

Issue: Affordable Housing

## Affordable Housing

*“We are so short on inventory that you either move in with somebody, you move back home, or you're homeless” - Community Development Corporation Employee<sup>1</sup>*

### The importance of home

Home brings to mind family, comfort and security, but it also serves as a launchpad to better outcomes, better lives. Where children live influences the quality of their education. Whether housing is affordable determines whether families can provide healthy food, healthcare, transportation, and enriching activities for their children. It all adds up to so much more than just housing.<sup>2,3</sup>

### Arizona's affordable housing crisis

While Arizona's recent population and job growth was the third highest in the country, the state ranks third from the bottom in having an adequate supply of affordable housing for residents. Only California and Nevada have more serious housing situations.<sup>4,5</sup>

Population growth has been ahead of housing development since World War II, and this gap only worsened after the 2008 recession when banks tightened their lending to developers and mortgage seekers. It was exacerbated during the pandemic when supply and labor shortages hurt the construction industry, stalling new development, and driving an historic shortage of lower cost housing and sharp increases in rent.<sup>6,7</sup>

There are roughly three groups affected by the housing shortage. First, are young professionals and first-time home buyers that should qualify for mortgages but compete with richer, often institutional buyers who can offer quick cash, for too small a supply of affordable homes. Second, there are the “rent burdened” who spend more than 30% of their income on housing and risk eviction when rents increase or they experience a work interruption due to illness, shutdown, or layoff. Third, are the growing numbers of homeless, many with children. All three groups are difficult to track and quantify.<sup>8</sup>

### Not in my backyard “NIMBYism”

Communities with a “not in my backyard” sentiment often oppose development. They express concern about traffic and changing the “culture” of their area. More cooperation and open mindedness might be gained through education, developing community advocates and ensuring that developments fit into the nature of the community. Using land owned by local governments can accelerate building timelines, and changing approval processes and zoning laws can circumvent some of the barriers to development. One estimate showed 30 apartment projects in 2021 were put on hold in Phoenix alone due to pushback.<sup>9,10,11</sup> There needs to be balance between the needs of those without housing and those who already own homes.

## Rent and utility relief is still available in some jurisdictions

- The federal American Rescue Plan (ARP) rent and utility relief is still available in some counties for those who have not already benefited. Eligible applicants may receive up to \$3500 monthly for up to 18 months for rent and utilities, including past due amounts.

The Arizona Department of Economic Security (DES) coordinates this program for most of Arizona, and other jurisdictions can be found on the DES website at <https://des.az.gov/ERAP>. There are also other resources on this website for those with very low income.<sup>12</sup>

## What might representatives do to help those facing risk of eviction?

- Tenants at risk of eviction can access free legal aid and possible representation, familiarizing tenants with their rights and assisting in negotiating with landlords. Often these situations can be resolved before an eviction notice is filed. One source for legal aid is <https://azevictionhelp.org/getting-assistance/legal-aid-options>.
- Arizona has not established a right to legal counsel for renters or those facing eviction. Representatives could thus propose legislation to make representation a right for tenants in civil cases, just as it is available for citizens in criminal cases. Additionally, a law could be proposed to legally mandate that eviction notices include information regarding available resources of free or low-cost legal aid.<sup>13</sup>
- Using COVID-19 federal funds, Pima County established an Emergency Eviction Legal Service (EELS), which connects tenants to services including any remaining ARP rent relief, assistance in finding new lodgings, free legal aid, free food services, utility assistance, etc.<sup>14</sup> This model could be used in other counties.
- Other states have established various restrictions on evictions. Arizona could follow suit, establishing laws to give tenants more time to respond to eviction notices, more time to move, limits on fees for late rent, etc.<sup>15</sup> Arizona is one of the most landlord friendly states with very few protections for renters.<sup>16</sup>

## What can representatives do to address affordable housing shortages?

- Propose new zoning laws that favor larger percentages of low-cost units, residential over commercial building, multi-unit over single homes, smaller over larger single residence lots and loosen height and density restrictions. Recently, one bill (HB 2610) was enacted to remove a cap that had limited low income developments to less than 200-units.<sup>17</sup> Many states and municipalities have used zoning as a way to get developers to allocate some percentage of their overall building for affordable units.<sup>18</sup>

Inclusionary zoning policy allows local or state regulators to make affordable units a mandatory part of certain developments. Arizona is one of only a handful of states that have enacted state laws that preclude local governments from being able to use this valuable tool. Per Morrison Institute of Public Policy at Arizona State University, this is just one of a number of legal hurdles that Arizona has in place that preempt local governments from using some of the most widely used and effective tools to improve the housing situation.<sup>19</sup>

