subsidy, and offer a more seamless and intentional approach to federal mortgage credit guarantees than the siloed structure currently in place.

Given the fragmentation of supply-side subsidies, the current model for producing affordable housing entails knitting together multiple sources of public and private funding. Because each funding source—whether from the federal, state, or local level—tends to come with its own restrictions, requirements, application, and awards cycle, the way those sources come together can delay the length of time it takes to put a deal together, increase costs (e.g., administrative and carrying costs), and affect how many homes end up being produced in a given project (and for whom). Creating a more streamlined and flexible federal source of supply-focused subsidy—one that could more easily pair with the distribution of LIHTC, among other things—would help funding stretch further and could spur more and different types of production.

This regionally-oriented vehicle would not necessarily have to be created from scratch. Congress could approve the pooling and consolidation of a subset of existing resources, which would help reduce fragmentation in the funding landscape and provide a base that could then be augmented by new investments in housing infrastructure. Funds from this regional subsidy source would be designed to be flexible to meet a range of supply needs across participating jurisdictions. For example, funds could be used to provide capital grants for new construction, support rehabilitation or preservation of existing stock, or pay for infrastructure improvements or site remediation, and could support affordable rental or homeownership developments.

Using this funding stream to shift the orientation of housing-related funding and planning to a regional level would create a formalized framework to better coordinate across individual jurisdictions, and to both incentivize localities and enforce accountability for their role in advancing a region's housing, racial equity, and climate obligations. To ensure this newly designed subsidy source is effectively targeted, the funds could be distributed competitively rather than as an entitlement. Or if provided as an entitlement, it could be structured as one that is only accessible to regions demonstrating compliance with programmatic requirements. For example, a region could apply for multi-year funding by providing HUD a detailed, locally informed plan for its housing supply needs, including strategies for cross-jurisdictional coordination and justifications for how the plan advances fair housing, racial equity, and climate resilience. This approach would offer a clear understanding of how grantees are planning to coordinate and deploy regional subsidies with local resources to meet their obligations, and provide a structure for oversight and accountability. This type of approach could build from the Assessment of Fair Housing process codified in the 2015 Affirmatively Furthering Fair Housing (AFFH) rule, which (before its suspension) provided the option of conducting a regional analysis of impediments and encouraged coordinated responses to overcoming barriers to providing sustainable, equitable rental and ownership options. The Biden Administration's reinstatement of this rule is a critical step in helping to reduce the long-standing legacy of racial discrimination in housing.

Some policy areas, such as transportation and some responses to homelessness, already operate at a regional scale, but other efforts to expand the scope of regionalism (e.g., the Obama administration's Sustainable Communities Initiative) have largely been undercut by lack of funding before gaining national traction.

One aspect that makes such a governance shift challenging is that effective implementation requires more than just allocating funding at that scale. Coordination across jurisdictions takes sustained effort and sufficient administrative staffing to maintain, especially given the turnover that occurs among elected officials and agency staff over time and the variable levels of capacity, resources, and political will across jurisdictions. That coordinating structure in itself will require administrative investment to maintain, along with the development of best practices to sustain effective communication, coordination, and accountability across multiple jurisdictions. There are lessons to be learned in terms of what has proven successful in standing up effective regional governance and collaborative structures where they already exist as well as insights to be gleaned from the stumbling blocks that have stymied other efforts. The rollout of this new funding structure could also allow an opportunity to iterate and adapt to what works best for different kinds of markets and parts of the country.

To that end, just as what qualifies as "regional" may vary widely across the country—and could be defined differently as needed for the purposes of this funding mechanism—the regional entities selected to plan for and deploy housing-related funding could vary depending on local needs and where the strongest institutional foundations exist. Metropolitan Planning Organizations (MPOs) provide one clear option to provide this function, given that they play this role for transportation planning and funding and could facilitate better integration between the two. But MPOs have varying levels of capacity across regions and states and some may be better positioned to fill this role than others. Federally recognized Continuums of Care, which HUD began encouraging the formation of in 1995 as a means of coordinating the expenditures of McKinney-Vento homelessness assistance across multiple jurisdictions in a given region, could also be considered as a model or vehicle for broader housing investments. Other high-performing entities that encompass or serve multiple jurisdictions, including larger counties, could also be eligible to play this function. Where such capacity does not already exist or function at the level required, high-capacity nonprofit organizations could be contracted to do so and/or states could play this role (e.g., for less populous states as a whole, for rural communities, or areas where other entities are not readily identifiable). Whatever form they take, these entities would have to demonstrate that they are able to engage community partners, ensure the plans they coordinate and investments they make are outcome-oriented and people-centered, and that they further affordability, racial equity, and sustainability goals.

