



# Improving Affordability by Reducing the Combined Costs of Housing, Transportation and Utilities

## THE ISSUE

Policymakers and practitioners typically measure housing affordability by comparing rent or mortgage payments with income to see if these expenditures consume a disproportionate share of the household budget. However, rent or mortgage payments make up just one component of the costs associated with where we live.

## THE FACTS

A more comprehensive assessment of the “costs of place” includes the combined costs for housing, utilities and transportation to work and around town — costs directly associated with the energy-efficiency of a home and its location relative to job centers, public transit and other amenities.

- ▶ Expenditures on transportation eat up a large share of the typical household budget, second only to spending on rent or a mortgage. For moderate-income working families, transportation costs consume an even larger share of the household budget, rising to a level that is equal to or greater than expenditures on rent or a mortgage.
- ▶ Research shows a close relationship between housing and transportation costs for working families. In particular, as families move farther away from job centers in search of affordable homes, transportation costs go up, and at some point the increased spending on transportation cancels out any housing cost savings.
- ▶ Low-income families tend to live in older homes of below-average quality that consume — on a per-square-foot basis — 28 percent more energy than the homes occupied by their higher-income neighbors. This inefficiency leads to disproportionately high utility bills, which may stem from outdated appliances, inadequate insulation or poorly installed windows and doors.
- ▶ As the nation learned the hard way during 2007 to 2008, energy prices can spike unpredictably, leaving families living in energy-inefficient housing or locations scrambling to find room in their budget to fill up the car or pay the heating bill.

Because the costs for housing, transportation and energy are closely interrelated, it makes sense for public policy to seek to ensure that the combined costs for all three — the costs of place — are affordable, so that families have adequate remaining income for nutritious food, health care, education and other essential expenses. Reducing household energy use can also have important health and envi-

ronmental benefits in terms of reduced emissions of greenhouse gases and other pollutants.

To reduce the costs of place and improve overall affordability, communities are taking steps to preserve and expand the availability of affordable homes near public transit and job centers and improve the energy efficiency of new or existing homes. Communities are stepping in with public investments and concerted policies to achieve these outcomes because the market, by itself, is not producing them. The following are some of the obstacles to implementation that communities seek to overcome:

- ▶ The high cost of developable land in central-city neighborhoods and mixed-use districts near transit stations may make it cost-prohibitive for developers to build and preserve affordable homes in those areas.
- ▶ In communities where single-family housing is the norm, proposals to increase the compactness of development near public transit or job centers — a necessary step to expand the number of families who live in these areas and increase the range of living options in the community — can generate opposition from individuals concerned about the presumed effects of multifamily homes on property values, crime levels and traffic.
- ▶ While weatherization of existing homes can lead to significant reductions in utility bills, many low- and moderate-income homeowners do not have room in their budget to pay for the upfront costs of retrofits and repairs.
- ▶ When it comes to building new or rehabbing existing multifamily buildings, developers and building owners who lack experience with green building measures may be reluctant to take on the added time and expense.

Fortunately, a range of state and local policy responses are available to help address these and other obstacles:

- ▶ **ADAPT TOOLS FROM THE AFFORDABLE HOUSING TOOLBOX** — Policies that are already used to promote affordability can be expanded to encourage reduced energy consumption. Examples include the use of land banking and inclusionary zoning ordinances to ensure a place for affordable homes in strategically located areas, as well as the provision of incentives — including expedited permitting and preference for federal funding awards — to promote the use of green building techniques.
- ▶ **PRESERVE EXISTING RESOURCES** — Thousands of homes made affordable through Section 8 and Section 202 federal rent subsidies can already be found in close proximity to transit service. Taking steps to ensure that owners continue to participate in these programs and that the housing is kept in good shape helps to keep these well-located and often irreplaceable affordable resources available to low-income families. Preservation is also inherently “greener” than new construction: rehabbing existing

homes uses raw fewer materials, produces less waste and consumes less energy and land than new construction.

- ▶ **REVISE LAND-USE REGULATIONS** — Local zoning laws present one of the key obstacles to compact, transit-oriented development. By changing the underlying zoning or establishing an overlay district or other “form-based” approach to zoning to allow compact mixed-use development, communities can facilitate a reduction in household transportation costs, leading to reductions in energy use and greenhouse gas emissions as well as decreasing area traffic.
- ▶ **PROVIDE DIRECT ASSISTANCE** — The homeowners and building managers who could benefit most from measures to improve energy efficiency may also be those with the fewest resources to undertake such activity. Many states and localities offer direct assistance programs that deliver energy-efficiency retrofits and other improvements directly to eligible households and managers of multifamily buildings.

## Answers to Common Questions

### Will the development of multifamily housing reduce nearby property values? Will the new residents impose a burden on neighboring properties and the surrounding community?

No — these are common misperceptions shared by many who lack familiarity with multifamily housing. In fact, multifamily housing designed to fit with the surrounding neighborhood can bring about aesthetic and financial benefits for both neighboring property owners and the community as a whole

- ▶ Research has shown that, on average, residents of multifamily buildings pay more in taxes and have fewer school-age children (representing a lighter burden on the local school system) than owners of single-family homes. Analyses also show that single-family homes close to multifamily buildings appreciate in value at rates equivalent to, or higher than, those that are not near multifamily homes.
- ▶ A study of compact communities by the Chicago Metropolitan Agency for Planning found that the most thriving residential neighborhoods had housing densities ranging from ten to sixty dwelling units per acre — a wide density range that illustrates the flexibility local governments have to make sure their land-use regulations are context-sensitive.
- ▶ Multifamily and other forms of compact development can also help to reduce traffic by producing the population density needed to make public transit and street-level retail economically viable. In areas with a low residential density, residents have no choice but to get in their cars to travel to work, school, shopping centers or other amenities. In contrast, transit-oriented development — that is, compact mixed-use neighborhoods built around public-transit stations — can help to reduce reliance on personal vehicles:

- ▶ An analysis of residential density in the Puget Sound region found that when density approaches 20 dwelling units per acre, vehicle trips decline and pedestrian and transit trips increase. A study of metropolitan areas with fixed-route transportation systems (i.e., light and heavy rail) found that the rate of car ownership near transit stops was about half that of the region as a whole.

### Won't “green building” measures only increase the cost of housing?

While it's true that new construction built to a higher efficiency standard often carries an initial cost premium, in most cases these upfront costs can be recouped. Green-building techniques are energy- and resource-efficient, requiring less water and electricity to operate than conventional buildings. Over the life cycle of the building, the savings from lower utility bills and operating costs can add up.

- ▶ In a comparison of conventionally designed and green buildings across the U.S., researchers found that the average cost premium for the green buildings was slightly less than 2 percent — about \$3 to \$5 per square foot.
- ▶ Construction costs are estimated to make up less than 20 percent of total costs associated with a building over its life cycle (from the time it's built until it becomes obsolete or uninhabitable, about 30 years). Other variables — including operating expenses, maintenance and replacement costs — represent a much greater share of overall costs, and green building measures can significantly lower all of these, as compared with conventional construction.

For more information on the links between housing affordability, energy and transportation visit [www.housingpolicy.org/talkingpoints.html](http://www.housingpolicy.org/talkingpoints.html).