

**Housing and Transportation:
Redefining Affordability Research and Development**

Technical Review Panel

Summary of Proceedings

Fourth Convening on December 5, 2012

Submitted: December 12, 2012



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Attendees*

Panelists

Megan Booth (National Association of Realtors®; Washington, DC) [On behalf of Darren Smith]
Andy Cotugno (Metro; Portland, WA)
Leila Finucane Edmonds, J.D. (NeighborWorks America®; Washington, DC)
Ed Goetz, PhD (University of Minnesota; Minneapolis, MN)
Bart Harvey (Fannie Mae Board; Baltimore, MD)
Kevin Kelly (Leon N. Weiner and Associates, Wilmington, DE)
Chris Nelson, PhD (University of Utah; Salt Lake City, UT)
Vince O'Donnell (LISC, Boston, MA)
Tom Sanchez, PhD (Virginia Tech University, Blacksburg, VA)
Mtamanika Youngblood (Sustainable Development Strategies; Atlanta, GA)

Federal Agency Staff

Michael Freedberg, Department of Housing Urban Development
Joshua Geyer, Department of Housing Urban Development
Siobhan Dinkel Kelly, Department of Housing Urban Development
Kevin Ramsey, Environmental Protection Agency
Lilly Shoup, Department of Transportation
Neal Stolleman, Department of Treasury
Elizabeth Zgoda, Environmental Protection Agency

Manhattan Strategy Team

Noreen Beatley, MSG	Sarah Campbell, CNT
Anna Cruz, MSG	Peter Haas, PhD, CNT
Amara Okoroafor, MSG	Linda Young, CNT
Matthew Sussman, MSG	
Andy Simpson, MSG	

*Technical Review Panelists not in attendance: David Kack (Western Transportation Institute; Bozeman, MT), Rolf Pendall, PhD (Urban Institute; Washington, DC), and Chris Zimmerman (Arlington County Board, Arlington, VA).

Observers: Debra Bassert, National Association of Home Builders; Paul Emrath, National Association of Home Builders; Claire Worshtil, National Association of Home Builders.

Background

The U.S. Department of Housing and Urban Development (HUD) Office of Sustainable Housing and Communities (OSHC), in conjunction with the Department of Transportation (DOT), is working with the Manhattan Strategy Group (MSG) and the Center for Neighborhood Technologies (CNT) to develop an index that encompasses combined housing and transportation costs and explore how the index might be applied to core HUD program areas. This project will enable HUD to be more strategic in pursuing data-driven policies that fulfill HUD's goal of redefining and increasing affordability in HUD-assisted communities.

This Technical Review Panel, composed of expert researchers and practitioners in housing, transportation, community development and related fields, was convened to guide the development and implementation of the Location Affordability Index (LAI) (formerly referred to as the Housing and Transportation Affordability (HTA) Index) and a customizable partner tool, the My Transportation Cost Calculator (MTCC). The Panel reflects a diverse array of perspectives based on area of expertise, experience and geographic location. The Panel provides insight and feedback on the data and methodology used to build the LAI as well as guidance for potential applications of the tool at the federal and local level. The following summary of proceedings is from the fourth of five full-day convenings held in Washington, DC.

Overview

On December 5, 2012, ten members of the Technical Review Panel met with staff from MSG, CNT, and representatives from several federal agencies including HUD and DOT to discuss the status of the project and provide input on key tasks.

Participants received updates on the tools and website development process, apprised of planned changes for the final iterations of the Location Affordability Index and My Transportation Cost Calculator based on feedback received during the tools' beta testing process (in which many of the members participated) , and provided a status report on program and policy research related to the Initiative. .

Panelists provided feedback on presentations, discussed key issues related to the development and application of the tools, and discussed potential program and policy opportunities, both in small breakout groups as well as in a whole group discussion. Through these conversations, panelists identified key opportunities and challenges for further development and implementation of the Location Affordability Portal tools.

Panel Proceedings

Project Update and Introductions

After introductions and an outline of the meeting agenda, Josh Geyer OSHC's Project Manager of the HTA Initiative provided an overview of anticipated HUD activity related to the Initiative in the upcoming year. He also advised the Panel that the public release of the Location Affordability Portal was being postponed from mid-December 2012 to mid-January 2013 to allow better media coverage of the launch. Noreen Beatley, MSG's Project Director followed with a status report on Initiative activities completed to date and an outline of remaining tasks to be completed in 2013.

Location Affordability Index Development

Peter Haas of CNT provided an extensive review of the development of the data, methods and modeling approach utilized in the Location Affordability Index to be released in mid-January. He reviewed data sources employed in the LAI, including the American Community Survey (ACS), Location Employment

Dynamics (LED) Database, General Transit Feed Specification (GTFS), FTA National Transit Database, National Household Travel Survey (NHTS) and Consumer Expenditure Survey (CEX). Dr. Haas also described the evolution of the transportation model used in the LAI and reviewed the newly developed model used to estimate housing costs. He explained how the transportation model had been fully designed to offer the greatest precision, legibility and flexibility based on feedback from the third party reviewers, technical review panel, stakeholders, and federal staff.

