Affordable Housing, Opportunity and Community-Building: Challenges of Meeting Lower Income Housing Needs and Rebuilding Distressed Communities in the Hudson Valley

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THE ELUSIVE GOAL OF A DECENT HOME AND A SUITABLE LIVING ENVIRONMENT: CONFRONTING TODAY'S HOUSING CHALLENGES

Alan Mallach[1]

1 INTRODUCTION

Decent housing is a fundamental human need, and how to address that need is an issue that has bedeviled not only the United States, but every developed nation, for the past hundred years or more.[2] In the United States, while there had been some limited federal engagement with housing policy during the early part of the 20th century, it was during the New Deal era that the federal government clearly placed its stamp on American housing issues, with creation of the Federal Housing Administration, the public housing program, and more.[3] Finally, in the Housing Act of 1949, Congress set forth the goal that every American family should have a "decent home and a suitable living environment." While the fact that that enactment included authorization for the urban renewal program, which arguably did more to hinder than further that objective, can be seen as a painful irony[4], the fact remains that that goal has remained the

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[2] The history of efforts to address housing problems, both from the standpoint of ensuring minimum healthy and safety standards in housing and with respect to producing affordable housing for working class or lower income households, is long and complex. Extensive efforts in both respects became widespread in many countries during the second half of the 19th century, although one can trace the history of affordable housing efforts back to the almshouses of 10th century Britain. The 1890 Housing for the Working Classes Act in Britain was the first of a series of laws in that country to provide for construction of affordable dwellings; see Charles E. Allen and Francis J. Allen, *The Housing for the Working Class Acts 1890-1909, and the Housing Acts 1914, Annotated and Explained*, London: Butterworth & Co. (1916). Social housing policy in France dates from the same era; see Danièle Voldman, ed. *Désirs de toits. Le logement entre désir et contrainte depuis la fin du XIXe siècle* (trans. "Seeking Shelter: housing between aspirations and constraints since the late 19th century), Paris: Créaphis Éditions (2010).Tenement house reform was a major public issue in the United States, particularly in New York City and New York State, during the second half of the 19th century; see James Ford, *Slums and Housing: History-Conditions-Policy.* Cambridge MA: Harvard University Press (1936); Gwendolyn Wright, Building the Dream: A Social History of Housing in America, Cambridge, MA: MIT Press (1981).

[3] See, e.g., Alexander von Hoffman, *History Lessons for Today's Housing Policy: the Political Processes of Making Low-Income Housing Policy*, Cambridge, MA: Joint Center for Housing Studies of Harvard University (2012); Alexander Von Hoffman, Alexander. "High ambitions: The past and future of American low-income housing policy." *Housing Policy Debate* 7:3 (1996): 423-446; J.A. Stoloff, *A Brief History of Public Housing*, n.d., available at http://reengageinc.org/research/brief_history_public_housing.pdf.

[4] See, e.g., Jon C. Teaford, "Urban Renewal and its Aftermath", *Housing Policy Debate*, 11:2 (2000), 443-465; Martin Anderson, *The Federal Bulldozer: A Critical Analysis of Urban Renewal 1949-1962*, Cambridge: MIT Press (1964)

foundation for housing policy in the United States ever since 1949.[5] As a nation, the United States has made progress toward improving housing conditions since then in many different respects, but as it has done so, new challenges have emerged. The purpose of this paper is to outline some of the most critical of those challenges, and explore how they can be addressed and in the process try to bring the 1949 pledge closer to reality.

Today's housing crises are fundamentally economic in nature, as I will discuss below. They are affected and distorted by legal inequities and the failure of the political system to address them responsibly or effectively, but they remain fundamentally economic. As such, housing cannot be separated from the larger economic challenges facing our nation, in particular the dearth of well-paying jobs, the growth in economic inequality, and with that growth, the economic marginalization of a growing share of America's families and individuals.

Housing is not only inextricably intertwined with the economic condition of households, and the ways in which the economy distributes wealth and earnings, but also with its larger physical environment, for which the term 'neighborhood' forms a useful shorthand;[6] specifically, the "suitable living environment" that was coupled with the "decent home" by the framers of the 1949 Housing Act. For all our increasingly wired existence, neighborhoods still matter deeply, particularly for the lower income households who lack the mobility and digital links of the more affluent; to provide sound, affordable housing units in the midst of dangerous, declining neighborhoods without changing the trajectory of those neighborhoods can, not unreasonably, be characterized as winning a battle, but perhaps losing the war.

Finally, these challenges are not the same across the United States. The United States is a large country, with hundreds if not thousands of distinct housing markets. Although providing housing affordable to members of the middle class may be a critically important housing challenge in San Francisco,[7] it is a far less pressing issue in all but a handful of cities in the rest of the United States. In the great majority of the nation's metropolitan areas, a family with an income that places them at the metropolitan area median[8] has no difficulty finding acceptable

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[5] This connection (or dis-connection) is explicitly addressed in Charles J. Orlebeke, "The Evolution of Low-income Housing Policy, 1949 to 1999" *Housing Policy Debate*, 11:2 (2000), 489-520.

[6] The term neighborhood is used in a variety of different ways to mean a variety of different things, with some definitions referring to a physical space, and others to a geographic area which is also contains certain social or economic relationships; e.g., Robert E Park, *The City.* Chicago IL: University of Chicago Press (1925), or D. Warren. *Helping Networks*. South Bend, IN: Notre Dame University Press (1981), who refers to a neighborhood as "a social organization of a population residing in a geographically proximate locale." George Galster, in "On the Nature of Neighborhood" *Urban Studies*, 38:12 (2001), concludes that ""urban social scientists have treated 'neighborhood' in much the same way as courts of law have treated pornography: as a term that is hard to define precisely, but everyone knows it when they see it (p2111)". For purposes of this paper, I treat neighborhood as a purely spatial phenomenon.

[7] The title of the symposium that took place in January 2016 at the University of San Francisco Law School, where this paper was presented in preliminary form, was *Housing for Vulnerable Populations and the Middle Class: Revisiting Housing Rights and Policies in a Time of Expanding Crisis.*

[8] Median incomes for households of various sizes for each metropolitan area are promulgated annually by the United States Department of Housing & Urban Development, and are used to determine eligibility for various housing programs; see https://www.huduser.gov/portal/datasets/il.html.

housing in decent neighborhoods they can afford.[9] The heart of the housing crisis, looking at the United States as a whole, is very different. In the coming pages, I will try to outline three of the most critical housing challenges facing the United States today, and suggest how they might be addressed. These are not the only housing challenges that people in the United States face, but they are critical ones, and they affect many other issues, including homelessness, which I will not address directly in this paper.[10]

2 THREE CRITICAL CHALLENGES

A *THE PERSISTENT HOUSING CRISIS OF AMERICA'S POOR*

The most significant housing crisis facing the United States today, in terms of what it means for people's ability to meet their basic necessities of a decent life, as well as its significance in terms of human dignity and opportunity, is the daily crisis faced by the great majority of poor or near-poor renters. For families with incomes below the poverty level, little or no housing exists that they can afford, at any level of quality and by any reasonable standard of affordability, without subsidies.[11] The overwhelming majority of these families have no access to housing subsidies or other assistance.[12] As a result, they live in a state of deprivation[13] and persistent housing crisis; their low incomes, coupled with the unpredictability and insecurity of that income, condemn them to a revolving door existence of substandard housing, distressed and dangerous neighborhoods, forced moves and eviction, doubling up or homelessness, as powerfully documented in the work of Harvard sociologist Matthew Desmond.[14] While the number of

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[9] An analysis of data from Zillow.com on sales prices and rental levels by metropolitan area and city for November 2015 found that San Francisco was the most expensive large jurisdiction in the United States. The median asking rent for a 2 bedroom unit in San Francisco was $4700/month, 3.4 times the national median of $1382/month.

