



Affordable Housing: How Local Regulatory Improvements Can Help



**The Joint
Venture for
Affordable
Housing**

American Planning Association
Council of State Community Affairs Agencies
International City Management Association
National Association of Counties
National Association of Home Builders
National Conference of State Legislatures
National Governors Association
U.S. Department of Housing and Urban Development



This report is a product of the Joint Venture for Affordable Housing--a collective effort among public and private sector groups who share a commitment to the creation of more affordable housing. Linked through a series of coordinated projects and activities, the U.S. Department of Housing and Urban Development and the other Joint Venture participants are producing a variety of materials on the subject of affordable housing. For information on others in the series, contact the Affordable Housing Clearinghouse, c/o HUD USER, P.O. Box 280, Germantown, Maryland 20874.

AFFORDABLE HOUSING: HOW LOCAL REGULATORY IMPROVEMENTS CAN HELP

by

Stevenson Weitz

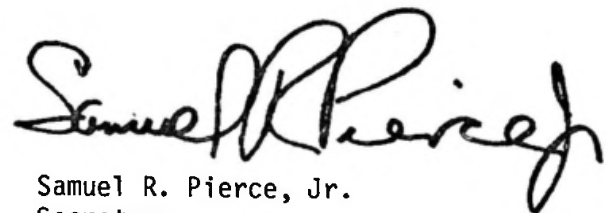
U.S. Department of Housing and Urban Development
Office of Policy Development and Research

September 1982

FOREWORD

HUD's "Joint Venture for Affordable Housing" is proving that the cost of housing can be reduced. But, there is no single solution, and no single group or sector can do it alone. It takes all levels of government working with the private sector and citizens' groups toward a common goal. Today, shifting demographics, economic and resource constraints, and changing individual life-style preferences demand that housing be made more affordable for our citizens across the country.

This report is a primer on local regulatory reform. And, while improvements to local rules and procedures cannot, alone, solve the affordability problem, they do make a difference. I urge you to take full advantage of this potential.



Samuel R. Pierce, Jr.
Secretary

CONTENTS

Introduction.....1

Part 1. Areas for Action.....3

 Raw Land Costs.....3

 Site Improvement Costs.....5

 Construction Costs.....7

 Other Developer Costs.....8

 Administrative Procedures.....9

Part 2. Accomplishing Local Regulatory Improvement.....13

 Establishing the Problem.....13

 Who Does What?.....14

 Allaying the Fear of Change.....16

 The Impact of Policy Changes.....17

 A Concluding Note.....19

INTRODUCTION

It is encouraging that in several communities around the country local government officials, business people, and other concerned citizens are sitting down together and exploring ways to reduce the cost impact of local regulations on housing. This report is written to help speed such groups on their way. It describes how land use regulations, building codes, policies on sewerage, and other government activities affect housing costs; and it lists over fifty ways to improve local government policies.

The high cost of housing has become a priority issue for the American public. High interest rates added to high land and construction costs -- plus high utility bills -- have all made housing much more expensive than it was just a few years ago. Today those at the bottom rungs of the income ladder are not the only ones having trouble finding affordable housing. The vast middle class, and their children, are also at risk. An added pressure is that more people are living alone or with only one other person. So, although the population growth rate is lower than in the 1950's and 1960's, the growth in number of households remains strong, and so does the demand for housing.

To save costs and conform to the increased demand from single and two-person households, we now have market pressures to build smaller housing units, use less land per unit, convert extra space in existing houses into apartments, speed up the development process, and make more use of manufactured housing, factory-produced components, and cost-cutting building techniques.

In many communities, changes in land use and building regulations will be necessary if such market adjustments are to occur. Citizens support zoning and building controls that they believe will preserve or enhance the livability of their neighborhoods and the value of their properties. They oppose changes that threaten to reduce such values. Every local elected official knows and understands this. But a problem arises when local policies inhibit the market adjustments that must occur if the people of this Nation are to be decently housed at reasonable prices. Judging from several case studies and demonstrations, it appears that the initial cost of new housing in some communities might be lowered by as much as 20 to 25 percent if certain policies, standards, fees and procedural requirements are modified. Making new housing more affordable and using existing housing efficiently should help increase the overall supply of housing and thus relieve the squeeze on prices and rents in the entire stock, both new and existing.

Aside from responding to housing needs, communities have other important reasons for updating their development standards and regulatory procedures. One is economic development. Inefficient regulations and a shortage of affordable housing are bad for business; they deter firms from locating or expanding in a community. Another reason is governmental efficiency. Confusion and delay, which often accompany gradual, disjointed growth in regulations, is costly for the public as well as the private sector. Top government officials cannot do their jobs if they are bogged down in a morass of regulatory minutiae.

