

How is affordable housing created?

There's a huge shortage of affordable housing in many U.S. cities, towns, and counties. How do we deal with this problem and create more affordable housing?

There are two types of affordable housing, and they are produced in two very different ways.

1. The first type consists of dedicated units that are set aside for low- or moderate-income households. These are created by developers using assistance from public sources or through affordability requirements or incentives.
2. The second type is housing that is created without any involvement from the government at all. These units may rent or sell at affordable levels – but they do not have legally binding affordability requirements. Let's talk more about each of these.

Dedicated affordable housing units

In the past, the federal government was the sole funder of the construction of many affordable housing developments. Today, affordable housing is usually created using subsidies from multiple sources, including federal, state, and local governments; financial institutions; and charitable foundations.

Other dedicated affordable units are created as a result of affordability requirements or incentives established by local or state government. These units may be built by for-profit developers who don't ordinarily focus on affordable housing, but are willing to do so in order to get their projects approved.

For example, a city may require that a share of the units in new market-rate developments over a certain size be affordable. Or a city may offer incentives, such as the ability to build at a higher density, for developments that include affordable housing.

Dedicated affordable housing units typically have legally binding restrictions on who can live in the housing and how long it must remain affordable to a specific income group. These units may continue to serve lower-income households for as long as 30 or 50 years or more.

Some people use the term "affordable housing" to refer ONLY to these dedicated affordable housing units.

Affordable market-rate units

The private market also provides units that rent or sell at affordable levels without the use of any explicit subsidies. Often, these are older homes whose rents have become

affordable over time as newer properties have come online. Other units are affordable by virtue of their location, type, or quality.

In many cities, towns, and counties, constructing new housing affordable to low-income households is not financially feasible. The rents or home prices that low-income households can afford are just too low to support the costs of constructing and operating new development. But when developers build new housing for middle or higher-income households, the owners of older existing units often find that they need to lower their rents or sales prices in order to remain competitive. As a result, these older units become more affordable.

Both kinds of affordable housing are important.

Millions of moderate- and low-income households live in housing that is not subsidized by the government but is affordable to them. Dedicated affordable housing units, on the other hand, are essential for ensuring affordability in neighborhoods where market rents are rising rapidly. They also are well suited to creating inclusive cities, towns, and counties and providing affordable housing to households with very low incomes, such as seniors on fixed incomes, as well as those with special needs such as people with mental disabilities and formerly homeless individuals.

Through well-designed policies, local officials can help to expand the availability of both types of affordable housing and ensure they continue to serve moderate- and low-income households over the long term.

To learn about what you can do to make a difference, visit LocalHousingSolutions.org.

Video forthcoming