[10] I do not discuss homelessness in this paper; I would argue, however, that the first crisis that I address, that of the plight of low income renters, is arguably the most important trigger for family homelessness, which would be significant diminished if the rental housing gap were addressed. See Fact Sheet #12 of the National Coalition for the Homeless (http://www.nationalhomeless.org/publications/facts/families.pdf), noting that "Poverty and the lack of affordable housing are the principal causes of family homelessness".

[11] According to the 2014 American Community Survey, 89% of all renters earning $20,000 or less and 75% of all renters earning $20,000-$34,999, for whom housing costs were computed, were spending 30% or more of their income for rent (Table C25074, 2014 1-year ACS), http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_14_1YR_C25074&prodType=table.

[12] According to the US Department of Housing & Urban Development, 26% of very low income families qualified to receive housing assistance actually receive assistance; see *The State of the Nation's Housing 2015*, Cambridge MA: Joint Center for Housing Studies of Harvard University at 33. It is difficult to evaluate this figure, but the author believes that it does not reflect the extent to which many such families technically receiving assistance actually remain cost-burdened, as discussed below; see text at note 61 *infra*.

[13] "severely cost-burdened households in the bottom expenditure quartile spent 70 percent less on healthcare and 40 percent less on food than their counterparts with housing they could afford"; *The State of the Nation's Housing 2015,* note 12 *supra*, at 31.

[14] See in particular Matthew Desmond, *Evicted: Poverty and Profit in the American City*. New York: Crown Publishers (2016); also Desmond, "Eviction and the Reproduction of Urban Poverty", *American Journal of Sociology*, 118:1 (2012), 88-133

American families and individuals in this situation is difficult to measure precisely, because of the wide variations in market conditions from one area to the next, it can conservatively be estimated at 13 to 15 million households, or 12% to 14% of all American households, and one out of three renter households. Table 1 shows the extent to which cost burden affects low income households in the nation's five most populous metropolitan areas. While it shows that the severity of the cost burden varies from area to area for renter households who might be characterized as 'near-poor', those earning between $20,000 and $35,000 per year, reflecting the extent to which relatively moderately-priced housing is more readily available in areas like Houston or Chicago than in the New York or Los Angeles metropolitan areas, poor families are overwhelmingly likely to be severely cost-burdened in all areas.

TABLE 1: PERCENTAGE OF COST BURDENED AND SEVERELY COST BURDENED RENTER HOUSEHOLDS BY INCOME RANGE AND METROPOLITAN AREA

Category	% of gross income spent on rent	New York	Los Angeles	Chicago	Houston	Philadelphia
Households earning under $20,000	50% or more	71%	77%	82%	77%	76%
	30% to 49.9%	16%	14%	11%	19%	13%
	Less than 30%	13%	9%	7%	5%	11%
Households earning $20,000 to $34,999	50% or more	51%	53%	31%	19%	31%
	30% to 49.9%	33%	29%	54%	57%	50%
	Less than 30%	16%	8%	16%	24%	19%

NOTE: some percentages may exceed 100% due to rounding

SOURCE: 5 Year 2010-2014 American Community Survey Table B25074. Analysis by author.

Desmond makes clear that the crisis he delineates is not the work of heroes and villains, suffering tenants and evil landlords, or vice versa. The landlords he profiles are not demons, and his tenants are not saints. They are all basically normal, flawed human beings. They are victims of a systemic condition, caused by two fundamental realities which are not going to be remedied by legal measures. First, the economics of what poor people live on – either from public assistance or low-wage jobs – are totally inadequate to afford what it costs to create or provide even modest housing of decent quality.[15] Second, by severely limiting the number of

[15] This is a critical point. In order to remain in business, a landlord must charge enough to cover (1) the cost of maintenance, management, repairs, insurance, reserves and other operational requirements of the housing; (2) the cost of taxes and fees charged by governmental bodies; (3) mortgage or other loan payments, if any; (4) an allowance for vacancy and uncollectable rents; and (5) a minimally acceptable return on equity. Based on the author's experience, the cost profile, for a modest single family urban house for which we assume the landlord paid $50,000 in cash (which is typical of landlords in low-end markets) is as shown in the table below. In order for a family to afford the lowest plausible rent of $625/month without cost burden requires an income of $25,000, roughly 25% higher than the gross income of a three-person family at the top of the poverty level.

Category	Monthly Cost
Maintenance & operations	$200-$300

subsidized housing units or Housing Choice Vouchers[16] made available, our political system has failed to address this issue in a meaningful fashion. In place of a reliable social safety net, affordable housing for the poor in the United States takes the form of a lottery, where a lucky few poor families get housing vouchers, and the rest for the most part are out in the cold.

B *THE EROSION OF THE URBAN NEIGHBORHOOD*

The second challenge facing the United States is the widespread erosion of quality of life and housing market conditions, including both housing quality and value, in America's urban neighborhoods, including, in many parts of the country, inner-ring suburban communities.[17] Gentrification may be the dominant form of neighborhood change in San Francisco – and in a handful of other cities around the country like Washington DC or New York City – but these cities are the exception to the rule. Looking at America's older cities as a whole, more neighborhoods are declining than are rebounding, and in a host of metros like Cleveland, St. Louis or Chicago, the decline has spread to many of those cities' suburbs, particularly the ones where thousands of modest homes and garden apartments were constructed in the 1950s and 1960s. These communities have seen dramatic transformations over the past decade or more.[18]

The significance of this decline reflects the reality that housing is not just about housing units, but about the communities in which they are situated. People don't just live in housing units. They live in communities. When economic decline begins to unravel the fabric of a community, it triggers a series of consequences with devastating effects for the lives of those who live there. Commercial activity declines, as stores close and neighborhood shopping districts deteriorate. Public services deteriorate, and the quality of public education declines. Crime and visible disorder, both physical and social, increase. Housing maintenance declines, and vacant, abandoned houses start to appear on once-stable blocks, as housing values decline. Homes that once housed homeowners, as their owners move elsewhere or lose their homes through

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Property taxes	\$100-\$150
Vacancy & collection allowance	\$75-\$100
Return on equity (6%-8%)	\$250-333
TOTAL	\$625-\$883

[16] Housing Choice Vouchers, also known as Section 8 Vouchers, provide a subsidy that makes up the difference between the market rent for a house or apartment and 30% of the gross income of a very low income family. See http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/about/fact_sheet

[17] For a detailed discussion of this issue, see Alan Mallach, *What Drives Neighborhood Trajectories in Legacy Cities: Understanding the Dynamics of Change*, Working Paper, Cambridge MA: Lincoln Institute of Land Policy (2015a), Alan Mallach, Gentrification and Neighborhood Decline in a Legacy City: Looking at Milwaukee 2000-2012. Washington DC: Center for Community Progress; (2015b) and Alan Mallach, "Is the Middle-Market Neighborhood an Endangered Species", forthcoming 2016. There is a substantial literature on the decline of inner suburban communities; see, e.g., John Rennie Short, Bernadette Hanlon, and Thomas J. Vicino. "The decline of inner suburbs: the new suburban gothic in the United States." *Geography Compass* 1.3 (2007): 641-656; Bernadette Hanlon. "The decline of older, inner suburbs in metropolitan America." *Housing Policy Debate* 19.3 (2008): 423-456.

[18] Elizabeth Kneebone and Alan Berube, *Confronting Suburban Poverty in America*. Washington DC: Brookings Institution Press (2013)

foreclosure, are bought by investors, who are often speculators. Remaining lower-income homeowners, whose modest wealth is tied up in their homes, see their equity disappear.

Neighborhood decline, of course, has been a well-established phenomenon in the nation's older cities at least since the end of World War II, if not earlier. The cumulative effect of disinvestment, white flight, regional population shifts and de-industrialization led to a profound crisis of the cities that reached its apex from the 1960s through the 1980s, triggering massive population and job losses, and the decline or abandonment of hundreds of urban neighborhoods. This is a central reality of modern American history.

