

Affordable housing in US: Myths, realities, takeaways for Ukraine

No ecosystem is perfect, but some are less imperfect than others



How America did it, 1955



How America does it, 2022

CEDOS educational video conference series
Thursday, 4 August 2022 ♦ 17h00 Kyiv time
David A. Smith • Affordable Housing Institute

Why listen to David A. Smith?

“You can observe a lot just by watching”

Abu Dhabi Bahrain Brazil Burkina Faso	Ghana Guinea Guyana Haiti	Nicaragua Niger Nigeria Pakistan
Canada Cent Afr Republic Chad Colombia	India Indonesia Ireland Israel/ PT	Papua N Guinea Philippines Rwanda Saudi Arabia
Congo Cote d'Ivoire Dubai Egypt	Jordan Kenya Kuwait Maldives	Senegal South Africa Togo Turkey
Equa. Guinea Ethiopia Fiji Gabon	Mali Mexico Mongolia Morocco	Ukraine United Kingdom United States Vietnam

- 46+ years affordable housing (US)
 - 20 years international: see list ←
- Structured finance, investment banking
 - Large, complex transactions
 - Sell side, buy side, intermediary
- AHI: global §501c3 non-profit
 - Gates, World Bank, IFC, US DFC, DfID, BID, Asian DB
 - For-profit developers, banks
 - Motivate good guys by showing how to achieve things
 - “But who are the good guys?”
- Pioneer and innovator
- Publish extensively
 - Develop provocative ideas, open-source
 - “The solution is its salesware”
 - Make a fool of myself to get people thinking

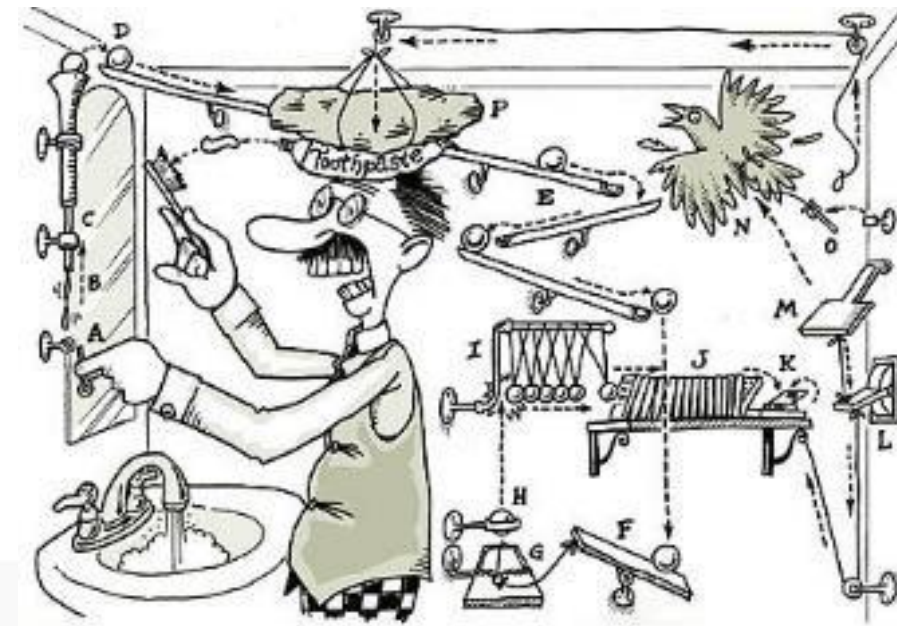


Photo taken before working from home ;)

Structure of this discussion

All thoroughly planned for your educational entertainment

- Part 1: Some essentials
 - The building blocks of any urban housing policy
 - Q&A
- Part 2: America's affordable housing ecosystem
 - How people think it works
 - What really happens (or doesn't)
 - **What that means for Ukraine**
 - Q&A
- Part 3: Open Q&A
 - "What I don't know, I'll make up"



