Building Arizona

Constructing a Rental Market that Meets Demand and Serves All Arizonans
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April 2021

Cover image:
An affordable housing development under construction in March 2021 near the intersection of 69th Avenue and Bethany Home Road in Glendale.
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Introduction

Arizonans are facing a growing problem: low- and middle-income rental housing has become increasingly unaffordable and scarce. This will have long-term negative effects on Arizona communities, if it is not mitigated by good policy responses.

Over the last decade, Arizona has emerged as one of the nation’s fastest growing states, driven in large part by Phoenix’s rapid metropolitan growth. This expansion has naturally spurred demand for housing, particularly in the rental market. As a result, homeowner vacancy rates and rental vacancy rates have fallen, with new development not keeping pace with demand.

In the last decades, rent increases have far outpaced inflation and wage growth. This surge in rental prices puts low- and middle-income renters at risk, and many Arizona renters have struggled to keep up. In the Phoenix-metro area in particular, more low-income and middle-income households face cost-burdens related to housing compared to a decade ago. Cost-burdens lead to housing insecurity; families, for example, are forced to move frequently, reduce spending on necessities like food, or in extreme cases become homeless. Adverse outcomes do not only affect individuals, but society as a whole in the form of higher public expenses and declining neighborhoods.

The economic fallout of the COVID-19 pandemic has made it more difficult for many tenants to pay their rent. Many workers are un- or under-employed. Unfortunately, many people do not have a personal safety net strong enough to mitigate the fallout of COVID-19. Without a strong public policy response, an eviction landslide is expected in 2021, when moratoriums expire.

What housing policies can Arizona adopt to improve renter choices and outcomes, while ensuring that landlords can pay their bills? Many believe that increasing the availability of housing stock is the key for Arizona’s housing concerns, but this is easier said than done. This report will identify and evaluate the availability and affordability challenges facing Arizona renters, analyze its causes, and discuss potential policy responses.

The Collective Benefits of Affordable Housing

The consequences of failing to establish widespread access to affordable housing have been linked with long-term negative effects on health, children, the environment, and jobs. Hence, lack of affordable housing is not only an individual problem but has negative collective consequences.

The most direct beneficiaries of affordable housing solutions are, of course, renting families themselves. For example, rent-burdened families are often not able to spend sufficient funds on nutrition and health care. As a result, housing instability is linked to various adverse health outcomes from depression to asthma. Affordable housing allows families to locate near economic opportunities and take advantage of them. One study suggests costs of $2 trillion annually in lost wages and productivity due to the lack of affordable housing. Housing security through affordable homes empowers people to take care of themselves, get an education, and take advantage of opportunities.

Increasing economic mobility and productivity with the creation of affordable housing comes with enormous economic benefits to society at large. Lack of affordable housing is tied to increased public expenditures from court activity related to evictions, social and medical services, and homeless shelters. On the flipside, investments in affordable housing are linked to a whole host of positive effects on cities.
and neighborhoods. Shorter commutes and more disposable income lead to more stable communities, less pollution, more local spending, and higher tax revenues.\textsuperscript{16}

While some people worry that affordable housing might decrease property values, research shows that this is rarely the case.\textsuperscript{19} In fact, when following established best-practices, investments in affordable housing can revitalize whole neighborhoods, leading to increases in home values and decreases in crime rates.\textsuperscript{20}

**What is Affordable Housing?**

Housing is defined as affordable when households spend less than 30\% of their income on rent. Households spending more than 30\% of their income are considered cost-burdened; households spending more than 50\% are severely cost-burdened.\textsuperscript{21} However, in practice, pinning down how many families are actually burdened in the sense of experiencing adverse effects related to their housing costs is difficult.\textsuperscript{22} For instance, very low-income families cannot spend 30\% of their income on housing and have enough purchasing power left for basic necessities, while high income families can easily spend 50\% of their income on housing, without experiencing any trouble related to other living expenses. Generally, low-income families are those that earn 80\% or less of the area median income (AMI). An apartment then would be considered “affordable” if it costs less than 24\% of the AMI, which is around $1,086 for the Phoenix metro area.\textsuperscript{23}

**Arizona’s Rental Market: Not Enough for Those Who Need It**

Arizona’s rental market is characterized by an increasing rift between the number of affordable units available and the demand for affordable units. Wages that have not kept up with inflation and recession-induced income losses have exacerbated this gap. Additionally, affordability problems disproportionately affect already marginalized groups.

On the supply side, two trends emerge: 1) continued rent increases deplete the stock of affordable rental units; 2) most new construction occurs in the high price/high quality apartment and single-family housing segment,\textsuperscript{24} which is often not affordable for low- and middle-income families.

