



MEMPHIS AND SHELBY COUNTY JOINT HOUSING POLICY PLAN



MARCH 2022



Executive Summary

Executive Summary | Vision and Purpose

Vision

Every Shelby County resident has access to **quality housing choices and wealth generation opportunities.**

Purpose

The purpose of the Housing Policy Plan is to establish a set of policies and programs that Shelby County and the City of Memphis can adopt to support a healthy housing market that meets the need of all residents, supports healthy neighborhoods and creates prosperity for the community.

Context

Residents and neighborhoods in Shelby County have suffered from historical disinvestment and redlining within the housing market for decades. The history of redlining in Memphis has been well-documented and reporting has shown the practice continues today.¹ In 2016 BancorpSouth settled with the Department of Justice for intentionally avoiding households seeking loans in predominantly Black neighborhoods.² More recently in 2021, Trustmark Bank paid a settlement regarding redlining allegations.³ The problem persists, with Black households being denied for loans at twice the rate of white households (HR&A analysis of Home Mortgage Disclosure Act data).

The current housing market in Shelby County is not meeting the needs of large sections of the community. Specifically, it does not support investment in the production or maintenance of quality housing in many neighborhoods throughout the county and city. New housing development costs exceed the value of existing housing stock, making new housing financially infeasible. The cost of improving a home is often greater than the value, limiting the ability to keep up housing. These market conditions lead to a cycle of underinvestment, decline, blight, and abandonment that undermines whole neighborhoods.

The City, County, State, and nonprofits run many programs to preserve and produce affordable housing, but these have limited impact relative to the scale of need. Housing programs and policies are fractured and under scale – there are eight programs delivering approximately 800 affordable rental units annually, but there is a 30,000-unit gap in rental units for households making less than \$30K annually (American Community Survey, HR&A Analysis). Due to the small scale, lack of strategic targeting, and power of larger market forces, these programs have limited impact.

The Housing Policy Plan is a joint plan between the City and County, in part because the City and County share a unified development code (UDC) guiding land use and zoning. Additionally, the City and County both have influence on the regional housing market and need to work in conjunction to strengthen the overall market. By working together, the City and County use their control of housing regulation and public funding to shift the overall housing market to benefit all residents. Their focus should be on addressing the structural barriers to healthy housing markets by 1) shifting the economics of investment in quality housing; 2) expanding access to housing finance; and 3) focusing public funding on areas of affordable housing where it can have the greatest impact.

Executive Summary | Plan Objectives

The purpose of the Housing Policy Plan is to establish a set of policies and programs that Shelby County and the City of Memphis can adopt to support a healthy housing market. Importantly, this market would meet the need of all residents, support healthy neighborhoods and create prosperity for the community. The Housing Policy Plan identifies **four plan objectives** that need to be met to achieve its overall purpose. They are:

1. Improve Housing Quality

The concentrations of disinvested housing stock and lack of private capital throughout the county discourage the maintenance of property, creating a feedback cycle of disinvestment and decline. This plan aims to raise the level of private and public investment, ending the cycle of disinvestment in Shelby County.

2. Support Homeownership

Owner-occupants with access to financing will maintain and improve their homes and ensure residents benefit from the wealth generation of homeownership. This plan aims to address barriers to homeownership and reduce the increasing proportion of renters that are not benefitting from homeownership wealth generation.

3. Diversify Housing Stock

Middle-scale housing is more economically viable in many areas of Shelby County and often better aligns with resident needs than single-family or large-scale multifamily that dominate new development. This plan recommends adjusting housing regulations and requirements to encourage private investment in a range of housing typologies.

4. Increase Quality Low-Income Housing

There is a shortage of quality affordable housing for lower income residents, and it contributes to blight and concentrated poverty that harms residents and neighborhoods. This plan recommends focusing and scaling local public funding to increase the production of affordable housing units by leveraging federal, state, and philanthropic resources.