Panelists inquired as to whether users could get more information on interactions among variables; an option cited was to that users could utilize the derivatives for the model's independent variables, which would offer some insight into elasticity. Federal staff asked how the modeled housing costs, which are based on ACS data, reflect market costs. A question was raised as to how household typologies (i.e., household sizes and incomes) were determined for the LAI, and whether users would be able to generate estimates for an entire region based on a custom household in the future. Finally, panelists suggested that data from the NHTS be used to check odometer readings from Illinois to check for bias.

Auto Cost Research

Linda Young of CNT updated attendees on progress made in developing new estimates for costs related to automobile ownership and usage. This research is focused on the Bureau of Labor Statistics Consumer Expenditure Survey (CEX), which provides data on self-reported household spending habits, including spending on travel. The findings report expenses for five income groups categorized into purchase costs, ownership costs, drivability costs, and driving costs. CEX purchase and ownership costs were found to be lower than those used in previous measures which had known limitations due to a focus on newer autos; drivability and driving costs were found to be similar to previously used measures.

While costs based on CEX research will be used to calculate cost estimates in the LAI, costs in the MTCC will be largely based on user inputs for their spending. One exception is the calculation of depreciation, for which CNT proposed several possible options, including using the per-mile rate from the IRS.

Panelists offered a range of suggestions to consider in the auto cost determination, including:

- Accounting for locational variation in gas and insurance costs;
- Consideration of the impact of gas prices on home location choices, and potentially adding gas price as an independent variable to provide insight on elasticity of travel choices with respect to the cost of gas;
- Weighing auto age and miles driven in depreciation calculations;
- Recognition of the variation in costs faced by different households, e.g. lower income household may have cars that depreciate little, but require costly service, maintenance and repairs; and
- Importance of testing the MTCC with prospective homebuyers and renters.

Following the auto cost research presentation, Ms. Beatley provided a brief overview of plans to conduct research on parking costs with the goal of potentially including these costs in the LAI. An initial review of available literature on the issue had produced few results and Panelists were asked to provide input and suggestions regarding the best approach to the research project. One suggestion offered was to distinguish residential and commute-related parking costs.

Next Generation Methodology

During the LAI/MTCC beta process and subsequent conversations with a variety of stakeholders, several suggestions emerged in regard to the next possible iteration of the LAI. Mr. Geyer provided a brief overview of several suggestions HUD considers to have merit for a future LAI generations and Dr. Hass presented on one recommendation for the evolution of the model. Dr. Hass provided an overview of a simultaneous equations approach that would add complexity to the model but offer the potential of allowing the user greater power to use the tool for scenario planning and more in depth understanding of the interactions among the variables. HUD is reviewing recommendations and considering which may have the potential to be incorporated into future generations of the LAI.

Program Research and Policy Development

In the second half of the meeting, Andrew Herrmann and Matthew Sussman presented MSG's research on the locational outcomes associated with five key federal housing programs. This research focused on transportation costs in neighborhoods where federal housing resources provide project- or tenant-based subsidies, or provide mortgage insurance. The five programs studied were the Low Income Housing Tax Credit, the Housing Choice Voucher program, HOME Investment Partnerships, FHA single family mortgages and 221(d)(4) multifamily insurance.

The presentation delved into how the spatial patterns of distribution compare among these programs across the regions included in the research, as well as how other neighborhood and household characteristics relate to transportation costs. For each program, potential policy implications and applications for the LAI tool were identified, based on research and interviews with HUD staff and program stakeholders.

Following the housing program analysis presentation, Sarah Campbell of CNT identified a few potential applications of the LAI based on work conducted to date with the H+T® Affordability Index.

Following these presentations, the panelists divided into three discussion groups to consider policy opportunities and challenges in housing production subsidy programs, rental assistance programs and mortgage insurance programs. These groups used the implementation possibilities described in the MSG presentation as a starting point, but covered a range of potential next steps. The panelists then reconvened and reported key takeaways back to the entire group. Summary notes from each of the sessions are provided below.

Housing Production Programs

Challenges

- QAP criteria often appears politically driven and may largely depend on who is in charge at the state level. Opportunities to incorporate the LAI into decision-making exist, but much of what goes into the QAP depends on local factors.
- Concern that assumptions built into the model may compromise its usefulness for data-driven decision-making for siting affordable housing.
- Alignment with HUD goal of deconcentrating poverty.
- Additional vetting of the model may be needed.
- Avoiding NIMBY; red-lining, or concentrating poverty in certain areas.
- Potential of local jurisdictions interfering/imposing impact fees.