Totally organized into a well-oiled machine

How to survive this talk

- Don't try to read all the text
 - Just enjoy the jokes
 - Full deck of slides available afterwards
- Visually let me know how I'm doing: 😊 or ☹️
- Email afterwards any time
 - dsmith@affordablehousinginstitute.org

Affordable housing, distilled down to the essentials

Why it's needed, why it's hard, why it costs money, and how to make it cost less



90 proof housing principles, distilled with loving care

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Affordable housing is urban infrastructure

Where jobs go to sleep at night

- “Housing is where jobs go to sleep at night”
- **Affordable** housing is where essential jobs go to sleep at night
 - “People who make the city work” should live in the city they work
- **“1 = 1 + 1”**
 - Add +1 job to your urban economy ... and you add +1 home
 - Add +1 weekday round-trip commute
- The ‘5-to-1’ rule: +1 high-income job → +5 mid-low-income jobs
- **H + T = 60%**
 - Housing cost plus transportation ↔ 60% of household budget
 - If one goes down, the other goes up
- **“The rent eats first”**
 - Families with disposable income spend it on food, children’s education, and health
 - When they have less, that’s what they cut ☹️



+1 job = +1 home and +1 commute

*A failure of urban planning, otherwise known as
the Los Angeles 405 at any time*

Covid’s daily transmission vector

Urban affordable housing is a political construct

Government enables, disables, subsidizes, surcharges, all at once

- Housing supply can be constrained one of three ways:
 - *Labor to build.* Constructed without money
 - Use found or scavenged materials, family or bartered labor
 - Pioneer, homesteading, rural, poorest immigrants
 - *Cost to build.* Minimal cost for land, infrastructure, development rights
 - Classical manufactured housing
 - Low-density suburban environments, level population: as-of-right zoning
 - *Permission to build.* Land, infrastructure, zoning ↔ law/ government
 - Cost of 'entitlements' exceeds cost to build
 - Urban environment, economy/ population growing, going vertical
- Urban affordable housing → Political construct
 - Getting the permission is always a political process
 - As-of-right development expired ~1995
 - “All real estate politics is local politics” – adapted from Tip O’Neill
- In politics: “rules are things we make up and you comply with”
 - ‘Permanent’ means ‘until the next election’
 - If you don’t like what’s being said, change the conversation” (Don Draper)



'Affordable housing' always costs money

And government must *always* be in the affordability business

- Economic development drives housing values

- Growth → jobs → people → spending
- Growth increases 'need' and 'effective demand'
 - **Need** is how many units
 - **Effective demand** is how much economic buying power consumers have
 - **Financeable demand** is how much of a loan they can take out

- **Economy** ↑ means **affordability** ↓

- A growing economy makes housing affordability worse: loss of affordability is an 'unfortunate side effect'

- By itself the market will never produce 'enough' affordable housing

- Housing is adversely selected within real estate development
 - Office, R&D, commercial, hotels all pencil out better than housing
- Affordable housing is adversely selected within residential real estate development
 - Market quality product at below market economic value

- Government has to become involved ... to add resources 'at the margin'

