

Issue: Affordable Housing

Arizona's Affordable Housing Dilemma

Business is thriving, yet half of Arizonans are spending more than thirty percent—and some over half—of their income for housing. That leaves them unable to save for unexpected illness or layoff and puts them at risk for eviction and homelessness.¹ Many decades-long trends converged to bring us to this point. These trends include restrictive zoning policies favoring single-family homes that led to generational and economic segregation, drops in federal funding for low-income housing and worker's wages falling behind.² Compounding this, the lack of supply led to inflated prices and long-time homeowners began to stay in their homes, rather than downsize. Some of these homeowners are even obstructing development in their communities in order to protect their equity. Rising interest rates pushed prices even higher.³ This has created an urgent need for affordable housing. Building up the supply of smaller homes of all kinds is the surest way out of this dilemma.

There are no quick fixes for Arizona's shortage of affordable rentals and starter homes. Challenges to these efforts include inadequate funding for developers, zoning restrictions, NIMBY sentiment, utilities limitations, shortages of skilled construction workers, and price gouging by large realty corporations. However, there are new housing developments underway, new laws enacted, and ideas with proven success that can be adopted. Democrats, local to federal, are finding ways to help and are often getting Republicans to join them.

What Low-Income Housing Developers Need

Low-income housing developers face three primary challenges: funding, zoning restrictions and pushback from local homeowners.

Funding for Developers of Low-Income Housing

Low-income units can cost developers more to construct, own and manage than they can sell or rent them for which is why they need ready financing and tax incentives. For decades, the Federal Low Income Housing Tax Credit (LIHTC) has been the single most important source enabling low and medium-income housing development.⁴ A 2023 federal bill to reinstate an additional 12% allocation to this program passed the House but stalled in the Senate.^{5,6} As testament to the importance of this bill, 184 local leaders around the U.S. wrote to Congress urging action on this.⁷ A similar bill will almost certainly be introduced if President Biden is reelected as there was significant support in both chambers of Congress.

Arizona has an LIHTC program that allocates \$4M in tax credits per year to developers. Legislative attempts to increase funding have died in committee, most recently with HB2576 in 2024.^{8,9} With the current deficits in Arizona's budgets—due to the prior Republican governor's tax cuts and cost underestimates of school vouchers—passage of similar legislation appears unlikely in the near future.¹⁰

Cities attract the most attention, but lack of affordable housing plagues rural areas as well. Rural developments tend to be small and so do not always scale well for LIHTC project funding. This requires other sources of funding to be found. Community land trusts are non-profits that buy land with the goal of ensuring that low-cost housing will be permanently available on that land.¹¹ They build, manage, and rehabilitate affordable housing.¹² As one example, Pima County Community Land Trust built or rehabbed 94 homes in their first 13 years and have kept rents and costs affordable.¹³

Other solutions already at work in Arizona include voter approved bond measures. Two examples are \$65M for affordable housing projects in Phoenix and impact fee waivers in Tucson.¹⁴

Closely related to funding are incentives. These can be density bonuses, expedited reviews, design variations, fee waivers, tax relief or public subsidies.¹⁵ Developer’s funding is multi-layered and complex. Cities that help the developers through the process succeed.

Zoning Changes

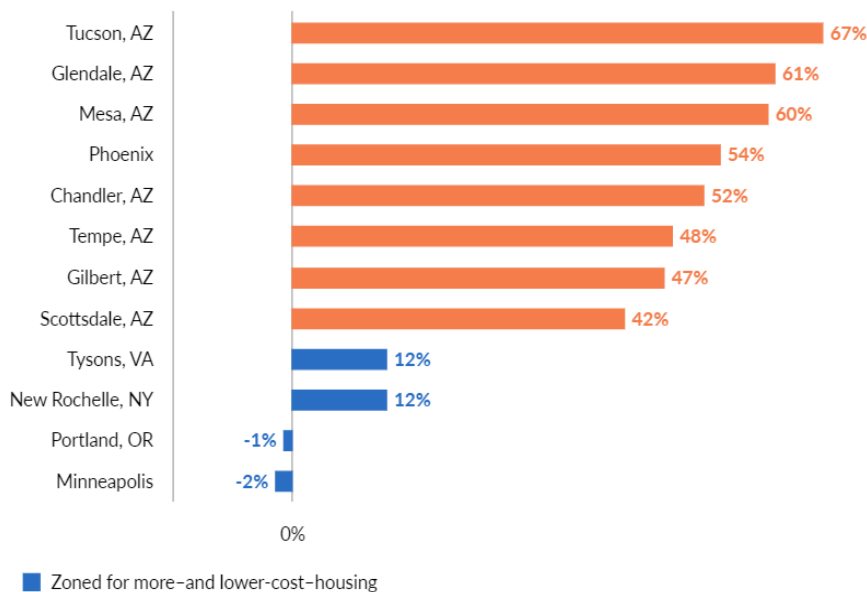
Zoning in many Arizona cities is for single family homes on spacious lots with generous parking allotments. Even when ADU and multiplex legislation pass, cities need to reconsider both their zoning restrictions and their non-zoning regulations to greatly reduce the time it takes for permitting.¹⁶ Non-zoning regulations range from utility rules to environmental guidelines.