A pilot phase where regions and states can experiment with the types of processes and structures that prove most effective for cross-jurisdictional coordination given local capacity, market conditions, and housing needs could help stand up a more durable system. Rigorous evaluation and intermittent sharing of lessons learned and emerging best practices could help avoid past pitfalls and speed a more effective, sustainable implementation of this funding design.

In addition to creating a regional funding mechanism, more could be done to reduce fragmentation and increase the impact of existing funding streams. Historic funding formulas are overdue for examination and revision to ensure they are aligned to broader housing needs, including fair housing and climate obligations. For instance, LIHTC is allocated based on a per capita distribution without taking into account which markets are most in need of new supply versus markets where supply constraints may be less of an issue than weak labor markets and low wages.[32] Similarly, state allocations are not necessarily aligned with market needs around new construction versus the acquisition and rehabilitation of existing buildings. Revisiting how the credits are allocated to states and providing federal guidance to states on targeting provisions within Qualified Allocation Plans could help better align this critical production tool with market needs.

Similarly, better alignment, if not outright consolidation, of other federal funding sources that often layer with LIHTC would reduce the costs and complexity associated with the fragmented financing of housing production and could allow these resources more flexibility to respond to changing market needs, including the shifting geography of poverty and opportunity. The federal government could begin this process by undertaking an inventory of funding programs to identify where opportunities to reduce fragmentation or improve efficiencies could move forward within existing authority or where statutory changes or new legislative action would be required. Regardless of the outcome of that inventory and any subsequent reform, jurisdictions should also be required to document that the way they use the funds addresses basic efficiency and cost effectiveness considerations. Jurisdictions should also be more actively encouraged by the federal government to enter into collaborations to advance more integrated and aligned funding implementation, possibly through bonus funding allocations crafted for this purpose.

In addition, the federal government could also buttress strategies to spur production of moderate and missing middle housing in ways that neither current supply strategies nor the market do today. Providing better FHA and GSE financing products for condominium construction, construction of small multifamily buildings or accessory dwelling units, and shared equity models (e.g., piloting different financing vehicles that could assess and account for risk differently) could all help to expand more affordable supply.

But beyond knitting together a more integrated and complete continuum of funding and financing tools to support more holistic supply-side strategies, laying the groundwork for these types of production will require local action to ensure these are more widely allowable uses under local zoning codes. There is a range of carrots and sticks—explored in more detail below—at the federal government's disposal to incentivize necessary shifts in local policy and private market practices as well as to enforce regulatory obligations.

Strengthening Incentives and Accountability for Localities and Private Market Actors

Ultimately, one of the greatest barriers to achieving the vision of the 1949 Housing Act remains a system of land use and housing policies that privilege and preserve white, higher-income communities, while failing to invest adequately in those that have fewer resources and more people of color. These disparities manifest themselves in persistent and growing spatial concentrations of wealth and poverty and the paucity and ephemeral nature of mixed-income neighborhoods.[33] This is amplified and reinforced by the skew of new housing production toward larger, less affordable single-family homes[34] at the expense of forms of modest and moderate density that can foster greater inclusion and affordability.

The effectiveness and impact of expanded and better targeted demand- and supply-side housing subsidies hinge on implementing those resources alongside robust mechanisms to enforce accountability. Those accountability measures must be used to curb exclusionary housing policies and practices, incentivize pro-housing policy adoption, and ensure that localities and private market actors are meeting their fair housing and lending obligations. Moreover, pro-housing policy shifts at the local level should not only target affordable housing production. They are also necessary to pave the way for the market to build housing for the moderate- and middle-income households increasingly caught between what public subsidy covers and the private market currently provides.

To that end, federal policymakers should create a robust and cohesive system of accountability by strengthening and expanding regulatory tools and by leveraging key funding streams to incentivize and require localities to meet their statutory obligations.

This is consistent with the executive order recently signed by President Biden, which states: “the Federal Government shall work with communities to end housing discrimination, to provide redress to those who have experienced housing discrimination, to eliminate racial bias and other forms of discrimination in all stages of home-buying and renting, to lift barriers that restrict housing and neighborhood choice, to promote diverse and inclusive communities, to ensure sufficient physically accessible housing, and to secure equal access to housing opportunity for all.”[35]

Priority Action Areas:

- **Reactivate and strengthen the federal regulatory framework to support housing goals.**

  Reinstate and strengthen key regulatory mechanisms to enforce fair housing and lending obligations, guard against racist policies and market practices, and hold localities accountable for executing on pressing housing, equity, and climate imperatives.

- **Condition existing funding to support adoption of pro-housing policies.**

  Regardless of participation in a new regionally-oriented funding program for housing production, existing block grant funding sources should be conditioned on a jurisdiction documenting a baseline slate of policies that allow—

and do not actively bar—a level and mix of housing types that support a range of affordability and advance fair housing and sustainability principles of existing law.