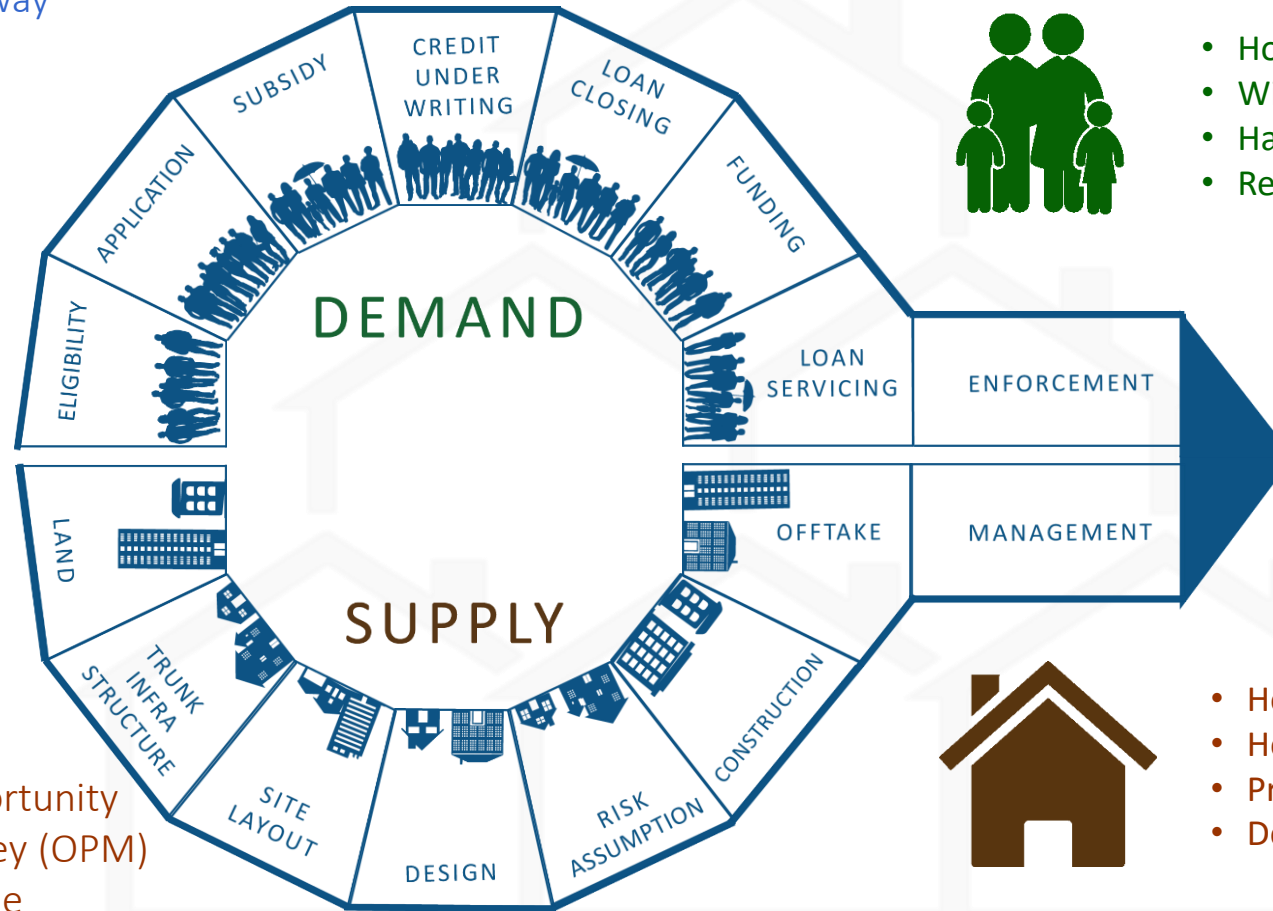
- Money comes in 16 forms (8 cash, 8 non-cash that developers convert into cash)
 - Detailed exposition available



Housing value chains, supply-side and demand-side: 16 links

In functioning markets, they work together and meet at a closing

- Many actors along the way
- Many handoffs
- Each relies on the next



- Household wants home
- Willing and able to make payments for home
- Has down payment or security deposit
- Ready to move in

- Government enables or disables each link on both sides
- Regulates (new mandates)
- Incentivizes ('free' money, 16 types)
- Accelerator or hand brake?

- Developers look for opportunity
- Use Other People's Money (OPM)
- New customer-price niche

- Home can be moved into
- Home can be sold (or legally rented)
- Price (or financing) recoups capital
- Developer cashes profit

AHI developed the Housing Value Chain methodology: Explanatory deck available

Questions?