This is not to say that all local policies and procedures pertaining to housing and community development are faulty. Clearly, most exist for reasons that were deemed valid and important at the time of adoption, and many remain

appropriate today. Others, however, are in need of adjustment in view of the economic and demographic conditions of the 1980's and recent technical advances in the housing industry.

This report focuses on governmental policies at the local level, where the majority of regulations governing land development are imposed. State governments also play an essential role by empowering localities to regulate, tax, and spend and by setting limitations and conditions to such powers. Modifications of enabling statutes may be needed to facilitate housing cost reduction. Federal policy is also influential, of course, especially as fiscal and monetary policies affect overall inflation and interest rates. Nevertheless, most of the responsibility for changing land development regulations to fit contemporary needs lies at the local level. While local regulatory change alone will not solve the Nation's housing problems, it should permit direct reductions in housing costs and, more important, allow the market to function as efficiently as possible.

The report is in two parts. The first part describes the ways local government actions affect the cost of market housing and identifies some of the actions that communities might take to assist in cost reduction. The second part discusses a few concepts that may be helpful to people seeking to achieve regulatory and procedural change in the local political and bureaucratic context. Thus, part one covers the substance of the subject, while part two deals with the process of achieving change.

In a cooperative effort, the U.S. Department of Housing and Urban Development and national organizations of local and State officials and homebuilders will produce additional reports on techniques of regulatory improvement. Two reports have been prepared on the State role in affordable housing. To order these reports or to obtain further information, contact the Joint Venture Clearinghouse, c/o HUD USER, P.O. Box 280, Germantown, Maryland 20874.

AREAS FOR ACTION

Linkages between local policies and housing costs are numerous, and opportunities abound to help reduce costs through regulatory and policy change. These potential policy effects are discussed here in five major sections. The first four sections pertain to the component costs of housing development: raw land, site improvement, construction, and other developer costs. Under each of these four cost categories are listed the principal types of policies and regulations that affect the cost and some of the actions that may be helpful in adjusting to current market conditions. The fifth section covers administrative procedures, which affect all the costs of housing development.

1. RAW LAND COSTS

The cost of raw land may range from 8 to 25 percent of the cost of a new housing unit, depending primarily on the market. Nationally, among housing cost components, land costs were second only to financing costs in the rate of increase during the 1970's. Research indicates a strong correlation between the rate of land price increase and the apparent restrictiveness of local regulations. Following are the major policy areas that affect land costs.

1.1 Major Roads and Utilities

To be suitable for development, a parcel of land must be served by adequate public water supply, sanitary sewerage, and roads, or there must be a way for the developer to provide such facilities. Other things being equal, an urban area with an ample supply of buildable land well served by infrastructure can be expected to have lower land prices than one with a relatively small amount of such land. Communities with land supply constraints may consider the following actions:

- ° Program the incremental expansion of major roads and utilities to provide no less than three and preferably four times the amount of developable land that will probably be needed in a given future period. Annual adjustments to the capital program can be made to avoid excessive capital investment. Note: Only one-half to two-thirds of the vacant parcels will actually be available for sale to developers at any one time. Thus, an apparent 300-percent supply will actually be only 150 to 200 percent, which is a tight land market, especially in fast-growing areas.
- ° Allocate local capital costs of major infrastructure expansion in an equitable manner, between new development and all users of the system, combining user charges, property taxes and, if necessary, fees on new development. This is an issue of equitable cost allocation rather than cost reduction, however.

- Permit more opportunities for use of small, private wastewater treatment systems in lieu of public systems, allowing newer technologies, as well as septic tanks, for single house systems, and also allowing private community systems. Purpose: to allow developers greater choice of development sites.

1.2 Density

If, through zoning or other policies, the number of housing units per acre is kept lower than a free market would produce, the land price per housing unit is likely to be higher. This is because the housing supply will be tightened (especially if land supply is limited), forcing up house prices and, with them, land prices. If developable land supply is constrained through natural forces or public policy, then density should be increased. Techniques for increasing permitted density include the following:

- Upzoning. Change zoning to allow the moderate increases in residential density that are necessary to accommodate the market of the 80's. The market for various housing types should be analyzed and policies adjusted accordingly. Note, however, that token amounts of multi-family zoning may result in no savings in land price per housing unit if the demand for such land is high, because the owners of zoned parcels will have a near monopoly. Zoning should provide enough land in the various density categories to ensure competition in land markets.
- Flexible zoning. Allow an increase in density as an automatic option in all residential zones in exchange for the developer's provision of open space, landscaping, or other amenities.
- Reducing minimum area for PUD's. Increase the use of the planned unit development approach (PUD) by lowering the minimum land area required for a PUD project. The PUD usually allows higher densities than conventional subdivisions.
- "Zero lot-line" zoning. Now becoming more common, this technique permits better use of small lots by allowing detached houses to be built right up to one or two sides of a rectangular lot. This provides larger usable yard space and makes small-lot subdivisions more marketable.
- Reduced setbacks. Reducing the minimum setback from the right-of-way line also makes small lots more usable.
- Allowing substandard lots to be developed. In some communities, a reasonable amendment of an ordinance or liberal case-by-case approval of zoning variances will make it possible to build on lots of record that are currently below the minimum size.