From 2011 to 2017, the average rent for an apartment in the Phoenix metro area increased by almost 5\% each year, outpacing the national average (4\%) and general inflation.\textsuperscript{26} Since then, rent increases accelerated to 7\% in 2018 and 9.6\% in 2019, the highest in the nation.\textsuperscript{27} As a result, between 2011 and 2017, the number of units with rent under $800 per month dropped by 36.4\%.\textsuperscript{28} In addition, an increasing number of apartments have been converted to short-term rentals, depleting the affordable stock farther.\textsuperscript{29} Fortunately with 32.2\% of the overall share of rental units under $800, Phoenix remains much better positioned than other metro areas, like Los Angeles (with 11.6\%).\textsuperscript{30}

Construction happens increasingly in market segments that are not affordable to low-income populations, often coming with more luxurious amenities. A report in 2020 examining U.S. national rental stock found the median asking rent of units completed between July 2018 and June 2019 to be $1,620, around 37\% higher than in 2000.\textsuperscript{31} During the same time period, newly constructed units being rented for under $1,050 a month decreased significantly to only 12\% of the total construction. The same is true in Arizona. For instance, 87\% of large-scale apartment construction in Phoenix in 2018 was of high-end units.\textsuperscript{32} It is estimated that the Phoenix metro area needs 150,000 new
apartments by 2030, but new construction is not keeping pace.\textsuperscript{33}

Another indicator for tightening supply of rental housing is that Arizona's rental vacancy rates have continued to decline sharply since the 2008 recession spike—with current vacancy rates cut almost in half since 2000 to 5.8\% (versus a 6.7\% national average; see Figure 1).\textsuperscript{34} Low vacancy rates mean multiple applicants for each apartment, especially at the lower end of the cost spectrum, leading to increased rental prices. Homeowner vacancy rates in Arizona have also fallen from 3.2\% in 2010 to 1.3\% in 2019, which follows the national trend.\textsuperscript{35}

**Figure 1: Arizona Rental Vacancy Rates (2000-2019)**

*Source: U.S. Census Bureau, [https://fred.stlouisfed.org/series/AZRVAC](https://fred.stlouisfed.org/series/AZRVAC).*

On the demand side, Arizona is seeing barely increasing incomes, rising income inequality, and population growth, meaning proportionally more demand for low-cost housing. As a result, there are more and more cost-burdened renters.

Since 2010, Arizona's population has grown by 14\% (18\% in the Phoenix-metro area), and the growth does not appear to be slowing.\textsuperscript{36}

The Arizona Commerce Authority projects Arizona will have 8 million residents by 2028.\textsuperscript{37} This expansion has naturally spurred demand for housing, particularly in the rental market. Because many of the new residents have higher incomes, and nominal wages have slightly risen, the absolute number of low-income renters has declined between 2011 and 2017, for instance by 3\% in Tucson and by 11.3\% in the Phoenix metro area.\textsuperscript{38} However, these reductions are not enough to keep up with the reduction in affordable housing stock, leading to a huge shortage in affordable housing. Additionally, the COVID-19 pandemic is expected to have reversed the reduction in the low-income population.\textsuperscript{39}

As a result, the National Low-Income Housing Coalition (NLIHC) estimates that Arizona has a shortage of roughly 134,758 affordable rental units for families at 30\% of AMI. This means Arizona has roughly 26 available homes for every 100 extremely low-income renter households.\textsuperscript{40}

**Figure 2: Post-Great Recession Cost Burdens Have Shifted to Higher Income Earners**

On the national level, 47% of renter households experience cost-burdens and 25% severe cost-burdens, doubling since the 1960s (23.8% and 11.9%). In the Phoenix metro area, these numbers have stayed at a high level for a long time but decreased slightly in 2018 for all renters. However, since the Great Recession, cost-burdens for lower- and middle-income households have become both more prevalent and more intense.

When comparing the development of wages and rents, these numbers are no surprise. Since the 1960s, inflation adjusted median rent increased by 61%, while the median renter’s income increased only slightly at 5%. More and more people, up to the median income, are finding that the current pool of housing is out of their reach. This means, due to relatively flat incomes, many spend an unsustainable amount of their income on rent, accept long commute times to find less expensive housing, live in too little or low-quality space, or face homelessness.

The economic fallout of the COVID-19 pandemic has made it more difficult for many tenants to pay their rent. Arizona’s unemployment rate reached 13.4% in April 2020 (unseen since the Great Depression), recovering to 5.9% in August and increasing again to 8% in November. For those who are able to return to their jobs, many workers on reduced hours will need to live on a reduced income. A report by the National Council of State Housing Agencies estimated in September 2020 that 170,000 to 250,000 households in Arizona were struggling with rental payments and at risk for eviction in 2021. A recent Morrison Institute report, “One Crisis Away,” also shows that many Arizonans do not have a personal safety net strong enough to mitigate the fallout of COVID-19.

The developments over the last few decades, taken together with the pandemic, make a concerted public policy effort to address affordable housing more critical than ever.

Unequal Burdens

The burdens outlined above disproportionately affect certain groups. The NLIHC estimates that of extremely low-income renters, almost 25% are senior citizens and 17% are people living with disabilities. According to the Arizona Department of Housing, many essential workers have trouble paying their rent, including teachers, firefighters and nurses. Waiters and retail workers, a sector hit hard by COVID-19, struggled with making rent even before the pandemic.

These outcomes also affect people of color in Arizona disproportionately, which is the product of long-standing discrimination. The Fair Housing Act of 1968 (Title XIII and IX of the Civil Rights Act) outlawed housing-related discrimination, but over a half-century later, research shows that discrimination has continued and access to housing is still unequal across races.

