

Can a Market-Oriented City Also Be Inclusive?

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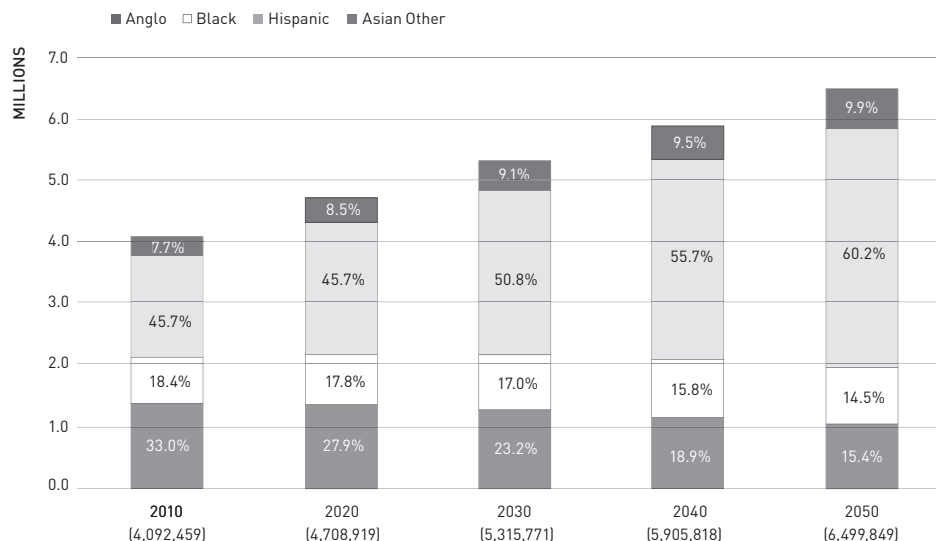
Rice University

Once a traditional Southern city — at least in terms of its racial composition — Houston has emerged in the last 30-plus years as one of the most ethnically diverse cities in the United States. At the same time, however, Houston represents a challenge for inclusiveness that is both unique and important. It has a reputation as one of the most market-oriented cities in the nation for real estate development — and yet it nevertheless has a regulatory system, an abundance of land, and an uncoordinated set of financial incentives for economic development and real estate development, all of which combined create a sub-optimal situation for equitable development.

At a glance, Houston would appear to be a city of unparalleled opportunity for this diverse population, and in many ways, it is. The Houston metropolitan area has almost tripled in population since 1980, from 2.2 million to 6.3 million. It was the fastest-growing metro area in the United States in both 2014 and 2015, according to the US Census Bureau. Houston has moved far beyond the traditional white-black racial dynamic that once characterized the region. As Figure 1 shows, approximately 40 percent of the residents in Harris County, the region's core county, are Hispanic, a number that is expected to grow to 60 percent by 2050. Houston has one of the biggest South Asian populations in the United States — 118,000 Indian-Americans alone — much of which is located in suburban Fort Bend County, especially the affluent suburb of Sugar Land. Houston holds the largest Vietnamese population in the United States outside of California.¹ Adding to the diversity of the city, Houston accepts around 2,500 refugees annually, more than any other city in America.²

Houston also has a reputation as one of America's most affordable cities, at least for housing. Compared to cities on the coast such as New York, San Francisco, Los Angeles, and Washington, Houston is relatively affordable. According to Zillow, the median 2016 home value in metropolitan Houston was \$310,000, compared to \$610,000 in Los Angeles and \$535,000 in Washington, D.C.³ Price increases in Houston have been modest in recent years because of a slump in oil prices.

