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RETHINKING LOCAL AFFORDABLE HOUSING STRATEGIES: LESSONS FROM 70 YEARS OF POLICY AND PRACTICE

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RETHINKING LOCAL AFFORDABLE HOUSING STRATEGIES: LESSONS FROM 70 YEARS OF POLICY AND PRACTICE

EXECUTIVE SUMMARY

Abstract

Efforts to provide affordable housing are occurring at a time of great change. The responsibilities for implementing affordable housing are increasingly shifting to state and local actors. The market and demographic changes in the country are complicating the picture, as sprawling jobs-housing patterns and downtown revivals in some places are creating demand for affordable housing for working families and immigrants in both cities and suburbs. To help state and local leaders design fresh solutions to today's affordable housing challenges, The Brookings Institution Center on Urban and Metropolitan Policy and the Urban Institute joined forces to examine the lessons of seven decades of major policy approaches and what these lessons mean for local reforms. This executive summary of the full report, funded by the John S. and James L. Knight Foundation, finds that past and current efforts to expand rental housing assistance, promote homeownership, and increase affordable housing through land use regulations have been uneven in their effectiveness in promoting stable families and healthy communities. The findings suggest guiding principles for local action, with important cautions to avoid pitfalls.

Across the nation, state and local government leaders and their partners—in the corporate, civic, real estate, and nonprofit communities—are struggling to identify effective ways to provide affordable housing and homeownership opportunities for families and individuals at the bottom of the economic ladder. The federal government's role in housing policy is shrinking, shifting more responsibility onto the shoulders of state and local actors. And despite the economic boom and significant innovations in community development that occurred during the 1990s, the affordable housing crisis intensified in most parts of the country. The challenges facing state and local policymakers are further complicated by the suburbanization of jobs, changes in household composition and housing needs, and the growing diversity of our nation's population. And although every community faces serious housing affordability problems, variations across the country in the existing housing stock, population growth and demographic trends, and economic vitality create stark differences in housing conditions and trends, calling for unique, locally crafted responses.

Purpose and Approach

Drawing on lessons from seven decades of housing policy and practice, this report aims to help state and local leaders take on the realities of today's affordable housing challenge. It examines three broad approaches to affordable housing—rental assistance, homeownership assistance, and regulatory policies—and assesses the effectiveness of each in addressing seven goals for affordable housing:

1. Preserve and expand the supply of good-quality housing units.
2. Make existing housing more affordable and more readily available.
3. Promote racial and economic diversity in residential neighborhoods.
4. Help households build wealth.

5. Strengthen families.
6. Link housing with essential supportive services.
7. Promote balanced metropolitan growth.

Often, the success of affordable housing programs is determined by the extent to which it achieves a narrow set of objectives, such as the number of new units created or the number of households with affordable housing cost burdens. Although important, these narrow criteria do not reflect the array of demands currently being placed on affordable housing programs. Today, affordable housing policies must help promote healthy families and communities. These seven goals thus provide a more comprehensive framework by which state and local leaders should evaluate the effectiveness of past and future affordable housing programs. Although not all housing programs can meet all seven housing objectives simultaneously, this list enables state and local leaders to better align the community outcomes they want to achieve with the housing policy approaches they adopt.

Summary of Findings and Implications for Local Housing Strategies

Although there are serious gaps in the housing research literature, evidence on the experience of the past has a lot to offer today's policymakers and practitioners. The following matrix provides an overview of our key findings on the effectiveness of federal housing programs in meeting the seven policy goals.

