What Works for Building and Sustaining Mixed-Income Communities: A Perspective from the Development Community

Vicki Davis, Urban Atlantic
Daryl J. Carter, Avanath Capital Management LLC
Rosemarie Hepner, Urban Land Institute Terwilliger Center for Housing

Mixed-income housing has become an important tool for expanding housing supply in both high-opportunity and emerging neighborhoods. Housing that accommodates a range of incomes in one community can have enormous benefits for individuals and families, including social and economic mobility. For developers, building mixed-income communities is a worthy goal but one that raises obstacles as they seek to satisfy the different and sometimes competing needs of various stakeholders, including investors, local government leaders, and residents.

Investors expect developers to meet certain financial benchmarks to guarantee a return on funding. Local governments rely on developers to fulfill their planning goals and meet community needs, including the provision of more housing and retail options. And residents can demand that developers meet a vision they have for their neighborhood, but they are not always aligned around a single vision. Furthermore, residents often push back on projects that include below-market-rate housing. Consequently, proposals for mixed-income and affordable housing tend to spend an inordinate amount of time in the approval and permitting process, and sometimes the projects are completely derailed by neighborhood opposition. These competing interests, compounded by other development and financing challenges, discourage some developers from pursuing mixed-income development.

Despite the obstacles, we urge more of our development colleagues to take up the mission of creating and sustaining mixed-income communities. The benefits are significant—for residents and communities, for promoting the mission of purposeful developers, and for bringing development companies financial success. In this essay, we encourage developers, residents, and public actors to work together to create housing that meets the needs of individuals and families at all income levels. We suggest a way forward by sharing lessons from our decades in the development industry.

Who We Are

The authors of this essay include two real estate professionals with extensive experience building affordable and mixed-income communities. Together, we have over 50 years in the residential real estate field, and our development companies have built or preserved thousands of homes, primarily in medium- or high-density multifamily projects.

Vicki Davis is managing partner of Urban Atlantic Development, a company based on the East Coast that has its roots in building subsidized, affordable rental housing but which, over time, has focused largely on mixed-income and mixed-use new construction and redevelopment projects. Urban Atlantic focuses on creating investments that benefit people, serve local economies, and support a healthy environment. The development company first became involved in mixed-income housing in 1995 through the U.S. Department of Housing and Urban Development (HUD)'s now-defunct HOPE VI program, which redeveloped severely distressed public housing sites. Over the past 20 years, Urban Atlantic and its affiliates have developed, financed, and preserved more than 9,000 housing units, 700,000 square feet of commercial and retail space, and 700 acres of land in urban areas in 10 states, with over $2.4 billion in development projects plus $2 billion in third-party investment projects.

Daryl Carter is founder, chairman, and CEO of Avanath Capital Management, a Southern California-based investment firm managing real estate and real estate-related investments. Avanath's focus is on acquiring Low-Income Housing Tax Credit (LIHTC), Section 8, and other affordable properties with the goal of investing in them and maintaining them as affordable or mixed-income housing. Over the past two years, Avanath has acquired over $300 million in affordable apartment communities nationwide.

Vicki and Daryl also serve on the National Advisory Board of the Urban Land Institute (ULI)'s Terwilliger Center for Housing, and the third author of this essay, Rosemarie Hepner, serves on the Center's staff. Established in 2007 with a gift from longtime member and former ULI chairman J. Ronald Terwilliger, the Center integrates ULI's wide-ranging housing activities into a program of work with three objectives: to catalyze the production of housing, provide thought leadership on the housing industry, and inspire a broader commitment to housing. The Terwilliger Center for Housing seeks to advance best practices in residential development and public policy and to support ULI members and local communities in creating and sustaining a full spectrum of housing opportunities, particularly for lower- and moderate-income households.

