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Policy Note – Affordable Housing Research

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**Question:**

“How can the City of Santa Fe (“City”) develop institutional mechanisms that can influence the market to produce more affordable housing?”

**Summary:**

Santa Fe has an insufficient supply of housing, and in particular affordable housing. There is a need for institutional mechanisms that can influence market forces to create more affordable housing and housing in general.

**Background:**

- Nationally, the US has been underbuilding housing for years. A 2023 US Congressional report confirms this, by citing a dearth of housing starts, meaning the number of housing units that begin construction in a given time period.<sup>1</sup>
- Average home prices in New Mexico rose by 70% and rents rose by 60% from 2017 to 2024. The latter is far above the national average of 27%. This discrepancy in New Mexico is largely due to housing undersupply and scarcity. In New Mexico, housing supply has actually decreased to half of what it was in 2019. Home prices in Santa Fe have climbed by 68% since 2018.<sup>2</sup>
- Lack of affordable housing costs the United States \$2 trillion annually. Households that are cost burdened have insufficient expendable income to effectively stimulate the economy. 70% of extremely low-income families spend over half of their annual income on rent payments.<sup>3</sup>

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<sup>1</sup> Lida R. Weinstock, “The U.S. Housing Underbuilding Gap,” *Congress.gov* (Congressional Research Service, July 10, 2023), <https://www.congress.gov/crs-product/IN12195>.

<sup>2</sup> Alex Horowitz, Seva Rodnyansky, and Dennis Su, “Restrictive Regulations Fuel New Mexico’s Housing Shortage,” *Pewtrusts.org* (The Pew Charitable Trusts, January 21, 2025), <https://www.pewtrusts.org/en/research-and-analysis/articles/2025/01/21/restrictive-regulations-fuel-new-mexicos-housing-shortage>.

<sup>3</sup> “The Problem,” National Low Income Housing Coalition, 2024, <https://nlihc.org/explore-issues/why-we-care/problem>.

Family health outcomes improve when a family pays 30% or less annually on housing. Stress and mental health issues are also lower among families who can better afford housing. Affordable housing has been shown to benefit domestic violence victims, as stable housing allows victims of abuse to more readily seek out and find other housing options away from domestic abuse environments. Stable and affordable housing also reduces overreliance on personal vehicles, thus contributing to improved climatic and environmental outcomes.<sup>4</sup>

### Findings:

- Current Santa Fe policy:
  - Community Development Block Grant (“CDBG”) are grants for developers, advertised through *the New Mexican* to advertise funding and scheduling. The Community Development Commission (“CDC”) views applicant presentations and funding recommendations are made in March of each year. Funding recommendations must be approved by the Governing Body in the *Draft Annual Action plan*.<sup>5</sup> The CDC is guided by the City’s five-year strategic plan. The CDC’s role is to provide recommendations to the Governing Body for the allocation of housing funds.<sup>6</sup>
  - The Santa Fe Homes program (“SFHP”) is administrated by the Santa Fe Office of Affordable Housing. The program requires all new developments in the City to provide a percentage of new units as affordable housing – specifically 20% of new developments must be affordable for those making 80% or less of Santa Fe’s Area Median Income (“AMI”).<sup>7</sup>
- Difficulties, Options Based on Empirical Data, and Shortcomings of Contemporary Trends:
  - Contemporary affordable housing strategies have much of their genesis in the 2008 sub-prime lending crisis. Inclusionary Zoning (“IZ”), Upzoning, and Tax Incremental Funding (“TIF”) remain among the most popular.<sup>8</sup>
  - TIF denotes a portion of local tax revenue that is allocated to specific geographic portions of a municipality for specific purposes – for instance, the construction or subsidization of affordable housing or the creation of Community Redevelopment Agencies (“CRA”).

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<sup>4</sup> Jeffrey Lubell, Rosalyn Crain, and Rebecca Cohen, “Framing the Issues- the Positive Impacts of Affordable Housing on Health Framing the Issues -the Positive Impacts of Affordable Housing on Health,” July 2007.