Figure 1: Population Projections of Harris County by Race/Ethnicity



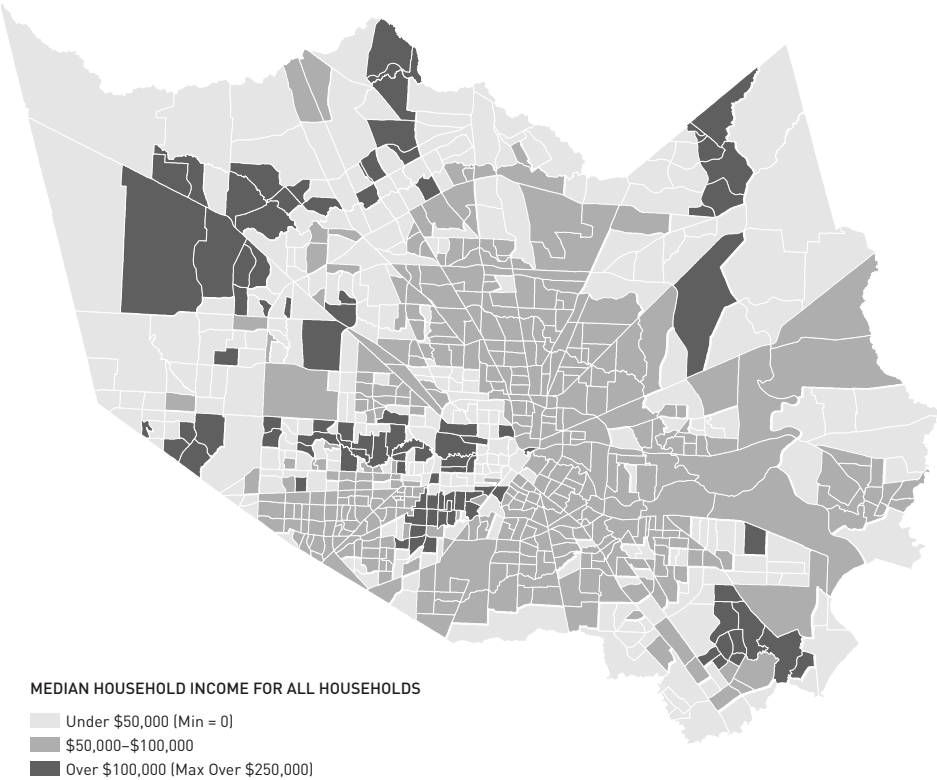
Source: Klineberg (2016).

There's no question that the Houston housing market, especially the suburban housing market, provides opportunity for people with good blue-collar and white-collar jobs. But the big picture masks growing inequality and disparity that is at least as bad as, and perhaps worse than, the national average.

Since 1980, Houston has seen a startling increase in the concentration of poverty, with almost 40 percent of all Census tracts in Harris County⁴ now suffering from concentrated poverty, meaning 20 percent or more of the households in that tract are households in poverty.⁵ Residents of Houston and Harris County also suffer from geographical disparities on almost every social and economic factor ranging from health to income. Some neighborhoods still feature income diversity, but most of these neighborhoods consist of moderate- and low-income residents of color. Affluent neighborhoods, especially affluent white neighborhoods, are increasingly segregated by income from the rest of the Houston region. In his new book, *The New Urban Crisis*, Richard Florida ranks metro Houston 7th nationally in his “segregation and inequality index” – trailing only New York and Los Angeles among large cities, and is ahead of San Francisco and Washington, D.C.⁶ In this way, Houston is becoming less inclusive — that is, lower-income residents, including low-wage workers, are either being consigned to high-poverty neighborhoods or pushed to distant locations far from jobs.

Like many other cities, Houston also appears to be suffering from a displacement and gentrification problem, at least according to anecdotal evidence. Most of the Census tracts with increased concentration of poverty are not in central Houston, inside the