Nationally, African Americans and Latinos have the lowest (46.4%) and second-lowest (50.9%) homeownership rates, respectively (the rate for white people, for comparison, is 75.8%). Arizona performs worse than the national rate for African Americans, with a rate of 35.2%, and slightly better for Latinos, with a rate of 53.8%. African Americans and Latinos have significantly less wealth and income than white Americans, which makes it more difficult for them to become homeowners. Statistics in the rental market mirror this pattern. Cost-burdens for white people in Arizona (46.2% vs. 46% nationally) are lower than for African Americans (51.4% vs. 56.7% nationally) and Latinos (49.5% vs. 55.3% nationally).

Local research from the Phoenix-metro area shows that Black and Latino residents are largely clustered in communities separate from white residents, leading to unequal access to various resources including government services, high-quality schools, and loans. In
addition, COVID-19 has disproportionately affected Black and Latino groups’ health and employment status, which puts them at additional risk of housing instability.\textsuperscript{54}

Native Americans face a related but different housing crisis in Arizona. Native Americans have much higher poverty rates than any other group in the U.S.\textsuperscript{55} Housing conditions on tribal lands are often poor—a study in 2017 found 6\% of homes had inadequate plumbing, 12\% had heating deficiencies, and 16\% were overcrowded, all conditions that are exceedingly rare nationwide.\textsuperscript{56} Homelessness is dramatically more common (at least by a factor of 10) than in the general population.\textsuperscript{57} In the Navajo Nation, 40\% of the housing stock lacks access to running water and 10\% lacks access to electricity.\textsuperscript{58} Building housing on tribal lands, affordable or otherwise, is often thwarted by issues of land ownership, which often make conventional means of financing unavailable.\textsuperscript{59}

These facts suggest that any affordable housing policy needs to consider past discrimination and apply a racial justice lens. It also emphasizes that a one-size-fits-all approach will not work; different communities will require different solutions.

\textbf{Causes of Rental Unit Shortage: Little Land & Developer Disincentives}

There are many reasons for the shortage of low- to middle-income rental units in Arizona. While reducing income inequality and giving housing subsidies to low-income families would help, effective solutions must consider the causes of under-supply. Drivers of the shortage include construction prices, land-use policy, public resistance to affordable housing, and shortcomings within existing programs intended to incentivize new construction of affordable housing.

\textbf{Rising Land & Construction Prices}

One reason the production of new affordable rental units is challenging is because of its cost to profit ratio. Building affordable housing in Arizona — Phoenix in particular — is difficult for developers because of dramatically increasing land, labor, and material prices.\textsuperscript{60}

In the Phoenix-metro area, the average price per acre of land jumped 80.7\% from 2012 to 2017 ($194,800 to $352,000),\textsuperscript{61} making it easy to see why developers have favored using land to develop lucrative, higher-end apartments.

Rising construction costs are also contributing to a misalignment between housing supply and demand. In the past two years, Arizona has seen construction costs rise faster than the national average as steel reinforcement costs, plumbing installation costs, and residential construction worker wages rise (the latter quite a bit more than wages overall).\textsuperscript{62} The 2008 Legal Arizona Workers Act, by deterring many Latino workers, exacerbated labor shortages in the construction industry, making construction more expensive.\textsuperscript{63}

Notably, construction has not seen similar efficiency and productivity advances as other industries.\textsuperscript{64} Additionally, building affordable housing is often comparably more expensive because of complex funding and management mechanisms.\textsuperscript{65}

\textbf{Land-Use Rules and Public Resistance to Affordable Housing}

A complex set of laws and regulations (\textit{i.e.}, land-use rules) governs what can be built where and how. These rules, often well-intentioned, are designed to promote public health and
safety, protect the environment, and achieve community-accepted aesthetic principles. However, by restricting what kind of housing can be built and affecting supply and prices, these regulations tend to create more economic returns for current residents and maintain racial segregation, than promote the public interest.66

This is further complicated by the fact that most zoning (ordinances designating areas that have specific building requirements) is extremely fragmented, often done at the local level. Hyper-local interests (e.g., “I don’t want apartment buildings in my neighborhood”) often systematically override city-wide or state-wide interests (e.g., “We need more apartments in our city or state”). The same is true for building codes (rules determining acceptable methods and designs of buildings). Additionally, enforcement is often done locally by lengthy approval processes involving officials and/or planning commissions with substantial discretion. This can lead to delays, adding to the costs and uncertainty of construction, and in some cases disincentivizes development outright. Lastly, a large set of private (i.e., non-governmental) rules restrict the supply of housing. Many real estate subdivisions have covenants, conditions, and restrictions (CCRs) attached to property deeds, often governed by home-owner associations (HOAs), which strictly regulate how property can be used. This means, for example, even when zoning allows multi-family housing, CCRs often prohibit building apartments unless a majority of the HOA allows it.

In the Phoenix-metro area, approximately 80% of the land is designated for single-family houses.67 In Phoenix, 60% of land is zoned for single-family detached houses, often with large-lot size requirements of 5.5 units per acre.68 Even if developers can access land approved for high-density housing, they must comply with additional regulations, and approval processes often lead to delays. According to a study by the Wharton School at the University of Pennsylvania, the Phoenix-metro area has the ninth most stringent land-use regulation in the U.S.69

As Arizona’s population grows, and land becomes scarce and more expensive, zoning regulations increase barriers for affordable development. Research shows that through economies of scale, it becomes progressively cheaper for developers to add more units to existing projects.70 However, many cities’ zoning regulations limit apartment complex size.

