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Taking Stock of the Nation's Rental Housing Challenges and a Half Century of Public Policy Responses

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March 2007
RR07-1

Prepared for
Revisiting Rental Housing: A National Policy Summit
November 2006

Introduction

The nation faces many longstanding rental housing challenges. Chief among these concerns are widespread rental affordability problems, neighborhood decline, the spatial concentration of poor renters, and exposure to health hazards in the home. Government policies and programs designed to grapple with these challenges have led to some impressive achievements. Although housing quality problems have not been eliminated, the number and share of substandard housing units has been sharply reduced over the past 50 years (Quigley and Raphael 2004; Orr and Peach 1999). Meanwhile, many cities that were losing population in the 1950s, 1960s, and 1970s have started to recover population (Simmons and Lang 2001). These rebounds were at least in part aided by investments in building and rehabilitating subsidized rental housing in distressed areas (Ellen and Voicu 2006). On the affordability front, federal programs now subsidize about 1 million public housing rentals, 2 million rentals in privately owned but federally assisted properties, 1 million rentals in properties assisted by tax credits, and 2.1 million renters with vouchers. Annually, outlays for rental assistance and housing block grants top $35 billion a year and tax incentives for rental housing total about $6 billion per year. Most of those living in these subsidized rentals or receiving vouchers spend no more than 30 percent of their income on housing.

Even though the federal commitment to rental housing is far from trivial, by most reckonings federal rental subsidies still serve only a small fraction of the population in need (Joint Center for Housing Studies 2005b; Millennial Housing Commission 2002). No more than one-quarter of renter households with federally-defined worst case needs (very low-income households spending more than half of income on rent or living in severely inadequate or crowded conditions) receives a subsidy, while almost none of the growing share of low and moderate-income households shouldering heavy rent burdens get aid. Federal assistance is also widely seen as falling far short of what is needed to reverse neighborhood decline, eliminate housing quality and crowding problems altogether, and provide greater access to affordable rental housing in moderate and upper income neighborhoods and in newer, outlying suburbs. Making matters worse, federal rental assistance has reached a plateau, with increases at best limited to the rate of inflation.

Beyond the failure of rental policy to fully address the problems generated by the operation of rental markets, the long history of federal rental assistance has been checkered by some high profile failures (Hays 1995). Lost on most is that only a small share of subsidized rental housing fits the stereotype (Finkel et al. 2000). Still, the government has also been charged with persistently under investing in much of the subsidized, especially public, housing stock it helped fund (Compass Group 2002), as well as with contributing to the concentration of poor households in select neighborhoods by site decisions for large subsidized housing projects (Schill and Wachter 1995; Newman and Schnare 1997; Freeman 2004).

Further, funding for rental programs is dwarfed by the tax incentives and subsidies that flow to homeownership (Dolbeare et al. 2004). In fact, the mortgage interest deduction, local property tax deductions, and waivers on all or part of the capital gains on the sale of owner-occupied housing are presently about three times the size of all rental subsidies and tax incentives combined.[1] This not only benefits households with higher incomes more so than those with lower incomes, but tilts housing choices in favor of homeownership even when it is not always the best financial choice. The heavy tax expenditures on homeownership place rental housing and housing for the poor on a lower plane than ownership housing and housing for the wealthy.

Although state and local governments have been playing an increasingly important and effective role in allocating federal rental assistance, they have not contributed much of their own funds apart from coming up with required federal matches (Joint Center for Housing Studies 2005b). Levels of state and local rental investment thus remain quite low in most states and the overwhelming majority of local areas.[2] Further, state and local governments often impose regulatory restrictions on land development and residential building that add to production costs and limit the number, types and price-points of housing that can be built (Quigley and Rosenthal 2005). Many fault state and local regulations for being an important contributor to several of the rental housing challenges the nation faces today, especially rental affordability problems and the thin supply of rental housing in suburban areas where job growth is most vigorous (Katz et al. 2003).

These developments and trends are dispiriting enough but appear even more so now that the importance of safe, decent, affordable and geographically balanced rental housing options is

[1] Economists agree that simply adding up the deductions and gains exclusions that homeowners enjoy greatly understates the true tax benefits conferred on homeowners. Another important benefit is that the imputed income from in essence renting a home from oneself is not taxed but the income from renting to someone else is taxed (see for example Follain et al. 1993).

[2] According to the Center for Community Change Housing Trust Fund Progress Report 2002, only 34 states had housing trust funds and received a sum total of only $437 million in annual revenues. Only 200 county or municipal trust funds existed and raised even less.

coming into sharper focus. It is also increasingly apparent that coping with the problems that rental markets produce could have far reaching economic and social benefits. More and more research shows that concentrated poverty imposes needless additional costs through the negative externalities it creates – costs that others must bear (Wilson 1996; Galster 2002; de Souza Briggs 1997; Atkinson and Kintrea 2001; Harkness and Newman 2002; Sampson et al. 2002). The same holds for the costs of failing to deal with unaffordable rental housing (Newman and Schnare 1997; Glaeser and Sacerdote 2000; Bratt 2002). By forcing households to make difficult tradeoffs like skimping on basic needs, taking long and costly commutes, and accepting substandard housing, unaffordable rental housing is producing negative health and labor outcomes, reducing savings, and placing children at risk.

Mounting, though still limited, evidence suggests that properly conceived and executed, promising new rental programs can help recipients of rental subsidies: (1) achieve better social and economic outcomes by deliberately helping them move and become established in communities richer in opportunity; (2) achieve more successful welfare-to-work transitions and support workforce development efforts more generally by combining housing with job assistance; and (3) save and build assets by encouraging savings and rewarding extra work effort (Bloom et al. 2005; Sard 2001; Verma and Riccio 2003; Newman and Harkness 2002; Ludwig and Kling 2005; Leventhal and Brooks-Gunn 2001).[3] Rental housing is finally being seen more fully for what it really is – a vital housing option that can help meet multiple policy objectives and that should not be artificially constrained by government regulations or discouraged by government programs.

This paper explores the primary problems generated by the operation of rental markets,[4] why addressing these problems is important, what factors contribute to the generation of these problems, and how policies and programs have (or have not) tried to deal with them. Four problems are emphasized in this paper:[5] (1) rental affordability; (2) concentration of affordable rental housing in and near city centers; (3) concentration of poor renters and neighborhood

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[3] It is important to note that the results of the Moving to Opportunity experiments have been mixed, with more positive impacts found among children of aid recipients and less positive influence on labor outcomes. In contrast, the one carefully done study using experimental design conduced by MDRC found significant positive influences of combing housing and jobs assistance on labor participation and returns to labor of aid recipients (Bloom et al. 2005).

[4] By markets, we mean not only the coming together of buyers, sellers, and intermediaries but also the government rules, infrastructure, and programs that play a part in constituting the markets.

[5] Some concerns not addressed in this paper, but still critical, include the availability of rental housing to meet the special needs of seniors, persons with disabilities, and the homeless.

decline; and (4) rental housing quality and crowding problems.

A fifth problem is treated separately and first here. This is the basis upon which households make their tenure choices – that is, their decision about whether to own or rent. While it may not constitute a problem of the kind the others represent, there is reason to believe that tenure choices may be influenced by cultural factors and perceptions that make people more favorably disposed to homeownership. This can result in tenure choices that leave households either more vulnerable to risks they would not face as renters or with a lower chance of financial benefit. In addition, tenure choice speaks to the critical importance of rental housing as an option. In this sense, a look at the tenure choice and the basis for making it is an important first step in properly construing the importance of rental housing and of geographically balanced rental choices.

The Rental Option

The much covered homeownership boom not withstanding, over 34 million American households currently opt to rent. This constitutes more than 3 in 10 households. Every time a household forms or moves, the members of that household must decide whether to own or rent, where to live, the type of home to select, and how much to spend on housing. These decisions are made simultaneously, but the choice of whether to own or rent is distinctive. In 2004 over 5 million households made the choice to own or rent as they moved into homes they had not previously occupied.

Distinctions between Owning and Renting

At its most elemental level, renting differs from homeownership in terms of the tenure in which the property is held or used. Renters pay a rent for the right to use a house or apartment or are granted the right to do so by the owner of the property without payment. Owners have legal title to their property. Thus, for renters renting housing is purely for the purposes of consumption. In return for rent payments, they are granted the right to consume the flow of services that housing provides including shelter, a location from which to commute and shop, and a neighborhood in which to form social connections and receive public services.[6] Because housing can appreciate or depreciate in value, however, for homeowners housing is both an investment

[6] Though purely for consumption, where one chooses to rent has implications for human capital formation because it typically determines the quality of the public schools that children attend and the economic value of local social relationships.

and a consumable good. As an investment, it exposes the owner to considerable risk that the property will decline in value or that the cost of repairs and replacements will outpace their ability to pay for them. It also provides the opportunity to earn a return if the home appreciates more in value than it costs to buy and sell it.

Beyond this fundamental and vital distinction is one other: moving from one rental to another does not involve the transfer of property among owners. As a result, renters are spared all the costs associated with buying and selling a home when they move. Renters, like owners, have search costs, moving costs, and may have to provide an initial upfront deposit. But they do not have to cover the far steeper costs of paying real estate transfer taxes, the legal costs of closing on a home, the higher due diligence costs of making sure the property purchased is fit and free of significant hazards, the costs of using a broker (in the vast majority of cases in which one is used), and the costs of applying for a mortgage if the property is financed. It is not uncommon for the combined costs of buying and selling to amount to 10 percent of the home's total value. Thus, transaction costs are far lower for renters, reducing the costs and friction of moving.

There are really only two other important additional distinctions between owning and renting. One is that owners must come up with the full market value of the property they intend to own upfront while renters must cover only the rent for a particular time period, often only between one and three month's worth. This means in practice that most owners must finance the purchase of their homes at least at some point in their lives. This, in addition, means that they must apply for a mortgage, meet the underwriting standards of the lender, and make a slew of other choices about the type of mortgages to use to finance the purchase of their home. Related to this, and the final significant distinction between owning and renting, is the fact that mortgage interest and real estate taxes are tax deductible. Thus, for those with mortgage interest payments and tax liabilities large enough to benefit from itemizing deductions, owning taps into powerful and costly government tax breaks that are more generous than those available to owners of rental properties.[7]

In other respects, renting and owning may not be as different as they appear at first blush. With nearly all homeowners using mortgages at some point in their life to finance their home, and with an obligation to pay property taxes in all cases, owners, like renters are at risk of losing

[7] Although not a focus of this paper, a great deal has been written about the impact of tax policy on tenure choices and returns to investors. See for example Poterba 1992 and 1994.

their homes for financial reasons. Laws governing each are quite different so the choice does make a difference, but owners and renters are united in the fact that each can lose their homes for failure to meet financial obligations. And while it is true that owners typically have more control over the use of their space than renters, the degree of individual control varies with the type of situation they buy into. Both homeowners and condominium associations often impose multiple restrictions on private rights of use, and local governments invariably impose many others. Additionally, while it is true that rental housing usually provides greater convenience and less responsibility, owners or associations of them can contract for the same sorts of services that a landlord may or may not provide. And both condo and owners' associations can achieve the same sorts of economies of scale in service provision that residents of larger rental properties enjoy. The real difference is that owners must take responsibility for maintenance of the home and the risks associated with uncertain future maintenance costs while renters do not and can walk if displeased with the decisions made by their landlords.

The Importance of Rental Housing

It flows from these fundamental differences that rental housing is a critical housing option—and one which government should have an interest in ensuring is available and that artificial barriers are not put up that slant the playing field towards ownership—for the following important reasons:

- Rental housing reduces transaction costs and hence provides less of a barrier to mobility, a fact economists take note of because it speeds the adjustment of the labor market when the geographic pattern of labor demand changes[8]
- Rental housing lowers transactions costs that constitute market inefficiencies and produce deadweight losses[9]
- Unlike homeowners, renters do not have to assume the risks associated with an undiversified investment in a single primary residence[10]
- Rental housing provides an opportunity for real estate risk to be pooled and diversified by larger scale owners better able to manage and professionally assess real estate risk
- Rents are set in a competitive market while the costs of homeownership depend on the

[8] See Green and Hendershott (2001).
[9] See Haurin and Gil (2002).
[10] Goetzmann and Spiegel (2002) provide a good discussion of the risks associated with purchases of a home.

individual mortgage choices made by homeowners[11]

- By virtue of not having to obtain a mortgage, rental housing is accessible to more households[12]
- By virtue of not having to qualify for an individual mortgage, renting can be a better deal for households with no or impaired credit histories because its costs are not usually tied to the past credit history of the renter[13]

In addition, it is important to recognize that rental choices also provide opportunities for investors to earn a return on their rental investments. The total value of rental properties is estimated at $2.7 trillion (JCHS 2006b). Rent revenues total $250 billion annually to landlords, who also spend approximately $50 billion a year to maintain and improve their properties. Fully 4.3 million households in 2004 reported receiving at least some income from residential properties they owned, according to the Survey of Consumer Finances, and countless others invest in Real Estate Investment Trusts, limited partnerships, and syndications that own rental properties (JCHS 2006a). The rent revenues reported averaged 11 percent of the total income of these investors.