- Implications, potential of unintended consequences, barriers, etc related to the multiple sources of funding and regulations that govern many production projects.
- Impact of local dynamics: NIMBYism, opposition to affordable housing. Concern that the LAI could be used as a weapon/to make development more difficult in those areas prone to oppose affordable housing.

Opportunities

- Targeting and prioritizing dollars for preservation. The LAI provides decision-makers an analytical tool which would enable them to consider why certain areas are poor and potentially prioritize use funds in those areas. The LAI could allow assessment of changing conditions to preserve affordable housing in location efficient areas.
- Implementation Strategies which could promote coordination of public policy efforts at the highest level. Participants provided an example of how one Agency's restrictions prevented another Agency from meeting density goals. The LAI could provide some cross-pollination at the federal level to help promote sustainable communities; opportunities for coordinated messaging and efforts to effectively collaborate.
- CDBG funds could be utilized for infrastructure improvements to support affordable housing. LAI could be used to target CDBG use in certain areas. As the most flexible CPD program, CDBG has the advantage of providing a range of ways to use the LAI in decision making. CDBG could be the simplest place to apply the LAI because it has the broadest range of uses and could push funding to a variety of uses.

Additional Comments

- Aligning incentives with investors is something that works: Industry demand for LIHTC credits around the Community Reinvestment Act (CRA) is a one example.
- From the Lender perspective, the LAI could be used as a tool to potentially lower risk.
- The availability of nearby services is a key consideration for developers; building outside urban centers is challenging. However, building affordable housing in highly desirable urban areas is impossible without enormous incentives: land costs are 3 to 4 times higher than what affordable housing developers can afford. In suburban areas, developers face a myriad of local dynamics that make building affordable housing difficult.
- As a consumer tool, the LAI could be used to help buyers/renters make more informed decisions. On the surface something that seems affordable may not be.
- Issues with compliance with specific requirements for HOME down-payment assistance for loans and rehab (e.g., in relationship to home values and investment). Long-term homeowners attempting to rehab are assessed at a much higher rate. Agency staff struggled to get through the HOME regulations. One solution was a loophole in how the home was valued. HOME program doesn't encourage homeownership. The LAI could be used to justify why HOME funds can be used to help rehabilitation projects for homebuyers, even if the cost is greater – the location efficiency of the property could be used to address regulations.
- The LAI could be used to support multiple layering of funding in a project. Example of a successful project: LIHTC and other funding (potentially New Market funds) supported development of retail and medical offices combined with mixed-income housing (i.e., affordable and market rate). Easier to accomplish in urban areas such as NYC or DC because of the desire

to be close to amenities. Challenge: many tools used in the past have wound down in the wake of the housing crisis.

Mortgage Insurance Programs (FHA Single Family and 221(d)(4) Multifamily Insurance)

Single Family Opportunities

- Biggest is for counseling and education.
- Effort should be broader based than just a focus on low income households.
- Include LAI in other forums that disseminate information, e.g. MLS. Need to educate realtors through internal publications, conferences, booths, etc. Realtors know the value and they can understand its importance.
- Using the LAI as a compensating factor. Although compensating factors are not generally considered under current market conditions, it could be a long term opportunity.
 - Potential for a pilot program in select regions.
 - Use as compensating factor in which both place and personal factors are considered. But LAI should not be a singular factor – it would need to incorporate other goals like fair housing.
- FHA insurance for condominium units can be difficult to secure. Utilization of the LAI may require reducing the 50% owner-occupied rule before place is eligible for FHA loans.
 - Condos seem to be more location efficient in general. HUD's concern relates to the possibility of absentee owners.
 - Concern that retail/commercial use maximum percentages are not consistent with current knowledge of mixed-use development value. Question the risk analysis that indicates mixed-use development do not market well.
 - Many HUD standards that may not be data based are used with FHA single family. Before employing LAI, would need basic research on factors/standards and whether they still make sense.
- Using the LAI to adjust income standard for mortgage levels.
 - Although it may not always be the case, the value of location efficiency may already be captured in home prices.

Single Family Challenges

- Underwriting is by individual, place is not generally a factor.
 - Concern is with how to verify that people will use transit and not buy a second car or take a job that requires driving.
 - Not concerned about the verification – more value in house/condo – so less risk of not being able to sell or foreclosure, condos tend to have a better opportunity for access to jobs.
 - Concerned that a specific standard might have a perverse effect on non-location efficient areas meeting other needs; certain types of people might be shut out of areas that provide other opportunities.