- Lot splitting. Allow division of large existing lots with excess space.
- Accessory dwellings. Permit single-family homeowners to convert extra space in their homes into apartments.

1.3 Policies on Resource Lands

In addition to controlling the amount of land served by roads and utilities, some States and communities affect the supply of developable land by deterring development on farmland, wetlands, woodlands, or scenic areas. Various techniques are used, including public or quasi-public land acquisition, tax incentives or disincentives, and various land use regulations. Exclusive agricultural zoning, very large-lot zoning, large minimum parcel sizes under land subdivision regulations, and urban growth boundaries are common practices. If protected areas are buildable and in the path of urban development, there is likely to be a reduction in the effective supply of developable land and an increase in developable land prices. Communities and States should therefore consider carefully such potential price effects when adopting policies on the protection of resource lands.

2. SITE IMPROVEMENT COSTS

Site improvement costs include the costs of labor, materials, and equipment used in clearing, grading, installation of streets and utilities, landscaping, and other site work. The cost of site improvements is roughly 10 percent of the cost of new single-family housing but may be considerably less for multifamily structures or for lots already served by streets and utilities. Local governments influence such costs in the following ways.

2.1 Site-improvement Standards

Site-improvement standards include drainage requirements, street construction standards, minimum street right-of-way and pavement widths, minimum turning radii for cul-de-sacs, sidewalk standards, sewer pipe sizes, standards for location and construction of sewer and water lines, spacing and dimensions of storm sewer catchments, spacing of manholes and fire hydrants, underground wiring requirements, offstreet parking standards, open burning restrictions, antisedimentation requirements, lighting standards, landscaping requirements, park land dedication, and many others.

These standards and specifications are designed to hold down future maintenance, repair and replacement costs (both public and private), avoid flooding, minimize accidents, protect air and water quality, or produce or retain an attractive, quiet residential environment. Questions arise, however, as to the proper level of benefits in relation to cost, because each requirement has implications for initial development costs. Other questions have to do with

the extent to which the municipality should set site improvement requirements that yield only localized benefits, such as the visual amenities of landscaping or underground wires. It can be argued that some of these choices are best left to the private market.

In addition to standards for improvements on the developer's property, many municipalities require developers to provide or pay for specific off-site improvements to accommodate traffic, wastewater flow or other demands to be generated by the proposed development. Developers often question the necessity and the fairness of off-site requirements. The fairness question is often an issue of cost allocation: How much of the public costs of growth should be paid by buyers of new housing, and how much should be borne by the community as a whole?

Any savings in site improvements are direct reductions in the cost of new housing. In competitive markets, such savings will be passed on to buyers. Opportunities for cost reduction include the following:

- Modifying street, sidewalk, and utility requirements. Many communities have reduced the minimum pavement width of low-volume subdivision streets and the minimum radius of cul-de-sacs. In some jurisdictions, engineering standards relating to base and surface materials and maximum grade have been relaxed for residential streets. Curbs and gutters have been made optional. Many jurisdictions have relaxed sidewalk requirements, allowing sidewalks to be placed on only one side of the street or not requiring them at all. Utility requirements include pipe sizes, spacing of hydrants and manholes, and actual location of the main lines (e.g., running the main lines close to the setback line to reduce house connection distance). Curvilinear sewers and single trenching are other potential cost savers.
- Allowing flexible use of natural drainage designs. Developers can sometimes save money and reduce storm water runoff by routing water to grass swales and temporary impoundments instead of providing underground sewers and outfalls.
- Reduce parking requirements. Many localities have reduced the size of a certain percentage of parking spaces to match the newer, compact cars. Also, the number of required spaces can be keyed to the size and expected occupancy of the housing units and the probable use of public transit.
- Modifying dedication requirements or payments in lieu. Many subdivision ordinances require developers to dedicate a certain amount of land for parks or pay a fee in lieu of land dedication. The required amount of land or the payment in lieu has often been challenged with regard to necessity and fairness. The general principle followed by most courts has been that developers should have to provide only those facilities that will be of particular benefit to the residents of the subdivision, but there is wide room for local discretion regarding the amount of park land people should have at their disposal. Thus, a reappraisal of such standards may be appropriate in some cities and counties.