Why We Support and Build Mixed-Income Communities

Our own upbringings provided the foundation for our commitment to creating mixed-income communities that support individual, family, and community well-being. When Daryl was growing up, he saw firsthand how important an economically diverse, predominately black[1]

[1] Editors' Note: We have recommended that essay authors use the term "African American" when referring specifically to descendants of enslaved people in the United States and the more inclusive term "black" when referring broadly to members of the African diaspora, including African Americans, Caribbean Americans, and Africans. In this way, we seek to acknowledge the unique history and experience of descendants of enslaved people in the United States and also the diversity of backgrounds within the larger black community.

neighborhood was to families like his. Daryl's father worked at General Motors' Clark Street Assembly plant in Detroit, which was close to their home; like many others who worked at the plant, he picked Daryl up from school on his walk home from work every day. The neighborhood had no crime or gang problems, and families from all different backgrounds—from autoworkers to doctors—lived side by side. But in the 1980s, when the plant moved 25 miles away to Warren, MI, the neighborhood changed—and not for the better. Many families moved away, and for those that stayed the longer commute prevented fathers from being available after school.

Avanath's portfolio reflects Daryl's understanding of how important mixed-income communities are for the people who live in them, especially children. By bringing new sources of funding and new partners to communities, we dispel misconceptions about the risks of investing in underserved neighborhoods and places where people of color constitute the majority of the population. When building and rehabilitating housing, we seek to bring institutional capital to underserved areas to support families in those neighborhoods. And in more established, higher-income neighborhoods, our projects seek to expand access to those areas of opportunities for lower-income individuals and families.

Research supports this approach to equity and inclusion, demonstrating that opportunities for economic stability and upward mobility are greater when low-income families live in economically integrated neighborhoods.[2] Building mixed-income projects in higher-income markets close to good schools and connected to transportation, services, and amenities improves overall health and well-being and positively affects children's educational attainment.[3,4] Further, increasing affordable housing options in urban cores can reduce car dependency, as those households have better access to public transit.[5] This can alleviate traffic constraints, reduce costs for infrastructure repairs, and improve air quality.[6,7]

[2] Pamela M. Blumenthal and John R. McGinty, *Housing Policy Levers to Promote Economic Mobility*. (Washington, DC: Urban Institute, 2015), https://www.urban.org/sites/default/files/publication/71496/2000428-housing-policy-levers-to-promote-economic-mobility_0.pdf

[3] Ingrid Gould Ellen and Keren Horn, *Housing and Educational Opportunity: Characteristics of Local Schools Near Families with Federal Housing Assistance.* (Washington, DC: Poverty & Race Research Action Council, 2018), https://files.eric.ed.gov/fulltext/ED593784.pdf.

[4] Nabihah Maqbool, Janet Viveiros, and Mindy Ault, *The Impacts of Affordable Housing in Health: A Research Summary*. (Washington, DC: National Housing Conference, 2015), https://www.nhc.org/wp-content/uploads/2017/03/The-Impacts-of-Affordable-Housing-on-Health-A-Research-Summary.pdf.

[5] Susan Desantis, Thomas B. Cook, and Rolf Pendall "Myths & Facts About Affordable & High Density Housing." (Sacramento, CA: California Department of Housing & Community Development, 2002), https://www.losgatosca.gov/DocumentCenter/View/2716/Myths--Facts-about-Afford--Hi-Density-Housing

[6] Amanda Howell, Kristina M. Currans, Gregory Norton & Kelly J. Clifton, "Transportation impacts of affordable housing: Informing development review with travel behavior analysis," *Journal of Transport and Land Use* 11, no. 1 (2018): 103.

[7] William Fulton, "A Low-Cost Solution to Traffic," *Governing,* February 2017, https://www.governing.com/columns/urban-notebook/gov-traffic-housing-sun-belt.html.

How We Build and Sustain Mixed-Income Communities: Key Strategies

Our companies' missions, along with the right partners, the right opportunities, and a lot of grit, have made it possible to provide targeted affordable housing in even the most expensive markets. We share here some strategies that have facilitated successful mixed-income housing in our properties, including: developing the right mix of affordable to market-rate units, overcoming financing barriers, creating and sustaining a community, building stakeholder support, and working with local and state regulations. For each, we identify some useful tools as well as some pain points and areas for improvement.

Developing the Right Mix. The ratio of affordable to market-rate units is important, because market-rate rents often are needed to cross-subsidize the rents of the affordable units to make projects financially feasible. Finding the right mix also enables residents with diverse incomes—whether earning 15 percent of AMI or affording million-dollar townhouses—to live side by side and benefit from new investment in the neighborhood. But the "right" ratio depends entirely on the market, which can vary from site to site. In harder-to-serve markets, the mix could tilt more toward units that lower-income households can afford. At some Avanath properties, half the units are affordable to households with incomes between 40 and 60 percent of area median income (AMI), and half are for households with incomes between 80 and 100 percent of AMI. However, in other markets where the AMI ranges are not as broad, the difference in rents charged do not vary widely.