Lastly, renting can be a better financial choice than owning, especially for those who plan to move again in the near future, because it saves on transactions costs. It is also a better choice during a period of flat or declining house prices and for those that lack the savings to deal with unexpected housing-related repairs, have poor credit histories, or are at special risk for disruptions in their income that may force them to move. Owners who re-sell their homes in a relatively short period of time may not see the value of their home rise enough to cover the transaction costs, and end up spending more on owning than they would on renting over the same period (Belsky et al. 2005; Goodman 1997). Even owners who hold their properties for a longer time frame may still not see sufficient appreciation if they are forced to sell in a down market (Belsky and Duda 2002). Finally, owners who default on their mortgages may end up in

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[11] The move into risk-based pricing of mortgages means that housing costs of homeowners increasingly reflect their individual mortgage choices and credit histories (Belsky and Calder 2004).

[12] Underwriting constraints on tenure choices, while loosened over the past ten years, remain. Loan rejections on conventional home-purchase first-lien loans in 2004 were 11 percent for whites, 22 percent for blacks, and 16 percent for Hispanics (Avery and Canner 2005).

[13] The greater access to rental housing is being jeopardized by the expanded use of credit scores, criminal background checks, and other electronic information to screen tenants in a way that mortgage lenders long have but landlords have not. While this certainly makes sense from the landlord's point of view it surely restricts access to rental housing and magnifies the ill effects of failing in homeownership.

foreclosure and lose their investment altogether. In these instances, renting would be the better financial decision.

Given the appeal of renting to those who are most mobile and those excluded from homeownership due to institutional and economic barriers, it is unsurprising that much larger shares of young people, people who are in transitional states in their family living arrangements, minorities, the foreign born, and those with low incomes live in rental housing than others. Indeed, in 2005 47 percent of unmarried persons living alone rented their home, compared to only 17 percent of married couples. Likewise 61 percent of householders under 35 years old rented, while 73 percent of 35-64 year olds and 79 percent of seniors owned. Fully three-quarters of white households owned but only half of minorities did. Fully 47 percent of the foreign-born rented, and even after controlling for age their rentership rates were much higher. For example, 71 percent of the foreign born under the age of 35 rented versus 59 percent of the native born under 35. Finally, 46 percent of divorced or separated householders, and over 70 percent of recent movers relocating for financial or employment reasons rented in 2005.[14]

Still, the attraction of homeownership is deeply ingrained in our social consciousness, with its associations with the "American Dream" and symbolic demonstration of independence and success. Many regulatory, policy and financial incentives to homeownership further encourage households to buy. In addition, financial institutions, under increasing pressure in the 1990s to comply with federal regulations, rallied behind a call to expand homeownership by reaching out to low-income and minority communities and individuals.[15] Under the banners of strengthening communities, supporting children, and helping the poor get a stake in the ownership society, the drumbeat in favor of homeownership turned into a federally coordinated national campaign in the early 1990s to boost the homeownership rate that has been sustained through two presidents.[16]

More recently, the idea of using homeownership as a way to build assets for the poor has taken root. Increasingly, advocates are calling for funding for programs that help low-income households achieve homeownership (Sherraden 1991; Retsinas and Belsky 2005). Even

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[14] Numbers in this paragraph are JCHS tabulations of the 2005 American Housing Survey.

[15] These regulations include the affordable, underserved, and special affordable housing goals of Fannie Mae and Freddie Mac, the Community Reinvestment Act, the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, and the Fair Housing Act.

[16] Starting in the Clinton Administration and extending through the second Bush Administration, a national homeownership campaign has been coordinated by the Department of Housing and Urban Development.

academics are now getting into the act. Over the past ten years, a flurry of studies have been completed that suggest that homeownership produces stronger communities, more civic-minded citizens, and better outcomes for children even after controlling for income, wealth, race, and neighborhood effects.[17]

With business, government, scholars, the advocacy community and the American public in favor of promoting homeownership, renting runs the risk of getting even less attention in the future than it now receives. Compounding these problems are often negative perceptions of affordable rental housing.[18] This is not to say that individuals should not prefer homeownership or not seek it out. Instead, it means simply that we are raised in a society that typically predisposes people to think that ownership is the right choice for them and that failure to achieve it is negative. Unfortunately, while we know problematic outcomes from homeownership are possible, the literature is largely silent on how many tenure choices, seen from a normative perspective, appear suboptimal for individuals and the nation. What we do know is that consumers make decisions about whether to own or rent based on financial considerations and preferences as well as expectations about how long they plan to stay in a place before moving again.[19] Financial considerations include the current relative cost of owning and renting and expectations about future house prices and rents. Preferences include having a greater or lesser degree of control over home spending decisions and the time spent on home maintenance and improvement. They also include location preferences that may effectively preclude one or another tenure choice.

But knowing that financial considerations are major factors is a far cry from understanding how households form expectations about the future course of house prices, the returns on alternative investments, the risks of income disruptions, and the risks of unforeseen

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[17] Holding such critical variables as race, income, and wealth equal, these studies have suggested that homeownership generally leads to greater wealth accumulation than renting (Di et al. 2003), reduces behavioral problems and increases the educational achievement of children (Haurin, Parcel and Haurin 2002), and leads to greater participation in civic affairs (DiPasaquale and Glaeser, 1999). Further, several studies also indicate that higher neighborhood homeownership rates have a positive influence on child outcomes (Haurin et al. 2003; Harkness and Newman 2002) as well as on the probability that a neighborhood will advance up rather than sink down the neighborhood income distribution within a metropolitan area (Rosenthal 2004). Though these are still subject to criticism and may be less conclusive then some might recognize, they have become highly influential in policy circles (Apgar 2004).

[18] A conference hosted by the Neighborhood Reinvestment Corporation and the Campaign for Affordable Housing explored this problem (NeighborWorks 2004). The conference presented research on attitudes towards affordable housing and discussed how these attitudes can be changed through facts and strategic communication campaigns.

[19] For an excellent and unusually exhaustive review of the tenure choice literature and its strengths and weaknesses see Herbert et al. (2004).

expenses. If these are systematically biased towards homeownership, as well they might, by government policies, industry outreach, and cultural factors, then it is likely that many choose to own when their chances of coming out ahead financially would have been better had they rented.[20]

The Nation's Rental Challenges

Rental markets (construed as the actions of buyers, sellers, and intermediaries, the factors that influence these actions and government interventions in these markets) produce at least five major outcomes that are the cause of policy concern. Figure 1 summarizes these concerns and the reasons rental markets produce these outcomes. Each is described in turn below.

Rental Affordability Problems

Rental affordability is by far the most common housing problem found among renters. Despite this, its implications for individual and community outcomes have been surprisingly understudied. Rental affordability is ultimately an elusive concept that demands subjective judgments about how much income is too much to spend on housing. By convention, housing expenses that consume more than 30 percent but less than 50 percent of income are considered moderate cost burdens and expenses that consume more than half of income are severe cost burdens.[21] Very-low income households (households with incomes of half or less of median income) with severe cost burdens or living in substandard housing or crowded conditions are counted as having "worst case housing needs" by the federal government.

Developed initially as a way of counting housing needs among those with incomes low enough to be eligible to receive rental assistance, the use of moderate and severe cost burdens has been extended by the broader policy community to households above very-low income cutoffs. While this approach has underscored the fact that rental affordability problems are creeping into the middle class, it has taken the spotlight off of those who stand to lose the most by allocating

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[20] There are several studies that simulate the returns to homeownership under a variety of assumptions about house price appreciation, rent change, holding periods, transactions costs, the performance of alternative investments to owning, and mortgage finance terms (Goodman 1997, Rohe et al. 2001). The most complete set of simulations was done by Belsky and Duda (2002) but even these simulations were limited to a handful of metropolitan areas and did not examine holding periods beyond 7 years.

[21] The 30 percent standard is based on federal rent payments standards. There is no clear history of why that standard was selected but it is clear that it began at 25 percent of income but was boosted to 30 percent in the early 1980s in a bid to reduce housing outlays in the federal budget.

large fractions of their incomes to housing because their incomes are so meager to begin with.[22]

A principal drawback of these simple measures is that they do not consider tradeoffs households often make to lower their housing costs. A household may opt to live in a place with poorer quality schools, for example, or at a great distance from work (Belsky and Lambert 2001). Households that make these choices do so because they find rental housing unaffordable in neighborhoods and locations that meet their preferences. But by doing so, they do not show up among the counts of those with rental affordability problems (Thalmann 2003).

Despite these drawbacks, the traditional measures of rental affordability do an adequate job of measuring the magnitude of rental affordability problems and tracking changes in them over time and among subgroups. Rental affordability problems are hardly a new phenomenon. Quigley and Raphael (2004) show a steady upwards trend in the share of renters with cost burdens, and a decrease in the share of units affordable to the lowest income renters starting as early as the 1960s. And the struggle many renters face to find decent and affordable housing has been getting worse in recent years. Between 2001 and 2004 alone, the number of renter households with severe cost burdens increased by more than one million – including over 800,000 in the bottom income quartile – for a total of 8.4 million renters. Another 7.6 million renters had moderate but not severe cost burdens. In share terms, the number of severely cost burdened renters increased by 14 percent and now represents 23 percent of all renters, while those with moderate cost burdens increased 5.5 percent and now account for 21 percent of all renters. Among renters in just the bottom income quintile, 57 percent have severe and 22 percent have moderate cost burdens (Joint Center for Housing Studies 2006a).

Rental affordability problems and the material hardships they may trigger are, for obvious reasons, most heavily concentrated among the poor and those with near poverty incomes. However, many of these households have earnings that are equal to, or above, the minimum wage equivalent of full-time work. Indeed, nearly 60 percent of all cost burdened renter households are in the bottom fifth of the income distribution and 46 percent of these households have incomes at least equivalent to that of a single full-time minimum wage job.

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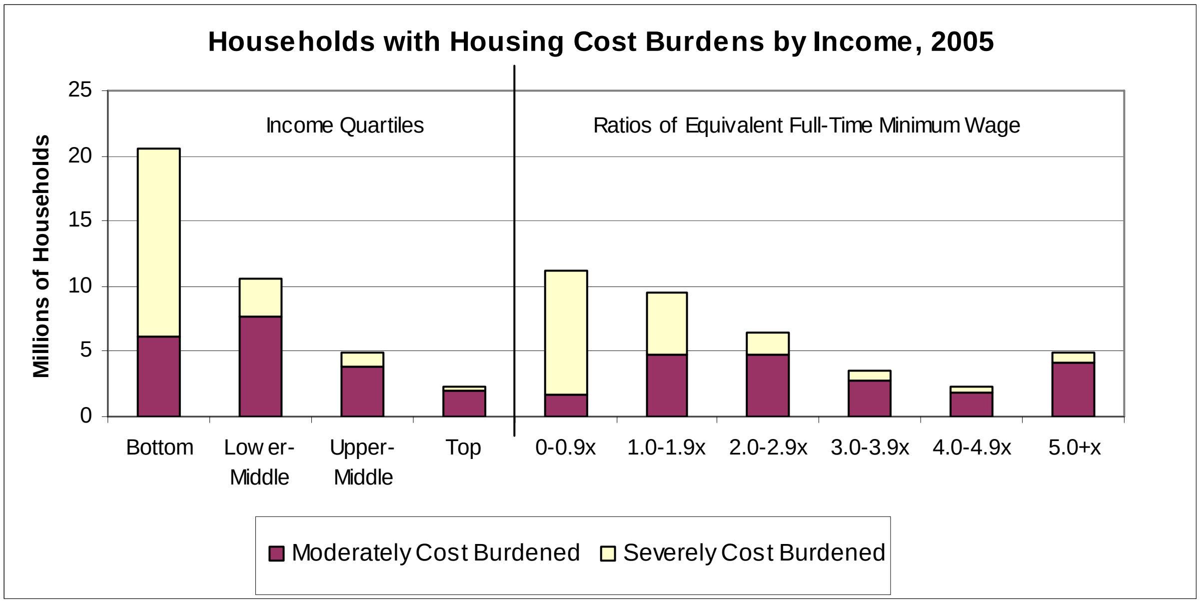
[22] As a result, some have argued for switching to a residual approach to defining affordability instead – that is, how much is left over after paying for housing to meet other basic needs (Stone 1993; Nelson and Redburn 1994). This approach focuses on cases where high housing costs are so high that what is left over after meeting them causes material deprivations.

