Strategies for Maximizing the Benefits of Housing Subsidies

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WHERE WE LIVE REALLY MATTERS FOR PEOPLE'S WELL-BEING AND LONG-TERM LIFE CHANCES

Raj Chetty's recent findings extend a substantial body of research on the importance of place, establishing that where we live matters to our well-being and long-term life chances.[1] Compelling evidence shows that every year of exposure to a more opportunity-rich community improves a child's chances of economic success as an adult.[2] And children whose parents were able to escape from deeply poor neighborhoods (through the Moving to Opportunity experiment) achieved substantially better outcomes as young adults than those in a control group.[3] Life expectancies can differ by as much as twenty years between rich and poor neighborhoods within the same city.[4] And other recent research finds that living in a high-poverty neighborhood undermines some outcomes across generations.[5] High levels of residential segregation and poverty concentration block economic mobility and exacerbate inequality, undermining our nation's vitality and economic performance. These findings argue strongly that scarce housing subsidy resources should enable lower-income families to live in neighborhoods of their choice that offer a decent quality of life and access to opportunities for both parents and children.

Federal Housing Policies Have Often Undermined of Neighborhood Choice and Inclusion

For much of the 20th century, federal housing programs (aimed at assisting both low-income renters and aspiring homeowners) have intersected with exclusionary land use regulations and discriminatory market practices to block low-income families and people of color from communities that offer safety, good schools, a healthy environment, and homeownership opportunities. The historical record clearly demonstrates that our nation's stark patterns of racial segregation and poverty concentration were established through public policy, including the enforcement of restrictive covenants, local land use regulations, underwriting requirements for federally insured mortgage loans, federally funded urban renewal strategies, and siting and occupancy regulations for public housing.[6]

At its inception, federally subsidized rental housing (targeted to households at the bottom of the income ladder) was largely segregated by race as a matter of law. Beginning immediately after World War II, when thousands of public housing units were built to address the nation's housing shortage, housing developments built in black neighborhoods (and on isolated tracts of vacant land) were designated exclusively for occupancy by blacks, while separate developments were built in white neighborhoods for occupancy by whites.[7] Urban renewal projects of the 1950s and 60s further exacerbated racial segregation and the concentration of poverty. In cities across the country, the Urban Renewal program targeted "slum" neighborhoods for redevelopment and relocated the mostly low-income black residents to public housing in already segregated neighborhoods.[8] At the same time, the Federal Housing Administration's mortgage insurance program encouraged and enabled moderate- and middle-income white families to buy homes in predominantly white suburbs (from which minorities were largely excluded) and discouraged mortgage lending in racially mixed or minority neighborhoods.[9]

In 1968, the Fair Housing Act charged HUD to combat the longstanding patterns of housing discrimination and segregation that block free and fair access to housing and neighborhoods. Despite this mandate, the Department continued to acquiesce to local decisions about the siting and occupancy of public housing.[10] By the 1980s, most public housing residents were black and living in developments isolated from mainstream economic and social opportunities.[11] The racial and economic isolation of these communities was further exacerbated by tenant selection policies that targeted housing subsidies to those with the most severe housing needs.[12]

In the 1960s and '70s, Congress created new programs to subsidize the development of rental housing, making it affordable for low-income renters. Private (or nonprofit) entities rather than public housing agencies owned and managed the new generation of subsidized housing developments. Nonetheless, their locations were constrained by local zoning and land use regulations. HUD's site and neighborhood standards were intended to prevent the over-concentration of assisted housing in high-poverty and predominantly minority neighborhoods, and to expand affordable housing availability in non-poor neighborhoods. But these standards were not vigorously enforced and allowed for numerous exceptions.[13] As a result, most of the rental housing developed for low-income families was located in central cities, and often in the same lower-income neighborhoods as public housing.[14] Thus, the second generation of federally subsidized housing production — like the first — largely failed to offer low-income renters access to high-quality neighborhood environments, thereby reinforcing existing patterns of segregation and poverty concentration.[15]

Today's Federal Housing Subsidy Policies Fall Short of Their Potential to Promote Neighborhood Choice and Inclusion