Executive Summary | 1. Improve Housing Quality

Market and regulatory forces hamper the ability of existing owners to invest in maintaining homes. The existing housing stock suffers from disinvestment, with 30% of houses sold since 2019 valued at under \$100K. Additionally, 30% of units are single-bathroom units, a typology the market has moved away from over the past several decades. Compounding the disinvested housing stock is a combination of economically unstable households, systemic inequity, and slow population growth. Memphis has an overall poverty rate of 25%. Black and Latinx households face barriers to accessing financing, and Shelby County is experiencing slow population growth, signaling low demand to investors.

Obsolete and disinvested housing stock

Memphis, and to a lesser degree Shelby County, have a large share of older homes that are obsolete – have an outdated configuration or have not had major systems (e.g. windows, heating, electrical, etc.) improved in decades.

Nearly 30,000 houses (10% of single-family stock) are 2 bed/1 bath, and almost 50,000 (17% of single-family stock) are 3 bed/1 bath. Of the houses that sold for less than \$100K since 2019, 60% were either **2 bed/1 bath or 3 bed/1 bath and 89% were built before 1980.**

Additionally, less than 2,000 houses are being renovated annually, resulting in a **162-year reinvestment cycle.** For comparison, a healthy housing market typically has a **30-40-year reinvestment cycle.**

Systemic inequity

Systemic racial barriers limit access to financing for refinancing and repairing homes. Black applicants are nearly twice as likely to be denied for a home repair mortgage than white applicants.

In 2019, over 1,100 households applied for a home repair mortgage and over 50% were denied, most of which were for reasons other than income. Approximately 68% of Black homeowners were denied loans compared to 39% of white homeowners.

Additionally, **aging Black homeowners are twice as likely** to own homes built before 1970 than white homeowners.

Slow population growth

Shelby County is experiencing slow population growth, which lowers demand for reinvestment in existing housing.

Without evidence for housing demand in the market, investors and developers cannot access financing to invest in the existing stock. Several factors influence housing demand, among them being population growth.

While Memphis still has demand for housing because of natural market activity and turnover, population growth is not one of the drivers, decreasing the overall market interest.

Executive Summary | 2. Support Homeownership

Homeownership is declining, but not equally across race in Shelby County, with Black homeowners converting to renters at much higher rates. Homeownership is central to the economic prosperity of households and neighborhoods. It is the largest asset by far for most households, and the biggest driver of wealth creation in the U.S.

Conversion from homeownership to rental

Owner-occupied units are converting to rental. Shelby County saw a nearly 17,000 household decline in homeownership since 2010, combined with a 26,000 unit increase in renters. Most of this is driven by trends within the City of Memphis, which saw a 7% decline in homeownership since 2010.

This is also driven by shifts in the single-family housing stock. Approximately 15K units or **8% of the total single-family stock** in Shelby County converted from owner-occupied to renter-occupied in the past decade.

Systemic inequity in access to financing

Shelby County has seen a **loss of nearly 8,000 Black owner-occupied households**, coinciding with a more than a **20,000 increase in Black renter households**.

High bankruptcy rates and systemic racism in financing drives this trend. Black households are **more likely to be denied mortgages** than white households with the same income level.

The most common reason for denial among applicants is **credit history**, suggesting there are income-qualified households being denied mortgage financing. The impact of credit history is in part related to bankruptcy trends in Shelby County, where the per capita rate of personal bankruptcy filings is more than **4x the national average**.

Aging housing stock and homeowners

Existing and aging homeowners struggle to remain homeowners, driven by challenges in paying for home repairs. Of current homeowners, 35% live in houses built more than 50 years ago.

Two out of every five homeowners 65 and older live in a house built more than 50 years ago. This trend is worse for Black homeowners, who are twice as likely to own houses built over 50 years ago than white households.

These houses often require significant improvements to achieve a market value (i.e. for-sale price) that is greater than the cost of the investment. Unfortunately, rehabilitated houses on average are selling for less than the cost of renovating those houses.