2.2 Lot Frontage

In subdivisions, the frontage, or width, of the lot determines the linear distance of streets, sidewalks and utility lines that must be put in place for each house. Communities requiring lot widths of, say, 100 feet when 50 feet would suffice may be almost doubling the cost of the major site improvements per housing unit. Reducing the minimum lot frontage is an important way to reduce housing costs in many communities.

3. CONSTRUCTION COSTS

Building construction costs -- including labor, materials and equipment, and, in some cases, contractors' overhead and fees -- are the largest component of the cost of most new housing, usually amounting to between 40 and 55 percent. Local regulations can increase these costs by (1) not permitting less expensive types of structures, such as attached units and manufactured homes, (2) not permitting alternative structural, mechanical, and electrical practices allowed in national model codes, and (3) requiring higher minimum floor areas per dwelling than the market deems necessary or health codes require.

3.1 Regulations Affecting Structure Type and Manufactured Housing

Attached housing tends to be less expensive to build per square foot than detached houses of comparable construction because of the reduction in exterior wall and roof surface relative to floor area. Manufactured housing can also be less expensive than site-built housing because of the efficiency of factory assembly techniques and because of differences in construction. Therefore, communities that use zoning to prohibit row houses, duplexes, quads, low-rise multifamily housing of frame construction, or manufactured housing are precluding construction cost savings. Zoning regulations affecting structure type were discussed in Section 1.2 above. The following actions may be of particular interest to communities considering controls on manufactured housing.

- Obtain enabling legislation to permit taxation of permanently sited manufactured housing as real property instead of personal property. Local governments in states without such legislation have a strong incentive to discourage manufactured housing through zoning. Thus, to permit greater use of manufactured housing, it may be necessary to clarify their tax status.
- Permit permanently sited, multisectioned manufactured homes in any residential zone. This is most appropriate in States in which manufactured housing is taxable as real property. Modern, attractive manufactured housing, permanently sited like any other house, is likely to hold its value and is eligible for long-term loans. For the consumer, these features, plus the wider choice of sites, tend to balance out the higher taxes resulting from real estate taxation.

- Provide adequate zoning for mobile-home parks. Mobile-home parks, in which home sites are leased, can provide an attractive, low-cost living environment, preferred by many households. One way to help ensure that such enterprises are managed fairly and decently is to zone for enough parks to allow competition.

3.2 Building Codes

Through their building codes, some municipalities still prohibit the use of less expensive products and procedures that are approved by nationally recognized model codes. Examples are plastic pipe, studs spaced 24 inches instead of 16 inches on center, preassembled plumbing systems, preassembled electrical harness, nonmetallic sheathed electrical cable, and 7 1/2 foot ceilings. Savings in construction costs may be obtained through the following actions:

- Adopt updated model building code. By adopting one of the nationally recognized model codes and incorporating the periodic revisions of that code, a community can be reasonably assured that generally accepted new construction techniques will be allowed.
- Adopt rehabilitation code. Several communities have adopted special guidelines, procedures, or codes that allow rehabilitated housing to meet standards that are more appropriate to rehabilitation than are the standards for new housing.

3.3 Minimum Floor Area Requirements

In some parts of the Nation it is common to find minimum floor area requirements in the residential sections of zoning ordinances that are higher than those of the State or county health codes or of housing codes (which are usually based on the health codes). In the high cost market of the 80's, high minimum dwelling size standards may obstruct the process of downsizing the new housing package and thus are good targets for reduction or elimination.

4. OTHER DEVELOPER COSTS

For the purpose of this report, this category includes performance bonds and the various fees imposed by local government.

4.1 Fees

Fees imposed by local governments are one of the fastest growing components of housing development costs. Many communities are seeking not only to recover through fees the costs of application reviews, plan reviews, field inspections, and utility hookups but are attempting also to raise capital for expanding or

improving wastewater treatment facilities, water supply systems, and major streets. High interest rates on municipal bonds and general taxpayer resistance to bond issues are the principal reasons for the trend, but the fundamental question of cost allocation between new home buyers and the larger community remains. Many communities seeking to reduce housing costs will find fees to be a major issue.

4.2 Bonding

Performance bonds related to the completion of streets and utilities are another expense imposed on developers by local government. Bonding is a generally accepted practice, designed to protect municipalities against the cost of completing or replacing public works left unfinished or in poor condition by developers or contractors. However, small contractors with limited working capital sometimes have considerable difficulty obtaining bonding. Municipalities influence the cost of bonds through the amount and the time period of required coverage, and both are the subject of a certain degree of judgment on the part of government officials.

5. ADMINISTRATIVE PROCEDURES

Streamlining administrative procedures has been a highly popular area of regulatory improvement. It can be beneficial to the regulator as well as the regulated. It has cost effects that are multiple, occurring at all stages of the development process; and it encounters relatively little political resistance.