- **Tie new funding to regional housing goals and provide performance incentives.**

  To be eligible for new/expanded housing infrastructure funding streams, regions would need to conduct an assessment of regional housing needs—which could build from the parameters included in the 2015 AFFH Assessment of Fair Housing—to set holistic production and preservation goals that advance economic inclusion, racial justice, and climate resilience, and track their progress toward achieving those goals.

A foundational step for bringing greater accountability to private sector investors and actors and to the localities that control key levers of housing and land use policies is for the federal government to reinstate and strengthen regulatory authorities that have been eroded over the past four years. Recommitting to and improving vehicles such as the AFFH rule, the disparate impact standard, the Community Reinvestment Act (CRA), and the Duty to Serve obligations of Fannie Mae and Freddie Mac, among others, will bolster and improve implementation of existing and expanded investments in housing production and assistance and are essential for overcoming racial inequities. For instance, to improve access to homeownership for underserved groups, particularly for Black households and other potential homebuyers of color, the federal government could not only push for expanding the payment data considered in assessing credit risk, it could also work through CRA to develop more affirmative credit programs to take on some of the risk associated with lower-credit score, lower-wealth borrowers and use its authority under the Equal Opportunity Credit Act to pursue disparate impact cases. In that same vein, GSE reform and its "Duty to Serve" requirements present an opportunity to prioritize racial equity by revisiting and transforming how loans are underwritten.[36]

In terms of advancing housing supply goals, a reactivated and strengthened legal framework is a necessary "stick" to hold private market actors and localities accountable for fulfilling their statutory obligations. But, at the same time, the more that the regulatory regime is tied to the way federal funding is deployed, the stronger the "carrots" to advance federal housing goals and the greater the penalties for failing to do so.

One way to achieve that closer alignment is to condition existing block grant dollars—not just those administered by HUD but also others such as the Surface Transportation Block Grant Program[37]—on jurisdictions passing policies that facilitate a greater mix of housing types, affordability, and sustainability, or eliminating policies that actively impede those goals. This is not a new or radical proposition. The original legislation that created the Community Development Block Grant (CDBG) program in 1974 included a requirement for each grantee to develop an application for the grant with a plan for deploying it, including a Housing Assistance Plan to assure each grantee was taking on its fair share of low-income housing needs in its metropolitan statistical area.

Another inducement for local policy shifts would come from our recommendation to implement expanded funding for housing at the regional level, as described in the previous section. Those resources and the framework through which they would be administered would provide an important avenue for incentivizing more concerted and coordinated action around housing goals within and across jurisdictions. That funding, while flexible, would be contingent on recipients conducting a comprehensive assessment and plan to ensure their identified housing goals and strategies to achieve them reflect efforts to overcome racial inequalities, foster greater racial and economic inclusion, and address climate resilience. That needs assessment would inform metrics by which recipients would be expected to track their progress over time. Again, the Assessment of Fair Housing included in the AFFH rule provides a strong basis from which to build this kind of planning and oversight mechanism. But further "carrots" could be created by allowing participating communities to unlock additional incentives for meeting or exceeding performance benchmarks.

A number of states have adopted, or are adopting, mechanisms to overcome exclusionary practices. Under Massachusetts' Chapter 40B, enacted in 1969, developers building in any municipality where less than 10 percent of housing qualifies as affordable may build more densely than would normally be allowed and streamline approval processes if their project includes units with affordability restrictions. This provision has succeeded in boosting the supply of affordable housing units, including increasing the overall share of municipalities that have affordable housing units.[38] More recently Oregon passed legislation in 2019 that allows the creation of between two and four units in areas zoned for single-family homes, depending on city size. A number of states have some level of preemption legislation under consideration this year to rein in exclusionary practices and promote production of affordable housing types—whether focused on making it easier to build Accessory Dwelling Units (e.g., New Hampshire, Utah), curbing exclusionary design standards (e.g., Florida), eliminating single-family zoning entirely (e.g., Virginia) or in targeted areas (e.g., Maryland), or allowing for subdivision of parcels that allow multiple units (e.g., California, Oregon). Cities have also been pursuing measures to overhaul local land use and housing policies to weed out barriers to building housing and address racial inequities. For instance, Minneapolis eliminated single-family zoning in 2019, with many other cities such as Sacramento poised to follow suit.