There are many Arizona-specific obstacles to developing more affordable housing. Much development happens through rezoning vacant parcels or increasing density on existing developments. Both require individual votes by city councils, which must meet super-majority requirements if 20% of adjacent property owners protest. Even in the best of cases, this usually means lengthy delays in any proposed multi-family development.

In 2006, Arizona voters passed the Private Property Rights Protection Act, which requires any state or local municipality to be held financially liable if a land-use regulation (such as a zoning ordinance) is changed without the consent of the landowner, and that change results in any reduction in property value.71 While there are exemptions and increasing density might actually increase property values, the law has had a chilling effect on cities changing zoning regulations, due to uncertainty about potential liability.72

Other state laws discourage cities from enacting policies to create more affordable housing. For instance, inclusionary zoning — city ordinances that require a proportion of new construction to be affordable to low-income people — is prohibited.73 As such, the growth in the upper reaches of the rental market has done little to address the need for affordable
housing. However, lenders and developers have voluntarily contributed to the Arizona Housing Fund, which supports non-profits in the affordable housing sector, recognizing the need for affordable housing development.74

In 2020, legislation was introduced to increase Arizona’s affordable housing through municipal rezoning. HB 2841 would have required municipalities to adopt an affordable housing plan that designated 30% of all vacant land for single-family homes with small lot-size requirements and reduced design restrictions (an “Housing Affordability District”).75 However, the bill was amended to use just 1% of vacant land and never passed the House.76 Other legislation had a similar fate. A bill creating an affordable housing tax credit died in the Senate.77 However, in 2021, this bill was reintroduced in both the House76 and Senate.78 In 2019, the legislature put $15 million back into the Affordable Housing Trust Fund, after significant spending cuts over the previous decade.80

The limited scope and urgency of the bills point at a larger problem — zoning regulations exist, at least in part, because they are supported by vested housing interests, from existing homeowners, who don’t want change in their neighborhood, to incumbent developers, who see their knowledge of the byzantine permitting process as a competitive advantage. Furthermore, affordable housing has a negative perception among the larger public. Arizonans are divided on whether they would accept affordable housing development in their neighborhood. The unwillingness to accept such development is colloquially known as “not-in-my-backyard.”81 There are many negative stigmas associated with affordable housing that make it unappealing to homeowners. One fear is that low-income, high-density housing developments will increase neighborhood crime. While this fear and others are largely unfounded, they still represent an obstacle to change.82

A recent Morrison Institute Poll conducted in April 2020 found that attitudes about affordable housing differ across demographics. For instance, older and college-age Arizonans and suburbanites are less likely to accept affordable housing development in their neighborhoods. Arizonans also split along party lines (Democrats are more likely than Republicans to support), and Arizonans at the lowest and highest ends of the income distribution were more likely to accept affordable housing development. The poll suggests that 43% of Arizonans are open to affordable housing development in their neighborhood.83

Unfortunately, local opponents of affordable development, helped by the current laws, the status quo bias of most political institutions, and a general stigmatization of the poor, are much better positioned than proponents.84 As a result, if affordable housing is built at all, it follows the path of least resistance. This means it is often built in already poor neighborhoods with fewer resources and opportunities, further contributing to residential segregation and concentration of poverty.85

One of the most common ways policy change to increase density is thwarted is private rules. CCRs often limit occupancy to single families, even if zoning allows more. In this situation, a property owner would first have to get a majority in their HOA to agree to allow multi-family housing. In the absence of that, HOAs can be pacts preventing any affordable housing development. HOAs are very common in the U.S., and even more so in Arizona. The Foundation of Community Association Research estimates that 2.2 million people in Arizona (around 30% of the population) live in property governed by HOAs.86 This means that any serious attempt to increase housing availability will have to wrestle with how HOAs can fit into the plan.
Existing Affordable Housing Programs

Arizona and its municipalities have public policies that help protect and build affordable housing. The Federal Low-Income Housing Tax Credit (LIHTC), administered by the state, incentivizes private investment in affordable rental housing. The State Housing Fund (SHF), and some private philanthropic funds, directly finance the development of affordable housing. In addition, there are various local initiatives, private activity bonds, and programs that help people directly with housing. Around 100,000 people in Arizona receive some form of federal rental assistance (direct subsidies, project-based subsidies, public housing), but this falls far short of needs and has only increased since the COVID-19 pandemic began. Local governments and non-profits offer various types of temporary assistance. Nonetheless, as discussed, many people find themselves severely cost-burdened and one crisis away from eviction or homelessness. Further explanation of these programs can be found in Appendix: Affordable Funding Options.

Potential Policy Options

There are several housing policies that can build upon the actions that Arizona’s governmental leaders are presently taking to improve housing affordability. While none of these policies alone will solve Arizona’s housing shortage, the combination of these policies has the potential to drive down costs and increase the availability of affordable units. Additional demand-side policies can help very low-income people to access housing and then remain housed, even in the presence of major income shocks.

Potential policy options fall into three categories:

• **Preserve existing housing** by working to keep current rental units affordable and of high quality.

• Spur additional affordable housing construction by incentivizing developers to build affordable rental units.

• **Increase the ability of low-income populations to access** housing and remain housed through rental subsidies and emergency assistance.

In each of the options discussed below, there are **short-term** and **long-term** policy options.