Multifamily Opportunities

- Early Warning System could be used for performance tracking on location efficiency in addition to the factors regarding complete and timely applications. Including location efficiency as a factor would give HUD a way to track how many proposals are in location efficient areas and how they fair in the approval process.
- Rank metro areas risk based on location efficiency.
- Reconsider current lending standards. Use realty track to get foreclosures by zip code (goes back to mid-2000's) and do a pilot with Multifamily programs to assess risk. There was an uptick in energy efficient mortgages just before the crash and this may have some relevance.
- FHA underwrites multi-family – could potentially adjust premiums using LAI.
- Risk modeling potential. Loan limits for elevator buildings are too low and have been kept low by Congress. This should be addressed.

Combined Comments

- Give financial community two selection standards: 1) combined housing and transportation or 2) housing factors only.
- Ignoring transportation costs may lead to riskier loans.
- Need scenarios and risk modeling for all applications.
- Long-term planning: policy options should be sorted and long-term factors identified. Current demographic trends and changes are startling: from 1990 to 2010 no increase in starter houses, market was family housing/larger. Market since 2010 has been increasing for starter homes.
- Pilots would need an insurance fund to minimize risk concerns.

Rental Assistance Programs

Opportunities

- Foremost potential is as an educational tool for voucher holders and other assisted households. Considering the full costs of place into individual decision-making process as well as planning and policy documents such as consolidated plans.
- Overarching issue: Getting transportation costs into the public consciousness (think seatbelts, smoking, and obesity).
 - Marketing, promotion
 - Social networks are key: tap into these networks of individuals and institutions to get the message across.
- Mandate housing counselors consider transportation costs.
- Additional research is needed on project-based housing choice vouchers.
- Tool for landlord recruitment or prioritization.

- Conduct additional research or develop a pilot program to assess impacts of location efficient homes on assisted households. Assess outcomes in terms of employment, leasing success rate, education, stability of tenure. Demonstrate that there are meaningful impacts on households.
- As real-time appraisals become available and better data increases, pilot programs may show real impacts for low-income people. The LAI could emerge as an instrument for housing being used for more than just shelter and as an indicator for total quality of life.
- Potentially tie 40% of income limit for voucher holders to cost measures from the LAI.
- On project-based side: The LAI could be potentially used to add some location efficiency assessment criteria when housing authorities are making investment decisions related to location, could be used as encouragement or restrictive criteria.

Challenges

- Limited choices and resources, both for households and programs.
- Changing rent limits in certain regions impact the availability of affordable units.
- Time limit on leasing up a unit motivates voucher holders to take what they can get.
- Varying level of support offered to voucher holder depends on PHA.
- Potential of preference for car ownership, particularly among low-income populations for whom it may be about status as well as mobility.
- Transportation only means something when it offers real access to jobs and progress for a household.
- Considering how low-income households actually think about this issue. Most probably do not consider transportation in terms of concrete costs, more concerned with how to get around and the time needed to get from point A to point B.

Recommendations and Next Steps

During the course of the convening, panelists identified a number of key opportunities for disseminating the LAI and offered a number of potential ideas for policy and programmatic implementation. The following list includes next steps and high priority concerns raised by panelists as well as concrete items for further investigation or research. Much of the information collected during this session will inform the development of the policy report being prepared by MSG for HUD. Additionally, as necessary, conference calls to continue the discussion on potential policy and program uses will be scheduled in early January. Prior to inclusion in the report, recommendations will be carefully considered by the MSG team in consultation with federal staff. Additionally, time and resource constraints may limit the inclusion of some recommendations.

- **Location Affordability Portal Release and Dissemination**
 - Test MTCC with consumers, i.e. potential homebuyers or renters;
 - Capture the effect that gas prices have on home location and transportation decisions;
 - Expand LAI functionality to show elasticity of individual variables and interactions among multiple independent variables;

- Consider local values for auto costs other than gas, such as insurance; and
- Complete parking cost analysis to determine how it might be incorporated in the LAI

- **Policy Development and Potential Applications**
 - Identify and pursue opportunities for counseling and education across program areas;
 - Continue outreach to key stakeholders to increase awareness of the LAI and how it relates to housing programs;
 - Investigate potential for the LAI to support NIMBY resistance to affordable housing and/or concentrate poverty;
 - Develop methods to illustrate effect of LAI as part of the larger HUD priorities; and
 - Develop pilot programs and/or conduct additional research to shed light on the following areas:
 - Impact of location efficiency on household outcomes for assisted families.
 - Connection between location efficiency and default risk.
 - Potential for inclusion as a new standard for underwriting.

Next Steps

Marketing and Outreach

- Identify the best possible outlets for marketing the tool;
- Request assistance from interested TRP members in help promoting the LAI and MTCC;
- Identify TRP members and others interested in authoring articles on the potential of the tools; and
- Share HUD's communication and marketing plan, and identify outreach channels being pursued.

Scheduling the Fifth TRP Convening

The final TRP convening will be held in late May 2013 or early June. MSG staff will reach out to TRP members over the next month to schedule this last meeting.