Executive Summary | 3. Diversify Housing Stock

The housing stock in Shelby County is dominated by single-family and large multifamily structures with few in-between options to accommodate mixed-income neighborhoods. Soft density buildings, which include attached single-family housing such as townhomes, duplexes, and triplexes, provide a greater range of housing options and make the development of new housing within existing neighborhoods more financially feasible.

Memphis lacks housing stock diversity

Approximately two-thirds of housing units in Shelby County are single-family houses and over 20% are large multifamily structures. The remaining 12% of homes are two-to-four-unit structures.

As described in the Memphis 3.0 Comprehensive Plan, **neighborhoods need gradual transitions in densities** to prevent dense multifamily immediately adjacent to single-family housing. Large multifamily structures (particularly those with over 20 units) are not appropriate for most neighborhoods.

Additionally, diverse housing options, such as duplexes and quadplexes, provide pathways to **mixed-income communities** and contribute to overall affordability. Multi-plex units have a **mixed perception** throughout Shelby County, with varying levels of popularity across different neighborhoods.

Large Multifamily Development Requires Subsidy

Most multifamily development in Shelby County is occurring downtown and near transportation hubs. However, market-rate multi-family development in the highest rent neighborhoods still **requires subsidy**, such as Payments in-Lieu of Taxes (PILOT).

Developers in the Shelby County market depend on PILOT to make development feasible, even in strong and high rent neighborhoods. The financial gap for market-rate development indicates the need for lower cost, lower density multi-family development in neighborhoods that cannot support dense multifamily development. Soft density (two-to-six unit per building lot rather than one) is a more financially feasible way to create new housing options and modestly increase density in target neighborhoods.

Existing Regulations inhibit the development of middle-density housing

Residential buildings with two or more rental units are currently taxed as commercial units, nearly **doubling the tax burden** of these units compared to residential structures. 3+ unit buildings also fall under **commercial building codes** rather than residential, further constraining new development.

The Memphis 3.0 Comprehensive Plan Objective 1.4 outlines the need to pursue mixed-income communities by allowing for **smaller lots** and multiple buildings on a lot, such as through **accessory dwelling units (ADUs) and multiplexes**.

Executive Summary | 4. Increase Quality Low-Income Housing

Shelby County's high poverty rate and limited stock of quality affordable housing has led to a significant need for quality low-and very-low-income housing units. The gap between the number of available homes that are affordable and the number of households that need these units is about 30,000 for households making less than \$30,000 a year.

Low wages and household incomes drives the need for affordable housing

Shelby County has a nearly **20% poverty rate**, which is significantly greater than the national average of 13%. Further, Shelby County households experience low wages, with a **1.6% decrease in household income** since 2010.

Rents have remained steady since 2010, but stagnant and declining wages have led to continued need for affordable housing. The median rent increased from \$919 to \$942 since 2019 (inflation adjusted to 2022 dollars). That amounts to a 2.5% increase, compared to a 7.5% increase nationally.

For renters, wages have increased by just under 3% since 2010, keeping pace with the slow increase in rents. Shelby County's affordability pressures are as much about income as price.

Lack of Funding for Low-Income Housing

Significant subsidy is needed for construction of low-income housing to be financially feasible. It takes considerable public funding to create affordable housing, approximately \$20,000 in grant funding to reduce the rent by \$100/month per unit.

The City and County are **largely dependent on state and federal funding for affordable housing.** In particular, Low Income Housing Tax Credits (LIHTC) are the most prominent funding source for affordable housing **yet are limited in scope and location and have been declining in recent years.**

Nearly 80% of the active LIHTC units in Shelby County were built before 2010. There have been 2,500 units built in the past decade (2010-2019) compared to over 8,000 units in the decade prior (2000-2009)

Aging and Obsolete Housing Stock

Although much of the single-family housing stock is inexpensive, over 50% of the housing stock was built before 1980. Shelby County renters are often searching for housing in old and unkept structures, limiting the number of options for quality affordable housing.

For the same reasons homeowners cannot invest in their homes, landlords also have barriers to maintain quality housing. Shelby County needs to encourage reinvestment in rental units while also preserving the affordability of those units. Otherwise, they may decline in quality to a point where the cheapest option is a teardown, which ultimately harms affordability.