Preserve Existing Housing

**Short-term Action: Establish right-to-purchase (or first right-of-refusal) ordinances.** One of the major barriers to preserving affordable housing is that when existing complexes are sold, they often go to developers who turn those complexes into more expensive units. One way that municipalities can ensure the preservation of the current low- to middle-income housing stock is through right-to-purchase (or right-of-refusal) laws.

Right-to-purchase laws establish a purchasing order: tenants get the first buying opportunity, or they can decide to pass their purchasing right to a housing preservation organization or the city. Municipalities can vary the scope and strength of right-to-purchase laws by restricting the property types to which they applies. Laws along these lines are most effective when combined with community organizing and funding mechanisms that create organizations that can purchase houses and keep them affordable.

Versions of right-to-purchase laws have been enacted in other large, metropolitan areas. Washington D.C.’s law helped preserve 1,400 units of affordable housing over a 10-year period and created 99 building co-ops. Denver passed an ordinance in 2014, giving the city the right of first refusal for any affordable apartment that is about to be converted to market rates. Instead of actually purchasing property, the city has used their power to negotiate with private owners to...
keep apartments at affordable rates. Community land trusts are another mechanism that have been successfully used in these situations to transfer ownership to the community and preserve affordability.91

**Short-term Action: Create a landlord repair assistance program.** While housing repairs and rehabilitation programs for homeowners exist at both the state and local levels, only one comparable program currently exists for rental units in Phoenix (although it is not widely used). Such repairs are important because in addition to the units in need of total renovation or rebuilding (i.e., those that could be addressed by a Housing Accelerator Fund, see below), Arizona’s rental units are likely to require an increasing number of repairs in the coming years and more than owner-occupied housing.92 This is especially a problem in rural areas.93 Even in Phoenix, 214,500 of the city’s 593,300 (36%) current rental units are over 40 years old. Some are far older.94 Although there is sparse data on repairs undertaken in these units, it is not difficult to understand that these units will begin — or have already begun — to deteriorate without any repairs or rehabilitation.

A landlord repair assistance program could provide small landlords with funds to make needed repairs, incentivizing the preservation of affordable housing stock. Philadelphia established a program like this in 2018.95 A landlord repair assistance program could function much like homeowner repair programs do — a state or local government would review and grant funds to affordable housing landowners to address any structural problems or other hazards, as well as repair deteriorating critical home systems like plumbing or electricity. A program like this could bring both short- and long-term benefits to the preservation of affordable housing. In the short-term, the program could incentivize landlords to hold onto the buildings rather than sell them. For instance, a landlord who did not have the ability to pay for much needed repairs may have looked to release units from the LIHTC program and its rent caps or decided to sell the units altogether. With those repairs subsidized, the landlord might keep the property in the LIHTC program and/or keep from selling the property. In the long run, rehabilitation and maintenance of affordable rental units can help ensure these units will remain affordable and available for years to come.

**Long-term Action: Create a Housing Accelerator Fund.** A Housing Accelerator Fund (HAF) is best suited for large cities or counties (like Phoenix or Maricopa County), and it provides loans to developers and organizations to acquire and renovate apartment complexes that house low-income, potentially at-risk residents. In exchange, the developer or organization commits to rent stabilization or similar regulations in order to ensure current and future residents can afford the housing. A major benefit of this system is that a city or county would neither need to directly fund projects to maintain and improve affordable housing, nor own and operate public housing.

San Francisco created a HAF in April 2017 as a nonprofit lending program that partners with the city and provides financing for the acquisition and rehabilitation of existing housing properties.96 The financial benefit of creating a HAF is that most of its funding can be raised from private sources. To date, the San Francisco HAF has provided more than $130 million in loans for 20 projects.97 This is a large number — especially if it is compared to the $130 million in Arizona’s Housing State Trust Fund — and it was provided by banks, developers, nonprofits, and other private organizations.98

A HAF in Phoenix would also have room to adjust in size and scope as needed. Currently, the U.S. Department of Housing and Urban Development (HUD) is piloting a Rental Assistance Demonstration (RAD) program that provides funding for public housing authorities...
(PHAs). It allows them to work with private developers to rehabilitate a total of 455,000 public housing units nationwide, which are then transferred to private ownership while providing vouchers, ensuring right of return, and extending other assistance to tenants.99 As of October 2020, 12 projects have been completed by the Phoenix and Maricopa County PHAs.100 Depending on the future of HUD’s RAD (i.e., as long as Congress keeps reauthorizing it), a HAF at the city or county level could either take the place (in part or in whole) of the RAD program, or supplement the limited federal program by providing assistance at the county or city level.

### Spur Greater and more Effective Construction of Affordable Housing

**Short-term Action: Make vacant or underused public land available for affordable housing development.** Phoenix and other municipalities in Arizona hold some public land that is vacant or otherwise unused. As land becomes increasingly scarce, vacant land becomes even more valuable and has the potential to substantially increase the availability of affordable housing units. Cities like Philadelphia have proposed developing mechanisms to utilize vacant land for affordable housing development.101 A city, county, or the state could task an already existing agency — the Arizona Department of Administration Real Estate Sales Division (ADOA), for example — with evaluating and identifying underused or vacant public land that may be suitable for housing development.102 The ADOA could then initiate rezoning processes to allow for such development and bring the land for sale to developers, who commit to build affordable housing units on that land.

