



Smart Growth America
Improving lives by improving communities

RURAL DEVELOPMENT POLICY TOOLKIT

Providing Well-Placed Affordable Housing in Rural Communities



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WRIGHT
HOUSE

Local policy primer

The cost of living in rural areas is generally lower than in metro areas, yet many residents of rural cities and towns nevertheless struggle to afford the homes and apartments available in those markets. More than seven million rural households spend over 30 percent of their monthly income on housing, a cost burden that can restrict wealth-building and economic mobility.¹

Despite the demonstrated need, affordable housing stock is in short supply and at risk of further decline in many rural communities. Roughly 80 percent of affordable housing mortgages funded in part through the U.S. Department of Agriculture (USDA) Section 515 Rural Rental Housing program will mature between now and 2025, threatening to re-price affordable units in tens of thousands of properties to market rates.²

Furthermore, newly added affordable housing that is built is often located far from jobs, hospitals, grocery stores and schools creating high transportation costs and hardship particularly given that many of these households do not have reliable access to transportation. Access to work by other means—including walking, biking, or public transit—can dramatically reduce expenses for low-income households, by decreasing or eliminating vehicle maintenance and fuel as regular costs. When affordable housing is placed such that travel to work is possible without a car, it is far more effective. If it is located in neighborhoods with these options, households are able to live without a car or with one fewer car and the monthly cost of it. As is often the case, they may simply use their car less often.

Providing affordable housing and locating it within a short walk to these necessities is key to helping lower-income families in rural areas not only get by, but also prosper. Doing so does not need to come at high cost for local governments.

This toolkit examines how local governments can provide this crucial service with little or no upfront cost by changing zoning restrictions, protecting existing Section 515 housing, and taking advantage of federal assistance.

What do we mean by affordable housing?

Whether housing is affordable is defined relative to an area's median income. Generally speaking, if the cost of a home is at or below 30 percent of an area's median income, it is said to be "affordable" housing. Most rural communities have at least a few homes that are considered "affordable," both single-family homes and multi-family units. Some local markets naturally provide housing affordable to families earning the area median income or below. To that end it's important to distinguish between **affordable market-priced housing** and **subsidized** housing.

Even where market prices are affordable to the median income, many rural households earn well below that standard and thus struggle to find affordable homes. These families sometimes need

1 Housing Assistance Council. (2010.) "Taking Stock: Rural People, Poverty, and Housing in the 21st Century." Available at http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf.

2 Wascalus, J. (2015, November 10). "Key housing organizations take coordinated approach to preserving rural Minnesota's affordable rentals." Federal Reserve Bank of Minneapolis. Available at <https://www.minneapolisfed.org/publications/community-dividend/key-housing-organizations-take-coordinated-approach-to-preserving-rural-minnesotas-affordable>.

additional assistance to meet monthly housing expenses. The U.S. Department of Agriculture's Section 515 Rural Rental Housing program can often meet that need, but Section 515 homes are often located places far from jobs and daily needs, increasing transportation cost burdens on these families.

Why is location important?

Households that qualify for housing assistance often do not have reliable access to cars. Earners in low-income households tend to own older vehicles with maintenance costs that can devour household budgets. That means that even if low-income households can theoretically afford the rent, the cost to own and maintain a vehicle can negate the benefit of affordable housing. Nationally, low-income renters spent almost half of their income on rent in 2014 and nearly 16 percent of their income on transportation, up from 9 percent in 2010.³ Households in the lower third of incomes spent more on gas in 2014 than on all transportation in 1996, just 19 years earlier. After housing and transportation costs, low-income households are left with significantly less wiggle room in their budgets to spend in the local economy.

When low-income residents live within walking distance of their jobs or of public transportation and community resources, it eases the financial burden associated with car ownership. Centrally located housing infrastructure has the added benefit of activating town centers with public life and producing a new customer base for existing shops and restaurants.

How would affordable housing help the economy in my community?

An inadequate supply of affordable housing also affects businesses. When workers cannot find housing—or that housing is distant from work—businesses struggle to recruit and retain a reliable workforce. Tardiness, absenteeism, and frequent turnover raises the cost of doing business. As a result, rural communities may struggle to grow new businesses or court new investment.

Affordable housing can help households build wealth and invest in their future, bring more reliable and abundant labor to the business community, and reduce demands on other public safety net services. This is particularly true when housing is built in effective places—close to town centers and employment opportunities.

In some communities this new housing can create a double benefit by re-using underutilized or abandoned buildings in the downtown. Often these can be repurposed for affordable housing at a lower cost of investment than new construction. Communities that put these properties to good use as affordable housing not only meet critical housing needs, but also can use the activity and population to help turn around main street districts blighted with vacant or unsightly properties.

Local governments will also benefit from a more centralized, affordable housing stock. The cost to provide services—water, sewer, garbage collection, school bus routes and police and fire protection—will be less per capita and therefore have a significantly positive impact on the government's bottom line. This can result in lessening the tax burden to citizens.

Why are rural communities losing affordable housing projects?

Affordable housing stock is in short supply and at risk of further decline in many rural communities.