Exhibit 1: Cost Burdens Are Concentrated Among the Lowest Income Households



Source: JCHS tabulations of the 2005 American Housing Survey.

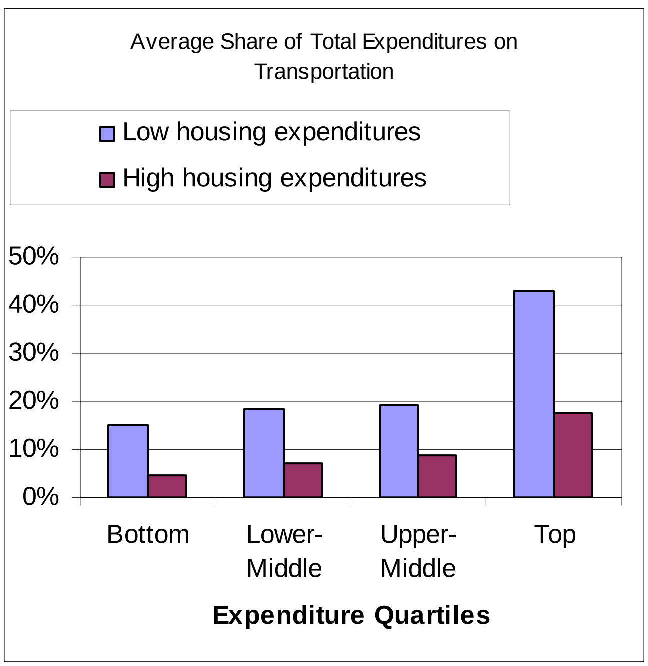
Hence, rental affordability problems are by no means associated only with the unemployed, the employed at less than full-time low wage work, or those on low fixed incomes due to retirement or disability. Instead, housing markets are unable to deliver housing at a cost low enough for the working poor, and even some households that are well above the poverty level, to afford. In fact, there is evidence that the number and share of renter households that have housing cost burdens and have incomes at least equivalent to full-time minimum wage work has been growing rapidly in recent years (Joint Center for Housing Studies 2004).

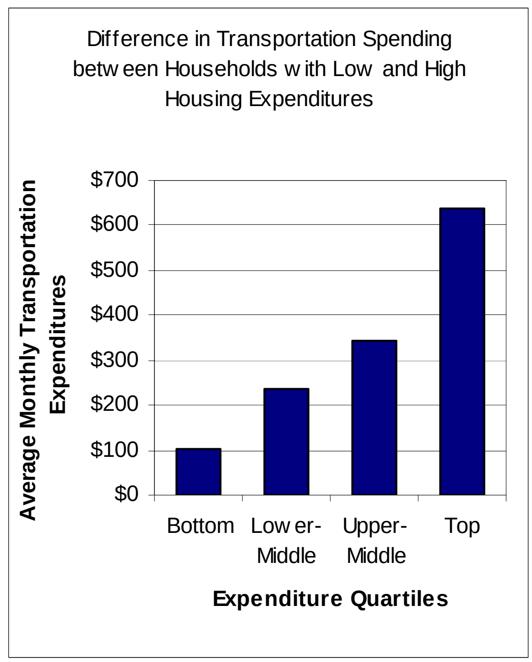
Why Rental Affordability Problems Matter

Heavy public investments to ease rental affordability problems have been justified primarily on equity grounds. Because the economy does not produce enough jobs with wages high enough for many to comfortably afford rental housing, government has redistributed income to make up for at least part of the shortfall. But rental affordability can and is increasingly being justified also by the material deprivations households suffer when burdened with high housing costs. For example, among households in the bottom expenditure quartile, those that devote at least 50 percent of their expenditures to housing have less than $400 a month to spend on all other items, and end up spending two-thirds as much on food, half as much on clothes and one-third as much on health care as households in the same expenditure group but with less than 30 percent of expenditures going towards housing. The more burdened households also spend one-third as much on transportation, reflecting the trade-off many of these households make between affordable housing and costly commutes.

Even among the next-lowest expenditure group, high housing costs still cause significant reductions in spending on other needs. Households in this group with at least 50 percent of their income spent on housing devote less than half as much to healthcare and just over half as much to savings as similar households with lower housing costs. Reduced expenditures in these two areas may be severely hampering their future financial prospects. The second expenditure quartile also trades off housing and transportation costs, with the lower housing cost households spending three times as much on travel as the higher housing cost households.

Exhibit 2: Spending Less on Housing Generally Means Spending More on Transportation





Source: Joint Center for Housing Studies, The State of the Nation's Housing 2005.

Clearly, those that spend less on housing typically spend more on travel. This is powerful evidence that it is common to tradeoff commute time and auto dependence for lower housing costs. These longer commutes create congestion and degrade the environment through auto emissions. Auto dependence among those with low incomes is problematic because it exposes them not only to higher costs but greater uncertainty concerning the reliability of the transportation they may need to get to work. Explored further below, the resulting spatial pattern can undermine the productivity of workers and the economic competitiveness of regions.

It is also evident that spending more on housing leaves less to spend not only on daily essentials, but also on savings for the future. The broader implications of this are significant from the standpoint of future demands on the social welfare system. As housing cost burdens creep up, private savings and retirement balances will suffer. When combined with the elevation of the age at which participants are eligible for full social security payments, financial strains will mount among the elderly. Yet, the important link between rental housing costs and savings is seldom raised as a reason for public leaders to tackle housing affordability problems.

Renters that devote more than half their expenditures to housing spend less than a third as much on healthcare as renters with lower housing costs (Lipman 2005). The impact of higher housing costs on healthcare spending and health insurance enrollment is also cause for concern. Spending less on these items leaves households at greater health risk and greater risk of making demands on emergency rooms that shift costs to the insured and on government Medicare and Medicaid programs. To the degree that it results in health problems that might otherwise have been avoided, it reduces worker productivity and creates unnecessary medical costs. Renters with high housing costs also move more frequently (Coulson and Fisher 2002), which besides being costly has been linked with poorer educational performance of children (GAO 1994). Affordable rental housing is therefore important for the social and physical well being of children and the transactions costs that households must bear.

While all these impacts of unaffordable housing have adverse consequences for the households that suffer from them, they also clearly generate negative externalities that have public costs. As noted, in an effort to cover rent each month, households can skimp on nutrition, health insurance, and health care expenditures. These, together with tradeoffs that entail living in poor quality housing and neighborhoods, can add to public health costs, influence worker productivity and job retention, add to educational costs, and reduce the educational attainment of children. The impact on savings, also as noted above, creates negative externalities since social insurance and supports in the end make up at least in part for what households do not save privately. At the extreme, people who cannot afford a rental under any circumstances fall into homelessness.[23]

In addition, rental affordability matters because there is suggestive evidence that affordable rental housing can help achieve better social and economic outcomes for low-income recipients. The most carefully controlled study of welfare-to-work programs, for example, suggests that having stable affordable housing can improve the outcomes of antipoverty efforts (Bloom et al. 2005). Experience with the Family Self Sufficiency Program, which provides incentives for rental aid recipients to both work and save, strongly suggests that subsidy programs can provide incentives to save and can aid in asset building among the poor (Sard 2001).[24] Like other experiments intended to see whether small incentives lead to savings, it shows that saving among even very low-income households is likely (Sherraden 2000). In this way, affordable rental housing can pave the way for asset building through low-income homeownership. Affordable rental housing may also reduce the likelihood of getting over extended on credit and having low credit scores. These scores now govern the cost and availability of mortgage credit and even access to rental housing (Belsky and Calder 2004).

Finally, rental housing is also the logical starting point for families and individuals making a variety of different transitions, including out of homelessness, out of foster care, out of prison, and from independent to assisted living. Combined with social services, the extension of the helping hand of an affordable rental in these situations can also lead to improved outcomes for these households with special needs.

Contributing Factors to Rental Affordability Problems

While it is possible that the growing housing cost burdens among low and moderate income households reflects a shift in the perceived utility of the flow of services linked to housing (which includes education, social connections, and access to jobs and amenities), it is more likely that it mostly reflects shifts in the structure of the economy and the operation of housing markets.

Starting with supply constraints, a host of natural features and government-imposed regulations reduce the overall supply of available land and govern the types of housing that can

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[23] Indeed, the intuition that unmanageable housing costs for the poor contribute importantly to homelessness is supported by a study by Early and Olsen (2002) who find that targeting housing subsidies to the poorest households significantly reduces homelessness.

[24] The program allows residents of subsidized housing to save the difference between 30 percent of their initial incomes and any growth in their income rather allocating it to rent.

be built. The weight of these supply constraints fall most heavily on lower income households because they create especially tight restrictions on development of higher density, more modestly constructed rentals. When the market demands these rentals but is constrained by government from delivering them, low-income households are forced to bid up rents on an artificially constricted supply. Evidence that the demand for lower cost rental units is not being met includes the fact that the national vacancy rate on units renting for under $300 in 2005 was fully 3 percentage points lower than the overall rental vacancy rate. Vacant low-rent units are also more likely to be long-term vacancies, signaling that these units might be unoccupied because they are uninhabitable or functionally obsolete, rather than from lack of demand. Indeed, almost one-quarter of vacant units with contract rents under $300 were vacant for over 6 months, including ten percent that were vacant for over 2 years.

Building affordable units is a challenge. The cost to build rental housing has gone up over time. In large measure this is because of development regulations and restrictions that introduce added expense and delays into the process, and prevent developers from building at higher densities (see Schill 2004). Land costs, though inherently local, have been rising overall over the last several decades. Deakin (1989) identifies five primary forms of land use regulation that impact housing costs: limits on the density and intensity of development; design and performance standards; cost shifting from the locality to the developer (as in the case of impact fees); removal of land from developable supplies; and, direct and indirect controls on growth. Quigley and Rosenthal (2005) evaluated several studies that attempt to link one or more of these types of regulations with higher housing costs. They found that while the presence of restrictions often correlated with higher land costs, direct causal relationships were hard to prove. Nevertheless, they concluded that a number of well executed studies provide empirical support for the notion that development regulations drive up prices and alter the composition of housing produced by withdrawing land from development, imposing fees and costs, adding to risks, and restricting development densities.

Recently, more sophisticated analyses and better survey data have provided more compelling evidence of an effect.[25] Linking these newer survey data to prices, building permits, demographic change, mobility and migration patterns, several studies have found that an increase

[25] A survey by the Wharton School of Business polled over 1,000 municipalities on their land policies and restrictions, resulting in a comprehensive database for comparative study (Linneman et al. 1990).

in regulation had a positive effect on prices but a negative effect on affordability (Malpezzi, 1996; Malpezzi, Chun and Green 1998; Somerville and Mayer 2003; Glaeser and Gyourko 2002; Saks 2004). In addition, Green's (1999) analysis of land use and zoning regulations in a suburban Wisconsin county demonstrated that the impact was greater on lower price houses, and thus disproportionately borne by lower income households. As Schill (2004) points out, however, few studies have been able to conclusively show that the higher prices associated with development restrictions are the result of these supply constraints, or are a response to the demand for such housing. On balance, however, the evidence strongly suggests that supply constraints from regulations contribute materially to rental affordability problems.

In addition to land costs driving up prices and driving down affordability, construction costs do so as well. Constructions costs are the product of not just labor and materials, but of making sure building codes and standards are met, getting necessary approvals to build, and associated fees and requirements. Previous studies have estimated the range of cost increases from building code requirements at between 1 percent and 200 percent, but most quantitatively sound analyses peg it at less than 5 percent. However, these studies are not based on current codes and prices and mostly lack broad-based empirical evidence to support the estimates (Listokin and Hattis 2004).

But it is really the intersection of supply and demand that produces the affordability problem. Demand-side reasons for the high level of and growth in rental affordability problems include the fact that those that rely on government income supports often have incomes below the poverty level and that even incomes above the poverty level are frequently insufficient to escape moderate or severe rent burdens. The economy demands low-wage and part-time workers that earn too little in many cases to afford the operating costs of even modest rentals in less than desirable neighborhoods. Even working families that use the Earned Income Tax Credit often spend more than half their income on rent.