The objectives of streamlining should be to reduce delay and uncertainty and increase efficiency in both the public and private sectors. Delay in the land use and building permit approval process can increase the developer's costs of holding land and is likely to result in inflated site-improvement and construction costs. It may also increase design, legal, and managerial costs. Delayed public-works and building inspections may increase construction financing and labor and equipment costs. The cost induced by increased risk resulting from delay and uncertainty is difficult to measure but real nonetheless. Real estate development requires substantial investment prior to sales or rent-up, and it involves the orchestration of many actors and commitments -- land purchase agreements, construction financing, contracts with building contractors and suppliers, permanent financing, and agreements with tenants or buyers. The longer the development process takes, the more likely one or more major assumptions will prove wrong or agreements will come unglued. Risk is ultimately reflected in the yield that firms and individuals must plan to make on their capital to justify a venture. The higher the perceived risk, the higher the price of the housing -- or if the price cannot be raised, the less housing that will be built.

The list of streamlining techniques that follows is organized under four headings, each of which refers to a different stage in the administrative process, plus a fifth category of ordinance modification. The bulk of these

ideas pertain to the administration of land use regulations and are drawn from Streamlining Land Use Regulation: A Guidebook for Local Governments, available from the American Planning Association, 1313 E. 60th Street, Chicago, Illinois 60637.

5.1 Preapplication Stage

- Provide centralized counter services (sometimes called "one-stop shops"). This action may involve simply an information desk representing several municipal offices where people can receive elementary guidance on application procedures, or it may be set up to receive and process applications, monitor their status, and collect fees. Such counters are usually designed to provide better service to applicants by cutting down on the "run around." WARNING: This popular concept has proved to be more difficult to carry out than was first expected. It takes careful planning.
- Provide better written materials, including checklists of permits needed, applications forms with lists of information needed, procedural guides with time frames, fee schedules, standards, and guidelines.
- Encourage productive preapplication meetings. Early consultation between the developer and the local government staff is essential to reduce errors or omissions in applications, assess potential conflicts with other projects or possible neighborhood opposition, and iron out problems relating to the capacity of public water, sewers, streets, or other facilities. Two principles should be uppermost:
 - Minimize uncertainty as early as possible.
 - Do not require detailed design until the basic concept is agreed upon.
- Prepare master or areawide environmental assessments. Jurisdictions requiring environmental impact reports as a part of applications for development can reduce the time and expense of report preparation by first assessing the large-area and cumulative effects of probable future communitywide development patterns. Then project reports can focus only on potential adverse localized effects of the specific proposed development. To realize potential time savings, procedures must be adopted to expedite project-level assessments.

5.2 Staff Review Stage

- Use an interdepartmental review committee to expedite coordination.
- Apply mandatory time frames for review.
- Assign a staff coordinator to expedite each project.

- Appoint an overall permit expeditor with the authority to resolve problems. The authority and purpose of the expeditor or ombudsman is somewhat different in every municipality. All variations share the goal of having someone on the staff who is concerned about moving paper and avoiding delays. Sometimes the authority is limited merely to problem identification; sometimes it is a high-level problem-solving role -- a troubleshooter.
- Establish fast tracking, especially for noncontroversial applications, by
 - Allowing administrative approvals by department heads,
 - Giving simple applications priority in processing,
 - Providing simultaneous public notice of hearings by planning commission and council, if both are required.
- Review multiple permits simultaneously when both zoning and subdivision (or site-plan) reviews are required.

5.3 Decision Stage

- Eliminate multiple hearings. Delay can be reduced by consolidating zoning and site plan approval in the same hearing, delegating final responsibility for public hearings and approval from the council to the planning commission, or both.
- Increase the frequency of public hearings.
- Modify the planning commission. A few jurisdictions have simply taken the planning commission out of the project approval process. Another approach is to split the planning commission into two entities, one dealing with project approvals, the other with planning policy.
- Appoint a hearing official to replace traditional hearings before the planning commission and council.
- Delegate approval responsibility from council to commission or to staff, especially for matters that are primarily technical.
- Participate in information meetings with neighborhood groups to elicit cooperation and compromise.

5.4 Inspection Stage

- Consolidate inspections. Train building inspectors to inspect for almost all structural, mechanical, electrical and public works standards during a single visit, thus eliminating separate inspections.

- Reduce the frequency of inspections where appropriate periodic inspection might reduce staff costs without much risk.

5.5 Modification of the Basic Ordinances

Sometimes the regulatory ground rules are so complicated, confusing, or out of date that mere tinkering with procedure will not yield adequate efficiency. If so, the following ideas may be applicable.