3 The Pew Charitable Trusts. (2016, March 30). "Household Expenditures and Income." Available at <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/03/household-expenditures-and-income>.

Much of today's Section 515 housing was built in the 1970s and 1980s through federally assisted mortgages that contracted with developers to provide low cost rental options in their developments for up to 30 years. As these mortgages mature, current building owners often opt to change the affordable units to market rate. The change from affordable rates to market rates can price out long-time renters from homes they may have occupied for years. The same thing is also happening in many urban and suburban communities, but the effect in rural areas is much more severe due to limited supply.

Protecting existing affordable housing

To start, city or town leaders should work with regional public agencies or non-profits to take an inventory of Section 515 housing. Keeping tabs on the loan status of affordable housing will enable city officials to target assistance to the most vulnerable properties.

Once identified, officials can work with owners to renegotiate their Section 515 mortgages with the USDA. Currently, the USDA allows owners of Section 515 housing that will mature by the end of 2018 to defer their debt and maintain rental subsidies for up to an additional 20 years.

Households living in matured or soon-to-mature Section 515 housing can apply for subsidized housing vouchers through the USDA to keep their housing benefits.

Effective placement of new affordable housing

Some municipalities have laws or zoning restrictions that prohibit placement of multi-family housing near town centers. That can be counter-productive to stimulating new development. Creating or amending local housing policies and practices to allow multi-family, affordable housing in town centers can quickly inject a new workforce and consumer base.

Multi-family apartment housing that plugs easily into a traditional streetscape often works best in town center environments. The national demand for multi-family housing formats is roughly double that of single-family (see Figure 1 on page 5).

Put simply, more and more people at all income levels are seeking out apartment-style living. And accordingly, many developers will tend to favor this type of construction.

With **density bonuses**, communities can easily leverage developers' interest in high density, apartment-style construction to add affordable housing. These local policies allow developers to build more units per square foot in exchange for including a designated amount of affordable housing in their developments. For every additional unit or percent square footage of low-cost housing, the developer gets a higher capacity allowance above zoning regulations. Communities get the affordable housing they need. Developers get to build higher yielding, apartment-style housing.

Abandoned or underused buildings can be repurposed for affordable housing. Local governments can often acquire this property at little or no cost, perhaps for a simple fee to transfer title. The government can then pass this property to the private sector for the same low cost thereby greatly lowering the entry price for the developer. The government then has the leverage to require affordable units within the development in return for the lower acquisition cost. Unused historic hotels, schools or community facilities in town centers can be redeveloped at low cost and deployed quickly as new affordable housing stock that is already stitched into the downtown

fabric. Historic tax credits, low-mod tax credits and New Market Tax credits can also be used to improve the opportunity of re-use of these structures.

Some communities establish **Incentive Housing Zones (IHZ)** that offer exceptions to regulations that restrict higher-density, mixed-use developments. Typically, IHZ's allow developers to build high capacity and/or mixed-use developments in restricted zones on the condition that they provide a public improvement in the development i.e., public recreation space, sidewalks, streetscaping etc.

For more information on IHZ, see the example from Old Saybrook, CT starting on page 7.

Paying for affordable housing

Federal assistance can offset cost barriers that prevent many rural communities from funding affordable housing projects on their own. The USDA Rural Development agency (USDA RD) provides support for affordable housing in rural communities through generous loan programs targeted to the production of affordable single-family and multi-family units. Below is a list of available USDA RD grants:

- **Preservation and Revitalization program**, helps to fund renovations on rural properties, prioritizes funding for renovations of Section 515 properties that will mature before the end of 2018.⁴
- **Farm Labor Direct Loans and Grants** provide affordable financing to develop housing for year-round and seasonal domestic farm laborers. Government entities, farm owners, farmworker associations, nonprofit organizations, and tribes may apply.
- **Housing Preservation and Revitalization Demonstration Loans and Grants** restructure loans for existing Rural Rental Housing and Off-Farm Labor Housing projects to help improve and preserve the availability of safe affordable rental housing for low-income residents. Multi-family housing project owners with existing Rural Rental Housing and Off-Farm Labor Housing loans may apply. Borrowers must continue to provide affordable rental housing for 20 years, or the remaining term of any USDA loan, whichever is later.
- The **Housing Preservation Grants** program provides grants to sponsoring organizations for the repair or rehabilitation of housing occupied low-income households. Government entities, nonprofit organizations, and tribes may apply.
- **Multi-Family Housing Direct Loans** provide competitive financing for affordable, multi-family rental housing for low-income, elderly, or disabled individuals and families. Individuals, trusts, associations, partnerships, limited partnerships, nonprofit organizations, for-profit corporations and consumer cooperatives, government entities, and tribes may apply.
- **Multi-Family Housing Loan Guarantees (Section 538)** provide financing to qualified borrowers to increase the supply of affordable rental housing for low and moderate income

⁴ Learn more at <https://www.rd.usda.gov/programs-services/housing-preservation-revitalization-demonstration-loans-grants> and <https://www.usda.gov/topics/rural/housing-assistance>.

households. Private lenders may apply for loans made to government entities, nonprofit and for-profit organizations, and tribes.