The collapse of urban neighborhoods at that time, however, was part and parcel of a larger urban decline reflected in the all but universal "urban crisis" trope of the time.[19] Things are different today. Cities are, as they say, coming back. A revival, massive in scale and intensity, is taking place in American cities.[20] While the transformation is greatest in cities like San Francisco or Washington, DC, it is also present, albeit on a smaller scale, in Buffalo, St. Louis and a host of other cities all but given up for dead a few decades ago. The number of jobs in older cities is increasing, as Table 2 shows for three highly-publicized 'magnet' cities and three older

TABLE 2: JOB GROWTH 2002-2013 IN SELECTED CITIES

CITY	JOBS IN 2002	JOBS IN 2013	% INCREASE
Austin	486,726	570,046	17.1%
San Francisco	476,807	584,008	22.5%
Seattle	440,935	469,566	6.5%
Baltimore	298,539	311,544	4.3%
Philadelphia	571,150	608,149	6.5%
Pittsburgh	245,284	269,953	10.1%
United States	130,599,000	136,438,000	4.5%

SOURCE: National data, Bureau of Labor Statistics, Current Employment Statistics, June of each year: city data, U.S. Bureau of the Census Longitudinal Employer-Household Dynamics, http://onthemap.ces.census.gov/index.html

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[19] The 'urban crisis' was the theme of an almost innumerable body of books, articles and reports published between 1960 and 1980, including, among the most prominent, Nathan Glazer, ed. *Cities in Trouble*. Chicago, IL: Quadrangle Books (1970); Mitchell Gordon. *Sick Cities*. New York, NY: Macmillan Books (1963), and Jeanne Lowe. *Cities in a Race for Time.* New York, NY: Random House (1967). The trope has been well summed up by Merkowitz, who writes: "The urban crisis became the catch-all name for these hard times across America. The confluence of race riots, suburbanization, urban blight, deindustrialization, the decline of retail corridors, a rising crime rate, perceived declines in the quality of public education, financial crises in city governments, increased racial tensions contributed to the pervasive sense that cities in America were no longer vital places (p.iii)". David Jay Merkowitz. *The Segregating City: Philadelphia's Jews in the Urban Crisis 1964-1984*. Ph. D dissertation, University of Cincinnati (2010).

[20] There is an extensive body of recent literature, much of it overstated, about the current revival. These include books, e.g., Paul Grogan and Tony Proscio. *Comeback Cities: A Blueprint for Urban Neighborhood Revival* Boulder, CO: Westview Press (2000), and Leinberger, Christoper. *The Option of Urbanism: Investing in a New American Dream.* Washington, DC: Island Press (2008); as well as a host of journalistic pieces, of which Zachary Karabell "The Golden Age of American Cities—and What's Really Behind It". *Atlantic Cities*, Oct. 25, 2013 and Edward Luce. "The Future of the American City" *Financial Times,* June 7, 2013, are typical.

industrial cities, often at rates significantly greater than national growth during the same period. Well-educated people in their 20s and 30s, the so-called 'millennial generation,' are moving to cities in unprecedented numbers.[21] In many cities, decades of population decline have slowed or even reversed. Yet, urban neighborhoods – including many that somehow survived those earlier decades more or less intact – are declining at a rate that may even be greater than during those earlier years. And in most cities, those neighborhoods tend to be disproportionately African-American.[22]

The decline of so many urban neighborhoods at a time where other parts of the same cities are not only growing in population, but seeing unprecedented levels of property value appreciation and investment, heralds not only the deterioration of the quality of life in much of the city, but a pattern in which cities like Cleveland, St Louis or Baltimore are becoming increasingly polarized not only between rich and poor, but also between a favored few neighborhoods where markets are vital and to which people actively want to move, and a much larger number where the opposite is true. This polarization, which Mayor DeBlasio of New York highlighted in his "tale of two cities" 2013 mayoral campaign,[23] has emerged as an issue of growing importance in the national urban political discourse.

Many strands contribute to the decline of the urban neighborhood. They include demographic changes, which have led to drastic declines in the number of child-rearing married couples overall, but particularly in urban areas, the type of household for whom these neighborhoods were initially designed[24]; and economic changes, which have stripped cities of the well-paying manufacturing and other blue collar jobs that once sustained working-class neighborhoods. Other factors include aging of the urban housing stock, most of which was built over 60, and often over 100 years ago; the decline in homeownership, which I discuss below; and the constant turnover of the renter population, exacerbated by the economic crisis faced by low income renters, as discussed above. Urban areas continue to face competition from the suburbs, including a significant (and possibly accelerating) recent out-migration of African-American middle class households.[25] Finally, underlying these trends are two national factors that powerfully affect them; first, the decline in the middle-class population share in the United States as a whole, referred to as the "hollowing of the middle class," and simultaneously, the

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[21] See Joe Cortright, *The Young and Restless and the Nation's Cities*, Cityobservatory.org (2014); Alan Mallach, *Who's Moving to the Cities, and Who Isn't*. Washington DC: Center for Community Progress (2014)

[22] See sources in note 17, *supra*

[23] See, e.g., Hunter Walker, "Bill de Blasio Tells 'A Tale of Two Cities' at His Mayoral Campaign Kickoff" *Observer*, Jan. 27, 2013, http://observer.com/2013/01/bill-de-blasio-tells-a-tale-of-two-cities-at-his-mayoral-campaign-kickoff/

[24] As an illustration, in 1960, child-rearing married-couple households made up 44% of all households in Dayton, Ohio, and 45% in Youngstown, compared to 43% in Ohio as a whole. Today, they make up 20% of all Ohio households, but barely 8% of the households in these two cities; see Mallach (2016), note 17 *supra*.

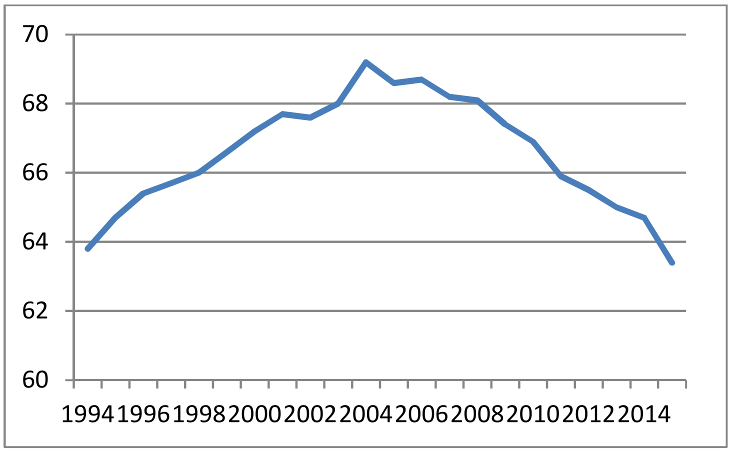
[25] There has been little systematic analysis of this phenomenon, but see Mallach (2016), note 17 *supra*, for an overview of this issue. It has been the subject of a growing number of journalistic accounts, including Mark Mallowe, "Black Exodus: Part Two" *Metropolis,* October 6, 2011, about Philadelphia; and Alex P. Kellogg "Black Flight Hits Detroit" *Wall Street Journal,* June 5, 2010.

increasing economic segregation or 'sorting' of the population, which has led to more poor neighborhoods and more affluent ones, but fewer and fewer in the middle.[26]

C THE EROSION OF HOMEOWNERSHIP

The third housing challenge facing the United States is the precipitous drop in homeownership that has taken place since the end of the housing bubble. Homeownership rates have been steadily declining since 2004, as shown in Figure 1; while it was reasonable to assume that they would drop during the crisis years of recession and mass foreclosures, as Figure 1 shows, they continued to decline even since the end of the recession, falling back to the levels of the early 1990s.[27]

FIGURE 1: NATIONAL HOMEOWNERSHIP RATES 1994 TO 2015



SOURCE: Bureau of the Census, Housing Vacancy and Homeownership Survey (data for 2nd quarter of each year) https://www.census.gov/econ/currentdata/dbsearch?program=HV&startYear=1994&endYear=2015&categories=RATE&dataType=HOR&geoLevel=US&notAdjusted=1&submit=GET+DATA&releaseScheduleId=