Urban Atlantic's mixed-income projects tend to have an 80/20 split: 80 percent of the units are market rate, while 20 percent are affordable to lower-income households, typically with incomes at or below 60 percent of AMI. This mix of incomes has been effective in creating stable, integrated communities, particularly in markets where there is a strong and growing demand for market-rate housing. An example is Urban Atlantic's redevelopment of the former Walter Reed Army Medical Center in Washington, DC, carried out in collaboration with the Hines real estate investment firm and Triden Development Group. The Parks at Walter Reed is a $1 billion, 66-acre mixed-income and mixed-use project that will create 2,100 new homes. The firm has committed to setting aside 20 percent (432 homes) to be affordable at different income targets; 139 are for households at or below 30 percent of AMI, 179 are for those with incomes at 50 percent of AMI, and 114 are for households with incomes up to 80 percent of AMI. Urban Atlantic offered this affordability structure as a part of the competition for the site, and the 20 percent commitment was then codified in its zoning. The affordable and market-rate units are scattered throughout the development to create a truly mixed-income community, with the exception of the extremely low-income tenants—those at or below 30 percent of AMI—many of whom are formerly homeless individuals. The 30 percent of median and below homes are clustered together because very low-income residents will receive support services.

**WHAT WORKED HERE:
THE PARKS AT WALTER REED**

Urban Atlantic can include low-income housing in new developments in a high-cost market like Washington, DC through financial and extensive programmatic support from the local government. For the Water Reed site, the Washington, DC government assisted the development through gap financing from the city's Housing Production Trust Fund, and assistance during the development process. Further, the city facilitated partnerships with public and nonprofit service providers, which enables the development to meet the needs of the lowest-income households. These services connect residents with job opportunities, medical assistance, healthy activities, and food options.

Overcoming Financing Barriers. Finance plays a big role in building mixed-income communities, but the variety of debt and equity sources needed—and the related requirements and administration—make financing mixed-income projects particularly challenging. It is also challenging to finance mixed-income properties in communities that have faced decades of disinvestment. These neighborhoods often are communities of color. Indeed, race often is the unspoken reason for pushback from investors who refer to "neighborhood safety" or "residential turnover" as reasons to avoid investments in those communities. But when we build mixed-income projects in "tough" neighborhoods—places that are disconnected from jobs, where there are high crime rates, high vacancy rates, poor-quality schools, and few services and amenities—we are looking for opportunities to close the economic and opportunity gap that persists between whites and people of color. We want our projects to be part of the solution in promoting racial equity and righting the wrongs from past development practices, and we know that several developers, investors, and banks have been investing in emerging communities for decades with tremendous success and less risk than may be perceived.

Key drivers of cost in the development of mixed-income communities include:

- *Land costs,* which vary significantly according to location and market type. In high-cost markets, land can account for up to 35 percent of total development costs.[8] Sometimes, when affordable housing is mandated as part of a mixed-use development, the developer can acquire the land at a reduced cost. Often, however, developers of affordable or mixed-income projects compete for sites at a disadvantage with market-rate developers.
- *Labor and materials costs.* The cost of materials associated with building mixed-income communities is on par with the costs for market-rate buildings, because the quality and amenities offered must attract the market-rate residents. Labor costs are an increasingly important cost driver as the industry continues to face a shortage of construction laborers. Like land costs, the cost of labor is highly market-specific. In addition, the sources of project financing can affect labor costs. Requirements such as the Davis-Bacon Act, which established federal prevailing wage rules that guide most regulation of wages and benefits for people working on publicly funded projects—including housing projects funded with federal housing assistance—theoretically can increase labor costs in a mixed-income property above those in a market-rate property. An unintended consequence of these regulations has been a tendency for developers to produce income-segregated housing, because it is easier to develop financially.
- *Costs associated with entitlement and permitting.* The process for entitling land and securing necessary approvals and permits can be lengthy. Most jurisdictions impose several requirements, with compliance reviewed and approved as part of a public process. When changes are needed to comply with zoning or subdivision guidelines, the process can become even more complex. The costs associated with entitlement and permitting have been identified as a key reason for rising housing costs.[9]