Figure 2: Median Household Income for Harris County by Zipcode, 2010–2014

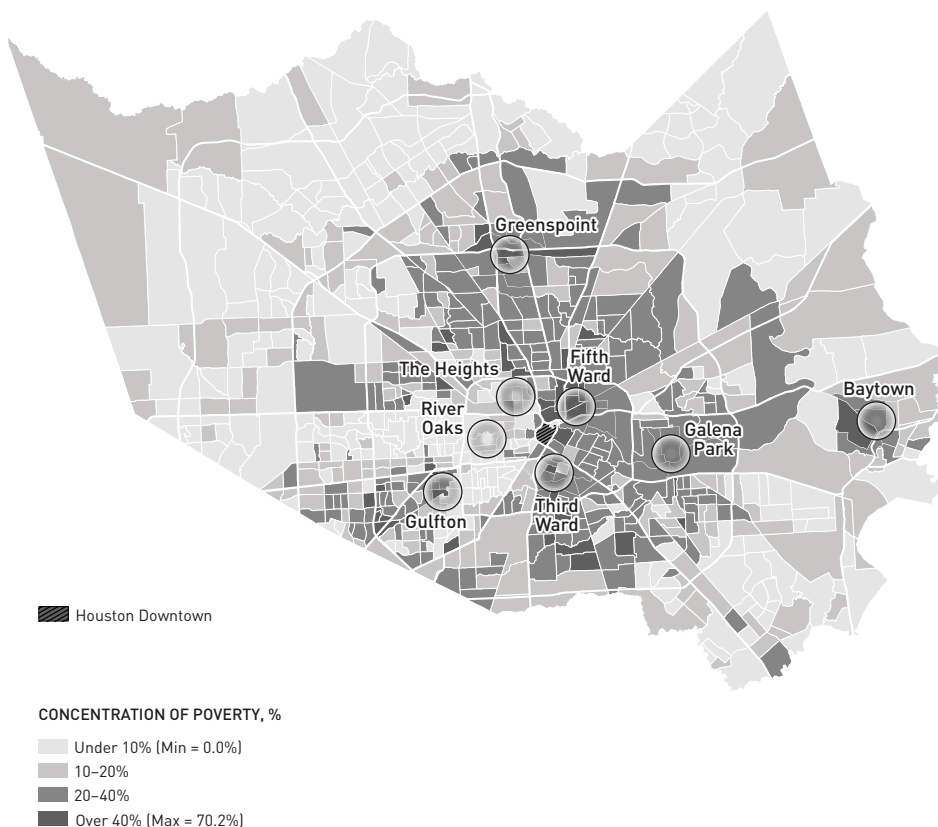


Sources: O’Connell and Howell (2016).
American Community Survey (ACS) 5-year period estimates, 2010–2014.

I-610 Loop, but are rather in between the I-610 Loop and Beltway 8, meaning they are between six and fifteen miles away from downtown Houston.⁷ Though suburban in built form, most of these neighborhoods are actually located inside the City of Houston’s boundaries. For example, Gulfton, formerly a “young singles” apartment neighborhood just outside the I-610 Loop near tony Bellaire, became a “port of entry” neighborhood after the oil crash of the 1980s, with immigrants and refugees from all over the world now living there.

Meanwhile, the historically African-American neighborhoods around downtown Houston are rapidly gentrifying with luxury apartment buildings aimed at Millennials. In his book *The Great Inversion and the Future of the American City*, Alan Ehrenhalt tells the story of the Third and Fourth Wards, which are located immediately to the south and southwest of Downtown Houston, respectively.⁸ The Fourth Ward was quickly gentrified, leading to resentment among the African-American community. As a