Email dsmith@affordablehousinginstitute.org



“American housing is all about homeownership”

- Myth: American housing policy is entirely about homeownership”
 - “It’s the American Dream”
- Reality: Homeownership rates have been going down
 - Homeownership makes up only 65% of all tenures
 - 30% rental (conventional market)
 - 5% affordable/ social rental
 - Compared with UK (65%), France (64%), Netherlands (63%), Germany (51%)
 - Topped out at 69% (2005), nearly broke the global financial system
 - 2008 global crunch; Fannie Mae, Freddie Mac nationalized
- **What it means for Ukraine**
 - Diversify tenure models (everybody rents now and then)
 - Rental and affordable rental are critical for sustainable urban growth
 - Labor mobility, household formation, lower transportation, environmental costs



National Association of Real Estate Brokers, 1922

“Home Owning Breeds *Real Men*”
“It is what puts the MAN back in MANHOOD”

“Housing in America doesn’t need subsidy”

- Myth: Housing in America doesn’t require subsidies
- Reality: Virtually every form of housing tenure is incentivized
 - Ownership, \$30bn: Mortgage interest and real estate taxes
 - Until 2016, \$120bn: Unlimited: \$120 bn
 - Including second homes, boats you could sleep on
 - Ownership, \$75bn: Capital gains tax deferral from home sales
 - Rental, \$25bn (?): Depreciation of real estate property
 - Even if the actual market value is rising
 - Affordable rental, \$40bn: Both supply-side and demand-side
 - \$30bn annually: “Housing Choice Vouchers”
 - \$10bn annually: Low Income Housing Tax Credits (LIHTC)
- What it means for Ukraine
 - Government needs to incentivize home ownership, market rental, *and* affordable rental
 - Both demand-side (favorable loans) and supply-side (development, land incentives)



“You get a subsidy!”
“And *you* get a subsidy!”
“And ***YOU*** get a subsidy!”

“The US housing system was well planned”

- Myth: The US system is an integrated whole
- Reality: Crisis → Response → Natural selection → Evolution
 - 1929 Stock market crash → 1934 Federal Housing Administration
 - And high-rise public housing
 - 1946 GI's coming home → 1949 National Housing Act (veterans)
 - 1967 Urban riots on TV → 1969 Tax Reform Act
 - Use of public-private partnerships, favorable loans, tax advantages
 - 1974 Recession → Community Reinvestment Act
 - 1986 Savings & Loan crisis → 1986 Low Income Housing Tax Credit
 - 2008 Global financial crisis → 2008 nationalization of Fannie Mae, Freddie Mac
- What it means for Ukraine
 - Every seismic shift triggers a new approach to affordable housing: this war will too
 - Each evolution makes the ecosystem more complex
 - Also more transparent, more citizen-response, less corrupt → Generally better



*“You voted for it!”
“Yes, but you funded it.”*

“American real estate is the Wild West”

- Myth: Home buying and selling is about speculation
- Reality: Regulation and urbanization have domesticated markets
 - Consumer protection: HMDA, RESPA
 - Social obligations: Fair Housing
 - Environmental: CERCLA, EPA, wetlands
 - Zoning and approval processes (death by NIMBY hearing)
- What it means for Ukraine
 - Change takes persistence, and persistence takes time
 - Affordable housing is ‘corruption disinfectant’
 - “You can’t have a good affordable housing system unless you have a citizen-responsive government.”
 - – David Smith, Affordable housing as inherent reform



“You want to know how we solve housing problems?”
“Zoning ... punk.”