Because the costs are high, developers require multiple financing sources to make mixed-income communities "pencil out." Typical sources include LIHTCs for the affordable housing and low-cost loans, grants, and other public and private money to cover the affordable and market-rate housing, along with any commercial components. Unfortunately, these financing sources do not mix well. In fact, 100 percent affordable deals are much easier to finance than mixed-income (and mixed-use) projects. For example, for a straightforward affordable housing project, Urban Atlantic may bring together equity from the LIHTC program along with land

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[8] Robert Hickey and Lisa Sturtevant, *Public Land & Affordable Housing in the Washington, D.C., Region: Best Practices and Recommendations.* (Washington, DC: Urban Land Institute and National Housing Conference, 2015), https://ulidigitalmarketing.blob.core.windows.net/ulidcnc/2019/03/ULI_PublicLandReport_Final020615.pdf.
[9] "Housing Development Toolkit," The White House, accessed September 10, 2019. https://www.whitehouse.gov/sites/whitehouse.gov/files/images/Housing_Development_Toolkit%20f.2.pdf, (2016).

equity and gap financing from a local jurisdiction. In contrast, a mixed-income project marries conventional financing with affordable financing, for which the requirements and risk tolerances often do not align.

The ability to assemble the necessary financing for these types of projects depends on the structure of the project. To attract both affordable and market-rate lenders and investors, the risks and rewards must be legally separated from each other, even when the physical properties are in the same building. Developers must reconcile what happens if the affordable housing fails and goes into foreclosure, and how the market-rate units will be affected—and vice versa. To separate the real estate collateral so that affordable and market-rate risks can be made independent of each other, developers of mixed-income projects end up having to "condominium-ize" the property—establishing different owners for the affordable and market-rate units. In Urban Atlantic's mixed-income properties, the units are operated and leased out of the same facility but financed separately. (Common areas have common use agreements.) The arrangement is tedious but allows investors with different profit and risk motivations to work together while keeping the business terms separate.

For Avanath's acquisition and rehabilitation projects, about 55 to 60 percent of the project costs are leveraged, while the rest is equity from Avanath's investment fund. The fund's sources include insurance companies, banks, foundations, and venture funds. Because these projects do not need LIHTC financing, they do not have to adhere to the same regulatory or other requirements associated with tax credit deals. Instead, Avanath must demonstrate the performance of its properties to build the institutional support critical for raising capital.

The challenge here is that some people do not embrace the value of investing in mixed-income housing and see only risks and no upside. In particular, private investors historically have hesitated to invest in communities of color, believing stereotypically that rents would not be paid on time and the performance of properties would not be strong. The subsequent lack of investment in many minority neighborhoods has reinforced racial and economic segregation. Avanath's experience, however, is that the risks associated with our mixed-income properties are significantly lower than those for other multifamily investments. Typical delinquency rates among multifamily residential properties are between 60 and 100 basis points, while

WHAT WORKED HERE:
RAISING CAPITAL

Low vacancy and turnover rates are readily available data points that can change minds, build support, and raise capital. Avanath uses these data to persuade institutional investors that our properties perform better than conventional multifamily buildings. For instance, delinquency rates for our Section 8 residents are lower than for other residents, because most voucher holders wait five to 10 years to obtain their voucher and therefore are not inclined to risk losing it by not paying rent on time. We also refer our low-income residents to partnering banks, such as Wells Fargo, which will help them set up an account. By joining the formal banking system, residents reduce their credit risk and no longer have to pay check-cashing fees, which puts more money in their pockets.

Avanath's mixed-income properties post delinquency rates of about 35 basis points. In addition, vacancy and turnover rates are very low in our properties. For example, across five properties in Orlando, FL, we currently have three vacancies, and in Naples, FL, we have one vacancy in a 200-unit property, with a waiting list of more than 100 people. When we demonstrate the critical unmet need for housing at the rent levels we are providing—and the positive income flow associated with low vacancy and turnover rates—we build confidence in our properties and attract institutional investors to finance them.

Creating and Sustaining a Community. Because we are committed to having a positive impact on families and communities through the projects we build and manage, after we secure financing for a property we strategize about how to establish and sustain the elements of an equitable, inclusive, high-opportunity community.