Potential Effects of Housing Programs on Policy Goals

	Rental Housing Assistance		Homeownership Assistance			Land Use Regulations
	Supply-Side Production	**Demand-Side Vouchers**	**Supply-Side Mortgage Credit**	**Demand-Side Homebuyers Tax Policies and Assistance**	**Supply-Side Production**	
Preserve and Expand the Supply of Good-Quality Housing Units	Yes—rental stock has been expanded, though more units need to be produced	Somewhat—may encourage landlords to maintain existing housing	Maybe—but impact is indirect	Maybe—but impact is indirect	Yes—primary goal of these programs is expanding owner-occupied stock	Mixed—some programs expand supply while others limit new affordable construction
Make Housing More Affordable and More Readily Available	Yes—but affordability depends on size and duration of subsidies	Yes—primary goal is affordability; success depends on households' ability to find units	Yes—but impact is indirect	Yes—enhances buying power, but depends on price of housing stock	Yes—primary goal of these programs is affordability and access	Maybe—rent control may moderate rent increases in tight markets
Promote Racial and Economic Diversity in Residential Neighborhoods	Rarely—depends on where new units are located, and who is eligible to occupy them	**Possibly—if recipients can find units in diverse neighborhoods**	Possibly—depends on locational decisions of buyers	Possibly—if recipients can find units in diverse neighborhoods	Possibly—depends on the location of units produced and local economy	Mixed—some reforms can expand affordable housing in affluent communities
Help Households Build Wealth	Generally not—though lower rents may lead to increased family assets	Generally not—though lower rents may lead to increased family assets	Yes—but depends on house price appreciation and individual borrower circumstances	Yes—but depends on house price appreciation and individual borrower circumstances	Yes—but depends on house price appreciation and individual borrower circumstances	Mixed—some programs provide wealth-building opportunities while others do not
Strengthen Families	Possibly—but little literature exists to confirm programs' ability to strengthen families	Possibly—but less impact if units are located in distressed neighborhoods or occupancy rules discourage family unification	Yes—but less impact if units are located in distressed neighborhoods	Yes—but less impact if units are located in distressed neighborhoods	Yes—but less impact if units are located in distressed neighborhoods	No
Link Housing with Essential Supportive Services	Sometimes—when units are designed in conjunction with effective supportive services	Generally not	No	Probably not—unless services are explicitly linked with assistance	Probably not—unless services are explicitly linked with assistance	No
Promote Balanced Metropolitan Growth	Rarely—depends on where the new units are built	Possibly—depends on recipients' ability to find units in suburban areas and close to job opportunities	Unclear—depends on general population's locational choices	Unlikely—though possible if recipients can find units in suburban areas and close to job opportunities	Rarely—the location of units thus far has generally not promoted balanced growth; however, neighborhoods have benefited from homeownership	Mixed—zoning and regulatory reforms can promote affordable development in all jurisdictions, though some do not

The following summary synthesizes the most relevant implications of these findings for local leaders.

A. Rental assistance programs require deep subsidies if they are to reach the neediest households; moreover, to be successful, rental assistance programs should avoid clustering affordable housing in low-income neighborhoods and include efforts to raise the incomes of low-income households.

Rental assistance programs—including both subsidized housing production and demand-side assistance (such as vouchers)—clearly play a central role in any housing strategy. However, the effectiveness of rental housing programs is not guaranteed; if poorly targeted or ineffectively implemented, they can actually work against the goals of an effective housing policy. Decisions at the federal level largely determine the resources available for rental housing assistance and set the broad parameters within which state and local actors operate. Some state and local governments allocate their own funds to rental housing assistance, but federal programs constitute by far the lion's share of resources available and in communities all across the country, these resources fall short of meeting needs.

Affordability is the central challenge for rental-assistance policy. This means that building more rental units is not necessarily the solution to the housing problems facing low-income renters. Subsidizing the rents for existing units is much less costly than building new units, and can help stabilize a faltering housing market, enable low-income households to compete in a tight market, provide struggling landlords with sufficient rent revenues to maintain their properties, and prevent rental units from deteriorating and dropping out of the housing stock. In some circumstances, subsidizing the production of new rental housing units makes sense. But without deep, long-term subsidies, new rental units will not necessarily be affordable for the households whose needs are most severe.

Location also plays a critical role in the effectiveness of rental-assistance programs. A growing body of research now indicates that living in a high-poverty neighborhood can undermine the well-being of families and children, and that affordable housing alone cannot revitalize a distressed neighborhood. Both supply-side and demand-side programs can potentially play a role in a local rental-assistance strategy that takes location seriously. Using production programs to expand the availability of affordable rental housing in healthy neighborhoods (where it is scarcest) promotes economic and racial diversity and broadens opportunities for low-income households to live in neighborhoods that offer safety, good schools, quality services, and access to employment opportunities. At the same time, vouchers and other demand-side programs can be used to supplement what poor households can afford to pay for market-rate housing in neighborhoods of their choice.

B. Homeownership among underserved populations has increased, mostly through improved access to mortgage credit; efforts to further expand homeownership should proceed cautiously.

The promotion of homeownership has been a major focus of American housing policy, and although these programs have the potential to yield considerable benefit, they also have serious shortcomings. Homeownership should be promoted with caution among underserved households despite the numerous potential benefits it offers them, because not every homeowner will see all the benefits of homeownership and some may even suffer as a result of making poor housing decisions.

Federal programs that expand the availability of mortgage credit and help families overcome barriers to home buying have done much more to advance homeownership among low- and moderate-income households than programs that expand the supply of affordable housing. In this regard, the literature suggests that the most successful initiatives promoting homeownership have been federal—rather than local—and mostly in the form of the pressure government has placed on lenders and secondary market institutions to meet the financing needs of historically underserved groups.

Just as in the context of rental housing programs, location plays a critical role in the effectiveness of homeownership programs. A home's location will determine whether or not a family sees its value appreciate, and whether children realize social benefits. And although homeownership promotion may play a role in a larger strategy for revitalizing distressed neighborhoods, it cannot be the only tool used. The promotion of homeownership in poor and distressed neighborhoods may not have the hoped-for revitalization and stabilization effects and may even prove costly to the families who purchase there.