Rental affordability problems are growing because the incomes of those most in need of affordable rental housing have not kept pace with increases in the costs of rental housing. Between 1993 and 2003, for example, the median income of renters in the bottom quintile of all renters (not all households) increased nominally by only 20 percent, while the median incomes of all other quintiles grew by at least 30 percent. At the same time, the median rents paid by the lowest income renters increased by 62 percent versus 32-37 percent for all other quintiles. Indeed, for renter households in the top two income quintiles, the growth in median income was actually greater than the increase in their median rents. In fact, incomes at the low end of distribution have stagnated. Only the incomes of those at the top have been keeping pace with the rise in housing costs over the last few decades.[26]

The growth in low-wage and part-time jobs with little opportunity for advancement has contributed to the stagnation in income growth in the low end of the income distribution. A recent study (Autor, Katz and Kearney 2006) demonstrated this U-shaped pattern in the national wage distribution, with most jobs clustering at the low end and a smaller set at the high end, with few remaining in the middle. As the nation has shifted from manufacturing and labor-intensive industries to a more services-oriented economy, the types of middle-income jobs that many households relied on in the past are disappearing. Unfortunately, prospects for reversing this trend are bleak. Of the 15 occupations expected to generate the most growth in jobs over the next 10 years, 10 of them had median wages under $28,570.[27]

Recent losses of affordable rental housing are only exacerbating an already dire situation. On net, fully 1.2 million units with rents under $400 were lost between 1993 and 2003. As a result, fully 13 percent of the stock affordable to renters with incomes under $16,000 was lost in just a ten-year period.[28] This loss reflects the fact that the housing that is filtering down to the bottom of the rent distribution is increasingly larger units that are more costly to operate and maintain. Higher rents must be charged to cover these costs. If landlords cannot pass these costs on to tenants, then they must cut costs by not properly maintaining properties, starting a spiral that ends in abandonment and loss. As more units are lost to gentrification and abandonment than are replaced, the supply dwindles and the costs of operating the stock that remains increases.

Affordable rental housing is being lost on net because less low-cost rental housing is filtering down to lower rent ranges than is filtering out of it through rent inflation on the one hand and abandonment and loss on the other. An important element of the filtering process is the spatial context within which it takes place. Neighborhoods are not static. Indeed, over the course of 40 or 50 years, most neighborhoods that start with low-cost housing and low-incomes gentrify and most neighborhoods that start with higher-cost housing decline.[29]

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[26] See the report of the Millennial Housing Commission 2002.
[27] Bureau of Labor Statistics, Occupational employment projections to 2014.
[28] JCHS tabulations of the 1993 and 2003 American Housing Surveys.
[29] Aggregating across 23 metropolitan areas, Somerville and Holmes (2001) found that over just a 3 to 4 year

Lastly, the number of households served with rental assistance has stalled even as the number of renter households with worst-case needs has surged. According to the Joint Center for Housing Studies, severely cost-burdened low-income renters have grown from just over 5 million in 1990 to almost 8 million in 2004. But at the same time, the number of assisted renter households has barely budged from just under to just over 5 million. Indeed, just between 2000 and 2004 the number of severely cost burdened low-income renters grew by over a million while the number assisted by HUD did not change at all (Joint Center for Housing Studies, 2006a).

Concentration of Affordable Rental Housing in and Near Central Cities

The concentration of affordable rental housing in and near central cities has also spawned public policy concerns. It is one of two rental housing challenges—the other being the concentration of poor renters in distressed neighborhoods—that is the result of the spatial outcome of the operation of rental markets. Households sort themselves into neighborhoods within jurisdictions and across jurisdictions within a metropolitan area. At the metropolitan level, the operation of the market clearly segregates residential areas by race and income, as well as creates a pattern of greater concentration of renter households and housing near the cores of urban areas.

The concentration of rental housing near city centers is significant.[30] While only 12 percent of owner households in the 91 largest metropolitan regions lived within 5 miles of a central business district in 2000, fully 25 percent of renter households did so. In these same 91 metro regions, the median distance that renters lived from central business districts was 9.4 miles but for owners 13.8 miles in 2000.

Focusing only on more affordable rentals, in 2000 the share of units with rents of $400 or less in these 91 metros within 5 miles of the city centers was 38 percent and within 10 miles 62 percent, while only 17 percent and 42 percent of all occupied homes were 5 and 10 miles

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period, fully 32 percent of affordable rentals (30 percent of income for a household at 35 percent of median income for four-person families adjusted for bedrooms) became unaffordable and 9 percent were demolished or converted. Conversely, 9 percent of unaffordable rentals became affordable.

[30] Despite rental housing's greater concentration than owner-occupied housing in lower-income areas and central cities, it is worth noting that nearly every census tract in the country has at least some rental units in it. Less than one percent of Census tracts nationally have no rental housing at all and fully 90 percent have at least 10 percent rental units. Of the 350 metro areas identified in the 2000 Census, fully 292 of them have at least some rental housing in *every* tract, 85 have at least 10 percent rental housing in every tract, and only 14 have at least one percent of tracts without rental housing. Still, within the 91 largest metro regions, more than half of all renters live in tracts with at least 50 percent rental units, as do nearly three-quarters of renters within 5 miles of the center city (JCHS 2006b).

out, respectively.

The concentration of minority renters near city centers is even more extreme. Given that minority ownership rates lag those of whites by fully 25 percentage points, this means that minorities are much more concentrated in and near cities than whites. In 2000, for example, in the 91 largest metropolitan areas 30 percent of black and 22 percent of Hispanic households lived within 5 miles of the central business district but only 14 percent of white households. Additionally, 63 percent of black and 52 percent of Hispanic households lived within 10 miles of city centers but only 37 percent of white households.

Why Concentration of Affordable Rentals Near Cities Matters

The disproportionate share of rental units, affordable rentals, and minority renters in and near cities matters in large measure because it means that rental options are increasingly restricted to urban locations while employment is increasingly dispersing to suburban locations and low density areas at the metropolitan fringe. Between 1990 and 2000, the share of jobs in the suburbs increased from 39 percent to 43 percent, while the share in central cities declined from 42 to 39 percent (the rest were located in non-metropolitan areas).

The evidence strongly suggests that the dearth of moderate cost rental housing in the suburbs and the overall pattern of sprawl within which it is embedded is driving up suburban wages for low-wage work, and cutting off those most in need of low-wage work from access to it. Specifically, the separation of low-wage renter households from suburban low-wage work:

- Restricts employment opportunities for these households and may further tilt their tenure choices towards owning even if renting may suit them better
- Forces some to take costly reverse commutes
- Contributes to higher unemployment among city renters
- Bids up wages for these jobs in suburbs

It is important to point out, however, that the sprawling pattern of development also means that low-wage renters that do move in search of jobs and find homes to rent in suburbs face steeper transportation costs than if living in cities on or near public transit because they usually must rely on private transportation. This places them at greater risk of missing work and sacrificing other items to cover their combined housing and travel cost burdens. Hence, sprawl presents problems for all low-wage workers and generates environmental concerns that are largely independent of the particular form of tenure of dispersed homes.

Contributing Factors to the Concentration of Rental Housing Near Cities

Two principal factors contribute to these uneven spatial patterns. First, the uneven distribution of rental units, especially of those that are affordable to low-wage workers is strongly influenced by restrictive regulations within suburban jurisdictions. These are discussed in detail above so there is no need to repeat these arguments or review the studies that support them here. Further testament to what the market demands but regulations often deny, however, is the pressure of the developer lobby nearly everywhere to allow them to build at higher density than is allowed by zoning and subdivision regulations and the calls by homeowners in some places to permit elderly cottages or small rentals to be attached to single-family homes. Although these restrictions directly add to housing costs, they only indirectly influence tenure choices in suburbs. This has a disproportionate impact on renters because they have lower incomes on average.

Second, it is also likely that the pattern of rental properties reflects the strong demand for owner-occupied housing by those opting to live in the suburbs, many of who move to these areas at least initially to raise families. But even in this regard, it is unclear precisely what leads these households to seek suburban locations. In part, it appears it is motivated by a desire to live in more homogenous jurisdictions with respect to income and race than are generally found in cities, as well as live in particular school districts rather than in city districts that are widely perceived to have generally lower quality schools (Althshuler et al. 1999; Ainsworth 2002; Chung 2002). In part, it also seems to represent factors that "push" owners to suburbs rather than "pull" them out to suburbs. As discussed more completely below, the higher income households that are more able to afford homeownership may leave cities as a result of perceived urban ills, including crime, pollution, and low quality schools. Almost certainly, racial preferences and institutional discrimination also play a role. Conversely, some have argued that the poor and those with low incomes gravitate to places where they have greater access to public transportation in neighborhoods that have become distressed and therefore offer relatively low-cost housing (Glaeser and Gyourko 2005; Glaeser et al. 2000).

In sum, both supply and demand side influences give rise to the concentration of rental housing, and especially of more affordable rental housing. The two sides are in fact intricately intertwined, and the choices made by both consumers and suppliers are heavily influenced by government regulation and the uneven distribution of public service quality at the inter- and intra-metropolitan levels.

Concentration of the Poor and Neighborhood Decline

At the extreme, substantial portions of the very poorest renters end up concentrated in the highest poverty neighborhoods. This concentration of the poor, and the process of neighborhood decline it is usually wrapped up with, also give rise to a series of public policy concerns. The numbers are striking. In 2000, 38 percent of renters earning less than $20,000 lived in tracts in which at least one in five households lived in poverty, whereas only 25 percent of all renter households and 16 percent of all households lived in such areas. Furthermore, while only 2 percent of all households lived in the highest poverty tracts (those in which at least two in five households were living in poverty), fully 8 percent of all renter households with incomes of less than $20,000 lived in them. Living in concentrated poverty tracts is also no guarantee of being able to afford housing. Indeed, even among renters living in the highest poverty tracts, more than a quarter had severe housing cost burdens and fully 43 percent had at least a moderate cost burden in 2000.

The good news is that the incidence of concentrated poverty seems to be declining. Between 1990 and 2000, the number of people living in high poverty Census tracts declined by 2.3 million. This decline was far from equal across the country, however, with the South and Midwest experiencing all the decrease while the Northeast remained flat and in the West actually increased. Likewise, while the inner rings of large metro areas had a decrease in population in high poverty tracts, the metro fringes saw an increase. Unfortunately, concentrated poverty remains persistent and disproportionately distributed across households. High poverty tracts in 2000 were still home to 10 percent of all poor, but a higher 19 percent of black poor and 14 percent of Hispanic poor.

Why Concentration of the Poor and Neighborhood Decline Matter

The relative concentration of the poor is a reflection of broader processes that lead both to pockets of poverty and neighborhood decline and distress. These processes and their outcomes pose two critical challenges to policy makers. First, they isolate the poor away from economic and social opportunities and compound the problems of poverty (Galster and Killen 1995; Kain

1992; Ihlanfeldt and Sjoquist 1998). Second, the concentration of the poor leads to disinvestment in housing stock that is wasteful, creates significant negative externalities for neighborhood property owners and residents, and leads to losses of higher density, more modestly built housing which is not being replaced with similar housing. Thus, the processes of residential segregation by income and race that underpin these outcomes exacerbate shortages of affordable housing,[31] squander past investment in housing, and expose residents to hazards and property owners to falling values.

Areas of concentrated poverty are the frontlines in both the battle to preserve low-cost housing and in the battle to tackle some of the nation's most costly social problems. Rental properties in poor areas are at higher risk of deterioration for several reasons. First, the housing in these neighborhoods tends to be older and therefore has higher concentration of hazards that have since been regulated away in newer homes, such as lead-based paint and asbestos. The cost of remediation of these hazards discourages investment in this stock. While not directly a problem of poverty concentration per se, hazards in older homes are more likely to get remediated in higher income areas where property values justify the investment. Second, some fraction of landlords will find it difficult to charge rents high enough to cover basic operating and maintenance costs. As some of them elect to reduce maintenance or not recapitalize older properties, they create a disincentive for other owners to invest because the presence of these deteriorated properties reduces the values of surrounding properties.

Meanwhile, teen pregnancy rates, the incidence of childhood asthma, high school dropout rates, and crime rates are higher in poverty areas than elsewhere. In 1987, William Julius Wilson wrote a book that underscored the plight and conditions under which poor people in ghettos lived (see also Wilson 1996). The book sparked a great deal of controversy and study of the impact of neighborhood conditions on individual outcomes. It stimulated less work on the public costs that such outcomes imply, including allowing entire neighborhoods to experience widespread property abandonment and residents to live in structurally inadequate housing.[32]

[31] Gentrification also results in the loss of low-income rental housing. There are opportunities to create mixed income communities through converting unsubsidized rentals in these areas to subsidized rentals if identified early enough. If not, the costs of making the conversion escalate.

[32] A notable and noteworthy exception is a paper by Galster (2002) that presents a comparative static analysis of the social benefits and costs associated with different spatial distributions of poverty. Another is an estimate of the impacts of racial segregation on metropolitan wide economic productivity (Altshuler et al. 1999).