Another growing city, New Rochelle, New York, rezoned to allow apartment buildings and shortened the entire permitting approval process to 90 days, which bumped their average annual new living spaces from

37 in 2017-18 up to 989 for 2019-21. This slowed their rising rents significantly.¹⁷ An adaptive reuse bill (HB2297 in 2024) recently enacted in Arizona allows 10% of existing commercial buildings to be rebuilt in larger cities. There are restrictions built into this legislation that may inhibit builders. Many states revise their legislation as experience informs them.¹⁸

Rents are Rising Faster in Arizona Than in Jurisdictions That Reformed Zoning

Percentage increases in median rent estimates, August 2017–August 2023



How to Overcome Not-In-My-Backyard (NIMBY) Sentiment

While homeowners want grown children and elderly parents to live in their communities, they may resist change and fight to maintain elevated property values. New Rochelle officials used several approaches to circumvent NIMBY. Rather than using a piecemeal approach, they created a master plan with one developer who committed to completing environmental and plan reviews early on and

as a package. Local government worked with the community to override fears of gentrification and traffic problems. They regularly engaged with the public using compromise on amenities such as outdoor plazas. They even helped citizens visualize end results using virtual reality goggles.¹⁹

Other strategies include using media early on to tailor messaging, and to form alliances with social service agencies, the business community, local clergy, and those citizens who have recently had a change of opinion about affordable housing to speak to the value of specific developments.²⁰

Smaller housing units use far less water and energy, inhabitants are less likely to own cars or drive far to work, and multiple units on single lots often result in higher property tax revenues.²¹ Communities benefit from more diverse housing.

How to Encourage Accessory Dwelling Unit (ADU) Building

The Arizona ADU legislation (HB 2720) which passed in 2024 will allow the construction of small dwellings on lots zoned for single-family homes in cities with over 75,000 people but only within a mile of the city center (an unfortunate restriction).²² This change will help alleviate the shortage of affordable rentals in city centers and will benefit those homeowners who choose to rent out their ADUs by providing them with new income streams.

Many U.S. municipalities have passed similar ordinances only to find that the numbers of ADUs built are low. Complications can include tree removal permits, long environmental reviews, utility rules and limits, etc. To boost the numbers, some states have attracted manufacturers of predesigned or prefabricated units that can not only cost less but also circumvent the need for much of the homeowner's involvement in design decisions.²³ Each city may have regulations that restrict these kinds of homes.

Financing can also be a barrier. To ensure that low to middle-income homeowners can reap the benefits of having an ADU, bank and non-profit lending sources for low-income families are essential. City planners or representatives might work with lenders to tailor loans for ADUs.²⁴

How to Boost Duplex and Multiplex Development

When small developers build multiplexes, they face different challenges than developers building larger developments. They may need help in negotiating funding from private sources and banks. One impediment in many states has been that there are city or homeowner association rules that specify that new structures must be the same or smaller than the existing one. Often, to make these projects feasible, the future rents from the smaller units must pay for the tear down and rebuilding. This is easier to guarantee if the overall square footage is greater than before. Other hold-ups have been limitations on utility set-ups. Some lots do not accommodate four water and sewer connections or utilities have rules against splitting.²⁵

Price-Gouging is Real—Arizona Sues RealPage and Corporate Landlords

On behalf of Arizona, Democratic Attorney General Kris Mayes recently filed a lawsuit against a real estate technology firm, RealPage, and nine corporate landlords who controlled the rents for hundreds of thousands of renters in Phoenix and Tucson. These companies were illegally colluding to set rents artificially high en masse. The Biden Administration, through the Department of Justice, is pursuing RealPage on a national level to fight anti-competitive pricing practices.^{26,27,28}

Exclusionary Zoning Preemptions Might be Struck Down

Arizona is among seven states with preemptive laws forbidding individual municipalities from mandating lower-cost units in buildings and capping rental increases.²⁹ While removing the preemptions might not be politically feasible—an attempt was made in 2023 with HB2086—there is a long history of success when helping the lowest-income renters with these laws.³⁰ For developers used to working with mandated low-rent units, the stability and resulting predictability of future rental income streams offsets their lower overall return.