The crux of the problem does not lie in any fundamental change in the desire of Americans to become home owners or the decisions by some affluent millennials to put off home buying for a few years, as some have suggested,[28] or an affordability problem, but reflects the loss of

[26] For hollowing of the middle class, see Derek Thompson, "The Hollowing Out of the Middle Class" *The Atlantic*, Sept. 1, 2010; Pew Research Center. T*he American Middle Class Is Losing Ground: No longer the majority and falling behind financially*. Washington, D.C. (2015). On economic sorting, see in particular Kendra Bischoff and Sean F. Reardon. Residential Segregation by Income, 1970-2009. Providence RI: US 2010 Project, Brown University (2013); Sean F. Reardon and Kendra Bischoff . Growth in the Residential Segregation of Families by income. Providence, RI: US2010 Project, Brown University (2012); and Jason C. Booza, Jacqueline Cutsinger and George Galster. Where Did They Go? The Decline of Middle-Income Neighborhoods in Metropolitan America. Washington, DC: Metropolitan Policy Program, The Brookings Institution (2006)

[27] Strictly speaking, the national homeownership rate for the first quarter of 2015 was the lowest since 1967(!). This is somewhat misleading, however, since homeownership rates remained largely unchanged from the 1960s through the mid-1990s.

[28] See, e.g. Knowledge@Wharton, "Why Millennials Are Delaying Home Buying More Than Ever". Philadelphia, PA: University of Pennsylvania, Wharton School, November 18, 2015. For a discussion of American attitudes toward homeownership since the end of the housing bubble and the extent to which the dream of homeownership remains intact, see Eric Belsky. *The Dream Lives On: The Future of Homeownership in America*. Working Paper,

millions of homeowners as a result of the long-term effects of the mortgage crisis coupled with massive *de facto* redlining of urban neighborhoods, and lower income and minority home buyers. Although there has been a tendency in some circles to suggest that this is not a problem,[29] and that, in the words of a colleague, "we should get over homeownership", I would argue that that is not a tenable position. The collapse of homeownership is indeed a problem, and a serious one.

No subject in housing arguably has been researched as thoroughly as homeownership and its effects. While the quality of the research, and the extent to which it controls for extraneous variables, is uneven, much of it, particularly that done since 2000, is methodologically rigorous and substantively compelling.[30] The research paints a consistent, and powerful, picture. Homeownership is powerfully associated with many of the factors that are linked to social and economic well-being, both of families and of the communities of which they are a part. The literature has established positive associations between homeownership and psychological and physical health, child outcomes, community engagement and social capital.[31] Moreover, despite the experience of the recent market collapse, the evidence is strong that over the long haul, homeownership does build wealth more often than not; indeed, it may be the only path available today for a working class family to do so.[32] And try as we may, given our culture and our history, I do not believe that we can create a model of rental tenure in this country which can replicate these effects.

In contrast to the first two issues, there is no fundamental economic reason underlying the sharp decline in homeownership. In many – perhaps most – cities around the United States, at the mortgage interest rates that have been generally available in recent years, it has been and continues to be substantially less expensive to buy than to rent comparable housing. Table 3 compares the monthly cost to carry the median priced single family house with the median 2 bedroom rental at the end of 2015, for three cities with relatively but not extremely low house

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Joint Center for Housing Studies of Harvard University (2013).

[29] A good example of this thinking is found in Ryan Cooper, "It's time to kill the American dream of homeownership" *This Week,* April 25, 2014

[30] Homeownership is related to many other factors referred to by economists as covariates, such as income, wealth, time in residence, and neighborhood characteristics, dictating that these factors must be controlled for in order to isolate the effect of homeownership. Another concern is that of self-selection. See William M. Rohe and Mark Lindblad, *Reexamining the Social Benefits of Homeownership after the Housing Crisis*, Working Paper, Cambridge MA: Joint Center for Housing Studies of Harvard University (2013).

[31] See Rohe and Lindblad, note30 *supra*; also William M. Rohe and Leslie S. Stewart. "Homeownership and Neighborhood Stability." *Housing Policy Debate* 7.1 (1996): 37-81; William M. Rohe, Shannon Van Zandt, and George McCarthy. "The social benefits and costs of homeownership: A critical assessment of the research." In J. Rosie Tighe and Elizabeth Mueller, ed., *The affordable housing reader* New York, NY: Routledge (2013). For a summary of research findings, see also Mallach (2015), note 17 *supra.*

[32] Alan Mallach, Building Sustainable Ownership: Rethinking Public Policy toward Lower-Income Homeownership. Discussion Paper. Philadelphia, PA: Federal Reserve Bank of Philadelphia (2011). Specifically, I analyzed three contrasting market areas (Boston, Chicago and Las Vegas) for the period from 1987 to 2010, looking at all possible buy-sell month-by-month timing options during that period. I found that the probability of the homeowner realizing a 3% or greater annual return in current dollars on sale ranged from 65% in Las Vegas to 79% in Chicago, even factoring the period from 2006 to 2010, when property values were generally declining.

prices. Moreover, reflecting the continued desire of large numbers of people of all racial and economic backgrounds to become homeowners, demand, although it may well have declined in

TABLE 3: MONTHLY COST TO RENT AND OWN IN THREE CITIES

	Memphis TN	Rochester NY	Tulsa OK
Median sales price	$63,800	$63,900	$106,800
Annual mortgage amount with 20% down	$51,040	$51,120	$ 85,440
Annual payment on 30-year mortgage at 4%	$ 2,924	$ 2,929	$ 4,895
Annual property taxes[33]	$ 513	$ 675	$ 1,097
Insurance	$ 800	$ 800	$ 800
TOTAL ANNUAL COST	$ 4,237	$ 4,404	$ 6,792
Monthly cost to own	$ 353	$ 367	$ 566
Monthly rent for median 2 bedroom unit	$ 725	$ 850	$ 900
Owner cost as % of renter cost	49%	43%	63%

SOURCE: data on median sales prices, insurance and rents from Zillow.com; calculations by author

the immediate aftermath of the bursting of the housing bubble, has rebounded strongly[34]. The evidence is compelling that the reasons for the decline in homeownership are primarily to be found in the manner in which lending practices have changed over the past decade, changes that reflect policy shifts in both the private and public sectors. These changes have resulted in the severe rationing of mortgage credit to a disproportionately large share of American households, and the growth of appraisal practices that work against the extension of credit to struggling urban neighborhoods.[35]

As is well-known, mortgage lending decisions in recent years have come to be dominated by the would-be borrower's credit score, a number that represents the synthesis of a body of financial data about the borrower, and which is designed to measure the credit risk that he or she represents.[36] As shown in Figure 2, the distribution of mortgage loans by borrower credit score has changed dramatically since the mortgage crisis that erupted in 2006 and 2007. As the

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[33] Property taxes were estimated by averaging actual property taxes on three properties in each area listed on Zillow.com at the median price +/- 10% and adjusting to the relative price of the median property.