- Undertake a thorough revision of ordinances and regulations. A major overhaul may pay off if regulations are difficult to understand and require constant interpretation.
- Reduce the number of residential zoning districts. This technique allows a greater range of density within each zone, lessening the need for rezoning.
- Reduce dependence on complicated procedures. Special use permits can be substituted for some changes in zoning, cutting processing time in half. The number of zoning variances can sometimes be decreased by making small reductions in side-yard and setback requirements.
- Allow waivers of procedural requirements. When a full revision of an ordinance or regulation is not feasible, staff officials can be authorized to waive certain requirements, such as conditional use permits.
- Adopt periodic zoning ordinance cleanup amendments. This is an alternative to complete revision whereby several modifications are packaged in one amendment.

ACCOMPLISHING LOCAL REGULATORY IMPROVEMENT

This part of the report provides thoughts that may help in approaching the topic of housing costs and regulatory reform. It deals with such questions as: How does one know whether there is a local problem? Who does what? How can regulatory change actually be accomplished?

Since each community is unique, housing cost problems are never exactly the same in any two places. Thus, although State action can be helpful, each community must tackle the affordability problem in its own way, and the only people who can do it are local people -- elected officials, businessmen and professionals, construction workers, concerned citizens, and local government staff.

Establishing the Problem

First of all, how do you convince people there is a housing affordability problem? What are the indicators? Following is a list of conditions to look for.

- Available data and informed opinion indicate that local house prices or rents are higher than those in comparable jurisdictions.
- Employers report difficulty in finding qualified personnel partly because of high housing cost. Local economic development efforts have been frustrated by concerns over high housing costs on the part of corporate representatives.
- Many employees of the local government and the public schools have chosen not to live in the municipality in which they are employed because housing costs are too high.
- Local families have found that their children who are now young adults are unable to live in the municipality or have been forced to continue living with their parents because housing costs are too high.
- Local social service organizations have reported increased difficulty in finding housing for people of low and moderate income.
- Vacancy rates for rental or owner-occupied housing are usually low.

Signs that local regulations could be a source of the problem include the following:

- Developers and municipal staff report increasingly long processing times for zoning, subdivision, and other applications.

- Council and commission dockets are backlogged with development applications.
- The community lacks a variety of housing types (e.g., townhouses or multifamily structures as well as single-family detached houses), and developers claim this is a result of public policy, not the market.
- Realtors and developers report a shortage of buildable land served by water, sewers, and roads.
- The community does not have a program for financing, constructing, and maintaining the basic infrastructure (sewerage, water, transportation) needed to serve projected growth.
- Local building codes are not based on updated nationally recognized model codes or are known to have costly, restrictive provisions.

The Urban Land Institute (ULI) has published a regulatory reform rating sheet consisting of 19 rather specific questions about land use regulations. It is reproduced on the following page. The ULI suggests that 10 or fewer "yes" answers would indicate that drastic action is called for, while 15 or more "yes" answers mean that you are probably doing all right. The questions need adaptation to fit the particular community being rated.

Who Does What?

Finding the right individuals and involving them at the appropriate stages in the process can determine the success or failure of an effort to modify policy. While this may sound obvious, it is not easy to accomplish. Four kinds of people usually must be involved: (1) elected officials, (2) those with a detailed knowledge of, and an interest in, the issue (usually business and professional people), (3) municipal staff, to lend expertise and provide staff support, and (4) civic leaders and representatives of various voter attitudes (potential home buyers, labor leaders and environmentalists, for example). Each type has one or more roles to play. In thinking this matter through, the following questions may be helpful:

- Who can take the initiative and get something started? The pressure to get the ball rolling usually requires a combination of interested parties armed with facts and figures plus elected officials with the authority to initiate change.
- Who can analyze the problem and identify proposed regulatory changes? This function is usually best performed by developers and builders working cooperatively with municipal staff. Controversial issues may require patient groundwork with affected citizens.