In spite of years of study, the premise that the effects of living in extremely poor areas has negative implications for its residents over and above those of having extremely low incomes remains controversial. The most thoughtful and thorough review of the evidence through the early 1990s concluded that it was best to exercise caution in interpreting it due to methodological challenges that failed to establish the causal mechanisms through which neighborhood factors influence individual outcomes (Ellen and Tuner 1997). Picking up where Ellen and Turner left off, Sampson, Morenoff, and Gannon-Rowley (2002) reach similar but somewhat more optimistic conclusions.

A number of additional studies not reviewed in either of these studies have since been done that also suggest that neighborhood effects matter. de Souza Briggs (1997) found that depressed levels of social capital in poverty areas lead to negative impacts. Atkinson and Kintrea (2001) found that concentrated poverty under certain circumstances leads to poorer employment outcomes. Vartanian and Gleason (1999) found that neighborhood affects high school drop out rates especially among those with lower incomes. Van Der Klaauw and Van Ours (2003) found that poor areas reduce the effectiveness of welfare-to-work transitions of Dutch youth. Harkness and Newman (2002) found that the positive effects of homeownership on educational outcomes of children are reduced in distressed neighborhoods. Kling et al. (2004) found that the Moving To Opportunity program appeared to reduce the criminal activity of women and shifted that of men from violent to property crimes. However, Sanbonmatsu et al. (2004) found that Moving To Opportunity did not appreciably increase education test scores of children. Three earlier studies of the Moving to Opportunity critically reviewed by Sampson and his colleagues in their review article also suggest that moving away from an area of concentrated poverty may improve at least some outcomes (Ludwig et al. 2001; Katz et al. 2001; Rosenbaum and Harris 2001).

The most important recent research in this area makes a stronger and more compelling case that concentrated poverty has negative impacts. This research comes from the Project on Human Development and Chicago Neighborhoods (PHDCN). The project was designed to determine why some neighborhoods exhibit signs of social stress and pathology while others do not, and to examine the mechanisms by which neighborhood milieus influence a range of human developmental outcomes. The principal finding of the effort so far is that “concentrated disadvantage”—a high level of poverty and racial segregation—is often associated with poor outcomes, though certain neighborhoods that score highly on “collective efficacy”, despite these disadvantages, have better outcomes (Sampson et al. 1997). Collective efficacy is a measure of social cohesion and shared norms that predicts how likely residents are to intervene to advance the common good. It is generally, but not always, lower in areas of concentrated disadvantage. In areas where collective efficacy is low, violent crime is more likely, school performance tends to be worse, and birth weights of babies lower (both as a result of higher crime and lower collective efficacy) (PHDCN 2004).

Contributing Factors to the Concentration of Poverty and Neighborhood Decline

Much has been written about how and why housing markets concentrate the poor, and especially poor minorities, into pockets of poverty. The list of reasons is long, and the forces that give rise to these tendencies are reinforcing. Figuring at the center of these explanations are preferences and institutional discrimination. While in part the concentration of the poor is driven by racial segregation because minorities are over represented among the poor, society is divided along lines of race *and* class (Jargowsky 1997). Just as whites generally tend to avoid areas that have larger proportions of minorities, those with higher incomes tend to avoid areas that have large proportions of lower income households. Housing markets are competitive so higher income households can always outbid lower income households for housing (DiPasquale and Wheaton 1996). As they act by choice to live with others more like themselves and with similar preferences and abilities to pay for public services, they segregate residential areas by income (Tiebout 1956; Schelling 1971; Wheaton 1977; Hardman and Ioannides 2004). Vandell (1995) considers how both demand and supply side factors create spatial heterogeneity among urban neighborhoods, drawing on a microeconomic framework to explain why residential segregation occurs. Schill and Wachter (1995) examine how local control of taxes, public services, and land uses reinforces and enables spatial stratification by income and race. Both find that there are multiple and reinforcing factors that contribute to residential segregation by income, race, and ethnicity.

Laws banning discrimination in housing markets and their enforcement notwithstanding, compelling studies using paired testers (one white and one minority) reveal remarkably widespread discrimination (Turner et al. 2002). Recent studies even show that the sound of voices on the phone can cause disparate treatment if an accent or manner of speech is perceived as signaling that a minority is on the line (Massey and Lundy 1998). Discrimination in the housing markets, of course, reflects broader racial attitudes in the society as a whole. White flight thus is a contributor to racial and ethnic segregation. It is a prime reason why neighborhoods are at risk of re-segregating as the presence of minority households increases. Perhaps nowhere is this tendency more powerfully reflected than in public school enrollments. Schools segregate even faster than residences and are a harbinger of broader racial and ethnic turnover about to occur in the neighborhoods that the schools serve (Orfield and Yun 1999).

Beyond the impacts of discrimination and racial and class preferences exercised in a competitive market for desirable housing and locations, the geographic filtering of neighborhoods also isolates low income households in certain older neighborhoods. As many large metropolitan areas experienced rapid suburbanization in the 1960s and 70s, high-income households fled inner cities and the housing they previously occupied filtered down to increasingly lower income households. With the costs of development of open spaces lower than the cost of developing in cities, new development has tended to take place at the periphery of urban areas. Infill development is more limited. Rosenthal (2004) has done some of the most recent and thorough work on the subject of neighborhood filtering. In his study, neighborhood economic status is a function of the aging of the housing stock and neighborhood externalities. Because development expands out from the centers of cities with time, most of the older housing is located closer into the center of cities. That housing becomes functionally obsolete, and maintenance and upgrading of it will take place only if demand of higher income groups for the particular area remains strong enough to justify the costs.

As opposed to aging stock, neighborhood externalities can result in much more rapid rates of change if they create “tipping” points. In the context of neighborhood decline, the tipping points most commonly implicated are property abandonment (Sternlieb 1966, Simmons-Mosley 2003), redlining (Massey and Denton 1993), increases in poverty rates and rentership rates (Galster et al. 2000; Rosenthal 2004; DiPasquale and Glaeser 1999), white flight (Schelling 1971; Megbolugbe et al. 1996), and homeowner foreclosures (Baxter and Lauria 2000). Threshold effects, however, have not been studied much (Galster et al. 2000).

Whether renting plays a causal role in the process or is simply a part of it remains unclear. Examining the period from 1980 to 1990 and analyzing evidence of threshold effects on the independent variables, Galster and his colleagues found that, in places with very high rentership rates (over 85 percent), the increases in poverty rates were much higher than for places with more homeowners (Galster et al. 2000). Similarly, Rosenthal (2004) found that racial composition, homeownership rates, and share of subsidized housing in a tract all are strong predictors of this change in economic status. Neither approach, however, provides evidence on causation. Haurin, Dietz and Weinberg's (2003) review of the literature on the impact of a neighborhood's homeownership rate on its residents found few empirical studies of these effects.

Indeed, it is easy to overstate the role rental housing plays in the process of neighborhood filtering. While homeownership rates are sharply lower in these areas, this reflects the filtering of housing down to those with lowest incomes who are more likely to rent. Other studies have shown that high concentration of low-income homeowners can also be detrimental to a neighborhood if those owners are at risk of widespread foreclosures (Baxter and Lauria 2000).[33] In 2000, even in areas with poverty rates of 40 percent or more, the homeownership rate is 25 percent on average, and in one-quarter of these tracts homeownership rates top 50 percent. Still, the mistaken identification of rental housing with the poor and neighborhood distress has clouded judgments about the suitability of affordable rental housing in middle-class and upper-income neighborhoods and the contribution of dispersed affordable rental housing to healthy housing markets and communities.

Housing quality and crowding

Problems of crowded and poor quality housing often overlap with the other challenges listed above. In an effort to reduce costs, some households live in substandard housing or conditions, or double-up with others in residences too small to effectively meet their needs. Even then, many still continue to pay large shares of their income for housing.

Though the incidence of crowding problems in 2005 was only 4.6 percent among all renters and 3.6 percent among renters in the bottom fifth of the household income quintile, crowding remains a concern. More troubling, despite significant reductions over the past 50 years in the incidence of moderate or serious structural inadequacy problems, 11 percent of all renters and 12 percent of renters in the bottom income quintile still lived in these conditions as of 2000. A summary of previous reports on federal worst case needs conducted in 2003 showed progress in reducing crowding and dropping at least *severe* inadequacy incidences to low levels. The share of renters in severely inadequate units declined from 6.2 to 3.5 percent between 1978 and 1999, while crowding among renters also fell from 5.8 to 4.9 percent. But since the number

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[33] For more studies on tenure effects in neighborhood decline, see von Hoffman, Belsky and Lee (2006).

of renters has grown over that same period, the actual counts of households suffering from these problems has actually *increased* (HUD 2003). The types of renters most likely to have crowded or inadequate housing include families with children, younger households, minorities, immigrants and those with very low incomes. But even making housing quality tradeoffs do not always help enough with affordability. Over 42 percent of crowded households and 46 percent of those in severely inadequate units are cost burdened, compared to 33 percent of households without either problem.[34]

Why Housing Quality Matters

The consequences of inadequate and crowded housing are far-reaching and often disturbing. They include increased acute and chronic health problems, more hospital visits and higher medical expenses, lower productivity, lower social participation, and worse outcomes for children in these households.

The literature on housing problems and health outcomes is varied. Many studies focus on a specific kind of health problem or reaction.[35] Others take a broader view. For example, Evans et al. (2003) looks at the relationship between housing and mental health while Breysse et al. (2004) summarizes various studies on the impact of exposure to poor quality housing on health. Lowry (1990) examines the most extreme form of inadequate housing, homelessness, and the health outcomes associated with living on the street.

Many studies of the health outcomes of poor housing link the housing quality in some way to the incomes or poverty level of the household, the cost or subsidy status of the housing, or the quality of the surrounding neighborhood. Examples of recent versions of these studies include Newman and Harkness (2005), Acevedo et al. (2004), Hood (2005), and Dunn (2000). Others focus on the hazards in the homes themselves, and do not focus on whether exposure to them is greater or more likely among the poor.[36] These include unintentional injuries from structural defects like broken stairs, ungrounded electrical wiring, exposed radiators, and the absence of smoke detectors. It also includes health problems directly related to poor insulation and heating systems, exposure to disease-caring pests and rodents, and reactions to mold,

[34] JCHS tabulations of the 2005 American Housing Survey.

[35] For an annotated list of scientific research on housing and specific health outcomes, see The Alliance for Healthy Homes, http://www.afhh.org/hah/HH%20research%20articles%20fact%20sheet%20web.doc

[36] For a summary of literature on the types of household defects that directly contribute to poor health, see Matte and Jacobs (2000).

asbestos, or lead in the home.[37]

Less studied and understood, but no less important, is the potential ripple effect of these health problems for individuals. Poor health from exposure to housing problems may impact employment opportunities and outcomes for residents, making it difficult to earn the money necessary to improve their home or move to a better one (Smith 1999). In children, health problems interfere with their education, which harms them later on by reducing their earning potential (Ding et al. 2006).

Finally, we know less about the direct consequences of crowded housing on social and health outcomes. Beyond increased opportunity for disease transmission; the effects of overcrowded housing conditions in this country have not been recently evaluated. Among the few studies is an early one by Gove et al. (1979) that controls for socioeconomic factors in evaluating the effect of crowded conditions on mental health, social interactions and child care, finding a strong negative relationship. A few European studies have addressed this issue more recently, with an emphasis on the impact on children (Office of the Deputy Prime Minister 2004, Goux and Maurin 2003).

Contributing Factors to Housing Quality and Crowding Problems

Many of the other problems with rental housing discussed above contribute to the neglect of the rental stock that leads to structurally inadequate conditions. The concentration of affordable housing in particular neighborhoods, as well as the associated clustering of poor and disadvantaged households, discourages investment in these areas. By attracting only low income and poor renters, the rents building owners can charge for these units are insufficient to cover even basic operating costs, further discouraging any improvement. And so long as affordability problems persist, households will need to trade-off housing quality and size for cost, so some demand exists even for the most substandard properties.

Much of the blame for home health hazards is simply that at the time certain materials were used, such as lead paint or asbestos, they were not known hazards. The same holds for things like aluminum wiring that later proved susceptible to starting fires. Ironically, though, the same codes that have been promulgated to reduce the incidences of known hazards often play a

[37] There is considerable research on the effects of lead in the home, particularly on children. A review of some of this research is available from Patrick (2006).

part in keeping owners from making improvements to housing built to earlier standards. If rehabilitation is significant enough, it triggers full compliance with new codes. The costs of this compliance may be larger than landlords can recoup in increased rents. In these cases, landlords do not make the improvements (Listokin and Listokin 2001). Further, standards for mitigation of certain hazards, like lead paint, can be set so high that landlords withdraw units or try to fly below the radar screen rather than comply. At the other extreme, code enforcement of habitability requirements and restrictions on crowding may be laxly enforced.