A full-time minimum-wage worker makes less than \$30,000 per year.³¹ They are rent-burdened at \$9,000 rent per year. A studio/efficiency unit in Phoenix averages \$1,460 monthly or \$17,520 per year.³² These are the people who work in food service and hotels. They are artists and writers. In learning the scope of RealPage’s overpricing, legislation to address anti-price gouging would seem reasonable. However, if this is not feasible in this political climate, perhaps the minimum wage needs to be reconsidered. Several states have successfully repealed various preemptive laws, including Arizona, when voters revoked preemptive minimum wage laws in 2006.³³

Supply Chain Issues

Housing articles mention supply chain issues as one reason for slow development. The term “supply-chain” conjures images of ships full of goods waiting to dock. However, today’s supply chain issues are due to competition for materials and experienced workers because the U.S. has more ongoing large projects than at any other time in history.³⁴ To address the worker shortage, Governor Hobbs established the BuildItAZ Apprenticeship Initiative to provide opportunities for Arizonans to train for skilled construction jobs. This program combined with the newly established Arizona Community College Workforce Scholarship Program and the Future48 Workforce Accelerator is expected to double the workforce available for construction and other highly skilled jobs.^{35,36}

Voters Want Action

In a Center for the Future of Arizona poll, 80% and 84% respectively felt that home and rental prices are too high and a similar number of voters feel that their local and state representatives should be doing more about this, yet there are differences of opinion about how it should be done.³⁷ There is an opportunity for redefining what our communities can be like and for educating the public on the many benefits to be enjoyed in embracing a return to multi-generational, inclusive neighborhoods.

¹ <https://www.axios.com/local/phoenix/2024/02/02/arizona-renters-cost-burden>

² <https://www.housingca.org/policy/focus/causes/>

³ <https://www.cnn.com/2024/01/29/economy/why-boomers-are-not-moving-out-of-their-big-homes/index.html>

⁴ <https://housing.az.gov/low-income-housing-tax-credit-lihtc-program>

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- ⁵ https://www.housingfinance.com/policy-legislation/house-passes-tax-package-with-lihtc-improvements_o
- ⁶ <https://taahp.org/bipartisan-tax-legislation-remains-stalled-in-the-senate-despite-broad-house-approval/>
- ⁷ <https://rentalhousingaction.org/2023/09/184-local-government-leaders-sign-onto-letter-in-support-of-the-ahcia-of-2023/>
- ⁸ <https://www.azleg.gov/legtext/56leg/2R/fiscal/HB2576.DOCX.pdf>
- ⁹ <https://legiscan.com/AZ/bill/HB2576/2024>
- ¹⁰ <https://apnews.com/article/arizona-legislature-hobbs-school-vouchers-tax-cut-0bbf267957942c887335ab63d9104a89>
- ¹¹ <https://www.cacltnetwork.org/california-clt-definition/>
- ¹² <https://ktar.com/story/5504798/land-trusts-offer-an-innovative-way-to-help-the-middle-class-afford-a-home/>
- ¹³ <https://www.azgives.org/pimacountycommunitylandtrust#:~:text=The%20Pima%20County%20Community%20Land,ongoing%20programs%20and%20services%20that>
- ¹⁴ <https://news.asu.edu/20240123-national-and-global-affairs-housing-crisis-affecting-phoenix-area-asu-reports-show>
- ¹⁵ <https://inclusionaryhousing.org/designing-a-policy/land-dedication-incentives/>
- ¹⁶ <https://www.pewtrusts.org/en/research-and-analysis/articles/2023/12/07/restrictive-zoning-is-raising-housing-costs-and-homelessness-in-arizona#:~:text=From%20August%202017%20to%20August,more%20of%20income%20on%20rent.>
- ¹⁷ <https://www.pewtrusts.org/en/research-and-analysis/articles/2023/04/17/more-flexible-zoning-helps-contain-rising-rents>
- ¹⁸ <https://realestatedaily-news.com/arizona-hb-2297-allows-cities-to-repurpose-up-to-10-of-commercial-buildings-for-residential-use/>
- ¹⁹ https://www.wsj.com/articles/the-suburb-that-defied-nimby-a9bf4af9?st=s9sxy7xfna8ljo&reflink=desktopwebshare_permalink#comments_sector
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- ²¹ <https://www.educationalwave.com/pros-and-cons-of-combining-lots/>
- ²² <https://ktar.com/story/5575361/real-estate-expert-says-two-housing-bills-governor-signed-could-change-market/>
- ²³ <https://www.fieldmag.com/articles/prefab-adu-accessory-dwelling-unit-build-guide>
- ²⁴ <https://www.planning.org/planning/2021/summer/whats-blocking-an-adu-boom/>
- ²⁵ <https://reason.com/2023/03/14/despite-multiple-states-abolishing-single-family-only-zoning-very-few-duplexes-and-triplexes-are-being-built/>
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- ³² https://www.rentdata.org/states/arizona/2024#google_vignette
- ³³ <https://www.abetterbalance.org/wp-content/uploads/2018/08/Preemption-Repeals-and-Non-Preemption-Co-Branded-Final-2.pdf>
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