A REGULATORY RATING SHEET*

YES	NO	
—	—	1. Is all the land that will be required for residential development over the next five years presently zoned and available for development?
—	—	2. Does at least a third of the land zoned for residential purposes permit housing other than single family detached houses?
—	—	3. Do any of the residential districts in your zoning ordinance permit townhouses and multifamily housing by right without going through a special exception or other approval process?
—	—	4. Do any districts which permit single-family detached housing permit forms of attached housing?
—	—	5. Does at least one residential zoning district provide for a minimum lot size of less than one-quarter acre (or 11,000 square feet) for a single-family detached house?
—	—	6. Do all residential zoning districts allow lot sizes of less than one acre?
—	—	7. Did less than half of the residential subdivisions approved last year require rezoning first?
—	—	8. Were more housing units approved for development than disapproved?
—	—	9. Of the number of housing units originally proposed in rezoning or subdivision applications, were more than two-third approved for development?
—	—	10. Does it take fewer than six months for most subdivisions to be approved after the initial application (without considering rezoning)?
—	—	11. To obtain approval for development of other than single-family detached homes, does the normal procedure require less than two public hearings?
—	—	12. Are less than 10 percent of the residential development application decisions of the zoning or subdivision administrators or of the planning commission appealed by neighborhood or citizens' groups?
—	—	13. Are less than 10 separate permits or approvals required to complete a subdivision from initial application to occupancy of the dwelling?
—	—	14. Do subdivision of other standards allow normal residential streets to be less than 30 feet wide (curb to curb)?
—	—	15. Do zoning and subdivision provision allow individual houses to be clustered on reduced lots and with lots and with reduced requirements for front, side, and rear yards?
—	—	16. Can sidewalks on one or both sides of streets be eliminated with other provision for pedestrian paths?
—	—	17. Can swales, ponds, and other natural features be substituted for drainage pipe systems?
—	—	18. Are developers required to provide only those roads, sewer and water systems, parks, schools sites, and other public facilities that directly serve the specific development being approved?
—	—	19. Are fees for processing applications and for providing public facilities based on real services and facilities provided?

*Reproduced from Urban Land, November 1981, with permission from the Urban Land Institute.

- How will civic associations and other interest groups be approached, at what stage, and for what purpose? There is no magic answer, but in most communities these groups must be treated with respect if controversial issues are going to be addressed. A common approach is to include their representatives on a task force to discuss issues and react to proposals.
- Who will follow through and get changes adopted? This is the tough part, and it points up the need for involvement by elected officials and the local government staff.
- Who will check to see if the changes are working? Will anyone notice if things slip back into "business as usual"? One approach is to reconvene a business and citizen group annually to review the status of policies and regulations affecting housing.

The role of local government staff deserves further comment. Many of the notable successes in local regulatory reform have occurred because of the involvement of hardworking municipal management and staff. When public management and staff are responsive, change occurs incrementally as needed, and a major reform effort may not be necessary. Unfortunately, this ideal state of affairs is not always present. Citizen efforts to achieve regulatory relief may do well to look beyond the identification of specific regulatory and policy changes to the basic fiscal, managerial and political problems that have led to the need for citizen action in the first place. Sometimes the policy signals reaching department heads are not clear or require extra emphasis. Department heads, in turn, may not be conveying the appropriate attitude to all staff levels. Perhaps the private sector, too, can take a more positive attitude toward working with city staff.

If elected officials fear that homeowners are or will be antagonistic to relaxed standards, higher densities or increased growth -- a common concern -- then a multifaceted public education effort may be necessary. It may help to acknowledge that homeowners are very sensitive to changes that could detract from their property values. Community acceptance of somewhat higher density, for example, may depend on the skill with which the new development is blended into the existing area. It may also be wise to acknowledge the possibility that relaxed standards could result in higher long-term maintenance or utility costs, and insist that changes be made with care so as to avoid such problems.

Allaying the Fear of Change

In introducing new ideas to a suspicious world, proponents of affordable housing may find two techniques -- sunset provisions and demonstration projects -- especially useful.

A sunset provision may allow elected officials who are uncertain about a proposed change in standards or procedures to vote for it on a trial basis of, say, 18 or 24 months. At the end of that time, the new policy may be extended or terminated. This technique eliminates the pressure of permanency, at least for a time.

A demonstration allows the actual construction of housing under modified standards in a single development (or two or three if desired). The project serves as a showcase for proposed changes. Cost differentials can be measured, consumer and general community reaction can be judged, and some or all of the modified standards may be incorporated in ordinance or code changes. This technique is especially appropriate for testing changes in site-improvement standards, density increases, and construction standards. The legal authority of a municipality to authorize a demonstration may vary from State to State. A draft model ordinance is shown on the next page. This model has not been used in any city; it is included here to illustrate the nature of a demonstration project, not to give legal advice. In order to be useful, a demonstration project must contain a cooperative agreement between the developer and the local government which provides for the control, monitoring, evaluation, and reporting of the project.

The Impact of Policy Changes

This report makes no attempt to place a dollar value on the effect of any particular policy or regulatory change, because such impacts depend almost totally on local market conditions. Some of the market factors conditioning the impact of regulatory changes on housing prices and rents are the following:

- (1) Supply and demand. If demand for housing is strong and supply is tight, a policy change that contributes to an increase in supply is likely to ease the pressure on prices or rents. If, however, demand is weak and there is a high vacancy rate, the market is not likely to respond.
- (2) Conditions in neighboring communities. The extent to which developers will respond to local regulatory changes may depend partly on comparisons with nearby communities. If, after policy revisions are made, costs are still lower in other attractive communities, there may be little effect.
- (3) The extent to which the current regulation is binding. If a government standard does not force developers to spend more per unit on land, site improvements or construction than they would without the standard, then relaxing the standard will not reduce costs.
- (4) The competitiveness of the local housing industry. The more competitive the market the more likely that savings in development costs will be passed on to the buyers.