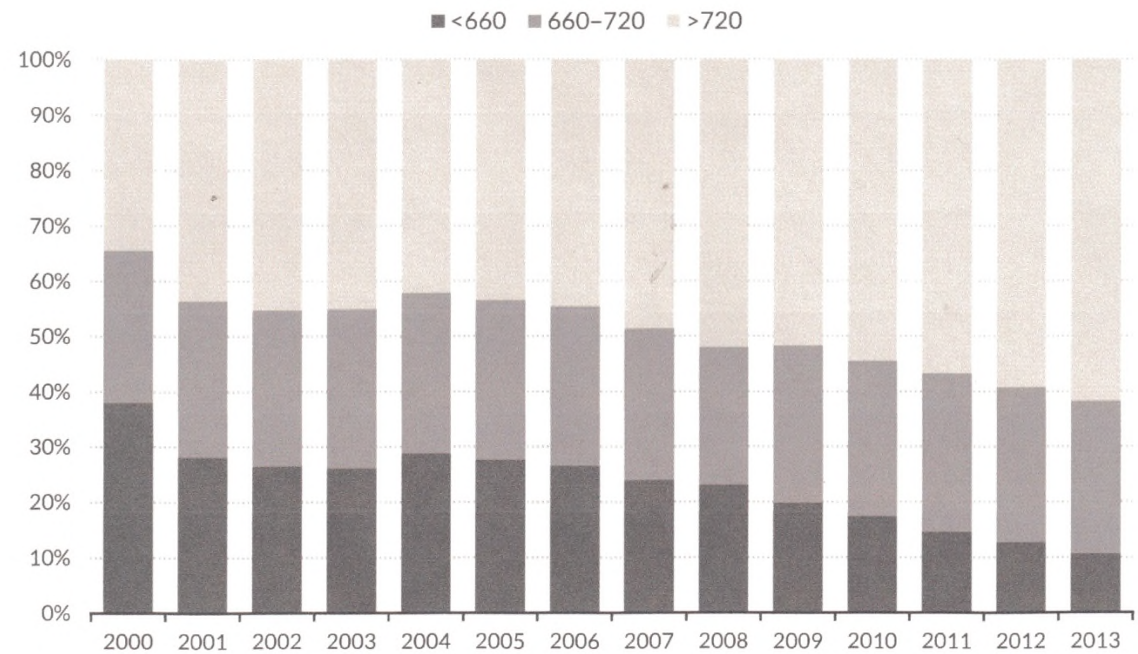
[34] See Belsky, note 28 *supra*; Rohe and Lindblad, note 30 *supra*. Anecdotal information from many local governments and non-profit developers building or rehabilitating housing in urban neighborhoods with support from the federal Neighborhood Stabilization Program strongly indicates that homebuyer demand for these houses was strong, but was derailed for the reasons discussed in the text below.

[35] The issue of appraisal practices, and their deleterious effect on real estate transactions, particularly homebuying in lower-income communities, is a complex one, and will not be addressed here in detail. While there has been little scholarly research on this subject, but see Leonard Nakamura, "How Much is that Home Really Worth? Appraisal Bias and House-Price Uncertainty", *Business Review*, Federal Reserve Bank of Philadelphia, Q1 2010; there have been many journalistic reports, as well as commentaries in professional web sites and blogs; see, e.g., Jeff Green, "Detroit Homes Rot as Appraisals Stopping Sales, Mortgages" *Bloomberg Business*, April 9, 2013.

[36] See, e.g., Robert B. Avery, Raphael W. Bostic, Paul S. Calem, and Glenn B. Canner, "Credit Risk, Credit Scoring and the Performance of Home Mortgages", *Federal Reserve Bulletin*, July 1996.

figure shows, the share of mortgages going to households with credit scores of 660 or below, who represented 37% of all households with credit scores in 2012[37], dropped from roughly 37% in 2000 - or roughly their proportionate share of the potential home-buying population – to under 10% by 2013. While 2000 may have been an anomaly, the figure shows that households in this category received approximately 25% of all mortgage originations between 2001 and 2006.

FIGURE 2: MORTGAGE ORIGINATIONS BY CREDIT SCORE 2000-2013



SOURCE: Urban Institute/CoreLogic Housing Finance Policy Center[38]

While nearly 2 out of 5 American households have credit scores under 660, they account for fewer than 10% of the mortgages originated in the past five years.[39] This figure drastically underestimates, however, the mortgage shortfall for lower-income, young, and minority households. Younger households and minority households are disproportionately likely to have low credit scores, putting them at a particular disadvantage. Table 4 shows the percentage of households in the lowest 4 credit score deciles[40] by age and by ethnicity.

When one layers income and race onto age, although hard to pin down with precision, it is clear that the number of moderate or middle income Black or Latino families headed by someone in

[37] http://www.fico.com/en/blogs/risk-compliance/fico-score-distribution-remains-mixed/

[38] Figure taken from Laurie Goodman, Jun Zhu and Taz George, "The Impact of Tight Credit Standards on 2009–13 Lending" Urban Institute/CoreLogic Housing Finance Policy Center, April 2, 2015.

[39] http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000588-Housing-Finance-at-a-Glance-A-Monthly-Chartbook-January-2016.pdf

[40] A decile represents one-tenth of the total number of cases (in this case households) in the universe being studied. The lowest four deciles are the same as the lowest 40% of cases.

his or her 40s or younger that is likely to be able to get a mortgage to purchase a home today is vanishingly small. In 2014, only 20,000 lower-income[41] Black households obtained conventional

TABLE 4: PERCENTAGE OF HOUSEHOLDS IN LOWEST FOUR CREDIT SCORE DECILES BY AGE AND ETHNICITY

BY ETHNICITY	White	Hispanic	African-American		
% in lowest four deciles	34.9%	58.3%	69.9%		
BY AGE GROUP	<30	30-39	40-49	50-61	62+
% in lowest four deciles	60.2%	56.2%	44.9%	34.6%	18.6%

SOURCE: *Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit*; Washington, DC: Board of Governors of the Federal Reserve System (2007)

home purchase mortgages in the United States, less than 1% of all such mortgages made in the year. A study by the Urban Institute Housing Finance Policy Center concluded that "tight credit standards prevented 5.2 million mortgages between 2009 and 2014,"[42] potentially accounting for half or more of the decline in homeownership shown in Figure 1.

3 CONFRONTING THE CHALLENGES

These three challenges are daunting ones, but in all cases not insoluble ones. Indeed, given the level of resources that the United States is capable of deploying when the nation determines that it is in our interest to do so, it should be clear that the failure lies far less in our ability to resolve these matters than in our will to do so. Before turning directly to the challenges, however, some more general observations to put the challenges and their potential remedies in perspective are in order.

First, we must recognize that the United States economy is a capitalist or market economy, and that in the final analysis the great majority of housing options, for people of all income levels, will be those offered by the private market. The history of housing initiatives in this country, whether one looks at the current political configuration or at the long view of policy efforts in this area, makes clear that the vision of creating a distinct social housing stock[43] that will meet more than a small fraction of the housing needs of lower income households is a chimera. That we are dependent on the private housing stock for our solutions does not mean that we can or should depend on the unfettered machinery of the market for those solutions. Indeed, it is patently clear, as the discussion of the challenges above shows, that the market, in the absence

[41] With incomes below 80% of the median income for the metropolitan area in which they purchased the house.
[42] http://www.urban.org/urban-wire/tight-credit-standards-prevented-52-million-mortgages-between-2009-and-2014
[43] By social housing stock, I mean an inventory of housing that is controlled by public or private non-profit entities, limited to individuals whose incomes are certified to be below designated levels, and regulated so that it remains outside the market indefinitely.

some combination of public controls and public support, *cannot* meet the needs of large parts of our population and our communities. Not whether, but *how* we work with the market, and what combination of legal and economic initiatives are needed to move the market to better meet the nation's housing needs are the questions that must be asked.[44]

Second, one must always bear in mind that housing is not *just* about housing. How we address where people live, and the conditions under which they live, raises fundamental questions about the nature of American society. Will we, as a nation, allow conditions that perpetuate not only human misery but multigenerational poverty for millions to persist; will we allow our cities and regions to become increasingly polarized between rich and poor, as the middle steadily shrinks; and will we allow avenues to mobility and opportunity to be increasingly blocked by limiting the housing and neighborhood choices of the nation's lower-income households? Those are indeed the implications for American society of the persistence of the housing challenges that have been described above.

Further, it is important to understand where the roots of the nation's housing problems lie. The problems I have delineated are *not* fundamentally legal problems. Improvements are indeed needed to the laws that govern the provision of housing, such as land use laws, where exclusionary zoning continues to be widely practiced notwithstanding the many decades since New Jersey's *Mt. Laurel* decision;[45] and the laws that govern the rights of tenants and landlords, or mortgage borrowers and lenders. That notwithstanding, these legal deficiencies do not constitute the heart of the problem. If we accept the time-honored legal principle of *ubi jus, ibi remedium,*[46] we must be clear about the nature of the remedies. The remedies must be economic, not legal. Without the economic tools to make housing rights a living, breathing reality, legal rights mean little.