This proposal has the added benefit of increasing the affordable housing stock without removing any of the existing housing in the area. Because it is difficult — and perhaps not always desirable — to rezone single-family land, cities like Phoenix can use underused public land to quickly increase the land available for affordable housing.

**Short-term Action: Improve affordable housing profit margins by applying innovative design and construction techniques.** Even without government action, developers can build more affordable housing at more profitable rates by applying new and innovative design and construction techniques. A study by the Joint Center for Housing Studies at Harvard University proposed a number of such planning, architectural, and construction approaches geared toward making affordable housing development more profitable in a time of rising land and construction costs.103 These approaches were gathered from successful, recent applications of these techniques as well as the recommendations of people involved in housing construction. Among the recommendations are reducing unnecessary space, standardizing layouts to minimize necessary plumbing, and moving toward off-site construction. While these changes may seem small, together they reduce construction costs, maximize available space, and can create more affordable units.

**Short-term Action: Appropriate more money to state housing fund and encourage public-private partnerships, ensure equitable distribution of funds.** One simple way for the state legislature to build more affordable housing is to appropriate more money to the State Housing Fund. The Housing Fund is one of the most efficient tools to quickly allocate money to housing needs wherever they arise. Restoring the fund to pre-Great Recession levels would be a good way to make use of this tool.104 The state and cities can also work together with non-profits and private industry to create private funds to build affordable housing. The sustainable way
to structure such public-private partnership is to create voluntary commitments by developers and large regional employers to support the fund on a regular basis. The Arizona Housing Fund is a good example of such an initiative.

Funds and their partners should review the racial impact of their previous practices and current housing trends, ensuring that new projects are counteracting those problems. For instance, Portland, Oregon, established a preference in affordable housing projects for those that have been displaced by gentrification, mainly people of color. Equity analysis would also direct organizations to not forget about projects in rural and tribal areas.

Short-term Action: Use COVID-19 stimulus dollars to respond to housing needs. With the influx of dollars to respond to COVID-19 and homelessness, many cities and counties are placing individuals experiencing homelessness into hotels and other non-congregate settings to combat the spread of COVID-19. However, renting rooms can add up quickly. Places like Oregon and California have begun purchasing hotels for emergency shelter use now and even into the future after the pandemic subsides. The rooms serve as emergency shelter, but can also be used as transitional shelter and permanent housing down the road. With the hotel industry struggling during the pandemic, purchasing hotels is a faster and more cost-efficient way to supply permanent housing, even if minor rehabilitation is needed, rather than starting from the ground. California set aside $600 million in grant funding, $550 million from Coronavirus Aid Relief Funds and $50 million from the state general fund to purchase and rehabilitate hotels into housing, while Oregon moved forward on a smaller scale, allocating $65 million. Although a big investment, the project meets both a short-term need of housing individuals experiencing homelessness and the long-term need of additional affordable housing.

Long-term Action: Reduce and streamline zoning regulations and conduct racial impact review. As discussed, zoning regulations in many of Arizona’s cities play an important role in why developers do not build units affordable for low- and middle-income renters. Arizona can reverse this trend by reducing and streamlining zoning regulations. While cities can take action, due to entrenched interests, reform is more likely to happen at the state level. State law could prescribe a default of multiple family lots, except in specific circumstances. For instance, Oregon passed a law in 2019 that allows duplexes, triplexes, and fourplexes in areas previously limited to detached, single family homes. To be effective in Arizona, a law like this would need to be carefully crafted to cover property governed by HOAs under the multiple-unit requirement. State legislators must also work around the Private Property Rights Protection Act or consider changes to the law. The crux, however, of a sweeping reform would be to ease concerns about “the end of the suburbs,” by building a successful pro-affordable housing coalition. This will be more effective if advocates can change the public discourse away from seeing housing as an individual consumer good to seeing it as a collective problem with solutions benefitting everyone.

In the absence of statewide reform, there are many changes cities could make. Municipalities could rezone specific areas to allow high density apartment buildings, reduce parking lot requirements, reduce lot size requirements, allow taller buildings, or allow existing homeowners to construct Accessory Dwelling Units (ADUs). City-specific reforms should include broad community input and can focus on more than just affordability. Most zoning prescriptions are quite outdated and do not consider what today’s residents might consider important for the health of their communities (for instance, walkability). Cities could also conduct a racial impact review of their land-use policies, similar to often-
required environmental impact analyses, with the goal of distributing benefits of development more equitably.\textsuperscript{113}

**Long-term Action: Streamline Building Regulations and Permitting Processes.**

Lengthy permitting processes are one of the top factors pushing up housing prices that can be easily influenced by state and local governments.\textsuperscript{114} Permitting and inspection processes are complicated by the fact that many building regulations, for instance building codes, are extremely fragmented. This often causes significant delays due to the need for plan revisions.\textsuperscript{115} Cities could audit their permitting processes to improve transparency, reduce delays, and save costs.\textsuperscript{116} After reviewing their zoning ordinances and ensuring they are in-line with community visions, cities could expand the use of by-right approval (removing legislative approval and administrative discretion for plan approval) to make development easier and faster.\textsuperscript{117} Cities and the state could also review building codes and related building regulations to ensure they are not deterring the development of affordable housing. Increasing uniformity and reducing local rule variations could also help speed up development.