Figure 3: Concentrated Poverty for Harris County by Zipcode, 2006–2010

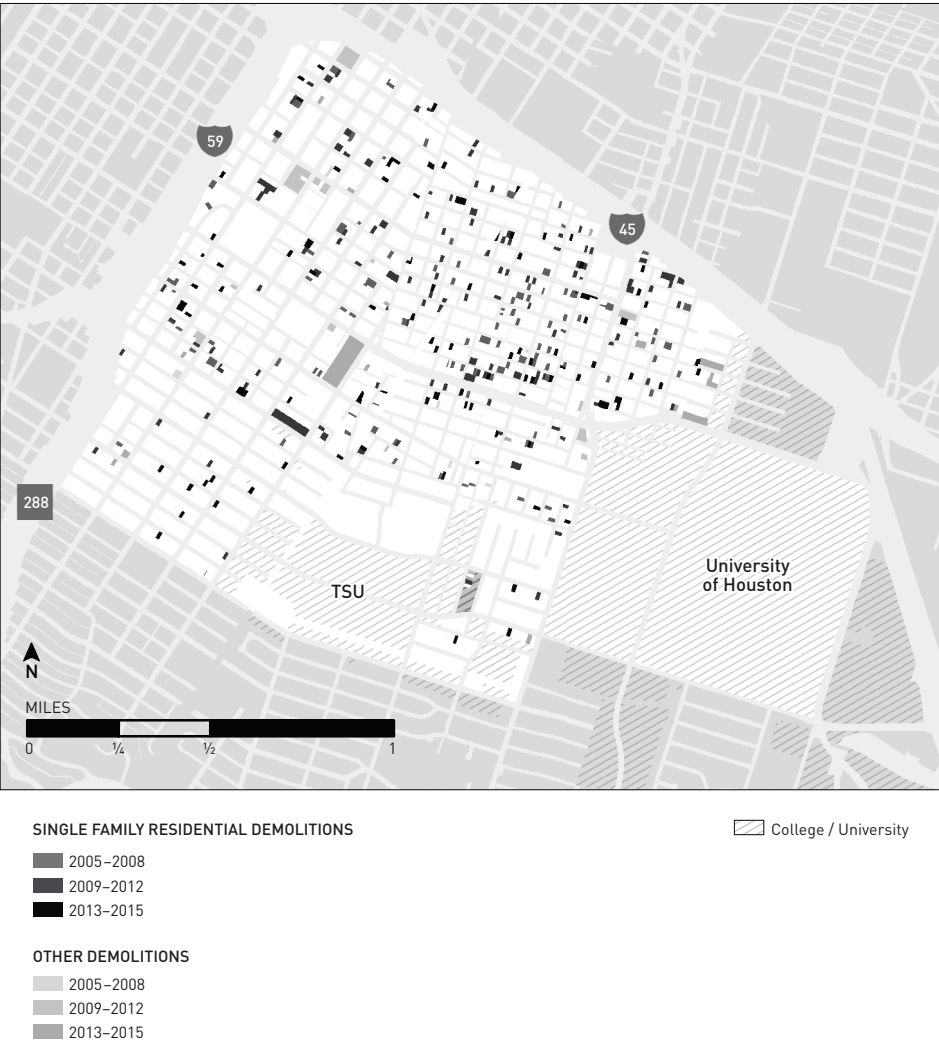


Source: O’Connell and Howell (2016).

result, political leaders in the Third Ward began using the local tax-increment financing district’s funds to purchase land to block gentrifying development.

Displacement and gentrification in the Third Ward remains a risk, however. The neighborhood, whose residents have a median income of only \$25,528, is situated in an ideal location, in between Downtown to the north and the affluent Museum District to the south and along Highway 288.⁹ Demolition in the Third Ward has been rampant and wide-ranging. 10 New construction has been concentrated along 288, where classic Houston “townhomes” (three-story attached and small-lot detached single-family units) are replacing the neighborhood’s traditional housing stock. New townhome prices range from \$350,000 to \$450,000. (In the last 15 or so years, it has been common practice in older Houston neighborhoods to demolish one older single-family home and replace it with three to six townhomes.)