Executive Summary | Approach

Working in collaboration the County and City can influence the structural barriers to a healthy housing market: the economics of housing, access to housing financing, and the supply and alignment of public and philanthropic funding. Their focus should be on three areas.

Housing Economics

It costs more to build or rehabilitate a home than the home is worth in many areas within Shelby County. As a result, there is not enough investment to maintain existing homes, leading to blight, and not enough new homes to attract homebuyers and households with higher incomes. The underinvestment reinforces itself by leading to increased blight, lower quality properties and a growing gap between the cost to build and rehabilitate housing and the value.

Financing Access

A healthy housing market requires property owners with access to financing to build, purchase, maintain, and repair homes. Currently, there is a significant portion of property owners in Shelby County that cannot access housing financing. New financing products that leverage public and philanthropic guarantees are necessary to expand the flow of investment into housing in Shelby County.

Public & Private Commitment

The need for affordable housing is several orders of magnitude greater than the funding available for it. Existing public and philanthropic funds need to be deployed in a coordinated and strategic fashion and steadily scaled-up over time.

This Housing Policy Plan recommends solutions for addressing each of these structural barriers to a healthy housing market in Shelby County:

Land Use **Land Activation** **Tax Reform**

Financing

Funding

Executive Summary | Recommendations

The City of Memphis and Shelby County have the capacity to mitigate the region’s growing housing crisis by deploying a set of recommended tools to address residents’ housing needs. There are five primary actions the City and County must undertake for the implementation of the Housing Policy Plan to become actionable and achieve success. The following recommendations are framed around Memphis 3.0, the comprehensive plan focusing growth into core neighborhoods to create more dense, mixed-use, mixed income, walkable, and transit-served communities.

Housing Economics	Land Use	Reform land use regulations to allow for new types of housing that are economically viable, lower development costs, and simplify the entitlement process.
	Land Activation	Activate land in the county by clearing tax and legal encumbrances and returning it to the market for investment and use.
	Tax Reform	Address property tax policies to support reinvestment in the housing stock and new development, and to limit displacement pressure on existing homeowners.
Finance Access	Financing	Expand the availability to financing for purchasing, developing, and rehabilitating housing by providing public or philanthropic guarantees for private financing.
Public/ Private Alignment	Funding	Align public funding by combining and redesigning existing housing programs and scaling up local public and philanthropic funding.

Executive Summary | Priorities

The City and County will prioritize reforming title clearance polices, dedicating new funding for rental housing, updating land use regulations, and developing finance partnerships with local banks. These five priorities are crucial to successfully implementing the Housing Policy Plan.

- 1. Reform title clearance to allow investment in blighted and abandoned homes.** Available land is not a constraint in Shelby County, as organizations like the Shelby County Land Bank and the Blight Authority of Memphis provide land through tax sales, but the title clearance process inhibits the ability of these entities to readily transfer land to developers of affordable housing.
- 2. Dedicate new significant and ongoing funding for affordable housing.** To meet the existing need for quality affordable rental tens of millions of dollars in additional funding is needed annually. Every dollar of local funding can unlock and leverage three to five dollars in Federal, State and private funding.
- 3. Update land use regulations to lower the cost of creating housing.** If the City and County changes regulations to allow ADUs and two-to-six-unit structures, it will lead to new housing at lower price points for renters and owners.
- 4. Establish public private partnerships to expand mortgage lending to new and existing homeowners.** A large portion of renter households in Shelby County and Memphis have the income necessary to pay for a mortgage to purchase a home but they are unable to obtain a mortgage. Similarly, many existing homeowners are unable to obtain home equity loans to make repairs on their homes. Public funds can provide a guarantee to reduce the risk to private lenders and expand mortgage lending to all those who can afford it.
- 5. Consolidate and coordinate City and County programs.** The City and County administer several programs, some duplicative and others that require coordination. By coordinating existing programs, the City and County will increase the efficacy of existing public dollars and identify needs for further funding.