In that light, I would argue that in terms of its multifaceted impact, which affects not only the lives of millions of very low-income families, but their opportunities and the prospects for their children and grandchildren, as well as the vitality of their neighborhoods and cities, the single most important policy goal that should be pursued is to fill the gap between what very low income families can realistically afford to spend for housing and what it costs landlords to provide adequate housing, for *all* very low income tenants, making basic housing assistance for those at the bottom of the ladder as fundamental an entitlement as are today the entitlements

[44] This is a question that, in my experience, is far too rarely asked by practitioners in the housing and community development field, which tends to focus its attention on that small part of the housing stock that they can control. In the final analysis, however, an unwillingness to engage with the market, and to aggressively explore how creative regulation and use of resources can improve conditions for the millions of lower income families who depend on private market housing, represents a failure on the part of the entire field to grapple with the most important issues facing the people and communities who constitute their *raison d'etre*.

[45] The first *Mt. Laurel* decision, *Southern Burlington County N.A.A.C.P. v. Township of Mount Laurel*, 67 N.J. 151 (1975), is generally recognized as the seminal court ruling with respect to exclusionary zoning and the municipal obligation to accommodate a fair share of the regional need for low- and moderate-income housing.

[46] Where there is a right, there must be a remedy.

to basic food assistance through the food stamp program[47] or to basic health care through Medicaid.[48]

A policy commitment of that magnitude demands careful consideration. At present, the Housing Choice Voucher (HCV) program provides tenant-based housing assistance to somewhat more than 2 million households[49], at a cost to the Federal government of approximately $21 billion, while an additional $11 billion provides project-based rental assistance for 1.2 million households. Any program that would provide adequate housing for all in urgent need would most probably need to accommodate between four and six times as many households, at substantially greater expense. How much greater that expense would be, however, might vary significantly depending on the manner in which any such program was designed.

Although it would arguably be the simplest solution, it would be a mistake simply to assume that the best solution to the housing problems of very low income tenants should necessarily be a massive increase in the number of vouchers made available. While there is no question that vouchers have made lives better for millions of families, they do so at a cost per household that often appears excessive in light of evidence about the magnitude of the rent gap, while leading to significant negative effects on other low income tenants through the effect they have in pushing up inner city rents, as landlords seek to maximize their income from voucher-holding tenants.[50] Vouchers have also tended to foster concentration of low income and minority tenants, despite efforts to use them as a vehicle to encourage mobility to areas of greater opportunity.[51]

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[47] The official name of the program is the Supplemental Nutrition Assistance Program or SNAP. In Fiscal Year 2016, the program was utilized by 22.4 million households, or roughly 10 times the number benefiting from the Housing Choice Voucher program. See http://www.fns.usda.gov/sites/default/files/pd/34SNAPmonthly.pdf

[48] The Medicaid program, in conjunction with the Children's Health Insurance Program (CHIP) was benefiting nearly 71 million individuals as of November 2015. See https://www.medicaid.gov/medicaid-chip-program-information/program-information/downloads/november-2015-enrollment-report.pdf. The program does not report the number of households this total represents, but it is likely to be somewhat greater than the 22 million benefiting from SNAP.

[49] HUD budget documents are inconsistent about the number of households benefiting from the HCV program, with numbers varying from 2.1 to 2.4 million. While Federal FY 2016 budget materials state that the program will provide assistance to 2.4 million, the comparable FY 2017 materials state that the program (with a modest increase in funds from 2016) will assist 2.2 million households. See http://portal.hud.gov/hudportal/HUD?src=/budget

[50] See in particular Scott Susin. "Rent vouchers and the price of low-income housing." *Journal of Public Economics* 83.1 (2002): 109-152. This article makes a compelling case not only that the structure of the HCV program pushes up rents in inner-city areas, but that the resulting cost increases to tenants that do *not* have vouchers substantially exceed the benefit to voucher-holding tenants. HUD proposed rule changes to the project in 2015 designed at least in part to reduce the disparity between HCV Fair Market Rents and actual rents in inner-city neighborhoods, and thus reduce the market distortions associated with the program. See https://www.federalregister.gov/articles/2015/06/02/2015-13430/establishing-a-more-effective-fair-market-rent-fmr-system-using-small-area-fair-market-rents-safmrs. It remains to be seen, however, to what extent an after-the-fact adjustment of this sort can reverse the effect of decades of market distortion.

[51] Use of vouchers to foster mobility to greater opportunity areas is encouraged by the US Department of Housing & Urban Development; see, especially, Chapter 2 of the HUD Housing Choice Voucher Program Guidebook; http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_11746.pdf, See also, Mary Cunningham et al.

Any strategy to house America's very low income tenants should be one that best addresses three distinct objectives: tenant outcomes, cost-effectiveness, and neighborhood impact. What the best strategy might be is beyond the scope of this article, but it is important that it be systematically investigated. It may not even be a *housing* strategy. Over 40 years ago, then-President Richard Nixon proposed a guaranteed annual income for every American family.[52] The Earned Income Tax Credit[53], which benefits large numbers of low income families, is in some respects a descendant of the Family Assistance Plan, albeit a more limited version.[54] It is likely that a strong case can be made that simply putting more money into people's pockets may be a better way of enabling them to find decent housing, with fewer market distortions than those created by the Housing Choice Voucher program.

As an alternative, since it is fairly clear that landlords in many markets implicitly compete for tenants with vouchers, could one create a more overt process, in which vouchers would be allocated to properties on the basis of a model in which landlords of all stripes could compete for vouchers on the basis of the rent they offer, the location of the property, and the quality of the unit and the services provided? This is suggested merely as one of many possibilities, as it is likely that there are many other models also worth exploring. An intriguing alternative, that could have a significant impact on the conditions of working households, has been put forth recently by Peter Dreier, who has proposed to add a housing supplement to the Earned Income Tax Credit which would vary depending on the cost of housing in each local housing market.[55] Without endorsing a specific strategy, the key point I want to make is that there is a need for creative thinking about whatever strategy is to be employed to meet this urgent need.[56]

In the context of developing a subsidy program to address the needs of low income tenants, they should also be provided with a basic support system, analogous to that provided, although inadequately and unevenly, to lower income homeowners. Homeowner support systems, including both counseling and emergency assistance, have been part of the American housing

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Improving Neighborhood Location Outcomes in the Housing Choice Voucher Program: A Scan of Mobility Assistance Programs. Washington DC: Urban Institute (2010)

[52] The scheme, entitled the Family Assistance Plan, was developed by Daniel Patrick Moynihan, then an aide to President Nixon, and presented in a speech by the president on August 8, 1969; see http://www.abelard.org/briefings/nixon_speech_guaranteed_income_citizens_wage.php#speech. The initiative, and its unsuccessful outcome, is discussed in Daniel Patrick Moynihan, *The politics of a guaranteed income: the Nixon administration and the Family Assistance Plan*. New York: Random House (1973).

[53] The Earned Income Tax Credit is a refundable tax credit for low-income working families adjusted on the basis of the family's earnings and number of children, initially enacted in 1975. See https://en.wikipedia.org/wiki/Earned_income_tax_credit

[54] See https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit

[55] See Peter Dreier, "How to Make Housing Affordable for All the Working Poor", Blog post on *Rooflines*, April 6, 2016, available at http://rooflines.org/4445/how_to_make_housing_affordable_for_all_the_working_poor/

[56] In this light, it is worth noting that there has been extraordinarily little change in the models through which housing assistance is provided in the United States for the past few decades. The voucher and CDBG programs were created in 1974, the Low Income Housing Tax Credit in 1986, and the HOME program in 1990. Although they have been the subject of technical modifications over the years, the programs are essentially the same as initially designed, 25 or more years ago.

scene for many years,[57] and were greatly although inadequately expanded in the wake of the foreclosure wave that hit the United States starting in 2007, including the creation of the federal Hardest Hit Fund, which led to the allocation of $7.6 billion in Federal funds for foreclosure prevention to the 18 states with the highest housing price declines and unemployment rates.[58] While it is inaccurate to say that there are *no* similar efforts for renters, they are not only far rarer, but are also far more limited both in terms of eligibility and the amount of resources available.[59]

The Low Income Housing Tax Credit (LIHTC) program[60], the nation's one remaining affordable housing production program, is also long overdue for critical re-evaluation. A recent study issued by HUD highlights a number of problematic features of the program.[61] Although the program requires that the units in an LIHTC project be affordable either to households earning 60% or 50%[62] of the area median income (AMI) in the metropolitan area in which the project is located, the actual tenants of LIHTC projects typically have far lower incomes; 45% earn 30% or less of AMI, and another 19% between 30.1% and 40% of AMI.[63] Once the rent has been set to be affordable at either 60% of 50% of AMI, however, in contrast to many other subsidized housing programs, it does *not* have to be adjusted to reflect the actual income of the tenant, thus creating a massive gap between the actual rent and what the tenants can afford.