- This year, a bipartisan bill HB2674 sponsored by Rep. Chavez (D-Glendale) and Rep. Kaiser (R-Phoenix) aimed to simplify zoning for builders and to discourage some of the local pushback on multi-unit affordable developments. After discussion and some public concern about the preemption of local input, the House chose instead to establish a committee to study the housing situation.<sup>20,21</sup> This could be an opportunity for many ideas to be considered.
- Propose new legislation to allow local regulatory control over Airbnb and other vacation and short-term rental companies as housing inventories have been hurt by the numbers of homes and apartments converted to short term rentals. In 2016, Airbnb and other rental companies lobbied to deregulate their business in Arizona and succeeded with Governor Ducey's support; a bipartisan law was enacted that preempted any local government control over short-term rental properties. Since then, Ducey has conceded that there were unintended consequences and some lawmakers have agreed to consider changes.<sup>22</sup> This year, bills HB 2069 and SB 1026 were introduced to repeal this 2016 law but were sidelined by opponents and sent to committee.<sup>23,24</sup>
- Expand community land trusts for affordable housing development. Non-profit organizations and governments already buy land for preservation of natural spaces, but this idea is also used for developing affordable housing.<sup>25</sup> The Arizona Community Land Trust and New Town Community Development Corporation are two nonprofits that could be a model used by others.<sup>26,27</sup> Phoenix has recently earmarked \$5 million in ARP funding for its land trust.<sup>28</sup>
- Encourage businesses to provide affordable multi-unit or reasonably priced housing close to places of work. While unemployment is low and hiring is competitive, more companies are offering access to affordable housing and relocation assistance as enticements for employees at all pay levels. Traditionally, companies would subsidize the more highly paid employees to relocate and buy homes, but under the current hiring environment, many companies are getting involved in helping to house their associates.<sup>29</sup>
- Lure companies that specialize in new affordable construction concepts to Arizona. These new constructs might include modular, panelized, or other rapidly deployable multi-unit buildouts. IndieDwell is an example of a company thinking of new ways to approach affordable and more sustainable buildings.<sup>30</sup> Lower construction costs might enable more local government, non-profit and state government funding for development.<sup>31</sup>
- Address labor shortages in construction by encouraging local colleges and trade associations to provide more on-the-job apprenticeships and skilled trade certification programs at no cost or for pay. An example of this is Maricopa County partnering with Grand Canyon University to provide electrician training.<sup>32</sup>

Funding is one of the biggest factors in addressing the affordable housing shortage. Financing, constructing and managing affordable units is not always economically attractive or viable for developers, but there are ways to address this.<sup>33</sup>

- Create more generous incentives, usually in the form of tax credits, for developers and fund these from Arizona's general budget surpluses, federal infrastructure funds, remaining ARP

funds, or from unclaimed property funds that were historically directed in greater amounts to the Arizona Housing Trust.<sup>34</sup>

President Biden's administration has increased the Department of Housing and Urban Development budgets and is supporting every federal program available to provide grants, loans and partnerships with state housing authorities. One of the most significant examples is the federal Low Income Housing Tax Credits (LIHTC) which have increased nationwide awards by 70%. Arizona has benefitted by receiving a record \$30 million which is projected to result in more than 1,100 new units in rural and metro areas.<sup>35,36</sup> Arizona also funds a state Affordable Housing Tax Credit (AHTC) at about \$4 million annually. Developers use these to cover building costs and the costs of maintaining low rent units which must maintain their below-market rental rates for 15-30 years.<sup>37,38</sup>

- Many cities and states have issued bonds to fund affordable housing around the country. In fact, Flagstaff has a \$20 million bond proposal on the ballot this year. The mayor has emphasized the connection between affordable housing and a strong economy. The funds, if it passes, might go to both development and home buyer assistance. The bond would be funded through a secondary property tax.<sup>39</sup>

## A law against price gouging in other states

In 2019, California enacted a bipartisan "anti-price gouging" law that limited rent increases to 5% plus inflation. This law is similar to one in Oregon. This differs from rent control as it gives landlords more room to determine rent levels. The primary beneficiaries are most likely the lowest-income renters who are often those facing the highest percentage rent increases.<sup>40</sup> California's bill also included a requirement for pre-approved reasons for eviction. If the reason is repairs or conversion to condominiums, the landlord may be required to cover one month's rent.<sup>41</sup>

## Using the budget surplus to combat housing insecurity

Arizona experienced a \$5 billion budget surplus in the fiscal year ending June 2022 with similar surpluses expected in years to come.<sup>42</sup> With a lack of affordable housing driving housing insecurity and homelessness, the state Senate and House could not agree on how this money should be spent. Governor Ducey chose to put over \$4 billion towards building the border wall between Mexico and Arizona, yet these funds could truly benefit the residents of Arizona who experience the uncertainty of knowing whether they can afford their next month's rent or mortgage.<sup>43,44</sup>

Affordable housing for all is within our reach if we can find the political will.

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