Rental Housing Policy and Programs

The federal, state, and local responses to these myriad housing challenges have been valiant and critical to improving the lives of millions of Americans and reducing public costs associated with the impacts of these challenges. However, the government responses have plainly not been sufficient to resolve these problems. While some, like housing quality problems, have been dramatically reduced, others, like the concentration of poverty, have only been modestly reduced. Still other problems, like rental affordability problems and relative concentration of renters near cities, are growing dramatically worse. At the same time, many problems are cropping up in places that used to be more immune to them, and among moderate-income households that did not previously suffer from them.

Progress is slow and hard won because dealing with these rental housing challenges is both extremely expensive and runs counter to powerful social, economic, and political forces. It means addressing people's preferences and biases, entrenched political geographies, the relative costs of developing more open space in the suburbs compared to filling in or reusing space in cities, multiple policy objectives – the pursuit of which lead to land use and development regulations that can add to housing costs – and, of course, the steep cost of housing itself. The last of these should not be underestimated. The average renter now spends 30 percent of their income on rent. The average cost of a single rental voucher is estimated at over $6,600 by the Congressional Budget Office, or over $550 a month.

Rental housing policy and programs designed to deal with the nation's rental housing challenges have evolved over the past fifty or so years of intensive engagement with them. The evolution of rental policy and programs reflects changing economic, social, demographic and political conditions on the one hand, and policy experimentation and learning on the other. While some are quick to dismiss the valuable lessons that have been learned, it is well to review them and reflect on the ones for which there is now broad consensus, and for those which there is not. It is also worth taking stock not only of these policy responses but how they might be used to serve broader purposes than merely helping people afford homes, by focusing instead on opportunities to save on other public costs, reduce human suffering, improve anti-poverty program outcomes, and alter the residential patterns that give rise to multiple other policy challenges.

While there are of course many ways of grouping the policy responses, we elect here to group them into the following six categories.

1. Rental affordability
2. Preservation of affordable rental housing
3. Redevelopment
4. Rental assistance as a steppingstone to better opportunity
5. Regulatory relief
6. Housing quality

These are not mutually exclusive categories and several of these items are relative newcomers to the scene, such as regulatory relief and rental assistance as a steppingstone to better opportunity. Nevertheless they are distinct enough. While we will treat these areas sequentially below, it is important to note here that if lined up with the challenges listed above, several fall under more than one challenge as follows:

- Rental affordability: Items 1, 2, 3 and 5 above
- Concentration of affordable rentals near city centers: Items 4 and 5
- Concentration of poverty and neighborhood decline: Items 2, 3, 4, and 5
- Housing quality and crowding: 1, 2, 3, and 7

Using rental assistance as a steppingstone to opportunity does not fit neatly into the above problem areas. It is instead a new objective intended to more deliberately use housing assistance to deal with the ill effects of unaffordable housing and concentrated poverty on job seekers, children, would-be homeowners, and those managing under the strain of living in poor areas cut off from the economic mainstream.

Lastly, conspicuously missing from this list is the issue of informing tenure choices. These difficult inter-temporal decisions, which are subject to great uncertainties, have profound consequences. Yet there are essentially no government policies or programs to inform these choices. While there are increasing efforts to help educate homeowners about the process of buying a home that may lead some to conclude that homeownership is not right for them, these efforts are parts of broader homeownership campaigns that presume ownership is and ought to be the goal.

Rental affordability

The lion's share of federal outlays on housing are aimed squarely at reducing the number of very-low income households that suffer the most under the burden of rent expenses that absorb more than 30 percent of their income. The voucher, Section 8, public housing, privately-owned but assisted, and low-income tax credit programs are all designed principally to relieve rental cost burdens (though by enforcing suitability standards they also address housing quality). While the older project-based programs, including public housing, were also aimed at speeding the replacement of poor quality housing, like the others they are now mostly intended to lower rent burdens. The low-income tax credit program is now used to pursue multiple goals, but affordable housing is first among them. HOME block grants and Community Development Block Grants also are intended, at least in part, to create more affordable rental housing.

The primary drawback of these programs in addressing affordability problems is their scale. Getting rental housing assistance is like winning the lottery – the losers languish on long waiting lists and the winners hit the jackpot. Also, these programs are nearly all aimed at households earning up to 60 percent of area median incomes and most is targeted to even lower income levels. Hence, the growing difficulty that households over 60 percent of area median income have trying to afford the higher cost of housing is left unaddressed. In addition, the primary remaining program for rental production – the low-income tax credit – requires other subsidies to make rental housing affordable for any household not exactly at the 60 percent of area median cutoff – an income cutoff of about $26,100 nationally.

Other problems identified with the government effort to relieve affordability problems through tenant-based and project-based subsidies include:

- The failure to adequately fund the operating and modernization costs of public housing and of some of the older privately-assisted housing programs
- Contributing to rather than ameliorating the concentration of poverty as a result of location decisions that concentrate public housing and other project-based assistance in poor

neighborhoods

- Fragmented administration of programs at the state and local levels that lead to diseconomies of scale and multiple program rules and deadlines that add senseless costs to the development process
- Difficulty recruiting landlords to participate in the tenant-based assistance program
- Insufficient support for apartment seekers who receive vouchers
- Rent formulas that create disincentives to work
- New federal funding rules that force tradeoffs that could lead either to fewer households being served or shallower income targeting

Despite all these issues, the past 50 years have come close to reaching consensus on a few critical issues about the best way to address rental affordability programs. There is a growing consensus that vouchers are a more efficient way to subsidize renters and that they lead to better spatial outcomes by reducing the concentration of poverty (Khadduri et al. 2003). There is also now a tendency to move beyond the tenant-based v. project-based debate, and frame it instead in terms of when project-based assistance is valuable and for what aims beyond just relieving rental affordability problems. But there are still unresolved questions especially related to project-based assistance. Chief among them are how to structure subsidies and programs so that market forces police outcomes to the maximal extent possible, and how to design programs that reduce project failures from inability of owners to keep up with maintenance and replacement demands. The tax credit is viewed as less than ideally efficient in terms of dollar for dollar delivery of subsidy but far better than any previous programs in leading to successful outcomes, garnering political support, and sparking highly effective state level and market oversight. From a lifecycle perspective, tax credits may well prove the most successful project-based program yet.

Issues concerning the best way to administer direct federal subsidies and how to select the best entities to own assisted rental properties are still very much in play. Katz and Turner (2001) have argued, for example, that the current system for administering direct subsidies (vouchers) is splintered and inconsistent. They argue that direct subsidies ought to be administered by regional authorities rather than by local agencies. This would not only make program administration potentially more efficient but also create much needed regional authorities to take a regional view of housing needs across metropolitan areas. In terms of what entities are best able to meet the long-run goal of effective ownership of project-based assistance with an eye towards long-run sustainability, there is an active debate as to whether nonprofits or for-profits have an inherent advantage or whether it depends on the particulars of the nonprofit or for-profit sponsors (Walker 1993; Vidal 1995; Van Dyk 1995; Keyes et al. 1996; Liou and Stroh 1998; Glickman and Servon 1998; Smith et al. 1997; Quercia and Galster 1997; Best 1996).[38] In addition, there is still a debate over whether the extent to which federal programs have been devolved to states and local governments is yet complete enough, as well as if it makes sense to concentrate more allocation authority at the state or regional level than at the local level (McEvoy 2002; Downs 1994; Orfield 2002; Katz and Turner 2001; Katz et al. 2003).

Also, the surprisingly high rate of return of vouchers unused, despite the fact that households may have waited years to receive them, has spotlighted the difficulty that some households have finding suitable rentals (Jones 2001). This has led to calls for increased funding to assist renters in locating suitable voucher-eligible housing, and to recruit landlords—who can elect not to accept vouchers as a form of payment—to participate in the program (Millennial Housing Commission 2002).

Lastly, the fact that the renter contribution is set at 30 percent of income means that any additional income a household earns is in a sense taxed at a rate of 30 percent. But there is a heavily contested debate over whether this is sufficient to dissuade aid recipients from increasing their incomes.[39] Even more of a disincentive to work occurs if recipients cross the threshold of eligibility. Given long waiting lists to regain assistance and the potential for job loss taking a household’s income back below the eligibility cutoff, it is feasible that some may avoid taking that chance.

Preservation of affordable rental housing

Programs aimed at preserving assisted rental housing are closely linked to policy and programmatic efforts to address the shortage of affordable housing. These preservation programs are aimed at preserving assisted rental housing at risk of loss through financial failure and neglect on the one hand, and conversion to higher market-rate rentals in gentrifying neighborhoods on the other. As just noted, one of the problems associated with some project-

[38] Some studies suggest that properties owned by nonprofits do not perform as well, but these studies seldom provide sufficient controls for the quality of the owner, the level of services provided, and differences in target populations and locations served.

[39] See Shroder (2002) for a summary of studies that do and do not support this hypothesis.

based housing has been that it was not funded sufficiently to prevent modernization needs from mounting and to deal with the now accumulated backlog of these needs. But another fundamental problem with virtually all project-based programs is inattention in program designs on how to preserve rental housing as affordable when contracts on it expire in places where investors can reap higher returns by exiting the programs. As awareness of this problem dawned, efforts were made at first to abrogate contracts and force owners to stay in the programs. Inevitably, these gave way to programs aimed at providing owners incentives not to exit rather than placing bans on the exercise of contractual rights.

At the same time, problems of deterioration in a portion of the assisted stock surfaced along with the problem of getting owners of these properties to transfer their properties to new, more suitable owners. Many of these existing owners were in some senses "trapped" by tax rules that would force large recapture of previously taken tax benefits upon sale of the property. These "exit taxes" have yet to be addressed and still stand in the way of transfers from one set of owners to others to whom the federal government would be willing to provide subsidies to improve properties in return for long-term rent restrictions.

Efforts to preserve assisted housing have since been stepped up and improved. Eventually, a "mark-to-market" program was established that has been viewed as far more successful in preserving housing and optimizing limited federal resources. Perhaps even more important, and operating on a large scale, are efforts by state housing finance agencies to use tax credits and other resources to prevent subsidized rental housing from exiting the supply of affordable rental housing. The National Housing Trust estimates that state agencies have increased the annual number of federally assisted rental units that they have helped preserve from 20,000 units in 2000 to 56,870 units in 2005.

Despite ramped up efforts to preserve assisted rentals, these attempts are coming up short. The National Housing Trust has estimated that 300,000 units were lost between 1995 and 2003. Not only are assisted rentals being lost nationally, but some states have done little to preserve them while others have done much. The costs of preservation make it difficult to imagine handling the full need absent an increase in funding.

At least as important as the loss of subsidized rental housing on net is the loss of unsubsidized rental housing. As opposed to multiple strategies that are being used to stave the losses of subsidized rental housing, there is no comparable organized strategy to do the same for unsubsidized affordable rental units. Yet at least three-quarters of very low-income renters live in units that receive no project-based subsidy, tenant-based voucher, or tax credit assistance whatsoever.[40] While tenant-based vouchers play a positive role in preserving rentals that do not receive project-based subsidies by letting landlords charge rents that support proper maintenance, there is no systematic approach to helping preserve the rest. Properties that receive no federal funds are diverse in ownership, location, style, and property type. The piecemeal and generally limited efforts to address this stock are problematic. Some cities use block grants more actively to provide incentives in the form of grants and below-market loans to help owners of properties with no rent restrictions properly maintain their properties. Leading examples are Chicago, that supports organizations like Community Investment Corporation, and New York, that supports organizations like Community Preservation Corporation, to do this. Still largely unexplored is the impact of small grant and below market loan programs aimed at shoring up small properties on neighborhood conditions and change. While many places do not fund such activities, it is a common use of Community Development Block Grants.[41]

Redevelopment

Rental housing programs aimed at redevelopment of areas of neighborhood distress notoriously took the original form of the “federal bulldozer.” Initially, the federal government provided grants to help local government assemble land and raze the properties on it. The land and residential uses that typically succeeded the blighted housing it replaced resulted in drastic net reductions in affordable rental housing in the transformed areas. Worse, little regard was paid to the residents that were displaced from these areas.