<sup>5</sup> “CDBG City of Santa Fe’s Process | City of Santa Fe,” Santafern.gov, 2024, <https://santafenm.gov/affordable-housing/funding-opportunities/city-of-santa-fes-process>.

<sup>6</sup> “City Releases Five-Year Strategic Housing Plan Draft | City of Santa Fe,” Santafern.gov, May 13, 2024, <https://santafenm.gov/news/city-releases-five-year-strategic-housing-plan-draft>.

<sup>7</sup> “Santa Fe Homes Program | City of Santa Fe,” Santafern.gov, 2020, <https://santafenm.gov/affordable-housing/santa-fe-homes-program>.

<sup>8</sup> Lance Freeman and Jenny Schuetz, “Producing Affordable Housing in Rising Markets: What Works?,” *SSRN Electronic Journal* 19, no. 1 (2016), <https://doi.org/10.2139/ssrn.2851175>.

- Inclusionary Zoning has produced mixed results. It requires a pre-existing high demand for market rate housing in the first place in order to attract developers. In low-income areas of a municipality, this demand is often low. Additionally, data shows that IZ has contributed only modestly to the development of affordable housing when it is implemented, having produced less than 0.1% of all affordable housing in analyzed locations.
- IZ and other indirect measures do not properly address root causes of housing unaffordability.
- Chief among these root causes are the stagnation of wages for low- and moderate-income families over more than two decades,<sup>9</sup> as well as a precipitous decline in direct subsidies for affordable housing from the Federal government.<sup>10</sup>
- Upzoning:
  - Upzoning refers to changing zoning regulations to allow for increased density in municipal zones. This strategy differs from Inclusionary Zoning significantly in that upzoning directly influences the type of residential property that can be built in a given district or locale. Upzoning has proven effective in creating affordable multi-unit housing in cities such as Portland, Oregon, where upzoning was helpful in increasing housing supply and creating more diverse development outcomes.<sup>11</sup>
- Accessory Dwelling Unit (“ADU”) Programs:
  - ADUs are a novel way of creating more housing in a given municipality. ADUs can either be converted parts of existing homes, new stand-alone structures, or existing stand-alone structure.<sup>12</sup>
  - Santa Fe currently allows ADUs, however there are ways to expand and further incentivize the building or establishment of ADUs. The city of Boston’s ADU Pilot Program, for example, promoted ADUs by offering subsidized loans for homeowners interested in creating ADUs on their property.<sup>13</sup>
- Missing Middle Housing:
  - Missing middle is usually defined as the critical lack of available housing for low-to-moderate income families in all housing sectors, meaning urban, suburban, and rural. The lack of this middle housing is largely due to laws originating in the 1940s

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<sup>9</sup> Lawrence Mishel, Elise Gould, and Josh Bivens, “Wage Stagnation in Nine Charts,” Economic Policy Institute, January 6, 2015, <https://www.epi.org/publication/charting-wage-stagnation/>.

<sup>10</sup> “Historical Perspectives on Federal Housing Policy a Brief Overview of the Federal Role in Housing Provision in the United States,” accessed February 5, 2026, <https://www.historians.org/wp-content/uploads/2023/11/Housing-Handout-Final.pdf>.

<sup>11</sup> Hongwei Dong, “Exploring the Impacts of Zoning and Upzoning on Housing Development: A Quasi-Experimental Analysis at the Parcel Level,” *Journal of Planning Education and Research* 44, no. 1 (February 1, 2021): 0739456X2199072, <https://doi.org/10.1177/0739456x21990728>.

<sup>12</sup> Freeman Lance and Lei Yining, “An Overview of Affordable Housing in the United States” (Penn Institute of Urban Research, 2024).