**Long-term Action: Consider encouraging land development for high-density housing through land-value incentives.** Another policy that could encourage development is a land-value tax (LVT).\textsuperscript{118} Traditional property taxes determine rates based not only on the land itself but on the structures on the land. Therefore, taxes on land containing an apartment complex would be higher than on land used as a parking lot. A land-value tax reverses this dynamic. Rather than taxing the land’s structures, a land-value tax is simply a levy on the value of land.\textsuperscript{119} This creates an incentive for landowners to build on their land and discourages underdevelopment and vacant lots. An added benefit of the LVT is that it encourages affordable housing development without the tradeoff of discouraging or preventing other types of development.

While an LVT is a quite radical idea that is unlikely to be implemented, cities and states could make small changes in their tax structure to incentivize development. For instance, several cities in Pennsylvania have implemented split-rate property taxes, which tax land at a higher rate than the structures on it, with some evidence for increased development.\textsuperscript{120} Another option would be to apply heavier taxes on parking lots or vacant land to encourage more substantial development on that land.\textsuperscript{121} This would generate the same incentive as the split-rate tax with a slightly different structure. Additionally, tax incentives could be created for multifamily complex development; however, care must be taken that this does not simply subsidize luxury apartments.\textsuperscript{122}

**Long-term Action: Establish a state-funded LIHTC.** Federal LIHTC funding that flows through Arizona does not presently meet the demand for new affordable rental units. Additionally, current federal tax credit allocations are at times not high enough to make projects viable.\textsuperscript{123} An Arizona state-funded LIHTC would work in tandem with the federal program and could increase the number of new units built each year. In addition to adding affordable rental units for Arizona’s renters, the present federally funded LIHTC program injects hundreds of millions of dollars each year into Arizona’s economy, and establishing a state-funded LIHTC program can increase these effects and boost the economy.

There is significant evidence that underscores the benefits that the federal LIHTC has brought to renters and Arizona’s economy, which suggests that a state-funded LIHTC program will increase these benefits. According to a 2014 report commissioned by the Arizona Department of Housing, the average 1,353 construction jobs created through LIHTC each year add over $57
million in wages and over $151 million in overall economic output annually. The operational needs of the nearly 38,000 LIHTC rental units (as of 2014) employs over 3,200 people and produces over $353 million in economic output annually. In addition, these rental units have generated over $587 million in employee and construction taxes and other fees.²²⁴ Twenty-one states have already established low-income housing tax credits.²²⁵

State agencies and partners need to do more to reach underserved populations and very low-income people through their development projects. In the past, LIHTC-financed developments have often contributed to racial segregation — any new state-level program (as well as the administration of existing programs) should have a clear mandate to counteract this tendency.²²⁶ For instance, set asides and preferences could be used to a greater extent than they are currently in the Qualified Allocation Plan.²²⁷

Increase the Ability of Low-Income Populations to Access Housing

Short term action: Source of income laws. People receiving rental vouchers often find that landlords will not rent to them. This contributes to racially segregated communities and neighborhoods with concentrated poverty.²²⁸ Laws that prohibit discrimination based on the source of income used to pay for rent could help to overcome this practice and its detrimental effects. Many states and cities have passed source of income laws.²²⁹ PHAs and local non-profits could also reach out to landlords to educate them about the benefits of participating in voucher programs and offer financial incentives. For instance, Long Beach, California, holds regular workshops and has a technical support hotline that helps landlords navigate the challenges of accepting vouchers.²³⁰ Although some Arizona cities and programs are working to educate landlords, there is not a unified approach across the state.

Short term action: Streamline temporary assistance. Temporary assistance from local government and non-profits can often prevent evictions and homelessness. This category includes help with a security deposit, first and last month’s rent, moving assistance, utility assistance, emergency rental subsidies, and legal help. While many local governments use federal block grants or general funds to finance this type of aid, a lot of funding comes from philanthropic sources. Providers should review their often-stringent screening criteria to ensure that aid really goes to those who need it and to where it is most effective. For instance, undocumented communities are often excluded from eligibility.²³¹ Efforts could be made to acquire additional public or private funds to meet the demand of renters excluded from more stringent funding sources. Local actors could collaborate to create resources that are easy to find and apply for — for instance, by creating one universal application for various programs. Although efforts have improved with the increasing rental assistance in response to COVID-19, efforts are still fragmented across the system and renters often reach out to many sources in order to find help.

Short term action: Use small area fair market rent, reduce racial segregation. Voucher payment standards are set by PHAs based on the determination of Fair Market Rents (FMR). When FMRs are set for large areas, they encourage racial segregation and concentration of poverty, pushing low-wage families to low-opportunity areas.²³² However, PHAs have a substantial amount of discretion in adjusting payments to characteristics of their jurisdiction. At least 24 local housing authorities are currently using small area FMR.²³³ PHAs in Arizona could opt in as well, increasing payment
standards in high-cost areas. Although this may limit total households assisted, it would allow more voucher holders to live in resource-rich neighborhoods. With dedicated action by PHAs in combination with source of income laws, housing vouchers could be a tool to reverse racial segregation.\textsuperscript{134}

**Long term action: State or local tenant-based rental assistance.** Direct subsidies are one of the most effective ways of helping families that are being priced out of the market, preventing evictions and homelessness, and potentially reducing net public expenditures.\textsuperscript{135} Due to funding limitations, federal programs only help approximately 20\% of Arizona renters who are eligible and in need of assistance.\textsuperscript{136} A relatively simple solution would be for Arizona to fund additional housing vouchers to be administered by already existing PHAs. A program like that could make aid available much faster than the construction of new apartments. Many cities, including some in Arizona, offer smaller scale programs to meet the additional need.\textsuperscript{137} However, they tend to target specific populations such as domestic violence survivors or veterans. A robustly state-funded long-term rental assistance program could make a huge difference for Arizonans at risk of losing their home.