Not all households will necessarily benefit from homeownership. Potential first-time home buyers need to be informed about the risks as well as the benefits associated with homeownership so that they can make better-informed housing choices. Clearly, there are those for whom homeownership is not a viable option, and for them, other housing choices should be available in the community, along with assistance in building their income and wealth to prepare for homeownership. And for those who are ready to buy a home, assistance should go beyond the home purchase itself, to ensure that new homeowners are able to keep up with their mortgages and remain in their homes.

C. Land use and other regulatory policies can have profound effects on the location and supply of affordable housing.

Regulatory policies are often neglected as potential tools for affordable housing policy, because they do not directly subsidize either housing units or households. But state and local regulations have a powerful role in shaping the housing market. Traditional, exclusionary land use and zoning policies—such as banning the development of multifamily housing and zoning to require large lots—and growth controls, which impose strict limits on housing supply without accommodating projected growth, can be big deterrents to building affordable housing and frequently exclude lower-income and minority households from parts of a metropolitan area. On the flipside, inclusionary zoning programs and well-designed growth management policies, when enforced, can successfully expand the supply of affordable housing while keeping administrative costs low.

Regulatory tools can be of particular importance to localities because, unlike the other programmatic tools discussed in this report, the federal government plays only a limited role in the regulation of local housing markets. Thus, local policymakers enjoy a relative freedom from federal resource constraints and federal program rules and definitions (although they may have to abide by state laws or guidelines). The biggest constraint on the effective use of regulatory tools may actually be the fragmentation of authority among individual cities and counties. This fragmentation makes it difficult to craft regionwide strategies for expanding the availability of affordable housing, promoting racial and economic diversity, or promoting balanced growth.

Historically, local land use and development regulations have undermined the goals of affordable housing policy, whether intentionally or not. Getting rid of these exclusionary regulations works. Even in the absence of a comprehensive regional approach, eliminating (or moderating) regulatory barriers to affordable housing development can be effective. This does not mean that all regulations of land use and residential construction should be eliminated. Many regulations that raise the cost of housing development have legitimate goals, such as protecting health and safety or preserving farmland. Local governments need not abandon these goals, but they can and should reassess their regulatory policies to ensure that they allow for the development of more affordable rental and homeowner housing.

Although simply eliminating exclusionary regulations on a jurisdiction-by-jurisdiction basis can be effective, the most optimal efforts are those that are regional in nature. Well-designed regional growth management or land use strategies are those that use a mix of regulatory tools to increase the supply of affordable, multifamily housing and make way for higher densities, while also advancing other important metropolitan-wide goals, such as open space protection, economic development, and central-city revitalization.

D. Principles for Local Action

State and local policymakers, as well as housing advocates, community-based organizations, and funders, can draw upon the evidence summarized in the matrix as they plan, implement, and evaluate their own solutions to the affordable housing challenges in their communities. But the lessons of the past also offer a set of principles to guide local housing policy in the decades that lie ahead. Some of these principles may seem obvious, but nonetheless are frequently ignored. Others run counter to the conventional wisdom, but following them could avoid some of the more dismal failures for which conventional thinking is responsible.

1. Housing strategies should be tailored to local market conditions.

Housing needs and policy priorities differ from place to place, due to differences in housing market conditions, history, and political realities. Although this report focuses on a comprehensive set of affordable housing goals and the tools that can be used to achieve them, it does not make sense to implement the same strategy everywhere. In hot markets, where population is growing rapidly and housing is in short supply, producing new affordable units may be a top priority. But in markets where the overall demand for housing is weak and vacancy rates are high, new units may not be needed; instead, poor households may need assistance in paying for the housing that is already available. And just as cities and metropolitan areas differ, neighborhoods within a jurisdiction often have very different housing circumstances and needs. Thus, the best strategies are those that match local conditions (and political realities) and respond to community input and expectations.

2. Housing markets are regional, so housing policies should be.

While housing strategies must be tailored to local conditions, they should also be crafted with today's metropolitan realities in mind. The decentralization of both jobs and residents has been taking place over the past half century, but accelerated in the 1990s, solidifying the dominance of suburbs and reinforcing the link between city and suburban health in shaping growth and development patterns in a metropolitan area. Concerns over the fiscal, environmental, and socioeconomic consequences of sprawl and uneven growth patterns have sparked growing interest in metropolitan solutions. But for the most part, housing policy discussions remain strikingly local. In an era of population and employment decentralization, the metropolitan area—not the individual political jurisdiction—represents the appropriate level at which to think about and act on access to affordable housing. Enabling low-income families to live closer to employment centers (and stronger schools) in the regional economy not only will benefit those families and their children, but will also help reduce commute times, meet employer needs for workers, and ameliorate other negative consequences associated with current metropolitan growth patterns.