Over time the approach changed to trying to revitalize areas by rehabilitating properties, using new construction selectively to replace nuisance properties, and working with neighborhood groups to come up with redevelopment plans. Some programs, such as the Model Cities and Urban Development Action grant programs came and went. But what have endured are special incentives in federal production programs to induce developers to build in distressed

[40] The majority of low-cost rentals do not receive a subsidy. Of the roughly 18.7 million rentals that were affordable to very-low income households in 1999, fully 14.5 million were unsubsidized (Donovan 2002). Unassisted rentals affordable to very-low income renters are overwhelmingly in small structures. Indeed, in 1999, 45 percent of renters of subsidized rentals reported living in single family homes and 26 percent in 2 -4 unit structures. An additional 19 percent reported living in structures with 5-19 units, leaving only 10 percent in structures with 20+ units.
[41] One of the few studies to cover this topic was produced by the Urban Institute (Walker et al. 2002).

areas. These take the form, for example, of federal guidelines about the amount of tax subsidy that can be used in the low-income tax credit program on projects located in "difficult to develop" areas. Furthermore, states may provide additional incentives to steer tax-credit development to target areas, such as giving extra points in state allocation plans. In addition, CDBG and HOME grants have planning requirements that demand public involvement in development plans. These block grants also provide vital funding that state and local governments can use with some discretion to revitalize areas.

Most recently, federal policy has returned to the idea of larger-scale redevelopment. To address the worst problems in public housing, the HOPE VI program was created. It allows for wholesale redevelopment of large public housing communities, sometimes reaching to planning for areas surrounding these communities. Unlike the federal bulldozer, however, local community groups are engaged in the planning process, a much more concerted effort is made to deal with displaced residents (using so-called "sticky" vouchers), and is made to achieve a mix of incomes which includes the very lowest of income households up through moderate-income households. Like the federal bulldozer programs, replacement of affordable rentals is not always one-for-one. However, the ratios are far better than under the older programs, and many of the units not replaced were vacant or on the road to becoming so because they were in such poor condition.

The efforts to redevelop areas in these new incarnations are more positively viewed than federal bulldozer schemes. HOPE VI studies suggest that they can have powerful and positive outcomes, though whether they do depends not only on broader economic conditions in the areas in which they are located but also how redevelopment plans are formulated and implemented.[42] Studies of New York City's 10-Year Plan provide especially compelling evidence that under the right circumstances concentrated public investment to reverse neighborhood decline can succeed and create ripples that extend outwards from the physical location of the redevelopment projects (Schill et al. 2001).

Still, there is much to be learned about this topic. There appears to be an inherent conflict, formulated in the 1960s by urban economist John Kain, as whether to "gild the ghetto"

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[42] Studies of the initial impact of investments made to revitalize distressed public housing under the HOPE VI program also suggest that investment in housing can help improve neighborhood conditions (Salama 1999; Zielenbach 2003). However, it is still too soon to tell whether HOPE VI programs will have larger and more lasting impacts. Early indications are that it improves economic conditions, but by less than citywide averages. In addition, an evaluation of historic preservation laws and credits suggested that a focus on housing rehabilitation succeeds in sparking community revitalization but not necessarily in preserving housing as affordable (Listokin, Listokin, and Lahr 1998).

or help move people out of these areas so that poverty is less concentrated. But thinking on the subject has matured. Instead of viewing the two goals as oppositional, they are viewed as two parts of the same process of encouraging mixed-income communities. Attention to helping those displaced by urban revitalization helps move these individuals out of poor areas, and attention to income mixing in revitalization projects helps moderate-income households move into high-poverty areas.

Beyond federal intervention and funding to achieve local community economic development and revitalization, some state and local governments have recognized the powerful influence they can have on the redevelopment process by more aggressively attaching nuisance properties and forestalling the financial collapse of distressed properties. Stopping the process of negative externalities from disinvestment in initially a small number of failing properties from spreading to others can stop or slow neighborhood decline. In addition, rapidly recycling properties that have become abandoned or have been demolished can create opportunities to spark a process of reinvestment.[43] The most sophisticated states provide legal frameworks and support for taking control of nuisance properties. And the most enlightened local governments use a spectrum of tools and coordinated planning to reclaim community assets and put them in the hands of more civic-minded developers. These states and local governments can serve as examples to those that want to get more serious about having effective and coordinated plans to deal with financially distressed and nuisance properties.[44] Federal block grants are also used in this process.

Rental assistance as a stepping stone to better opportunity

New uses of rental assistance are deliberately being tried and pilot tested to move policy beyond the use of programs to merely cap the rent contribution of aid recipients to 30 percent of income, prevent further losses of affordable rental housing on net, and spark redevelopment of

[43] There is no national count of abandoned rental properties but they often number in the tens of thousands even in individual cities (Cohen 2000). Places as diverse as Houston, Baltimore, Philadelphia, and Detroit have property abandonment on that scale, and abandoned rental properties are common features in poor neighborhoods with failing housing markets (Keating and Sjoquist 2001).

[44] There is a developing literature that describes best practices for recycling abandoned properties and intervening early to avert properties from becoming abandoned. Brophy and Vey (2002), for example, lay out ten steps to urban land reforms. Goldstein, Jensen, and Rieskin (2001) present case studies on how Boston, Portland, Providence, Pittsburgh and Harrisburg, Philadelphia have tackled the barriers to redeveloping abandoned properties. Lessons can also be learned from programs in Atlanta, Cleveland, New York, Los Angeles, Detroit, and Trenton (Keating and Sjoquist 2001, Mallach 2004). The most comprehensive compilation of best practices and the most complete analysis of the problems and challenges in recycling abandoned property is by Mallach (2006).

distressed areas. In particular, rental assistance is being reinvented as a tool to:

- Move people to areas of greater opportunity and disperse the poor
- Support efforts to make welfare-to-work transitions successful
- Develop the low-wage workforce
- Provide incentives to save and invest in education and build assets
- Provide incentives for recipients of housing assistance to increase their work effort

Indeed, the recent explosion in creativity in the use of rental assistance and in attempts to carefully evaluate their efficacy is noteworthy. These run the gamut from the Family Self Sufficiency Program that provides incentives to save and work (with savings available for a range of eligible uses), to the Moving-to-Opportunity Program intended to provide special assistance to help aid recipients find rentals in moderate and higher-income areas, to the Jobs-Plus-Housing program that bundles housing assistance with workforce development services, to the active experimentation by states to use housing assistance in conjunction with Temporary Assistance to Needy Families (TANF) to achieve better workforce outcomes for former welfare recipients.

While not entirely conclusive, and pointing to the unsurprising but often underappreciated fact that success depends importantly on program administration and market context, the available evidence supports the view that rental housing assistance can more than handle these additional weighty and important goals under the proper circumstances. While results of the Moving-to-Opportunity program are mixed, the results from one exceptionally well crafted study of the Jobs-Plus housing program suggests that bundling workforce development and housing assistance can be a powerful anti-poverty strategy. The numerous studies of Moving-to-Opportunity lack a true experimental design and the results are sensitive to how the program has been implemented by local agencies (Goering and Feins 2003, Kling et al. 2004). Although there is some cause for optimism on child outcomes and other social measures, labor impacts of Moving-to-Opportunity have at best been lackluster. Jobs-Plus housing however, has clearly scored some major workforce gains (Bloom et al. 2005). In addition, most evaluations of linking welfare reform to rental housing assistance have found positive impacts on both employment and earnings (Verma and Riccio 2003)

A range of policies and programs have also been designed to promote integration, but relatively little effort has been made to study the individual and collective impacts of these policies. Policies have been designed both to eliminate discriminatory behavior and encourage the dispersal of the poor. Although anti-discrimination and fair housing laws have been on the books for nearly four decades, there is considerable evidence that housing market discrimination, as measured by audit studies, persists. There is also considerable evidence that the Home Mortgage Disclosure Act and Community Reinvestment Act have expanded access to mortgage credit in low-income communities, but high levels of subprime lending in these communities are raising new concerns over fair treatment. Court-ordered desegregation of public housing has occurred in some places and has been effective in reducing the concentration of the poor and moving them to areas with greater opportunities. And although not initially designed with the intention of dispersing the poor, the shift in federal housing policies towards housing vouchers appears to have diminished the concentration of low-income households.

Regulatory relief

Federal and state success has been very limited in providing relief from the development regulations that channel production into more expensive housing, create costly uncertainty and delays, and restrict residential land supply overall. The federal government has not gotten beyond commissions, clearinghouses of best regulatory relief practices, and studies of the ill effects of many development regulations on the cost and type of housing that gets built or rehabilitated (Schill 2004). While not unimportant, these efforts do not provide carrots or sticks. The federal government has been reluctant to get involved with issues that are viewed as in the purview of state constitutions and laws. States, meanwhile, tend to let local governments create most rules governing land use without imposing many requirements. There are exceptions[45]. But these exceptions prove the rule – the rest of states have done little. Still, the states that have been active have experimented with a variety of different incentives and requirements that have a good chance of overcoming some local regulatory and fiscal barriers.

At the local level, many jurisdictions have acted to deal with the problem of lack of affordable housing (though not specifically rental housing) by passing some form of an inclusionary zoning ordinance (Burchell and Galley 2000). But even so, the use of these tools remains limited and tends to be less common in suburban jurisdictions. Furthermore, their impacts on rental housing availability, specifically, have not been studied.

[45] A handful of states have also begun to pressure local jurisdictions to accept affordable housing (Calvita, Grimes, and Mallach 1997; Calavita and Grimes 1998; Rusk 2002; Krefetz 2001; Listokin and Listokin 2001).

Hence, the issue of regulatory relief, although central to rental affordability challenges and the concentration of rental housing near city centers, is very weakly addressed at the present time. But interest in the topic has increased, and it seems an issue upon which affordable housing advocates and those opposed to heavy-handed government meddling in housing markets can agree. Still, efforts to deal with the situation come up against entrenched interests opposed to residential development in general and high-density development in particular. Fischel (2001) extended the consumer-voter hypothesis of Tiebout and dubbed it the homevoter hypothesis. He and others have demonstrated that differences in public service provision are capitalized into the value of homes and that owners have an interest in defending those values in a variety of ways, including not permitting dilution of the public services that they have in effect paid for in the price of their homes. He has emphasized how the financial interest of homeowners in the small jurisdictions where they exert political control would lead logically to a resistance towards development. Indeed, "Not-In-My-Backyard" (NIMBY) sentiment is strong and buttressed by many economic rationales.[46]

Housing quality

Finally, there are many government interventions aimed at housing quality issues. In addition to preservation and redevelopment-focused initiatives, the following are targeted at improving housing quality:

- Funds for remediation of home health hazards, such as lead-based paint
- Federal, state and local regulations governing remediation of hazards
- Codes and code enforcement programs
- Special rehabilitation codes

Perhaps the most promising of these approaches is the promulgation of special rehabilitation codes. New Jersey has perhaps advanced the furthest in creating an effective rehabilitation code (Listokin and Listokin 2001). HUD has also been behind the creation of model codes specifically for the rehabilitation of existing structures, and in 1997 issued the "Nationally Applicable Recommended Rehabilitation Provisions" (NARRP) for states and municipalities to follow in creating their own renovation codes. By 2001 a handful of states had

[46] Fennel (2006) recounts the economic arguments for exclusionary zoning practices.

enacted codes based on the NARRP.

The great difficulty with interventions aimed at improving quality is that they come at a cost. Vigorous code enforcement can cause landlords to give up on compliance altogether because it is too costly for them given the rents their tenants are willing to pay. Obligations to remediate certain hazards in rental situations can cause owners not to rent out their properties. Disclosure requirements about hazards reduce the market value of properties, potentially increasing the chances they will be abandoned. This is not to say that these hazards should not be disclosed or that remediation of them in every case is not essential to public health; it only points out the unintended consequences of these rules.

Furthermore, many hazards that government could help reduce are generally not the subjects of programs or policies. Perhaps the most notable and common of these is the presence of high concentrations of allergens that vastly increase the risk of childhood and adult asthma. Asthma is a primary reason for expensive emergency room visits. Lack of a policy in this area—even though dealing with problem could well be less expensive and surely far more humane than not—is a major failing.

Conclusions

The rental challenges facing the nation are, at best, persistent, difficult and costly to address. At worst, many chronic rental problems are getting worse and the prospects for a reversal of this trend are poor given current economic, social, demographic and political trends. The economy continues to produce jobs mostly at the tails of the wage distribution and employers continue to demand millions of part-time low-wage workers. The federal government is facing growing demands on its entitlement programs, with social security projected to run a deficit in the not too distant future and Medicare and Medicaid costs spiraling out of control. Prospects for substantial increases in income supports are not great nor are prospects for significant increases in funding for rental subsidies. Social and political trends also do not give much cause for optimism about the nation’s capacity to seriously deal with regulatory restraints that distort housing markets and make the production of affordable rental housing very difficult.