“Housing in America is a national issue”

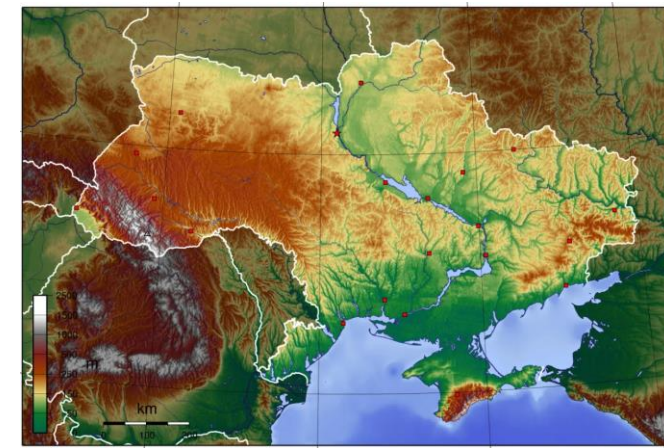
- Myth: Affordable housing is a national public policy priority
 - Led by the US Department of Housing and Urban Development
- Reality: Three tiers, and national may be weakest of them
 - National: Demand-side money, mandates, entities
 - Interest rates, income tax rates
 - Legal mandates: CRA, Fair Housing
 - Federal housing finance entities: FHA, Fannie Mae, Freddie Mac
 - State: Compete with other states for new jobs, new earners
 - ‘Business climate’ laws and infrastructure (e.g. metropolitan transportation)
 - State taxation and inheritance laws
 - Local: Land use and local services
 - Zoning, real estate taxes ↔ Pay for police, fire, streets, public utilities
- What it means for Ukraine
 - National government must manage public finances (including hard currency)
 - Hromadas and raions are where rehousing Ukraine becomes real
 - Define roles with clear government-to-government boundaries



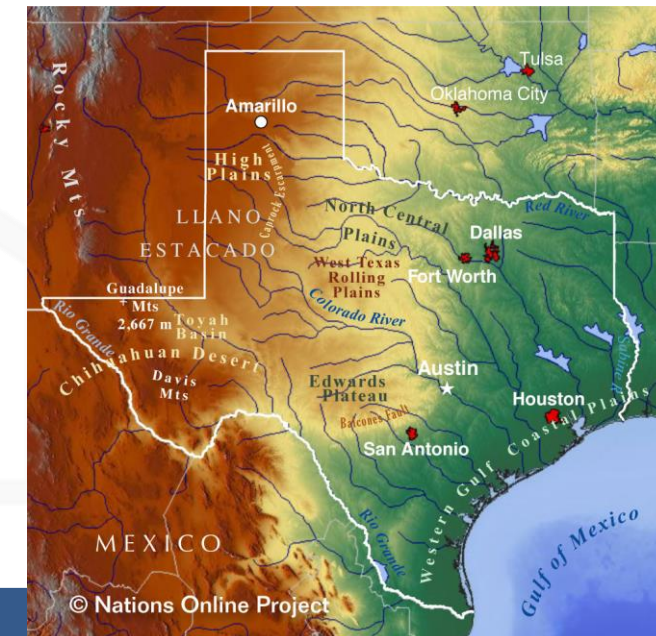
“I’m from the Federal government and I’m here to help you”

“America’s system is unique and not portable”

- Myth: The American system has no relevance in other countries
- Reality: Many things are importable if adapted to local evolutionary context
 - No government role → Direct government → Housing PPP → Symbiosis
 - Local real estate taxes → Local governance over urban planning
 - Community Reinvestment Act → Inclusive banking: India, South Africa
 - Urban redevelopment → Re-grid infrastructure → Eminent domain
 - “Due process & ‘just compensation’ ”
 - Increasing vertical urbanization → Complex zoning, mixed use
 - Inclusionary zoning (880 local variations) → UK, Ireland, Brazil
- What it means for Ukraine: A menu of strategies, tools, entities
 - Create options so that hromadas, raions, and oblasts can pick and choose
 - Based on urbanization, industry, climate (building materials), market dynamics
 - Migrate government into housing, but as partner/ funder/ regulator
 - The private sector is a powerful beast ... once it’s domesticated



Ukraine and Texas:
Similar size (223 mi²-265mi²),
population (43m-30m), geography



Questions? Answers!

- “These are my principles, and if you don’t like them ...”
- “Well, I have others.”
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