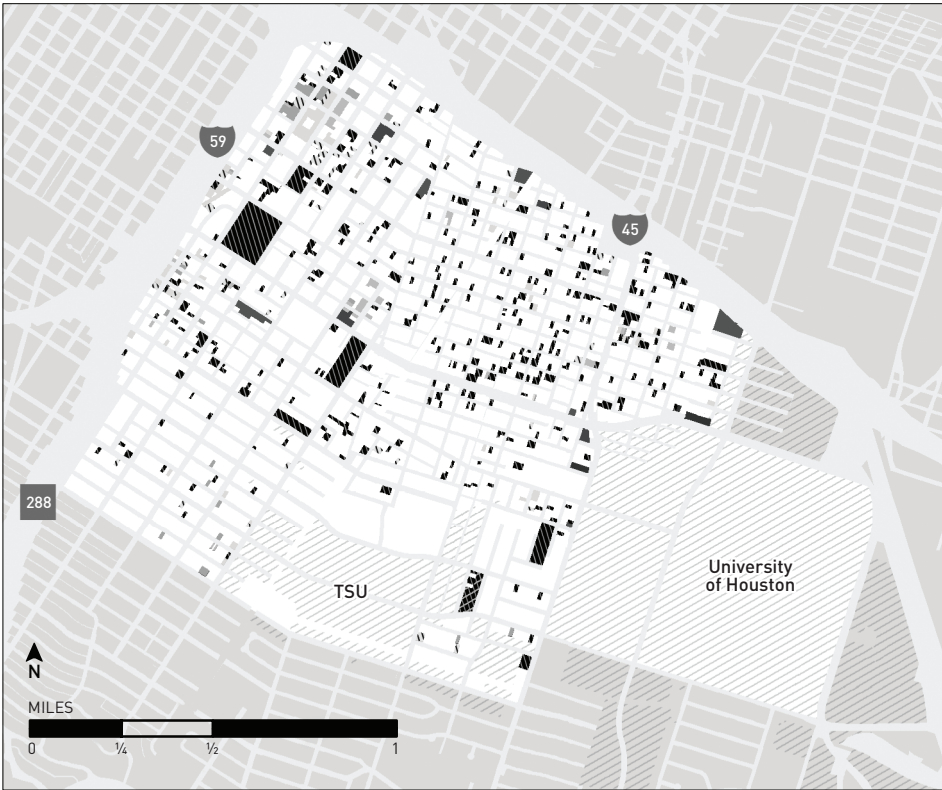
Figure 4: Single-Family and Other Demolition Activity in the Third Ward, 2005–2015



Source: Walker and Shelton (2016).
Map by Kelsey Walker. Institute for Urban Research.

So, at the same time that new townhomes and luxury apartments are being built in close-in neighborhoods, hundreds of thousands of families, many of which include low-wage workers, are living in older, substandard apartment buildings in inconvenient locations between the 610 Loop and Beltway 8 (see Figure 6.) These apartments are not formal, subsidized “affordable housing,” but they provide an extremely important source of naturally occurring affordable housing for those on the wrong side of Houston’s disparity divide.

Figure 5: Single-Family and Other Construction Activity in the Third Ward, 2005–2015