In addition, California recently overhauled its decades-old Regional Housing Needs Allocation (RHNA) process in an effort to more effectively compel local governments to adequately plan for new housing. The State of California hands down production numbers to regional councils of governments which in turn must work with their member cities to translate these housing targets into new, or more permissive, residentially zoned sites. With technical assistance from their regional governments, cities must then further document—and the state must affirm—that all relevant regulatory constraints (such as local fees or processing requirements) are not so onerous as to reasonably preclude housing from getting built on those newly zoned parcels. Cities that fail to comply risk losing key state or regionally-administered housing and transportation funding sources for which RHNA compliance is a requirement. And they risk state-initiated or private litigation compelling compliance. Over the last year, this RHNA compliance regime has been further complemented by a newly enacted "Prohousing Policy" which provides jurisdictions that have made progress removing regulatory constraints with preferential access to certain competitive state housing and transportation funding sources. While the steps that California has recently taken, and the slate of state preemptions and city zoning reforms recently adopted, are too new to evaluate outcomes, each offers an opportunity to assess what processes may be most effective for rolling out federal efforts to curb exclusionary practices and to monitor and assess what works most effectively and where over time. They also signal a growing willingness across the country to use policy levers in a more targeted way to grapple with the barriers and inequities that stem from exclusionary local practices.

Successfully implementing a model that provides coordinated incentives and robust accountability assumes and depends on a robust and durable evaluation system that tracks performance against consensus goals and metrics. While HUD should be appropriately resourced to provide guidance and technical assistance to enact this model, it should not be incumbent on HUD to carry out regional and local evaluations. Rather, investing in and working through regional intermediaries—as envisioned in the recommendation to orient funding for housing infrastructure at a multi-jurisdictional level—should seed the monitoring and evaluation capacity required to carry out this kind of oversight.

Advancing Implementation

After four years of federal inaction on housing issues—combined with a concerted dismantling of fair housing protections—the Biden administration has an opportunity now to chart a better course for federal housing policy. Indeed, housing intersects with each of the priorities outlined by President Biden and Vice President Harris' administration—COVID-19, economic recovery, racial equity, and climate change—and will be essential to achieving this administration's goals. The administration already has signaled a welcome new level of attention and commitment to housing's role in these priorities.

The suite of policy reforms presented in this brief would lay a strong foundation for the deep and longer-term systemic changes necessary to address the multifaceted and deeply rooted challenges confronting the nation, but it also provides an organizing framework for reorienting federal housing policy in service of the administration's goals in the near term. For instance:

- On *"right sizing" and better targeting housing assistance*, President Biden has called for universal rental assistance, including a fully-funded voucher program and a new renter's tax credit, citing the FAIR Tax Credit proposal developed by the Terner Center in 2016. Enacting expanded rental assistance would be transformative in many ways, but will require careful consideration of how to sequence and deploy what would likely be a multi-year scaling up of assistance. In addition to administrative and design questions, considerations would also need to include how to best maximize the strengths and mitigate potential weaknesses of each component of assistance in concert with the other, and benefit from thinking holistically about how supply-oriented strategies could support successful expansion.

- On *expanding housing supply-oriented resources and tools*, as a candidate, President Biden called for $100 billion in supply-side funding, as well as some support for capacity building (e.g., $300 million in Local Planning Grants; expansion of 10-20-30 to all federal programs; and expansion of the CDFI fund to drive resources to underserved areas). Pairing increased investments with the recommendations included here to improve the efficiency and effectiveness of existing resources could likewise boost the reach and impact of federal dollars going to housing. Likewise, the opportunity to reorient how those funds are deployed would help advance critical goals by getting to a better scale for overcoming racial segregation, advancing fair housing, and combatting climate change.
- On *strengthening incentives and accountability*, President Biden has identified a number of areas where his administration will restore and expand regulatory oversight (e.g., AFFH, disparate impact, and CRA), and has signaled support conditioning CDBG and Surface Transportation dollars on local zoning changes (e.g., inclusionary zoning). There are real-time lessons that can be learned from efforts across the country to bring a fair housing lens to housing policies and programs, to define what constitutes "pro-housing" policies at the local level, and to make incentives and penalties around housing planning and production more binding in a way that would work to build a more cohesive ladder of housing opportunity across the country.

In the coming months, the Terner Center will be exploring these issue areas, among others, to further articulate how near-term and concerted action on housing policy at the federal level can advance policy change in keeping with the intent of President Biden's platform and in service of a reimagined—and better functioning and more holistic—federal playbook. Reconfiguring a longstanding system—and dismantling its inefficiencies, racial injustices, and unsustainable patterns—is a far more complex and challenging task than starting from a clean slate. It is the work of years, not weeks or months. But that does not mean that actions taken by the Biden administration in the coming weeks or months cannot lay the foundation for more transformational change. One that builds a better ladder of housing opportunity and helps the nation finally achieve the goal of "safe and affordable housing for all."

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The Terner Center formulates bold strategies to house families from all walks of life in vibrant, sustainable, and affordable homes and communities. Our focus is on generating constructive, practical strategies for public policy makers and innovative tools for private sector partners to achieve better results for families and communities.

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