As a result, large numbers of LIHTC tenants receive additional housing assistance, usually in the form of vouchers.[64] It can reasonably be estimated that perhaps as many as 1 out of every 3 vouchers in circulation in the United States is being used to fill the rent gap for a tenant in an LIHTC project. Among those LIHTC tenants who do not receive additional assistance, roughly 2/3 are cost burdened; that is, spending over 30% of their gross income in rent.[65] For those

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[57] Counseling programs can be traced back at least to the 1970s, when HUD first funded a number of programs to assist homeowners at risk of default; see *Report to Congress on Housing Counseling*. Washington, DC: U.S. Department of Housing and Urban Development (1983). What may be the first program to provide emergency financial assistance to homeowners at risk of default was the Homeowner's Emergency Mortgage Assistance Program (HEMAP) established by the state of Pennsylvania in 1983; see http://www.phfa.org/consumers/homeowners/hemap.aspx

[58] The program was funded with repayments from the Troubled Asset Relief Program (TARP); see https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/Pages/Program-Documents.aspx

[59] One such program is the Emergency Rental Assistance Program offered by the District of Columbia; see http://dhs.dc.gov/sites/default/files/dc/sites/dhs/service_content/attachments/DHS_FSA_ERAP_FY16_FAQs.pdf Eligibility for this program is limited to households earning 125% of the poverty level, a criterion that excludes thousands of families at risk because of Washington DC's extremely high market rents.

[60] Under §42 of the Internal Revenue Code, 26 U.S.C. §42, investors receive substantial credits against federal tax liability for equity investments in low income rental housing projects, which can then rent at lower than market levels because of the large equity share that requires no cash return. Units must rent at levels affordable to households earning 60% of the median income established by HUD for the area in which the project is located. See http://www.novoco.com/low_income_housing/resources/program_summary.php

[61] Michael K. Hollar, *Understanding Whom the LIHTC Program Serves: Tenants in LIHTC Units as of December 31, 2012*. Washington, DC: U.S. Department of Housing & Urban Development (2015)

[62] Developers must opt for one or the other affordability threshold in advance.

[63] Id. at 24.

[64] Id. at 29

[65] Analysis by author of data from Hollar, note 59 supra, at 27.

tenants, the cost burden is likely to be an acceptable trade-off, because the cost-adjusted quality of their dwelling unit is likely to be higher than what is available on the private market. Even so, however, it is a sad commentary on the nation's housing policies when the sole supposedly 'affordable' housing production program perpetuates the same excessive cost burdens that affect the private rental sector.

The LIHTC program perpetuates another problem as well, which arises from the wide disparity in housing market conditions from one part of the United States to another. While an LIHTC project may be a boon for those who need affordable housing as well as a net benefit for the community as a whole in a city with strong demand and high rent levels, like San Francisco or Washington DC, it is a very different matter in a city where rents are more modest and demand is inadequate to absorb existing supply, particularly those cities with shrinking populations known as legacy cities.[66] Table 5 shows LIHTC rents at 50% and 60% AMI for a two bedroom unit, compared to the median rent for a two bedroom unit in the private market in 2014, for five legacy cities. As the table shows, 60% AMI rents are substantially higher than the median market rent in all five cities, while 50% AMI rents are higher than the median market rent in two of the five. The table also shows the extent of the housing surplus in each city, reflected in the percentage of the city's housing stock that is vacant.[67]

TABLE 5: COMPARISON OF LIHTC RENT AND MARKET RENT FOR A TWO BEDROOM UNIT IN SELECTED CITIES IN 2014

	GARY IN	BALTIMORE MD	DETROIT MI	ST LOUIS MO	CLEVELAND OH
Median 2 BR market rent	$682	$996	$738	$865	$649
50% LIHTC rent	$719	$940	$728	$755	$705
60% LIHTC rent	$863	$1128	$873	$906	$846
Market rent as % of 60% LIHTC rent	79%	88%	85%	95%	77%
Percentage of units vacant	33.2%	20.0%	31.1%	21.4%	20.9%

SOURCE: market rents and vacant units, 2014 1 year American Community Survey (medians calculated by author); LIHTC rent calculated by author from data on HUD User at https://www.huduser.gov/portal/datasets/il/il14/index.html

[66] This issue was the subject of a presentation by J. Rosie Tighe of Cleveland State University at the University of San Francisco Law School Symposium, January 29, 2016. Her presentation can be viewed at https://www.youtube.com/watch?v=xFfO8e5-B8c (approximately at 0:55).

[67] Some vacancy is needed in order to maintain liquidity in the housing market. While there is no firm number that represents the 'ideal' vacancy rate, it appears likely that healthy vacancy rates are in the range of 1.5% to 2.5% for owner-occupied housing, and 7% to 9% for rental housing, reflecting the significantly higher turnover in the latter stock; see Belsky, Eric S. "Rental vacancy rates: a policy primer." *Housing Policy Debate* 3:3 (1992): 793-813. Thus, in a city in which the housing stock was evenly divided between owner-occupancy and rental, the healthy vacancy rate should be between 4% and 6%. All or most of the excess over that figure, as shown for the cities in Table 5, represents surplus housing stock.

Straightforward economic reasoning allows one to infer the results from development of LIHTC projects in cities with these characteristics. Expansion of supply in the absence of any increase in demand leads to increased vacancy within the existing stock. Since, however, LIHTC rents are too high to be competitive with the lower end of the private rental market, the effect is likely to be an increase in vacancies in the middle of the market, which is largely made up of units that are either adequate, or in need of only modest repairs; those units might be abandoned, or their owners might reduce maintenance and tax payments in order to be able to rent the units at lower rents, thus diminishing the quality of the housing stock as a whole. In either case, the addition of an LIHTC project is likely to have deleterious effects on the housing stock and the neighborhoods in which the LIHTC units are located.

It is at this point that the challenge of meeting housing needs and the challenge of preserving neighborhoods intersect. As the above example shows, building additional affordable housing, depending on the particular circumstances, may not contribute to, and may even detract from, stabilizing or rebuilding the neighborhood in which it is located. While Cleveland may not need more LIHTC projects, it contains large numbers of private market rental dwellings, which accommodate the great majority of the city's low income families, and which in many cases could be rendered attractive, good-quality housing for a small fraction of the cost of creating a new LIHTC unit. Using the same amount of public subsidy to upgrade 1000 houses already renting at rents comparable to or lower than LIHTC rents to significantly higher quality without increasing the rent is likely to result in far greater benefit for both low income tenants *and* their neighborhoods than building 100 new LIHTC units renting for similar or higher rent levels, and seeing close to that number of existing homes being abandoned or deteriorating as a result, and adding to the blight in the neighborhood.