3. Income policy IS housing policy.

Most affordable housing strategies at the national and local levels are designed to expand the supply of affordable housing, with programs aimed to stimulate the construction, rehabilitation, and renovation of housing that is affordable to low- and moderate-income families. Production is a necessary component of a responsible affordable housing policy, but the lack of income remains the principal barrier to obtaining affordable housing. The U.S. Department of Housing and Urban Development's (HUD's) annual analysis of worst case housing needs generally finds that 80 percent of the problem is not housing inadequacy or overcrowding, but affordability. Thus, policies that help people increase their incomes will help address housing hardship as well.

State and local leaders are increasingly realizing that they can raise the incomes of working families by enhancing access to and use of such federal investments as the earned income tax credit (EITC), nutrition assistance, health care, and child care. Some state and local groups have maximized the potential of the EITC by conducting outreach programs, providing support for free tax preparation services, and helping families use the credit as a gateway to financial services and savings. It is estimated that working families apply one third of their credits to housing needs. Other initiatives that help low-income families find and keep jobs, build skills, and advance economically should also be incorporated into strategies for making housing more affordable.

4. Regulation can be a powerful housing policy tool.

Often overlooked, state and local regulatory policies offer cost-effective opportunities to make private housing more available and affordable. Regulations such as zoning policies, land use restrictions, development fees, subdivision and design requirements, building codes, rent controls, and other regulations help determine whether and where different types of housing can be developed, how much it costs, and how it is maintained.

The traditional approach to land use and development regulation has resulted in policies that explicitly or implicitly limit or prevent the development of affordable housing in a jurisdiction, through restrictive policies like outright bans on multifamily housing or through requirements for large lot sizes, houses set back from the street, and wide sidewalks. While some of these regulations are valuable in meeting other goals, others can be detrimental and, when eliminated, have proven to open doors to more affordable rental and homeowner housing. Moreover, regulatory strategies like inclusionary zoning and thoughtful growth management policies can create powerful incentives for private developers to produce more affordable housing where it is needed most.

5. Race matters.

Historically, federal affordable housing policies—including Federal Housing Administration homeownership programs and public housing—have contributed to the residential segregation of our communities. More recently, these programs have made some progress in reversing the isolation of poor and minority residents from neighborhoods of opportunity, but the long-established patterns of segregation persist. Most communities in the United States remain profoundly racially segregated. The 2000 census confirms that nationwide, the residential segregation of blacks from whites remains extreme (declining only slightly over the past two decades); segregation levels for Hispanics and Asians, though lower, are on the rise in many metropolitan areas.

Local policymakers may hope to design and implement “color-blind” housing policies, but if the realities of segregation and ethnic inequalities are ignored, these policies are unlikely to work as intended. For example, a homeownership assistance program may not lead to wealth accumulation for minority households if segregation and discrimination limit their housing options to minority neighborhoods where values are not appreciating. Vouchers fail to give low-income families real choices about where to live if they are excluded from neighborhoods beyond the central city. And the successful revitalization of an inner-city neighborhood may lead to displacement of minority households if no efforts are made to resolve conflicts between groups and to actively promote diversity.

6. Implementation matters.

Even the best housing strategy will fail to accomplish its goals if it is not effectively implemented. The history of housing policy in the United States is replete with examples of well-intentioned programs that produced harmful outcomes because of poor administration. Before launching new programs, policymakers should critically assess the implementing organizations' operational capacity and ability to build effective partnerships: Do they have sufficient staff and resources? Do they have the skills and experience needed to fulfill their new responsibilities effectively? Is the program designed to provide incentives for effective administrative performance? Sometimes, strengthening organizational capacity can be the most effective intervention to improve policy outcomes. Also, partnerships between organizations with complementary strengthens can result in effective program implementation although successful, sustained partnerships also require time and resources.

Implementation agencies must also be held accountable for performance. Clearly defined performance measures and systematic performance monitoring can strengthen implementation. Also, local policymakers can hold agencies accountable by requiring that performance data be collected and published on a regular basis, which creates strong incentives for effective performance. Communities can also enter into performance-based contracts with public agencies, private companies, and/or nonprofit organizations, through which payments, bonuses, and or contract duration are all explicitly tied to the achievement of measurable performance targets.

E. Conclusion

After decades of federal housing initiatives that were designed by Washington and administered by HUD or its predecessors, a palpable shift toward state and local control has dominated U.S. thinking about affordable housing policy. For more than a decade, federal policymakers have essentially devolved responsibility for the design and implementation of affordable housing initiatives to the state and local level. Across the nation, state and local government leaders are struggling to use the limited resources available to them in communities that differ significantly in their market conditions, residential patterns, regulatory regimes, and local goals.