**Conclusion**

Many Arizonans are struggling to find housing options that enable them to live their lives without fear of not making their rent. In Arizona, this is largely due to a shortage of affordable rental units.

This report does not endorse any particular policy path, but it explores a number of short- and long-term actions — from right-to-purchase ordinances to design and construction innovation to smarter zoning regulation — that are likely to increase the availability and affordability of rental units in Arizona.
Appendix: Affordable Funding Options

Federal Low-Income Housing Tax Credit: The Arizona Department of Housing (ADOH) has administered the federal Low-Income Housing Tax Credit (LIHTC) Program in Arizona since it went into effect in 1987. According to ADOH, the LIHTC "encourages investment of private capital in the development of [eligible] rental housing by providing a credit to offset an investor's federal income tax liability." ADOH grants the credits to projects for which a specific proportion of units are rent-restricted and inhabited by low-income tenants.

The program has substantially increased the affordable housing stock in Arizona, contributing to the construction of 37,900 units in Arizona between 1987 and 2013. The LIHTC is presently assisting in the construction of 3,488 units in Arizona, and has built or renovated 1,943 units in Arizona from 2019-2020. The program also has brought broader benefits to Arizona, including injecting roughly $4 billion into the economy and created tens of thousands of jobs. While these units are much needed, they do not nearly approach the aforementioned 135,000 affordable rental unit shortage. Because the LIHTC is federally funded, the program is limited in its capacity and regulation only requires affordability for 30 years.

State Housing Fund (SHF): A combination of the State Housing Trust Fund (HTF) and federal HOME funds, the SHF provides funding for affordable housing development, purchase, and rehabilitation, along with other housing services for low-income or at-risk residents. The HOME program has resulted in the construction of rental units throughout Arizona since its creation in the early 1990s. The HTF was also once a powerful source of affordable-housing funding and assistance until the Great Recession of 2008-2009. The HTF once held nearly $40 million, but budget cuts prompted the state legislature to cap the fund at $2.5 million in 2010. In September 2019, the Arizona legislature allocated $15 million to the fund — a significant one-time increase.

Private Philanthropy: The Home Matters to Arizona Fund is a $100 million grant intended to address Arizona’s deficit of affordable housing. As a statewide initiative, it is designed to finance affordable housing projects by leveraging government, philanthropy, and national private investment. The Arizona Housing Fund, managed by the Arizona Community Foundation, brings together funding from private sources, among them many developers, to spend on affordable housing projects. In November 2020, the fund announced its first award recipients. Three organizations received a total of $1.2 million.

Smaller, city-specific programs: In addition to the above programs, cities have implemented a number of smaller programs designed to further encourage affordable housing development. One such program is a Private Activity Bonds and 501(c)(3) Bonds program. These bonds help finance low-income housing projects for private investment and nonprofit projects. They are administered by the local Industrial Development Authorities (IDAs), although a statewide IDA issues some as well. Local IDAs have issued a significant amount in bonds. From 2009-2018, the Phoenix IDA provided over $2.1 billion in bonds (this includes educational and care facilities as well), while the smaller Tucson IDA issued over $695 million in bonds since 1996.
Federal Rental Assistance: The U.S. Department of Housing and Urban Development (HUD) allocates money for the maintenance of existing public housing, housing vouchers that low-income recipients can use on the private market, and private property owners who offer reduced rent in specific projects. The largest part of the program is rental assistance (vouchers) administered by local public housing authorities (PHA). Access to rental subsidies is not based on eligibility but on availability. Despite stringent screening criteria, only 20% of people who qualify receive housing assistance.

Temporary and Targeted Assistance Programs: The State of Arizona, many counties, and municipalities operate programs that offer temporary assistance to prevent evictions, pay for utilities, or finance a move. These programs often have stringent access criteria (e.g., must show proof of emergency), are targeted at small groups (e.g., people with disability), and funds often run out within minutes of becoming available. Research shows that temporary assistance, for instance eviction prevention funds, can be highly effective in preventing housing insecurity. Temporary assistance is also often available from local non-profits and churches. However, the fragmented nature of available options combined with complicated screening procedures make access often difficult.
Endnotes


Local Housing Solutions, “State- or Local-Funded Tenant-Based Rental Assistance,” [https://www.localhousingsolutions.org/act/housing-policy-library/state-or-local-funded-tenant-based-rental-assistance-overview/state-or-local-funded-tenant-based-rental-assistance/](https://www.localhousingsolutions.org/act/housing-policy-library/state-or-local-funded-tenant-based-rental-assistance-overview/state-or-local-funded-tenant-based-rental-assistance/).