A hallmark of our community-building approach is for developers to take a very positive, customer service-oriented stance. We listen to residents' needs, and we have a line item in the property's operating budget so we can respond accordingly, usually by partnering with a local nonprofit to provide services to residents on site. In 2014, for example, after purchasing the Northpointe Apartments in Long Beach, CA—a property with high turnover rates and rent delinquencies, located in a high-crime neighborhood—Avanath held forums so that residents could share their concerns directly with developers, elected leaders, and public safety officials. We learned that Northpointe, which had 528 Section 8 units, and the neighboring Seaport Apartments, with 400 market-rate units, together were home to more than 2,000 children. So, after acquiring Northpointe, Avanath invested heavily in renovations and partnerships to provide recreational, mentoring, and other activities for children. A basketball court was installed on vacant space in the center of the property; a nonprofit organization affiliated with a local AME church agreed to provide a range of services to Northpointe's predominantly Latinx and black families; and an after-school program now serves nearly 1,000 children living at the property. These programs and activities that residents wanted proved crucial for improving residents' safety and sense of community.

A NOTE ON OPPORTUNITY ZONES

Opportunity Zones will play a pivotal role in both Avanath and Urban Atlantic's efforts to create mixed-income communities.

Urban Atlantic has deployed $100 million in Opportunity Zone developments in multiple locations and has over $1.5 billion of additional Opportunity Zone development opportunities in its pipeline. Examining development in these zones before and after the financing, Urban Atlantic has found that the Opportunity Zones drew more investors and helped leverage new debt and state funding resources, thereby increasing the feasibility and pace of investment.

Thirteen of Avanath's properties are in designated Opportunity Zones, five of which have redevelopment potential. These are all affordable or workforce communities with the potential to help reinvestment in areas where capital is needed

With encouragement from Long Beach's mayor, Avanath then purchased and renovated the Seaport Apartments, offering rents affordable at 80 to 100 percent of AMI. Owning nearly 1,000 units between the two properties enabled Avanath to make a significant impact on the surrounding neighborhood. Today, Seaport is 99 percent occupied and there is a waiting list for apartments at Northpointe. The neighborhood also has been designated an Opportunity Zone, which should facilitate even more investment.

As the Northpointe example illustrates, another key strategy for building and sustaining community is to provide facilities and amenities that make mixed-income communities appealing and supportive to residents. At family-oriented developments, for example, Urban Atlantic builds a playground and a classroom at the community center. We then arrange the provision of services tailored to residents' needs, which we leverage through third-party grants, partnerships with service providers, and in-kind contributions. In very low-income communities, we build spaces, such as offices and community rooms, that enable local service providers (e.g., food programs) to come to us.

Avanath spends a lot of time thinking about which programs or amenities will enhance the community *and* reflect positively on our budgets. For an Austin, TX property, upgrading our fitness room and pool reduced turnover; for an age-restricted property in another location, we partnered with health organizations to offer an onsite clinic and health programs to keep residents healthy; and for properties with families, we provide after-school programs. Avanath has found that working closely with local housing authorities—in addition to soliciting resident input—helps us understand the community's needs. While some housing authorities are more robust and sophisticated than others, all are invaluable in helping us figure out which programs will be popular, how to implement them, and how they can be reimbursed through local subsidies or tax credits.

Sometimes these programs do not work out: One of our mentoring programs with NFL retirees found mixed success. But we continue to try different things. Sometimes we just need to provide space to a nonprofit service provider, and other times we make a more substantial contribution. While there is no template or method for assigning a line item in our budget for these amenities, and this individualized approach is time consuming and expensive, we have found it does save us money elsewhere in our budgets, whether it comes from resident tenancy or property upkeep.

> **WHAT WORKED HERE:**
> **NORTHPOINTE AND SEAPORT APARTMENTS**
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> When we build multifamily mixed-income projects, the "how" involves not only the bricks and concrete, but also the amenities and services that build community. For these apartments, after-school care was particularly successful. Offering activities such as dance, art, sports, or drama gives parents working long hours the peace of mind that their children are being entertained and properly cared for after school. There are many other upsides when we provide these services. These programs reduce resident turnover and maintenance requests, which helps Avanath's bottom line. When neighbors get to know one another, there is a better sense of community and respect for the space.