Despite the changes occurring in housing policy and programs, and the new challenges posed by today's economic and demographic trends, the experience of past housing programs has a lot to teach us. As the devolution of housing policies continues to unfold, there is great potential for state and local leaders to build upon the experience of the past while bringing fresh thinking to a new generation of approaches that respond to the diverse needs of our communities and further informs the evolving federal role in housing.

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Rethinking Local Affordable Housing Strategies: Lessons from 70 Years of Policy and Practice

I. Introduction

Since the middle of the1980s, the nation's affordable housing policies and programs have undergone a profound transformation. After decades of initiatives that were designed by Washington and administered by the U.S. Department of Housing and Urban Development (HUD) and its predecessors, a palpable shift toward state and local control has dominated federal thinking. With the enactment of the Low-Income Housing Tax Credit (LIHTC) program in 1986 and the HOME program in 1990, federal policymakers have essentially devolved responsibility for the design and implementation of affordable housing initiatives to a myriad of state and local housing agencies, the development community, and community groups.

As with other domestic policies, devolution remains a work in progress. Across the nation, state and local government leaders and their partners—in the corporate, civic, real estate, and nonprofit communities—are struggling to implement an array of affordable housing and homeownership programs to better meet the needs of low-income and working families.

This challenge is made more urgent because the affordable housing crisis in the country has worsened despite new housing policy innovations and the strong economy during the 1990s. From 1991—when the economic expansion began—to 1999, the number of families paying more than 50 percent of their income for rent rose by 600,000, an increase of 12 percent. By 1999, these renter families with "worst case housing needs" totaled at least 4.9 million households, a record level (HUD 2001). Not surprisingly, as the economy has slowed, these figures have grown starker. According to the National Housing Conference, more than 4 million working families lived in decent housing but spent more than half of their income for rent or mortgages in 2001. This represented a 30 percent increase from 1999 and a 68 percent jump from 1997 (Lipman 2002).

The affordable housing challenge is further complicated by major market and demographic changes under way that are creating sprawling jobs–housing patterns, redefining individuals' and families' housing needs, and creating stark socioeconomic differences between the country's regions. Specifically, the 2000 census confirms that population and job growth continue to surge in the suburbs, outpacing any growth experienced by central cities. The vast majority of growth in the United States is taking place in the West and South, while communities in the Midwest and Northeast continue to lag behind. The households living in cities and suburbs also are radically changing. Today, one in four suburban residents is a person of color, the result of a major wave of immigration and African-American mobility in the 1990s. And the nuclear family is a shrinking phenomenon, increasingly replaced by young singles and older Americans living alone.

Thus, we are facing a new context for delivering and reforming affordable housing. With increased devolution and a market and demographic restructuring afoot in metropolitan America, the nation must rethink the location and type of affordable housing and homeownership opportunities to provide to families in need.

This report aims to help state and local leaders meet the modern realities of the affordable housing challenge by looking back at the lessons of the past 70 years of housing policies. Funded by the Knight Foundation, this report has three components.

First, the report articulates a set of seven overarching goals that reflect the array of demands currently being placed on affordable housing programs. These goals, described more fully below, provide a new framework through which state and local leaders should evaluate the effectiveness of affordable housing programs. In the past, many housing programs tried to achieve one or two goals (e.g., provide housing that is affordable) but at the expense of another (e.g., promote economic diversity and housing choice). Although not all housing programs can meet all seven housing goals, this comprehensive set can help state and local leaders think through what kind of community outcomes they want to achieve and what they may get with their current or new housing approaches.

Second, the report reviews the literature on the evolving role and overall performance of major federal and local housing approaches over the past 70 years. Substantial academic and professional literature exists on the success and failure of affordable housing programs in the United States. However, policymakers and busy local practitioners on the frontlines of the issue rarely have the time or inclination to keep up with a sprawling, sometimes complicated, body of research. This review summarizes the most salient findings on the three major approaches to affordable housing: rental housing assistance programs, homeownership policies, and land use and other regulatory approaches. This literature review also evaluates the effectiveness of these affordable housing programs against the seven overarching goals for housing.

To be clear, this report does *not* focus on the details of individual housing programs, such as specific grant limits, loan terms, eligibility requirements, or design standards. Instead, we focus on the broader set of strategic choices confronting local policymakers concerned about addressing housing problems in their communities. Although a lot can be learned from an examination of program specifics and implementation experiences, this information can also distract attention from larger policy choices. Similarly, the literature reviewed here consists primarily of rigorous research studies that empirically examine the effects of various programmatic approaches on people and communities. The review does not include case studies describing the design and implementation of local programs, which typically focus more attention on the mechanics of producing or subsidizing housing units than on their effectiveness in meeting policy goals.