<sup>13</sup> Kim Shanahan, “New Rules on ADUs Make for a New, Can-Do Era,” Santa Fe New Mexican, October 22, 2023, [https://www.santafenewmexican.com/news/real\\_estate/new-rules-on-adus-make-for-a-new-can-do-era/article\\_386cae78-6ee4-11ee-af5b-031d82ddaad5.html](https://www.santafenewmexican.com/news/real_estate/new-rules-on-adus-make-for-a-new-can-do-era/article_386cae78-6ee4-11ee-af5b-031d82ddaad5.html).

that made multi-unit zoning illegal in much of the United States, opting instead for suburban oriented single-family zoning.<sup>14</sup>

- Potential solutions to solving the missing middle issue include:
  - Community Land Trusts (“CLT”). Land trusts function as a way for a non-profit corporation to purchase land on behalf of a community in order to keep the land as a long-term parcel for affordable housing and other civic purposes. Generally, a single non-profit organization will purchase parcels of land in a given geographic area. The non-profit owns the land on the basis of a “ground lease”, an extremely long-term lease usually lasting around 99 years.
  - Capital funds can also be set aside specifically for developers who are willing to build middle housing in upzoned areas. These capital funds are meant to incentivize small-scale developers to specifically build this type of multi-unit housing on upzoned CLTs.<sup>15</sup>
- Social Housing:
  - The United States remains one of the most difficult countries on Earth in which to build plentiful, sustainable, and high-quality social housing. This is unfortunate considering any comprehensive affordable housing program will need a combination of market oriented and directly subsidized housing options.
  - Global examples:
  - Paris: Paris is a case study in how a strong centralized governing authority combined with clear eyed municipal leadership are critical in facilitating widespread affordable housing.
    - During the COVID-19 pandemic, Paris created a new economic development plan that includes specific metrics for how many housing units the City would build each year, construction of all new neighborhoods, and protection of green spaces in the city.
    - Large portions of housing in Paris are social housing. This is easier to achieve in France than in the United States. All of France utilizes what are known as “quasi-public developers” – corporations that are either partially or totally public utilities. Boards of directors are local elected officials, and the companies are funded by grants from the national government. These public developers build about one fifth of all housing in Paris.<sup>16</sup>
    - Inclusionary Zoning is also nationally mandated in France, with the interested addition that social housing is considered a required criterion of

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<sup>14</sup> “What Is Missing Middle Housing?,” National League of Cities, January 23, 2024, <https://www.nlc.org/article/2024/01/23/what-is-missing-middle-housing/>.

<sup>15</sup> David Garcia et al., “Unlocking the Potential of Missing Middle Housing” (Turner Center for Housing Innovation, 2022).

<sup>16</sup> Kim Dobson, “Yes, Other Places Do Housing Better, Case 3: Paris,” Sightline Institute, July 27, 2021, <https://www.sightline.org/2021/07/26/yes-other-places-do-housing-better-case-3-paris/>.

inclusion. Minimum criteria for social housing in the country hovers between twenty and twenty five percent. In US cities by comparison, this number rarely goes about five percent.<sup>17</sup>

- While many of these policy structures require a far more centralized governmental system than the United States currently employs, there are other lessons to be learned that will be emphasized when recommendations are given.
- Vienna:
  - Vienna is often cited as the most livable city in the world.
  - Approximately half of Vienna’s residents live in subsidized housing. The city invests about \$250 million annually into socialized housing. This is substantially more than most US cities invest in their public or affordable housing programs.<sup>18</sup>
  - Affordable Housing in Vienna is categorized into two types: city-owned and city-subsidized housing. In the case of city subsidized housing, developers compete for low interest loans provided by the city. Developers must live up to specific criteria, such as climate sustainability, to be selected.<sup>19</sup>
  - Unlike France, Austria’s housing policies are actually fairly decentralized in comparison.
  - Subsidies for Vienna’s social housing come from national taxes and Vienna’s regional budget. Austria’s total expenditure for affordable housing is actually less than comparable countries that primarily use tax deduction or indirect subsidy, market driven housing policies.
  - Vienna increases subsidized housing goals in conjunction with estimated population growth. Due to high levels of subsidization, the city itself is the metropolitan area’s largest landlord.<sup>20</sup>
  - The city employs “limited profit housing associations” – these developers may only profit from their properties to a limited extent. These limits help to keep housing prices low. In return, limited profit associations are exempt from Austria’s national corporate tax.<sup>21</sup>