Meanwhile, household growth over the next decade is expected to be greatest among minorities, the foreign-born, and seniors. Indeed, the Joint Center for Housing Studies projects that the minority share of households will increase from 30 percent today to 43 percent by 2020.

As a result, several of the groups with the highest propensity to rent, with the lowest incomes, and with the greatest institutional barriers to homeownership will see the fastest growth. The growth in the number of renters overall is expected to be approximately 1.8 million over the next ten years, depending on whether ownership rate gains stall or advance by age and family type at about the rate of the previous ten years. Meanwhile, the passage of the baby boomers into their 60s and 70s over the next twenty years will lift the demand for special needs rental housing for the elderly.

The material reviewed in this paper leads to many findings and conclusions about the challenges ahead, what government could be doing to address them, and why it is important for them to do so. Before ending on a more sober note about the many topics that still demand further research to better inform policy research, we list the most important of these findings and conclusions.

- Rental housing assistance can help households in need of affordable housing options; provide moderate cost housing while households save for homeownership; allow labor mobility that improves productivity and earning potential; help households move away from areas of concentrated poverty and increase their access to better social, economic, and educational opportunities; and improve welfare-to-work transitions and help enhance the benefits of other workforce development programs.
- By making greater efforts to encourage owners of rental properties in transitional neighborhoods at risk of becoming distressed to properly maintain and upgrade their properties, the costly process of neighborhood decline could perhaps be arrested.
- By getting beyond the “voucher v. production” and “revitalize poor neighborhoods v. disperse the poor” debates, rental housing policies and programs can be better tuned to meet local challenges, avoid ignoring residents displaced by revitalization, and encourage mixed income communities in poor as well as moderate and higher income communities.
- By building on a growing number of best practices at both the state and local levels, local governments could be far better at rapidly recycling financially stressed and nuisance rental properties so they can be restored to productive community use.
- By enacting states laws that provide incentives for or impose requirements on local governments to take more seriously the production of affordable rental housing, states can play a pivotal role in overcoming local regulatory barriers; though politics in many states

make this unlikely at present, enough states have shown how this could be done to serve as a source of ideas for these other states.

- By attending more seriously to key but seemingly banal questions like how to define rental housing affordability, count worst cases, and judge how little leftover is too little for moderate-income households (as separate from low-income households), the debate over the costs to society as a whole of unaffordable rental housing could be reinvigorated.
- By acknowledging the lottery-like nature of rental housing assistance as currently structured and the real costs of helping reach the full need, greater focus on what it would take to actually end certain problems rather than reduce them could be brought to bear.
- By promoting more informed choices and leveling the playing field between owning and renting, government could create improved outcomes and potentially help facilitate labor mobility and reduce transactions costs associated with buying and selling homes more frequently than need be.
- By considering possible government-supported equity side interventions in the small multifamily side of the affordable rental market, policy makers could explore ways to aggregate the ownership of this stock in a federally-supported entity that would have public purposes in exchange for public finance.[47]
- By thinking through the linkages between rental and homeownership policy, better outcomes for low-income households might be achieved.
- Efforts to tackle regulatory barriers to the production of affordable housing remain very limited and pose an ongoing challenge to allowing the market to supply the types of housing demanded and at the lower price points the market demands.

Finally, there is still much to be learned that could help improve rental housing policies and programs. While the list of topics worthy of further study is long, we list just a few of the most important here.

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[47] Narasimhan (2001) has argued persuasively that equity side solutions could play an even more important role. He proposes the creation of a federally-sponsored Real Estate Investment Trust (REIT) that would aggregate ownership of older, small and larger multifamily properties with low or modest rents. This would allow properties to be financed on a portfolio rather than a property basis. It would create economies of scale in rehabilitation using federal grants and loans. It would also bring professional management to small properties. Finally, it could potentially bring some rentals under subsidy contracts to help insure their long-term affordability and access for voucher recipients. The idea of an equity side solution resonated with several of the leaders of the larger nonprofits that see a REIT-like structure as a way to attract both equity and debt finance. Moving to a corporate finance model would enable entities to issue long-term debt rather than seek property-specific loans.

- Most urgently in need of further study are the public and private costs of unaffordable rental housing, concentration of poverty, concentration of renters near city centers, and unattended housing quality and health issues. Attempting to quantify the public costs of rental housing challenges would take the discussion a step closer to discussing rental housing policies and programs in cost-benefit terms.
- As much as has been written on the negative impacts of many regulations on the supply of affordable rental housing, especially in the suburbs, not enough has been written on efforts to use regulations such as inclusionary zoning to instead stimulate the production of affordable rental housing.
- Despite a growing body of literature on the impacts of regulation on housing costs and the availability of affordable housing, only a handful of recent studies have specifically examined the impact of regulations on rental housing.[48]
- Additional research is required on the determinants of net losses of affordable rental housing stock as well as the comparative costs and challenges of preserving and rehabilitating existing rental housing v. building new rental housing in areas where rentals are being lost.[49]
- The costs of trying to build new housing and rejuvenate neighborhoods ought to be contrasted with the costs of preventing them from falling into disrepair in the first place.
- Additional research on neighborhood filtering would help predict which communities are at risk of losing housing to abandonment and decline and which are likely to have relative stability in rents and tenure, and would allow identification of areas likely to experience gentrification and areas where restricting rents may become increasingly costly.
- With the exception of one paper that explores the influences of housing neglect and abandoned lots on the location of criminal activity (Brown et al. 2004), we could find no studies that examine the connections between neighborhood housing conditions (as opposed

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[48] Levine (1999) found that growth controls in California municipalities significantly reduced the amount of rental housing produced. Green (1999) found that several specific land use restriction elevated rents in municipalities in a county in Wisconsin. Malpezzi (1996) found that rents are 17 percent higher and homeownership rates 10 percent lower in highly regulated metros than in lower regulated metros after controlling for other factors that might account for the differences. Finally, Somerville and Mayer (2003) found that strict regulations increase the chances that rental housing will filter up to higher rents instead of down to lower rents.

[49] While there are studies that examine the relative costs of different federal housing assistance programs and the capital needs of public housing and FHA-insured and assisted housing, these studies do not distinguish between the costs of new construction and rehabilitation nor consider how effective smaller investments intended to avert future rehabilitation needs might be (DiPasquale et al. 2003; Finkel et al. 2000; Wallace 1981). There are clear economies of scale in operating costs, however, so the inability to replace high density housing with equally high density housing has a depressing effect on operating cost savings achievable from new construction (Goodman 2004).

to poverty levels) and these outcomes.

- Even though 1-4 unit rental properties make up more than half of the unassisted affordable rental housing stock, there is a virtual absence of studies on the ownership, management, and financing of these properties (Mallach 2006). The study of 5-49 unit rental properties is similarly limited.
- More experiments need to be conducted to test the impact of attempts to use rental assistance to improve labor outcomes and child outcomes by combining it with job services or helping aid recipients move to opportunity.
- Studies on the investment aspect of owner-occupied housing, the impact of rising homeownership on neighborhoods in the new world of subprime lending, and the probability and consequences of failure in homeownership are too few in number, and public awareness of the risks of homeownership remains low.

As we enter a period of increasing housing affordability problems, mounting challenges posed by the spatial outcomes of the operation of rental housing markets, expansion of special needs populations, and household growth skewed to demographic groups with greater propensities to rent, the importance of dealing more seriously with housing demands and challenges is growing even more urgent. Clearly, the path we are on offers little hope of preventing growth in these challenges, let alone of making headway in reducing the size of mammoth problems. With the exceptions of easing concentrated poverty, problems of structural inadequacy, and some significant home health hazards, rental policy and programs have not been large enough to make significant dents in the nation's housing challenges.

Even though much more needs to be learned, much has already been learned about what to do to address the nation's rental housing challenges and the associated problems they create. Building on the lessons of the past, and with a clearer focus on why grappling with these admittedly difficult and daunting challenges is so worthwhile, it would be possible to make significant progress. But progress will be made only if the political will to do so can be mustered and the commitment to solutions that span all levels of government.

Figure 1 – Summary of Principal Rental Housing Concerns

Policy Concern	Contributing Factors	Reasons Cited for Why It Is Important
Rental affordability problems ▪ Widespread and increasing ▪ Long-term trend of problems worsening among the bottom income quintile ▪ Primarily low and very- low income households afflicted and most harmed ▪ Growing shares of moderate income households facing rent burdens ▪ Forces tradeoffs, including sacrificing basic needs, saving less, having longer travel times and higher travel costs, living in poorer quality housing, and living in poorer quality neighborhoods	1. Demand-side "income" problems[50] ▪ Slow rate of real growth in returns to low-wage work ▪ Strong demand for low-wage and part-time workers ▪ Growth at tails of the distribution of occupations as ranked by wages, with flattening in the middle ▪ Size and scope of safety net for elderly and disabled 2. Supply-side problems ▪ Rate of growth in operating costs relative to income ▪ Development and land use regulations that increasingly add to replacement cost ▪ Development regulations that limit production of higher density, more modest rentals ▪ Market dynamics that lead to net losses of low-cost rental housing ▪ Rate of growth in rental subsidies and tax incentives relative to need	1. Equity – making work pay ▪ Fulfilling the "social contract" 2. Human costs of tradeoffs ▪ Sacrifice of other basic needs ▪ Lower expenditures on nutrition and healthcare ▪ Increased financial insecurity for families ▪ Heightened exposure to health risks ▪ Longer commutes and less time with family ▪ Poorer educational outcomes for children 3. Social, public and economic efficiency costs of tradeoffs ▪ Reduced private savings ▪ Increased public health and safety costs ▪ Reduced economic productivity ▪ Increased auto emission and habitat destruction ▪ Lost investment in the rental capital stock ▪ Higher costs of serving homeless than housed individuals 4. Potential to contribute productively to anti-poverty strategies (asset building, workforce development, etc,)
Concentration of rental housing in and near city centers ▪ Exacerbated by continuing dispersion of jobs and housing in metro areas ▪ Places greater distance between supply of low-wage workers and demand for them	1. Demand-side problems ▪ Renter location choices given public transit constraints ▪ Race and class-based preferences expressed by "home voters" 2. Supply-side problems ▪ Difficulty producing moderate-cost housing in suburbs owing to building, development, and land use regulations ▪ Political balkanization of metros	1. Human costs ▪ Higher unemployment and restricted opportunity for urban low-wage workers ▪ Higher commuting costs and times 2. Social, public, and economic efficiency costs ▪ Higher suburban wage rates for low-wage occupations ▪ Greater reliance on school-age workers ▪ Greater traffic congestion and increased auto emissions

[50] Many so-called household "demand" factors reflect the structure of the economy and the nature of labor demand.

Figure 1 (continued)

Concentration of poverty and neighborhood decline ▪ Easing nationally but remains significant ▪ Present in all cities ▪ Intensifying in many metro areas ▪ Most severe for minorities, especially African Americans ▪ Reductions in high poverty (2 in 5 poor) areas has not been accompanied by a reductions in poverty (1 in 5 poor) areas	1. Demand-side factors ▪ Race and class based preferences ▪ Competition for preferred locations and housing based on income ▪ Functional obsolescence of older housing stock ▪ Social capital formation in poverty areas 2. Supply-side factors ▪ Discrimination ▪ Political balkanization of metros ▪ Physical depreciation of housing ▪ Comparative costs of greenfield v. infill and brownfield development ▪ Microeconomics of supplying housing at rents below operating expenses ▪ Underinvestment in and concentration of subsidized affordable housing in poor communities	1. Human costs ▪ Heightened exposure to health and safety hazards and greater mental stress ▪ Isolation from economic opportunities ▪ Poorer educational outcomes, including higher high-school dropout rates ▪ Increased social problems (such as teen pregnancy) 2. Social, public, and economic efficiency costs ▪ Higher social welfare, public health and safety costs ▪ Loss of past investments in the rental housing stock ▪ Negative externalities of underinvestment in housing on neighbors and residents ▪ Lower workforce productivity ▪ Costly restoration, revitalization, and redevelopment efforts
Housing quality and crowding ▪ Severe structural inadequacy reduced ▪ Incidence sharply higher for low-income households ▪ Large portion of housing stock still have significant home health hazards (lead paint, asbestos, aluminum wiring, narrow stair treads, etc.)	1. Rental affordability problems 2. Cost to remediate significant hazards 3. Code promulgation (lack of rehab codes) 4. Code enforcement 5. Low average incomes of households that occupy older housing stock	1. Human costs ▪ Higher exposure to health risks ▪ Higher potential for loss of household income ▪ Negative influence on cognitive development 2. Social, public, and economic efficiency costs ▪ Higher public health costs ▪ Reduced worker productivity

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