Executive Summary | Land Use

Memphis and Shelby County will **reform land use regulations to allow for new types of housing that are economically viable**, lower development costs, and simplify the entitlement process.

Memphis and Shelby County can reform land use policies to increase housing options and make housing development more economically feasible. Land use reforms influence the economics of new development and with it the cost of housing without requiring public investment. Land use reform will allow the market to provide more of the housing needed but will not address the need for deeply affordable housing which will still require public funding.

Amend the Unified Development Code to Encourage ADU Development	Increase the flexibility to permit Accessory Dwelling Unit (ADU) development by adopting new land use regulation.
Allow Cottage Development on Narrow Platted Lots	Amend the Unified Development Code to permit cottage-style homes on platted lots under 45 feet . Determine which parcels should be developed, consolidated with adjacent parcels, or dedicated as open space.
Update Zoning for Small-Scale Residential Development	Continue updating zoning to allow two-to-six-unit development in anchor neighborhoods while limiting displacement of low-income communities.
Support Multifamily, Transit-Oriented Development	Support concentrated density along high frequency transit corridors by expanding by-right multifamily development in transit corridors.
Reform the Building Code for Small-Scale Residential Development	Adopt local amendments to allow three-to-six-unit residential buildings to be reviewed as residential buildings instead of commercial to reduce the cost of development.

This Land Use chapter builds on these recommendations and provides an implementation guide and set of metrics to track progress on these recommendations.

Executive Summary | Land Activation

Activate land in the county by clearing tax and legal encumbrances and returning it to the market for investment and use.

Property entangled by tax liens or unclear title to ownership cannot access financing and be developed, sold, or repaired. As a result, these properties tend to become vacant and blighted. Clearing tax liens and title issues arising from unclear ownership (also known as a cloudy title) **allows properties to return to productive use**. This in effect will help provide quality housing, generating property taxes and improving the conditions of the neighborhood.

Shelby County and the City of Memphis should **focus efforts to activate land in anchors identified in Memphis 3.0**. These areas have the greatest opportunity to take advantage of private investment and will more quickly attract investment that will return land to productive use.

Reform Title Clearance Process

Reform the ability of the Blight Authority of Memphis and the Shelby County Land Bank entities to clear title for properties facing tax foreclosure and **return the unproductive land to the market** for use.

Enhance the City's Property Maintenance

Revise code enforcement to include **addressing problem properties and focusing efforts on returning them to use**.

Establish Heir Title Assistance Programs

Provide title assistance for heirs seeking to clear title and for elderly residents wishing to ensure that ownership is conveyed clearly after they pass.

The Land Activation chapter builds on these recommendations and provides an implementation guide and set of metrics to track progress on these recommendations.

Executive Summary | Tax Reform

Address property tax policies to **support reinvestment in housing stock** and new development, and to **limit displacement pressure** on existing homeowners.

Property taxes can be an incredibly powerful tool to encourage investments in housing development and rehabilitation. They shape the level of financing a property can support and with that whether investment occurs. **Rising property taxes can also place significant financial pressure** on long-time homeowners and contribute to their displacement.

Shelby County and the City of Memphis **should adjust their property taxes to support investments** in housing and retain existing residents by enacting tax reform and expanding relief programs.

Home Repair Tax Abatement

Advocate for home repair tax relief that offsets property tax increases resulting from home improvement repairs.

Address Tax Liability on Two-to-Six-Unit Structures

Provide rebates for two-to-six unit structures to offset burdensome tax structure and encourage feasibility of small-scale, multifamily development.

The Tax Reform chapter builds on these recommendations and provides an implementation guide and set of metrics to track progress on these recommendations.

Executive Summary | Financing

Expand the **availability to financing** for purchasing, developing, and rehabilitating housing **by providing public or philanthropic guarantees for private financing.**

Even when it is economically viable and there is enough money to pay for the cost, homeowners and developers often struggle to secure needed financing in Shelby County. The financing is unavailable because the loan is viewed as risky, because of the credit of the borrower, the appraised value of the property, the complexity of the entitlement process or other factors. Guarantees for the financing from public or philanthropic sources can mitigate the risk and allow financing that will create new housing and improve existing homes.