SINGLE FAMILY RESIDENTIAL CONSTRUCTION

- 2005–2008
- 2009–2012
- 2013–2015
- Building Permit Only*

OTHER CONSTRUCTION

- 2005–2008
- 2009–2012
- 2013–2015
- Building Permit Only*

College / University

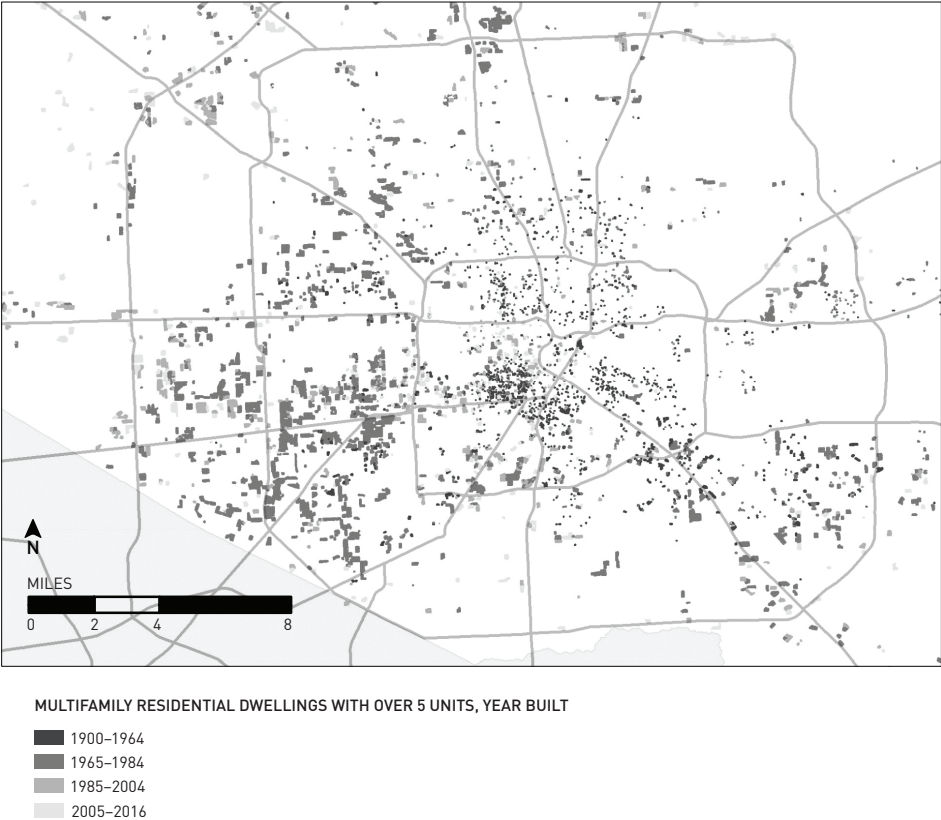
Source: Walker and Shelton (2016).
Map by Kelsey Walker. Institute for Urban Research.

HOUSTON’S UNIQUE CHALLENGES AND OPPORTUNITIES

Although its general pattern of disparity, displacement, and gentrification is typical of large American cities, Houston faces a unique set of challenges and opportunities in seeking to overcome spatial disparities associated with housing and transportation.

On the plus side, Houston has an abundance of land and, uniquely among large American cities, no use zoning — conditions which ought to present ample opportunities for both market-rate and subsidized affordable housing. Even neighborhoods in

Figure 6: Multifamily Buildings by Year of Construction



Source: Kinder Institute for Urban Research, Rice University.

the path of gentrification such as the Third Ward have large amounts of vacant land, though speculation has often driven up land prices. Other historically underserved neighborhoods, such as the historically African-American Fifth Ward and the historically Hispanic East End, also have ample land with lower prices.

But the general absence of strong government controls that exist in most other large cities, and the lack of use zoning specifically, also limit opportunities to use otherwise strong market forces to create affordable housing, both naturally and via subsidies.

The lack of use zoning means land that could be available for affordable housing is sold to the highest bidder irrespective of use. Land that might be reserved for housing in another city can be purchased by office or industrial developers. Land that might be reserved for high-density, multi-family, and mixed-use development in another city can be purchased by townhome developers to feed that portion of the market. And because there are both no use restrictions and few density restrictions, it is not

possible to impose inclusionary zoning requirements that, in most other cities, yield either affordable housing units or funds to build affordable housing.

Partly for this reason, Houston also has a relatively weak community development infrastructure. Community development corporations (CDCs) often arise in cities with strong governmental land-use controls, in large part because those land-use controls provide opportunities to obtain both land and financing for affordable projects. Houston has some outstanding CDCs, including Avenue (which focuses on the Near North Side) and New Hope Housing (which builds housing citywide); these CDCs use low-income housing tax credits and other common mechanisms. In addition, the Houston office of the Local Initiative Support Corporation provides local leadership. Overall, however, the CDC ecosystem is spotty. Houston has a relatively small public housing infrastructure because the city sometimes rejected federal money for such purposes in the '60s and '70s.

At the same time, paradoxically, some land-use regulations in Houston are either onerous or used as zoning “workarounds” to prevent higher-density housing from being constructed in older neighborhoods.

For example, Houston may have no use zoning but, except for downtown, it has typically suburban parking and setback requirements almost everywhere in the city. Most urban developments must go to the city planning commission to obtain a variance to build a truly urban project. (The city code contains some alternatives, including an optional transit-oriented development zone, but these are not frequently used.)