Finally, based on the findings from the literature review, the report extracts lessons from past affordable housing experiences and discusses their implications for today's affordable housing challenges.

In the end, the aim of this project is to help state, local, and neighborhood leaders learn from the trial and errors of seven decades of affordable housing policies to design effective strategies going forward. The body of research on this work is voluminous and therefore too daunting for most leaders to absorb and sort through. Although this project is not the definitive summation of all housing literature, it does pinpoint the most salient findings for today's busy practitioners and policymakers.

The following section outlines the seven affordable housing goals and the three broad affordable housing approaches that form the foundation of this comprehensive review.

A. Goals of Affordable Housing Policy

This study presumes that the ultimate goal of an effective affordable housing policy should be *housing that supports and promotes healthy families and communities.*[1] This overarching goal involves seven more specific policy objectives, which overlap with one another but are all prerequisites for healthy families and communities.

1. Preserve and expand the supply of good-quality housing units.

First, an effective affordable housing policy should preserve and expand the supply of good-quality housing units in order to ensure the availability of decent housing for low- and moderate-income people. This is the most obvious objective of an affordable housing policy. For some, it may seem like the only objective. At any rate, a quality program should increase the stock of housing units that low- and moderate-income residents can afford and ensure that the quality of these units is adequate. Programs that build new units, improve substandard units, and prevent the deterioration and loss of existing affordable units all serve this policy objective.

2. Make housing more affordable and more readily available.

Expanding the number of affordable units is not the only way to address the housing needs of low- and moderate-income people. A complementary goal is to make existing housing more affordable and more readily available. For example, programs that supplement what families can afford to pay for rent, or that provide down payment assistance to first-time home buyers, help make existing housing stock more affordable. In addition, programs that combat discrimination or help families search for housing in the private market can make the affordable housing that already exists more accessible.

[1] Although healthy communities constitute a fundamental goal of a good housing policy, this report does not address community development initiatives per se. Clearly, community development policies need to work hand-in-hand with housing policies. But in this research effort, we focus exclusively on housing policies, with considerable attention to their impact on communities.

3. Promote racial and economic diversity in residential neighborhoods.

Housing policy is about more than just affordable shelter; it is also about the health and vitality of neighborhoods and access to neighborhoods of choice for low- and moderate-income households. When low-income households are clustered in poor or distressed neighborhoods, their access to educational, economic, and social opportunities is severely limited. Thus, to be truly effective, affordable housing policies should promote racial and economic diversity in residential neighborhoods so that poor and minority households are not isolated from social, educational, and economic opportunities. Successful programs allow households to make meaningful choices about the kind of neighborhoods in which they want to live.

4. Help households build wealth.

For most middle- and upper-income households in the United States, homeownership is the primary mechanism for accumulating wealth. Consequently, most efforts to promote homeownership among underserved populations are designed not only to expand access to affordable housing but also to help households build wealth through ownership of decent housing in thriving neighborhoods.

5. Strengthen families.

In addition to providing basic shelter, housing can profoundly affect the well-being of families. For example, programs to remove (or cover) lead-based paint can protect children's health. Eligibility rules for public housing may discourage unwed fathers from living with their children. Rent policies may encourage (or discourage) residents from working and earning more income. And housing developments that offer child-care facilities and after-school programs may encourage parents to work and help families become more self-sufficient. At a minimum, affordable housing programs should "do no harm" to the families that depend on them. At best, they should strengthen families by protecting their health, encouraging family stability, and promoting income growth and self-sufficiency.

6. Link housing with essential supportive services.

Linking supportive services to housing programs is another important objective, since some people cannot take advantage of affordable housing opportunities without such aid. For example, a household with a physically disabled member might need a housing unit with wheelchair accessibility or on-site staff who can provide occasional assistance. A frail elderly couple might need daily meals and health monitoring. And many homeless individuals and families face multiple barriers to finding and sustaining themselves in permanent housing. Providing adequately for low- and moderate-income households with special needs calls for programs that link housing with essential supportive services for individuals and families who need extra help.

7. Promote balanced metropolitan growth.

A final policy goal involves the way housing policies affect and take part in the composition and growth of communities and metropolitan areas. Housing policies determine where affordable housing is located, how well it is maintained and preserved, and where new housing (in all price ranges) is built. Housing policy fails if it contributes to the decline of older, inner-city neighborhoods or if it does not create housing opportunities near centers of job growth. Thus, an effective housing policy should promote balanced metropolitan growth that strengthens existing neighborhoods and ensures that affordable housing is available throughout a metropolitan area.

Some might argue that this combination of seven overlapping objectives makes affordable housing policy a lot more complicated than it needs to be. But housing is important to Americans primarily because of its interconnections with the composition and health of communities, access to educational and employment opportunities, and opportunities for wealth accumulation. In other words, recognizing that housing is about more than affordable shelter should help raise the profile of housing policy locally, linking it to goals and priorities of people who are concerned about education, the environment, working families, and community well-being.