The advantage of guarantees is that they allow relatively small amounts of public or philanthropic capital to unlock far larger, typically five to ten times larger, scales of private financing. Given the scale of the need for investment in housing in Shelby County, this level of leverage is necessary.

Prioritize Rental Loan Improvement and Infill Construction

Identify and support additional financing products for investors and developers to enhance development feasibility of multifamily infill structures.

Provide Pathways for Homeowner Investment

Provide pathways for existing homeowners to **invest in their homes**, both to support homeownership and improve overall housing quality.

Develop Financing Products for New Homeowners

Develop financing products for new homeowners and **expand homeownership opportunities to households that have been traditionally excluded** from owning homes.

The Financing chapter builds on these recommendations and provides an implementation guide and set of metrics to track progress on these recommendations.

Executive Summary | Funding

Align public funding **by combining and redesigning existing housing programs** and **scaling up** local public and philanthropic funding.

The City and County currently deploy a limited amount of local public funding across a wide range of programs. This must be addressed at both ends by combining duplicative programs to allow for greater focus and increasing local funding to increase the scale.

There should be **ongoing coordination between the City, neighborhood associations, and other community groups** to guide the investment of public funds and sustain public support for these ambitious but achievable goals.

Consolidate Housing Programs

Coordinate efforts of local governments, non-profits and key partners to reduce financing complexities that contribute to increased costs and duplication.

Dedicate New Local Funding

Target new funding to programs that will have the greatest impact on addressing the housing affordability crisis. Specifically, this includes the expansion of existing rehabilitation programs and gap financing for LIHTC.

Leverage Community Investment Tax Credit (CITC)

Engage local banks to maximize the use of the Community Investment Tax Credit (CITC) program to make loans at below market interest rates for affordable housing.

Advocate for State Support

Conduct advocacy to the State on key issues related to State resources. These include advocating for changes to the State's Qualified Action Plan, increasing the availability of bond financing and other resources that improve programming.

The Funding chapter builds on these recommendations and provides an implementation guide and set of metrics to track progress on these recommendations.

**Naturally occurring affordable housing (NOAH) is unsubsidized housing that is affordable to households making 80% area median income (AMI).*

Executive Summary | Implementation Responsibility

The City of Memphis and Shelby County will lead the implementation of the Housing Policy Plan, collaborating with other quasi-public and non-profit entities. The City and the County both have influence on the regional housing market and will need to work in coordination to make meaningful progress. Additionally, each approach requires buy-in and support from the private sector. Mission-oriented philanthropic, non-profit, and for-profit organizations are critical partners bringing additional resources and capacity to public efforts.

Land Use

The City and the County have a joint Unified Development Code (UDC), therefore both governing bodies have a role to play in updating the land use standard to promote a healthy and sustainable housing market. Additionally, the implementation of land use changes are more effective if both the City and County are coordinating on where to incentivize development and the type of development needed.

Land Activation

There are legal and regulatory processes associated with activating land that make it necessary for the County and City to work together. The City and County need a high level of coordination on their administrative processes to effectively return land to productive use.

Tax Reform

The City and County have taxing authority and they will need to coordinate tax rebate programs to have a meaningful impact on the market. The Tax Reform approach will be much less effective if it is not a shared effort, and the resulting costs could otherwise become inequitable.

Finance

The key to success for implementation of Financing will be establishing public-private partnerships. Through this effort, the City or County could act independently or in partnership, but nonetheless should coordinate roles and responsibility to implement the recommendations at a greater scale. Regardless of the structure, engaging a private lender with public support is a crucial aspect to expanding lending opportunities to more households.

Funding

The City and County currently administer largely uncoordinated programs for housing. In order to have effective Funding implementation, both entities must coordinate and share the burden of increasing the level of public funding. As they coordinate, they should also establish processes for coordination with philanthropic actors.