In principle, the federal housing voucher program gives families at the bottom of the income ladder the ability to move to neighborhoods of their choice. However, the program has never realized its full potential to provide low-income families access to lower-poverty and less segregated communities. Housing vouchers have consistently been found to produce better locational outcomes than traditional public housing, but they perform better in this regard for recipients who live in suburban areas than for those in central cities, for white recipients than for African-Americans and Hispanics, and for the elderly than for non-elderly families and disabled people.[16]

The Low-Income Housing Tax Credit (LIHTC) plays a critical role today in supporting the production of rental housing affordable for households with low to moderate incomes. State policies shape the geographic distribution of LIHTC units, and for many years, most units reinforced existing patterns of economic segregation.[17] Recent evidence suggests that LIHTC has increasingly been used to develop affordable housing in suburban jurisdictions, potentially expanding opportunities for low- and moderate-income renters to find affordable housing in opportunity-rich communities.[18]

Although federal housing finance institutions no longer enforce redlining, they do little to reverse the legacy of segregation or encourage inclusion of low- and moderate-income homeowners in neighborhoods of opportunity. The federal government currently provides almost no direct subsidies for homeownership, although local housing authorities are authorized to allocate a portion of housing vouchers to very low-income homebuyers.[19] However, through the mortgage interest deduction, the federal tax code provides significant subsidies to homeowners, with the biggest subsidies going to the highest-income households.[20] As discussed further in Chris Herbert's essay on homeownership in this volume, the mortgage interest deduction helps perpetuate racial and economic segregation by raising house prices and exacerbating affordability barriers.

Too often, policies aimed at expanding access to opportunity-rich neighborhoods (i.e., fair housing policies) are pursued separately from housing subsidy policies. And tensions between these goals and their respective constituencies arise often — in decisions about whether to invest in the preservation of affordable housing located in distressed or marginal neighborhoods, about whether to help low-income families move to non-poor neighborhoods or prioritize the redevelopment of neighborhoods where they are currently concentrated, and about how much to spend per household or housing unit (since land, and therefore housing, is more expensive in high-opportunity neighborhoods, requiring higher subsidies).

Looking Ahead, Housing Subsidy Policies Can and Should Enable Low-Income Families to Live in Opportunity-Rich Communities while also Contributing to the Revitalization of Distressed Neighborhoods

But this vision cannot be achieved if investments in affordable housing development are allocated one project at a time, or if programs targeting the poorest renters and those serving moderate-income renters and homeowners operate in isolation. Often, conflicts between alternative uses for scarce housing subsidy resources stem from the fact that individual investments are assessed in isolation, rather than as part of a strategic portfolio of investments. To illustrate, when a policymaker has to decide whether the next available $1 million should be used to launch an assisted housing mobility program, preserve and rehabilitate affordable housing in a gentrifying neighborhood, or build mixed-income housing in a distressed community, one strategy does indeed have to win at the expense of the others. But a more deliberate citywide — or better still, regionwide — planning process allocating $5 million to promote housing affordability and inclusion might well decide that these three initiatives would be complementary and should all be funded.

To maximize the benefits of housing subsidies, policymakers should develop and pursue ***portfolio strategies*** that target different investments and interventions to different types of neighborhoods. This kind of portfolio strategy would ideally encompass both affordable rental housing and accessible homeownership and address the needs of households with incomes ranging from extremely low to moderate. Other papers in this volume focus on land use and regulatory issues, which would contribute to a portfolio strategy aimed at housing affordability and inclusion. The papers in this section focus on the role of housing subsidies.

Here I offer a set of basic principles about how housing subsidies should be deployed in four stylized types of neighborhoods: 1) severely distressed, 2) stable low-income, 3) emergent, and 4) opportunity-rich. To be clear, this typology is intended to highlight the value of a comprehensive approach that tailors interventions to the particular challenges and assets of different neighborhoods that make up a city or region. In reality, the borders between these four types are blurry and dynamic, requiring that local stakeholders make judgment calls about the likely trajectories of individual neighborhoods and about the most appropriate mix of investments.