Moreover, experience from the past 70 years teaches us that focusing narrowly on only one or two housing policy objectives can produce disappointing results. Past programs that were primarily intended to produce low-cost rental housing, for example, often contributed to racial segregation. They created concentrations of poverty that undermined the vitality of surrounding neighborhoods and cultivated living environments that were sometimes destructive for the families and children they were intended to serve. Balancing the seven objectives introduced here is critical to the ultimate goal of creating housing that not only is affordable but also supports healthy families and communities.

Finally, broader thinking among policymakers can help to resolve one of the central controversies in the debate over housing policy goals and strategies: the question of whether housing assistance should be focused on *places*—improving housing and other conditions in the neighborhoods where poor people live—or on *people*. In the latter case, housing assistance programs would seek to help poor people move out of distressed neighborhoods and into communities that offer better living conditions and opportunities. We believe that an effective housing policy can and should do *both*—improve housing conditions in poor neighborhoods, encourage reinvestment in these neighborhoods by households of all income levels, *and* open up opportunities for poor families to move elsewhere if they wish.[2] The seven policy objectives

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[2] Related to the long-standing debate about targeting “people versus places” are assumptions about the value of neighborhood stability. Neighborhoods in which many residents remain and invest over the long term have many important strengths, but they can also foster fear of change and resistance to diversity. Conversely, high rates of mobility are sometimes seen as indicators of instability and disruption, but they can also reflect freedom of choice, access to wider social and economic opportunities, and openness to diversity. Thus, it would be a mistake to assume that stability is always desirable or that mobility is necessarily a problem.

articulated here reflect this balanced resolution to the long-standing argument over people versus places.

B. Elements of a Local Housing Strategy

Housing programs in the United States are tremendously diverse. Since the New Deal era, federal, state, and local governments have designed and implemented innumerable variations on programs to produce affordable housing, subsidize rents and mortgage costs, encourage homeownership, and make housing more accessible. These diverse programs can be grouped into three basic categories.

Rental assistance programs take two basic forms. *Supply-side* rental programs focus on producing and maintaining housing units that are earmarked for occupancy by low- and moderate-income households. Examples include the public housing program, the LIHTC program, and local grants or low-interest loans for nonprofit organizations that build or rehabilitate affordable rental housing. The second type of rental assistance program focuses on the *demand side* and directly helps low-income renters obtain decent rental housing. Examples include housing vouchers, short-term assistance to households threatened with eviction, and programs that help low-income renters search for affordable housing in the private marketplace. Some rental assistance programs provide targeted social services and supports in conjunction with housing to serve residents with special needs, such as homeless people, seniors, and people with disabilities.

Homeownership assistance programs seek to expand access to homeownership, and—like rental programs—can include both supply-side and demand-side approaches. Supply-side homeownership programs subsidize the production, rehabilitation, or improvement of for-sale housing units, often by nonprofit organizations. Demand-side programs, which are much more common, include low-interest loans, homeownership counseling, and down payment assistance programs that help make homeownership more affordable and accessible. In addition, many of the federal government's most effective homeownership initiatives have focused not on housing units *per se*, but on the availability and cost of mortgage financing.

Land use and regulatory initiatives are frequently overlooked in discussions about affordable housing policy, but their potential impact is greater than that of more conventional housing programs because they influence the location, characteristics, and costs of housing in the private market. Examples of regulatory and governance initiatives that potentially play an important role in affordable housing policy include state and local land use regulations and building codes, "fair share" plans, inclusionary zoning regulations, growth controls, and "smart growth" initiatives.

Each of these programmatic categories has the potential to promote one or more of the seven policy goals introduced earlier. Of course, some program approaches primarily advance one goal over others, and in many cases, the effectiveness of a particular programmatic activity depends on how it is designed and carried out. It is important to note that few, if any, of the programs discussed in this report were *explicitly* designed to advance all seven of our housing policy objectives. Nonetheless, as local policy makers, practitioners, and advocates attempt to design housing strategies that work, they need to know how well these programmatic approaches can be expected to perform across the board, so that they can align outcomes with the set of activities most likely to produce the desired results.

This report's next three chapters focus on each of the three broad affordable housing approaches in turn. Each chapter includes these components: 1) an overview of the housing challenge in that category, 2) a brief history of important programmatic developments, 3) a summary of the available evidence of the effectiveness of key programs in contributing to the seven housing goals, 4) analysis of the implications of these findings for local action, and 5) a review of gaps in the research. Chapter 5 synthesizes the key conclusions from the previous three chapters on the role of various rental, homeownership, and regulatory policies in meeting the housing objectives. The report concludes with discussion of what lessons can be drawn from the past seven decades of housing policy and how policymakers might use this information to craft locally relevant housing strategies.