That raises a further question. As a matter of policy, should the best strategy for housing America's lower income population even involve *building* affordable housing projects, as such? The French government administers robust affordable housing programs under which non-profit housing agencies are provided with a mixture of public grants, loans and tax concessions with which to buy houses and apartments from developers, which then become permanently affordable housing.[68] France also offers small investors generous tax breaks to buy condominium units in newly constructed buildings for the purpose of renting them out as middle income housing,[69] as well as a combination of tax advantages and subsidized second mortgages to enable moderate income households to purchase homes and apartments.[70] It is worth contemplating whether a similar model as an alternative to the current LIHTC production

[68] See Alan Mallach, "France: Social Inclusion, Fair Share Goals, and Inclusionary Housing", in Nico Calavita and Alan Mallach ed., *Inclusionary Housing in International Perspective*. Cambridge, MA: Lincoln Institute of Land Policy (2010).
[69] Most notably, the Loi Duflot, enacted in 2013. http://www.loi-duflot.fr/definition-de-la-loi-duflot/
[70] See Mallach, note 68 *supra*, at 223.

model[71] might potentially be not only more cost-effective, but more conducive to social and economic integration, in the United States.

At the same time, it is critical to change the manner in which mortgage lending is rationed, and restore access to homeownership for the vast number of middle income Americans who may lack stellar credit scores or large down payments, but have good enough credit to be acceptable risks, and enough income to afford homeownership. As discussed previously, large numbers of families want to become homeowners; moreover, there is compelling evidence that with reasonable mortgage terms, pre-purchase education and counseling, and the availability of an adequate support system, the great majority of them can become successful homeowners.[72] Increasing moderate and middle income homeownership in a responsible, sustainable, fashion will benefit millions of families directly, and their neighborhoods indirectly. It does not seem unreasonable to expect that the United States fiscal system and capital markets could come up with a way to give them that opportunity.

Freezing people out of homeownership by denying them access to mortgages forces more people into the rental market, leading to negative consequences both for households and neighborhoods. By increasing rental housing demand, mortgage rationing pushes up rent levels, while reducing access to rental units for those who do not have realistic non-rental housing options. Moreover, it is more than likely that a large number of those who are unable to buy because of lack of mortgage access are Black and Latino households, who may be disproportionately likely to buy homes in urban neighborhoods, which are precisely the same neighborhoods that are deteriorating at least in part because of the lack of homebuyers. Increasing mortgage access and rebuilding homeownership will not solve the problems faced by low income renters, nor will it single-handedly reverse the decline of urban and suburban neighborhoods. It will, however, make it at least marginally easier, and in the case of the latter, perhaps substantially easier, to mount successful public policies that will solve them.

If the United States is not only to provide decent housing for those who need it, but also to rebuild its declining urban and suburban communities, however, we need to move toward a broader, more integrated way of thinking about housing and neighborhoods which places each in its appropriate context, a way of thinking that recognizes that rebuilding neighborhoods involves far more than creating affordable housing or making physical improvements to the

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[71] I am not suggesting that such a model would necessarily replace *all* purpose-built construction of LIHTC or other subsidized housing. In high cost, high demand, areas such as San Francisco, construction of additional subsidized housing may be both useful and cost-effective, while under some conditions, construction of an LIHTC project may further neighborhood revitalization.

[72] There is an extensive body of research documenting the value of pre-purchase counseling and education, and more limited research supporting post-purchase homeowner support, reflecting the fact that such programs are both more limited, and have emerged more recently, than pre-purchase counseling programs. See J. Michael Collins and Collin O'Rourke, *Homeownership Education and Counseling: Do We Know What Works?* Washington, DC: Research Institute for Housing America (2011); Gabriela Avila, Hoa Nguyen and Peter Zorn, "The Benefits of Pre-Purchase Homeownership Counseling", Washington DC: Freddie Mac Working Paper (2013). For a more extended discussion of the conditions of sustainable lower income homeownership, see Mallach, Building Sustainable Homeownership, note 32 *supra*.

housing stock. Improving housing alone will not create a decent living environment, and, depending on how it takes place, may even undermine that environment at the same time as it is creating housing that in and of itself may be attractive and relatively affordable.[73]

In that light, while it is appropriate for community development and housing policymakers and practitioners in cities like San Francisco and Washington, where housing costs have spiraled far beyond the means of the majority of these cities' populations, to focus on the negative effects of gentrification, that too needs to be placed in perspective. More cities across the nation, particularly legacy cities like Cleveland or St. Louis, are seeing more neighborhoods decline than are seeing gentrify, by any reasonable definition of that notoriously slippery term.[74] Rebuilding viable neighborhood-level housing markets and economies, reducing concentrations of poverty, and creating more economically diverse communities in those cities is as important to their health and the health of their neighborhoods, as is preserving affordability and managing runaway gentrification in cities like San Francisco.

To rebuild viable neighborhood markets and economies, and create economically diverse communities, different skills and perspectives, as well as different public resources, are needed than those associated with development of affordable housing. Even with respect to the physical environment of urban neighborhoods, development of publicly-subsidized housing projects may accomplish nothing toward the critical goal of drawing the private market-based investment that is needed to foster sustained neighborhood vitality. While public investment will be needed to start the process, if it is to be successful, it must be designed to prompt such private investment and build a self-sustaining market environment that ensures that houses are sold for competitive prices, owners maintain and improve their properties, vacant buildings are quickly rehabilitated or replaced, and vacant lots replaced with new housing.[75]

It should be stressed, however, that rebuilding neighborhoods is not just about rebuilding their housing stock and physical environment, but about rebuilding neighborhood economies. This does not necessarily mean creating jobs in the neighborhood, although in some cases it may,

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[73] A substantial amount of research has been conducted on the effects of subsidized housing development, particularly LIHTC projects, on neighborhoods; a number of studies, including Richard K. Green, Stephen Malpezzi and Kiat-Ying Seah "Low Income Housing Tax Credit Housing Developments and Property Values". University of Wisconsin, Center for Urban Land Economics Research (2002), and Kelly D. Edmiston, "Low-Income Housing Tax Credit Developments and Neighborhood Property Conditions." Research Working Paper, Kansas City MO: Federal Reserve Bank of Kansas City (2015), and Lan Deng. "Assessing Changes in Neighborhoods Hosting Low-Income Housing Tax Credit Projects," Ann Arbor MI: University of Michigan Center for Local, State and Urban Policy, CLOSUP Working Paper Series Number 8 (2009), have shown that neighborhood effects of such projects vary widely depending on both neighborhood characteristics and project features, and that in many cases, particularly in struggling urban neighborhoods, the effects of the project may indeed be negative.

[74] See Mallach, note 18 *supra*; see, also, John D. Landis, "Tracking and Explaining Neighborhood Socio-Economic Change in U.S. Metropolitan Areas between 1990 and 2010", Policy Brief, Philadelphia, PA: University of Pennsylvania Institute for Urban Research (2015)

[75] A public investment strategy designed to foster such market investment is outlined in Alan Mallach, "Create New Bond and Tax Credit Programs to Restore Market Vitality to America's Distressed Cities and Neighborhoods", Washington DC: The Brookings Institution (2012).

but is about ensuring, through whatever combination of education, training, transportation and other measures are appropriate, that residents of the neighborhood are not marginalized, but have the opportunity to participate fully in the local and regional economy.

We should thus add one more piece to the picture, which should be a serious, sustained public sector initiative to revitalize struggling, declining neighborhoods. Such a program should be based on the fundamental premise that neighborhoods are communities made up of people rather than simply the sum of their housing stock and physical infrastructure, and should be designed to create sustainable mixed income communities. It would be complicated, and not inexpensive. But we know a lot about what leads to a sustainable neighborhood. We just don't use what we know very well.

Finally, we need to put the pieces together. Far too often today policymakers pursue housing initiatives that may undermine neighborhood vitality, not deliberately but as an unintended consequence; or pursue neighborhood revitalization through market-based strategies that may ultimately harm the most vulnerable households. Perfection is unattainable, but it is not, I believe, too much to ask that we try to design programs that work well together, programs that focus on how to end housing insecurity, that create paths to homeownership, and that stabilize and revive distressed neighborhoods, and do so in ways that these three objectives can complement and reinforce rather than undermine each other. That should be our goal. It is a goal well worth working for.