Similarly, in the absence of use zoning, several alternatives have been developed that are designed to prevent construction of urban housing types in many neighborhoods. Affluent neighborhoods in Houston have long been protected by restrictive deed covenants, some of which are enforced by the city (an unusual practice nationwide). In recent years, older close-in neighborhoods that are gentrifying have used the creation of an historic district as a way to prevent new dense development. Finally, neighborhoods in Houston have the option of seeking minimum lot-size ordinances, which effectively prevent the creation of townhome developments — or multi-family apartment developments.

The city does have a variety of tools at its disposal to create affordable housing, including state-sanctioned economic development subsidies and housing vouchers. However, these tools have not been used in a systematic way to produce affordable housing. In addition, Mayor Sylvester Turner, who was elected in 2015, recently ran afoul of the US Department of Housing and Urban Development by declining to use low-income housing tax credits for a project in a “high-opportunity” site near the

Galleria area. Indeed, not unlike Ben Carson, the new secretary of Housing and Urban Development, Turner has argued forcefully that children in underserved neighborhoods should not have to move to high-opportunity areas in order to find a path to success in life.

Turner, who grew up in the historically African-American Acres Homes neighborhood, recently told the *Houston Chronicle*: “I categorically reject the notion that in order for poor children — those who come from lower socioeconomic families — in order for them to participate in the American dream, that I have to move them from where they are and place them someplace else.” Turner continued by asserting, “The answer is to invest in the communities where they are.” Turner is currently investigating ways to use housing vouchers more effectively to create a better distribution of affordable opportunities throughout the city.¹¹ The mayor’s role is especially important in Houston. The City Council adopts the budget and must approve many actions, but the Houston City Charter creates a very “strong mayor” system in which the mayor sets the agenda and has complete control over the executive departments.

A MORE INCLUSIVE MARKET-ORIENTED CITY

As was stated above, Houston is at once a market-oriented city and one whose regulatory system and financial incentives do not always align with the goal of inclusiveness. Within this seemingly contradictory set of conditions lies the opportunity to create a model for a more inclusive, market-oriented city. Specifically, four actions can help shape the market-oriented approach.

Align Economic Development Incentives with Inclusiveness Goals

As stated above, Houston actually does provide financial assistance to real estate developers in the form of so-called “380 agreements”—economic development agreements to provide financial assistance to developers. However, these incentives are not aligned with goals of inclusiveness.¹² The city rarely seeks, for example, affordable housing in return for economic development incentives. Aligning the city’s own economic development incentives with inclusiveness goals would go a long way toward helping inclusiveness in Houston. In his Transition Team Report, Mayor Turner endorsed the idea of focusing the city’s “investment resources,” everything from housing assistance to public works projects, on underserved neighborhoods. This goal is contained in the city’s 2015 general plan, which Mayor Turner has directed his staff to implement through its budget process. But the impact of “Plan Houston,” as the general plan is called, is still in its infancy, and the city has not yet implemented a set of policies and strategies that delineate how it will concentrate resources in underserved neighborhoods. Mayor Turner is expected to provide detail in a new initiative he calls “Complete Communities.”

Align Regulations with Inclusiveness Goals

Although Houston does not have use zoning, the city does have a wide variety of conventional development regulations — notably, parking and setback requirements — that drive up the cost of housing development and make the city less inclusive. The city should relax or adapt such regulations in specific locations where it hopes to encourage inclusive development. As the transit-oriented development (TOD) ordinance experience suggests, such regulatory relief must be carefully crafted if it is to be a preferable alternative to simple market-rate development that seeks variances from the planning commission.

Use Government and Institutional Landholdings Strategically To Pursue Inclusiveness Goals

Houston has an abundance of land even in close-in locations, though in many cases real estate speculation is driving up the cost of that land to the point where only high-end market-rate development is possible. However, especially in close-in locations, much of the land, especially vacant lots and parking lots, is owned by either government agencies such as Tax Increment Reinvestment Zones (TIRZ) or institutional entities such as churches. The city can move a long way toward inclusiveness by working with these entities to make at least some of this land available for affordable housing. Such an effort is already under way in the Third Ward, where a community land trust including some TIRZ and institutional land may be formed as a result of the joint efforts of neighborhood leaders and Houston philanthropies under the auspices of the Emancipation Economic Development Council.