One important but challenging element of creating and sustaining a mixed-income community is retail. The presence of retail is fundamental in attracting market-rate residents to the community, but it is often very difficult to attract retailers to lower-income, emerging submarkets. A 2011 Urban Atlantic project in Washington, D.C.'s Brentwood neighborhood underscored this challenge. Rhode Island Row is a 274-unit mixed-income, mixed-use development with 70,000 square feet of ground-floor retail space adjacent to the Brentwood Metrorail station. The development involved partnership between Urban Atlantic and A&R Development Corporation, along with the Washington Metropolitan Area Transit Authority (WMATA), which owned the land. Setting aside 20 percent of the units for very low-income households was critical to gaining community support for the project. At the time, however, the Brentwood neighborhood was an untested market and the lack of potential customers posed too high a risk for many retailers. Furthermore, it was very important to the community and the developer that the retail be authentic and relevant to the households living at Rhode Island Row.

To address these concerns, developers set aside 55 units for households with incomes at 50 percent of AMI, and the retail effort targeted locally owned businesses. Urban Atlantic used a Department of Motor Vehicles (DMV) office as an anchor, and New Market Tax Credit equity supported the retail spaces. Seven years after the project was completed, the retail space at Rhode Island Row now is more than 85 percent leased, with a wide variety of food offerings, including a restaurant for after-church meals on Sundays, a drugstore, and the DMV office. More than 10 percent of the space goes to local retailers, at favorable rates.

Retail also is a challenge when building mixed-income communities in high-income, opportunity-rich neighborhoods. In these places, it can be easier financially to incorporate affordable housing into the development through cross-subsidies from the market-rate rents.

However, it is more difficult to ensure that the retail businesses serve households in the affordable units as well as in the market-rate ones. One solution is to attract a grocery store to the development, to ensure that all residents have access to the food and other goods they need and can afford. Although Avanath does not build retail or mixed-use developments, we have found that lower-income residents rely more on technology for retail services than do higher-income residents. Therefore, we have looked for ways to use new technologies to bring food goods or services to residents of our properties. For example, we secured a reduced rate for online food delivery services such as Blue Apron, which increased residents' access to healthy food options. And, at an upcoming property near Seattle, The Lodge at Peasley Canyon, Avanath has installed Amazon cold storage lockers, which makes it easier for residents to order goods—including groceries—and have them delivered right to their homes.

Building Stakeholder Support. New or rehabilitated mixed-income residential projects can dramatically transform neighborhoods and attract new investments where they have long been absent. For such transformative projects to succeed, developers must have buy-in from many different stakeholders. But many proposed multifamily developments face neighborhood opposition over fears of increased traffic, over-burdened local infrastructure and schools, and loss of the neighborhood's character. Building support among residents often is a major challenge, as upper-income residents have concerns about bringing low-income people into their neighborhoods and lower-income residents of emerging neighborhoods worry about gentrification and displacement. All of these concerns can stall development projects. In fact, research suggests that properties serving low-income households face more intense opposition and prolonged delays than other properties.[10] It is common for developers to spend considerable time and money working to address neighborhood concerns through extensive community meetings and by making substantial physical changes to their proposed developments.

[10] Corianne Scally, "Who, Why, and How Communities Oppose Affordable Housing," *Shelterforce* (blog), April 23, 2014, https://shelterforce.org/2014/04/23/who_why_and_how_communities_oppose_affordable_housing/.

For this reason, proactive and transparent communication with community members is essential to the development process. While securing approval for Urban Atlantic's Walter Reed project, for example, the local redevelopment agency convened a community advisory commission, appointed by the mayor and including diverse community leaders and stakeholders, which met at least six times per year. This commission took an active role in receiving feedback and providing official recommendations. Urban Atlantic found this method tremendously helpful in creating open, continuous communication with the community.

It is important to include all community stakeholders in the decision-making process. This cannot be accomplished solely through community meetings, because residents who are working, providing child care, or physically incapacitated will not be able to attend. Surveys, neighborhood events, online outreach, focus groups, websites, on-site physical message boards, and one-on-one outreach can supplement community meetings and should be made available at various times during the day and in multiple languages to accommodate non–English- speaking community members. Special attention should be given to the needs of residents with disabilities, senior citizens, and impaired residents because they often are most vulnerable to displacement.