- **Multi-Family Housing Rental Assistance** provides payments to owners of USDA-financed Rural Rental Housing or Farm Labor Housing projects on behalf of low-income tenants unable to pay their full rent. Housing project owners may apply.
- **Rural Rental Housing Loans (Section 515)** are direct, competitive mortgage loans for financing the construction or purchase and repair of apartment-style multifamily rental housing for very low, low, and moderate income families; the elderly; and persons with disabilities. Individuals, trusts, associations, partnerships, limited partnerships, government entities, consumer cooperatives, and profit or nonprofit corporations may apply.

If new stock is required, manufactured housing also provides a low cost option for flexible introduction of high quality affordable units where necessary.

Case study

Old Saybrook, CT's Incentive Housing Zone

Across rural America, communities are using a mix of these tools to create opportunities for affordable housing and vibrant downtowns. One example is Old Saybrook, CT's Incentive Housing Zone.

Like many main-street-oriented towns, zoning regulations in Old Saybrook have for years discouraged placement of affordable housing near the town's job centers. A "sewer avoidance policy" in the cozy waterfront town limits growth by regulating building capacity, effectively prohibiting dense, mixed-use development patterns that would place residences near job centers. Since 2009, however, Old Saybrook has used an Incentive Housing Zone (IHZ) policy to mix multi-family affordable housing developments into areas previously zoned for commercial use only. In doing so, Old Saybrook set forth a policy priority that works proactively to encourage new affordable housing placed closer to job centers and public transit.

Residents in these areas can easily walk or ride transit to work, recreation, and services, alleviating travel obstacles for low-income workers. Per Section 54 of Old Saybrook's town regulations:

"The IHZ policy's purpose is to encourage affordable housing in both residential and business districts that have the transportation connections, nearby access to amenities and services, and infrastructure necessary to support concentrations of development. The IHZ seeks to avoid sprawl and traffic congestion by encouraging a more vibrant residential component to business or mixed use areas to sustain a lifestyle in which residents can walk or use public transportation to reach jobs, services, and recreational or cultural opportunities."⁵

Old Saybrook's policy overlays existing zoning with a new layer of development exceptions — also called "subzones" — allowing property owners to create workforce housing, 20 percent of which must be affordable housing.⁶ Proposed IHZ sites must have reasonable transit access in order to be eligible for the policy's zoning permissions.

The zoning commission preserves "open space" in each IHZ development, setting aside at least one acre or ten percent of the proposed development's footprint for public improvements such as parks or recreation centers.

To secure community buy-in and effectively communicate the value of an IHZ policy, Old Saybrook's Zoning Commission outlined its following goals⁷:

- "House the elderly in a safe and convenient environment
- "Enable young persons to both live and work in town

5 City of Old Saybrook, CT. (2010, December 8). "SECTION 54: Incentive Housing Zone (IHZ)." Available at http://www.oldsaybrookct.org/pages/oldsaybrookct_zc/docs/FerryCrossing/SECTION%2054.IHZ.PH.12.8.10.pdf.

6 Partnership for Strong Communities. "The HOMEConnecticut Program." Available at <http://www.pschohousing.org/homeconnecticut-program>.

7 City of Old Saybrook, CT. "Incentive Housing." Available at http://www.oldsaybrookct.org/Pages/OldSaybrookCT_ZC/ZC_initiatives/incentive.

- “Provide attainable housing for families at every income level
- “Balance development rates with current capacity and planned expansion
- “Encourage design of new and renovated housing that is compatible with the surrounding neighborhood”

The zoning commission implemented an IHZ overlay in the town’s Ferry Point neighborhood, creating a development exemption that allows commercial operations like banks, convenience stores, daycares, or restaurants to be within walking distance of residences.

The Ferry Point IHZ works toward Old Saybrook’s planning goals by⁸

- Promoting new multi-family housing opportunities that do not require owner residence, including non-ground floor apartments over Main Street businesses
- Continuing to encourage creation of accessory apartments
- Assuring that new residential development is consistent with the town’s natural constraints of topography, soil conditions, and wetlands
- Providing opportunities for alternative residential layouts and buildings to best utilize individual site features
- Continuing to seek solutions to access problems for the area as a whole

The IHZ policy regulates development for densities that best fit Old Saybrook’s character and creates a reasonable buffer between new development and existing community features, like a nearby cemetery. The program has resulted in the building of more than 100 new units of affordable housing.⁹

The challenge of providing affordable housing in rural communities cannot be solved overnight, but none of these tools require significant upfront cost, only government and community support. Adapting a combination of these tools to a rural community’s individual character and needs can create a strong backbone for protecting and expanding affordable housing in the coming decades.

8 *Ibid.*

9 Shelterforce’s Rooflines blog. (2014, April 30). “Defeating NIMBY With Incentive Housing Zones.” Available at http://www.rooflines.org/3702/defeating_nimby_with_incentive_housing_zones/.

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Model policy

A copy of Old Saybrook's IHZ policy can be found here

http://www.oldsaybrookct.org/pages/oldsaybrookct_zc/docs/effectiveregs/Section%2054.Incentive%20Housing%20Zone.20150701.pdf.