Create a Broad and Comprehensive Approach to Inclusiveness Including Both Underserved and High-Opportunity Areas

Responding to concern about high-opportunity areas, the Turner administration is already considering a series of steps to encourage broader distribution of affordable housing, including more effective use of federal housing vouchers. Using this approach, *and* the steps outlined above, the city can create a comprehensive inclusiveness policy to encourage not only affordable housing in affluent areas but also mixed-income housing opportunities in historically underserved areas. Such a policy can take advantage of Houston's traditionally market-oriented approach combined with the public policy levers available to the city and related entities. Mayor Turner endorsed the idea of a comprehensive housing plan in his Transition Team Report.

CONCLUSION

At a time when income inequality is giving more market power to the affluent, it is no easy task to create greater inclusivity in a market-oriented city. Despite its "regulation lite" approach — or perhaps because of it — Houston appears to be among the most unequal large cities in the country. Making the city more inclusive will require both a

comprehensive citywide approach and targeted efforts in underserved neighborhoods threatened by gentrification.

As mentioned above, the emerging effort in the Third Ward is likely to be a good testbed for some of these ideas. Located just south of Downtown Houston, the Third Ward is a culturally significant, historically African-American community — the location of the original Juneteenth celebration. Although its residents are still extremely poor, the Third Ward is facing gentrification now that land prices are going up and market-rate townhomes are being built.

It is likely that a comprehensive approach will help the Third Ward. The city will probably designate the Third Ward as one of its “Complete Communities” neighborhoods, thus concentrating city investment of all kinds there. As stated above, a community land trust might be created in order to assure that institutional and government-owned land is used for community benefit, including maintaining affordable housing, instead of private profit. And if any 380 agreements are executed in the Third Ward, they should carry the *quid pro quo* requiring developers to meet social as well as economic objectives.

At the same time, Houston will not become inclusive unless a comprehensive effort is undertaken to ensure that affordable housing is made available in high-opportunity areas near job centers. Mayor Turner’s recent decision to kill an affordable housing project near the Galleria was a disappointment in this regard, but the city will go a long way toward inclusiveness by using vouchers and other resources to provide a greater range of housing opportunities in affluent neighborhoods.

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- World Refugee Day Houston. 2016. <http://www.worldrefugeedayhouston.org> (accessed February 16, 2017).

Endnotes

- 1 US Census Bureau (2016).
- 2 World Refugee Day Houston (2016).
- 3 Home values from Zillow.com: <https://www.zillow.com/houston-tx/home-values>, <https://www.zillow.com/los-angeles-ca/home-values>, and <https://www.zillow.com/washington-dc/home-values> (accessed February 16, 2017).
- 4 About half of the 4.5 million people who live in Harris County live in the City of Houston. Although the issues described in this paper are endemic to Harris County, we focus primarily on solutions in the City of Houston, in part because its governmental structure for housing issues is stronger than in the county.
- 5 O'Connell and Howell (2016).
- 6 Florida (2017).
- 7 The I-610 Loop is an area of almost 100 square miles inside Houston's first beltway, located between 6 and 8 miles from downtown Houston. The western half of this Loop, from University of Houston to the Uptown/Galleria area, includes most of the regionally significant locations and institutions in Houston, such as Houston's oldest neighborhoods (some very rich and some very poor), museums, sports arena, job centers, medical and educational institutions, and "crown jewel parks." Beltway 8 is the second beltway, located approximately 15 miles out, which includes mostly suburban residential areas developed between 1970 and 2000. See City of Houston (2013).
- 8 Ehrenhalt (2012).
- 9 City of Houston (2013).
- 10 Walker and Shelton (2016).
- 11 Elliott (2017).
- 12 Sarnoff (2010).