> **WHAT WORKED HERE:**
> **STAKEHOLDER SUPPORT**
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> In Urban Atlantic's projects in Washington, DC, outreach to the local Advisory Neighborhood Commissions (ANCs) has been crucial because City Council members give considerable weight to their opinions about projects. Urban Atlantic uses several communication and outreach strategies to reach ANC members and other residents, including a detailed website through which people can provide feedback online and learn about in-person feedback opportunities.
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> For Avanath's projects, the local housing authority is an important partner. It guides the developer's outreach and works out the economic details for the programs and amenities incorporated into the properties.

A growing number of public policies and tools also exist to build stakeholder support and offset negative responses to plans for affordable and mixed-income housing development. Massachusetts and Connecticut both offer incentives for municipalities to build more affordable housing, for instance. Connecticut offers technical and financial assistance to municipalities to cover feasibility studies, infrastructure improvements, engineering costs, and other costs. Massachusetts even has financial incentives specifically for schools, if the additional housing will bring more students into the public school system. When those approaches fail to quell opposition, state laws like Massachusetts's Comprehensive Permit Act (Chapter 40B) have been established to overturn a local zoning authority's rejection of a development that would include affordable units.

Working within Local and State Regulations. We cannot overstate how much impact regulations, particularly zoning, have on what gets built and where. Local communities specify the allowable types and densities of development and the requirements related to lot coverage, setbacks, and open space. The local zoning ordinance also may include specific site or design requirements to which projects must adhere. For these reasons, local zoning requirements are key drivers of the cost of developing housing. It has been estimated that local and state regulations account for up to 30 percent of the cost of developing multifamily housing.[11]

Local zoning requirements can assist developers of mixed-income housing developments by requiring that a specified proportion of new homes be affordable. On the other hand, local and state regulations can also create roadblocks for the development of mixed-income and mixed-use projects. In many municipalities, zoning regulations expressly *prohibit* the mixing of uses on a single parcel. To build a single-use project (i.e., all residential), there might be a relatively straightforward "by-right" development process. But to build a mixed-use project, a separate process exists that involves requesting rezoning, which often includes a mandate for public input. Going through the rezoning process adds time, and ultimately cost, to the project and sometimes makes it infeasible to build at all.

Parking requirements can be especially costly for multifamily housing construction. The costs associated with providing parking vary by market, but they can be as much as $50,000 per space underground and $25,000 per space above ground.[12] These costs, which add to the difficulty of delivering affordable housing, often are based on outdated zoning ordinances that do not take into account changes in public transit access, car ownership, or ride sharing patterns.[13] In many urban markets, actual parking use—especially near public transit stations that serve affordable households—is almost zero, and it may not need to be subsidized in addition to the direct housing subsidy. Some states and communities have acted to revise and lower parking requirements for developments located near public transit; California, for example, did so through state law. Several zones in Washington, DC, also may serve as templates for future urban development because they have no parking minimums, and parking is left to the discretion of the developer.

Aside from zoning and land use requirements, special regulations apply to affordable housing that receives public funds. As noted earlier, prevailing wage laws are one example. State prevailing wage laws can apply to an entire building, even if it includes market-rate units and commercial space. Research has indicated this can add anywhere from 10 to 25 percent to

[11] Paul Emrath and Caitlin Walter, *Regulation: Over 30 Percent of the Cost of a Multifamily Development.* (Washington, DC: National Association of Home Builders and National Multifamily Housing Council, 2018), http://www.nahbclassic.org/generic.aspx?genericContentID=262391.

[12] Peter Albert, Tom Jones, Gabriel Metcalf, and Chad Thompson, "Reducing Housing Costs by Rethinking Parking Requirements," in *Housing Strategy for San Francisco,* (San Francisco, CA: SPUR, 2006).

[13] Donald Shoup, "Cutting the Costs of Parking Requirements," *ACCESS*, Spring 2016, www.accessmagazine.org/spring-2016/cutting-the-cost-of-parking-requirements/.

construction costs.[14,15] Projects that are 100 percent market rate, and therefore not reliant on public funding, are not subject to such requirements, which can make them less expensive to deliver.

In addition, these properties have compliance considerations that include paperwork to certify residents' incomes and administration of lotteries for the affordable units. Lotteries require developers to sift through thousands of applicants to fill just a handful of income-restricted units. The bureaucracy and administration that comes with providing affordable housing is sometimes too onerous for market-rate developers to take on, so they avoid these projects altogether.