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<sup>17</sup> Dobson, “Yes, Other Places Do Housing Better, Case 3: Paris,” July 27, 2021,

<https://www.sightline.org/2021/07/26/yes-other-places-do-housing-better-case-3-paris/>.

<sup>18</sup> Lucky Michael and Amy Denhart, “Exploring the Promises and Challenges of Vienna’s Social Housing Program,” Funders Together to End Homelessness, 2016, [https://www.funderstogether.org/vienna\\_social\\_housing](https://www.funderstogether.org/vienna_social_housing).

<sup>19</sup> Julia Simon and Ryan Kellman, “Could This City Be the Model for How to Tackle the Housing Crisis and Climate Change?,” NPR, June 15, 2025, <https://www.npr.org/2025/06/15/nx-s1-5400642/affordable-housing-environment-vienna-climate-change>.

<sup>20</sup> Wolfgang Förster, “The New Tenement: Tradition and Modernity ‘Social Housing Policies in Vienna, Austria: A Contribution to Social Cohesion,’” 2013.

<sup>21</sup> “Limited Profit Housing Construction - Socialhousing,” socialhousing.wien, n.d., <https://socialhousing.wien/tools/limited-profit-housing-construction>.

- Developers are also provided desirable subsidies for housing construction, often in the form of 1% interest loans over a 35-year payment period.
- Judging of development proposals falls under a 4-pilla system used to judge applicants: *economy, social sustainability, architecture, and ecology*.<sup>22</sup>
  - Economic criteria include basic costs, building costs, user costs and conditions of a building contract.
  - Social sustainability denotes the property’s broad-based livability.
  - Architectural concerns simply mean the structure of the building and its accessibility or environmental sustainability.
  - Ecology involves ensuring that the development contains climate-friendly construction, inclusion of green outdoor spaces, and emphasis on resource conservation.
- Projects for development are selected if they can demonstrate a satisfactory emphasis on these four criteria. The judges making developer selections are experts in architecture, urban planning, ecology, and other housing-relevant fields.

### **Recommendations:**

- Zoning changes:
  - Upzoning residential zones could be a significant step in creating more opportunities for denser housing to be constructed.
  - Upzoning would, for example, allow for the expansion of ADU construction in Santa Fe, which would increase the type and amount of housing that Santa Fe residents have access to.
- Missing middle solutions:
  - Addressing missing middle housing requires multiple policy solutions.
  - Establishment of CLTs, subsidization of smaller scale developers through targeted capital funds, and again emphasizing upzoning are all critical steps in the reintroduction of missing middle housing.
- Pursuing forms of social housing:
  - Drafting of a strategic housing plan that includes policy models that have been successful on the international stage.
  - Such a plan could include:
    - A development plan that denotes the number of housing units the City should aspire to build or subsidize each year.
    - The potential establishment of quasi-public developers as is the case in Paris.

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<sup>22</sup> “The Property Developers’ Competition | Urbact.eu,” Urbact.eu, 2021, <https://urbact.eu/good-practices/property-developers-competition>.

- Strategies to seek grants from the state government for the funding of quasi-public developers.
  - Plan to include social housing as a critical criterion of new zoning regulations in the City of Santa Fe.
  - Include specific metrics for the construction of affordable socialized housing based on projected population growth in the City of Santa Fe.
  - Plan for the creation of limited profit housing associations.
  - The creation of a pillared system that is used to judge applicants for the development of affordable housing, in conjunction with desirable low interest loans for those developers that meet qualifying metrics.
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