DRAFT MODEL ORDINANCE AUTHORIZING A HOUSING DEMONSTRATION

An Ordinance Amending _____ Of the Code of the City Of _____
For the Creation Of An "Affordable Housing" Residential Demonstration District

Whereas, There exists a national and local crisis in the affordability of housing, and

Whereas, Only 15 percent of potential homeowners can now afford a new home, and

Whereas, Homeownership provides benefits to the individual, the community, the state, and the nation, and

Whereas, There is evidence that some local, state, and national regulations may unduly impact the cost of housing,

Now, Therefore, be it ordained by the City Council of the City of _____, that

Section 1. Creation of District

There is hereby established an "Affordable Housing" Residential Demonstration District, the boundaries of which will be as follows: (A detailed written description of boundaries would be inserted here). The District is established for the sole purpose of participation in the "Affordable Housing" Demonstration Program.

Section 2. Suspension of Local Statutes

During the effective period of this ordinance, all provision of the (zoning ordinance), (building code), (subdivision ordinance), (other applicable local codes) shall be suspended for all use, site development, and construction located within the boundaries of the Demonstration District.

Section 3. Affordable Housing Demonstration Permit

- (a) Prior to any site preparation, site development, or construction, the owner, authorized agent, or contractor shall obtain one consolidated "Affordable Housing" demonstration permit.
- (b) The permit shall be issued by the Department of _____ upon a review of proposed site plans, building plans, drawings, specifications and other materials deemed appropriate and necessary and may impose reasonable conditions and requirements upon permit holder.
- (c) The application for the demonstration permit shall be evaluated pursuant to generally accepted engineering and design criteria with the objective of achieving safe, affordable and attractive housing. To the extent feasible, the Department of _____ shall seek to satisfy those goals and requirements of the suspended zoning ordinance, building code, subdivision ordinance (other ordinance) which are consistent with the goal of the Demonstration Program.
- (d) From time to time the Department of _____ may make or cause to be made inspections necessary to assure conformity with any requirements and conditions of the demonstration permit.

(5) The structure of the housing industry. If most new houses are built individually or in twos or threes rather than in large developments, new regulations providing density bonuses and site planning flexibility may not be applicable. Such approaches require larger scale development.

An additional characteristic of regulatory relief is that the cost saving from most single regulatory improvements is likely to be small. It is the cumulative impact of many small changes that yields appreciable savings. Therefore, no potential regulatory improvement should be set aside simply because its effect on housing costs or prices seems insignificant or cannot be precisely estimated.

Estimated cost savings are understood best when presented in terms that home buyers actually pay: a downpayment, settlement costs, monthly mortgage payments, property taxes, insurance, utility charges, and maintenance costs. For purposes of illustration, let us make a purely hypothetical assumption that the price of a \$70,000 house might be cut by 7 percent or \$5,000, through modifications to policies and regulations in a given community. This would reduce the downpayment by at least \$250 (5 percent of \$5,000) and other settlement costs, including brokerage commission, by about \$500 (10 percent of \$5,000). Monthly payments would decline by about \$67, which includes the following: \$60.00 in mortgage payments (assuming 14 percent interest), \$5.50 in real estate taxes (assuming an effective tax rate of 1.3 percent), and \$1.50 in insurance. Annual payments would drop by \$804 (12 times \$67), which would reduce the annual income to qualify for financing by \$2,680 (using a 30-percent-of-income rule of thumb).

A Concluding Note

Local governments with land-use and building controls regulate a market that produces an essential product, shelter. Since the late 1970's, more and more communities have been giving this fact greater weight in local policymaking. High prices and high financing costs are making housing costs a potent issue in councils, commissions, and boards, and there is no indication that the issue will go away. The after-tax costs of housing are expected to remain high for most of the 1980's.

Citizens and local government officials in many communities will be reviewing policies, regulations and procedures to find ways to remove unnecessary impediments to cost cutting, reduce delay and uncertainty in the regulatory process, and help increase housing supply. While local regulatory improvements alone will not solve the Nation's housing problems, they should lead to cost reductions and permit the market to function more efficiently. The task is frequently arduous and controversial. Often it has taken 3 to 5 years of hard work to revise policies and procedures, and continuous efforts by local officials and staff to implement them. But the results are worth it.

U.S. Department of Housing and Urban Development
Washington, D.C. 20410

Official Business
Penalty for Private Use, \$300

Postage and Fees Paid
Department of Housing
and Urban Development
HUD - 401



November 1982
HUD-PDR-714