WHAT WORKED HERE:
REGULATORY REFORM

Minnesota conducted an ideas competition in 2014 that focused on the need to lower the cost of affordable housing. The winning proposal, by the University of Minnesota's Center for Urban and Regional Affairs, identified several administrative and regulatory changes that would improve efficiency and lower costs. One involved an outdated building code provision mandating that affordable units have a separate dining room. This has now been modified so it no longer applies to smaller units, saving on space and costs. Similarly, the winning proposal also helped establish MinnDocs, a uniform set of loan documents to streamline approval processes, saving time and costs.

Implications for Action

Developers who build residential and mixed-use projects are on the front line of building homes that support individual and family well-being and form the bedrock for thriving neighborhoods. In a society that faces persistent racial and economic segregation, we are striving to build inclusive, equitable communities that promote opportunity for all. In this essay we outlined what has worked for us, and we hope these strategies can be replicated by others pursuing mixed-income housing and mixed-use developments. We have also identified parts of the process that are frustrating, outdated, overly cumbersome, and costly. Our final thoughts and recommendations follow. Each element mentioned can be improved upon with modernization, more research, targeted advocacy, and a stronger commitment by developers and other stakeholders who wish to see more inclusion and equity in our communities.

Implications for Policy.

- Local governments should modernize local land use and zoning policies to prioritize policies that facilitate mixed-income housing and mixed-use development. Where

[14] Jeff Leieritz, "Prevailing Wage's Impact on Affordable Housing," *Associated Builders and Contractors Newsline*, February 17, 2016, https://www.abc.org/News-Media/Newsline/entryid/4976/prevailing-wage-s-impact-on-affordable-housing.

[15] Meyer Memorial Trust Cost Effectiveness Work Group, *The Cost of Affordable Housing Development in Oregon*, (Portland, OR: Meyer Memorial Trust, 2015), https://www.oregon.gov/lcd/UP/Documents/Cost_of_AffordableHousingDev_Oregon.pdf.

outdated regulations exist, developers, advocates, and public leaders should pursue reform by replicating good policies that exist elsewhere.

- Local governments should streamline development review and approval processes to save time and costs. While it is important to ensure that public money for affordable housing is used responsibly and that below-market-rate housing is occupied by the families for which it is intended, making the process, technology, and systems more efficient would encourage more developers to build mixed-income projects.
- Policy makers should use local funding and density bonuses to provide the gap financing that makes mixed-income developments feasible.
- In places where good policies are producing success, leaders should take an active role in sharing information and insights with policy makers in other locations.
- Local governments and community leaders should enact protections for existing residents to ensure they can remain in neighborhoods that undergo dramatic changes.

Implications for Research and Evaluation.

- All stakeholders should take a greater role in sharing research findings on the positive impacts from mixed-income communities.
- More research and evaluation is needed to cultivate support from investors and community members. This includes more evaluations of health, educational, and economic well-being outcomes associated with living in mixed-income communities, and more research on the turnover rates, timeliness of rent payments, operational considerations, and financial performance of mixed-income properties.

Implications for Development and Investment.

- To demonstrate the value of investing in emerging, low-income communities, and to support necessary research on the impact of mixed-income community projects, developers should be transparent about their operations and make data available to investors and researchers.
- In places where good strategies are producing success, developers should take an active role in sharing information and insights with stakeholders in other locations.
- Developers and mixed-income property owners should look for simple, low-cost ways in which technology can be used to enhance resident life (e.g., by making retail options available or by enabling residents to communicate maintenance problems and other requests).
- The investment industry should modernize and simplify the capital stacks to encourage financing of mixed-income community development.

Implications for Residents and Community Members.

- Residents and community members who live in mixed-income communities can share their stories and advocate to public policy makers about the many benefits of an integrated society.

- Community members should prioritize educating residents on what "affordable" housing really means and who it serves. Residents may be surprised by the types of jobs and incomes that struggle to afford housing in their communities.
- Residents and community members should better understand how the location of housing intersects with everyday concerns, like traffic, to societal benefits like educational attainment, and health and wellbeing. Once we learn the positive impact that comes from having attainable housing in close proximity to jobs, schools, and community amenities, as Daryl experienced growing up, we can appreciate the value of offering housing at different income levels.

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