In ***severely distressed neighborhoods,*** subsidized housing probably should not be further concentrated. Investments in these neighborhoods should focus instead on the most urgent problems facing residents — often safety, school quality, and access to jobs will top the list. Renovation or replacement of existing subsidized housing should be pursued only as part of a larger neighborhood revitalization effort. But, when launching a wholesale revitalization effort, planners should assume their efforts will ultimately succeed and plan for the preservation of affordable rentals and for-sale housing from the outset.

The argument against further concentrating new subsidized housing also applies in other, more ***stable low-income neighborhoods***. Here, subsidized housing investments should focus on renovation and preservation of the affordable housing stock, including publicly and privately owned rental properties as well as owner-occupied housing. In some cases, subsidies to help low- and moderate-income households acquire and renovate vacant homes can expand affordable housing options while also contributing to neighborhood stability.

Preservation and expansion of affordable housing options should be the top priority in ***emergent neighborhoods***. As amenities and opportunities expand in these neighborhoods and market pressures intensify, planners should protect the existing subsidized stock and add to it. They should also support the acquisition and preservation of existing unsubsidized housing — both multifamily and single-family — providing subsidies to individual households, property owners, and community partnerships to keep this stock affordable for a mix of households with incomes ranging from very low to moderate. Ideally, these efforts can get underway before market pressures have pushed land values and acquisition costs too high, so that a range of affordable housing options are effectively "built in" as the neighborhood revitalizes.

Finally, in ***opportunity-rich neighborhoods,*** housing subsidies should be deployed (along with other policy tools) to expand affordable housing options. The federal Housing Choice Voucher program can play an important role here, if local authorities use it to help recipients find, move into, and stay in housing located in communities that offer high-quality amenities and opportunities. In addition, public agencies can acquire existing properties and make them available for rental at below-market rents, target Low-Income Housing Tax Credits to expand the supply of affordable rentals in high-opportunity neighborhoods, and enable low- and moderate-income homebuyers to purchase in these communities.

The right mix of strategies will vary across metro areas, because the distribution of neighborhoods across these four types varies, along with the social and economic geography of the region as a whole. Prosperous metros with intense demand pressures and high housing costs have more emergent neighborhoods (relative to distressed and low-income) and higher housing costs in all types of neighborhoods than weaker market areas. Consequently, the need for preservation is more intense, and investments in distressed or stable low-income neighborhoods are more likely to spark revitalization (with its opportunities and challenges). In softer markets, on the other hand, acquiring or producing affordable housing in high-opportunity neighborhoods may be considerably less costly, and housing acquisition and renovation in stable low-income neighborhoods can significantly expand the availability of decent, affordable housing over the long term.

The design and execution of this kind of portfolio strategy is, of course, more easily said than done. The three papers that follow dig into some of the specifics, focusing in turn on 1) how to balance development of new housing with investments in low-income communities; 2) what it takes to expand subsidized rental housing in high-opportunity neighborhoods; and 3) how to restructure homeownership incentives and subsidies to promote inclusion.

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Endnotes

1 This literature is discussed more fully in the introductory paper for this symposium. Also see Ellen and Turner (1997) and Turner and Rawlings (2009) for reviews of research on neighborhood effects.

2 Chetty and Hendren (2015).

3 Chetty, Hendren, and Katz (2015).

4 Mapping Life Expectancy (2014).

5 Sharkey (2013).

6 Massey and Denton (1993); Polikoff (2006).

7 Hirsch (2000).

8 Ibid.

9 Ibid.

10 Hirsch (2000); Hirsch (2003).

11 Hirsch (2003).

12 Spence (1993); Popkin et al. (2000).

13 Tegeler (2005).

14 Rohe and Freeman (2001).

15 Newman and Schnare (1997).

16 Turner and Wilson (1998); Devine et al. (2003); Galvez (2010); McClure, Schwartz, and Taghavi (2014).

17 Newman and Schnare (1997).

18 McClure (2006).

19 Turnham et al. (2003).

20 Turner et al. (2013).