II. Rental Housing Assistance

The provision of affordable rental housing for low-income families through government-sponsored programs has a long history in the United States. Beginning during the Great Depression, the federal government significantly expanded its role in rental housing production, both to create employment and to replace slum housing. Over the next 70 years, rental production programs first expanded and then decreased significantly, changing dramatically in both scale and approach. Today, approximately 4.9 million rental housing units are subsidized by the federal government under one or more of a complicated array of production programs (Millennial Housing Commission 2002). During the 1960s, concerns about the adequacy of the supply in many locations as well as about the cost, financial viability, and quality of federally subsidized housing led to the creation of what is now the Housing Choice Voucher Program, which provides tenant-based subsidies to mitigate the costs of private market rental housing. During the 1980s, the focus of federal housing policy shifted from supply-side production programs to demand-side rental assistance. Approximately 1.6 million households now receive vouchers (Millennial Housing Commission 2002).

The challenges confronting housing policymakers at all levels have changed dramatically over the past seventy years. In 1950, when implementation of new federal rental assistance programs was just getting under way, more than a third of the nation's housing units were seriously dilapidated or lacked complete plumbing. Nearly one-fifth were overcrowded. The nation's postwar prosperity fueled the production of new housing and dramatically improved the condition of rental housing. By the end of the 1970s, the vast majority of American households were living in decent quality housing with a sufficient number of rooms. But increases in the cost of housing had outpaced the incomes of lower wage earners, and unaffordable housing cost burdens had become far more prevalent, especially among low-income households (Struyk, Turner, and Ueno 1987). This trend persisted, with rent levels rising faster than the wages for low-skilled and entry-level jobs throughout most of the 1980s and 1990s (Joint Center for Housing Studies 2002). As of 1999, about nine of every ten rental housing units nationwide were deemed physically adequate, but four of every ten renter households paid more than a third of their monthly income for rent. And among very low-income households, seven of ten paid unaffordable rents (Millennial Housing Commission 2002).

In today's housing market, affordability is the primary problem confronting low-income renters. Although some still live in substandard or crowded units, most simply cannot afford to pay private market rent levels. And without subsidies, property owners cannot build and operate housing at rent levels that low-income households can afford (U.S. Department of Housing and Urban Development [HUD] 2001a). When low-income households have to devote more than 30 percent of their monthly income to housing, the consequences are potentially devastating. They may not have enough money left to pay for food, health care, or child care, and a missed paycheck or an unanticipated emergency may push them into homelessness.

It is not surprising therefore, that along with the emergence of affordability as the primary housing problem among low-income renters, the nation witnessed an explosion in the number of homeless people during the 1980s and 1990s. A 1999 estimate indicated that more than 700,000 individuals nationwide were homeless on any given night, and that at least 2 million people experienced at least one episode of homelessness in a year (National Coalition for the Homeless Fact Sheets). Although most analysts now agree that a majority of homeless people face multiple problems, including mental illness and drug or alcohol addiction, the scarcity of low-cost housing means that they are forced onto the street or into shelters; in the past, many poor individuals and families with these problems would have been able to find low-cost (though possibly substandard) housing (Rossi 1989; Burt 1997; U. S. Conference of Mayors 2001).

The following sections review the long history of rental housing assistance programs in America as policymakers attempted to address evolving market conditions and housing problems. We then assess the performance of different program types with reference to the seven goals of affordable housing policy.

A. Rental Housing Programs in the United States

The history of rental-assistance programs in the United States encompasses both significant accomplishments and failures. A short summary of this history will help to provide a framework for better evaluating rental housing assistance in the 21st century. Throughout this discussion, we define "rental production programs" as government-sponsored programs that are intended to expand the *supply* of housing for low- and moderate-income households through the construction or rehabilitation of housing units by public authorities or private developers.[3] These programs produce houses or apartments that are earmarked for occupancy for low- or moderate-income residents. In contrast, "demand-side rental programs" supplement what low-income households can afford to pay for housing that is already available from the private market. Typically, when we refer to demand-side programs we focus on Housing Choice Vouchers (formerly known as the Section 8 program), although we also discuss some state and local demand-side programs.

The history of government-sponsored rental production in the United States involves a complex web of programs operated and funded by different levels of government, including federal, state, and local. These programs differ markedly on many levels—in program goals, rules and regulations, funding mechanisms, management and monitoring, and even in the populations they serve. Government's role in producing rental housing for the poor changed dramatically during the 20th century. Until the 1930s, the federal government essentially left housing production up to the free market. By the time of the Great Depression, most poor people in America's cities lived in crowded, unsafe, and unhealthy "slum housing."

[3] Further, we make a distinction between "public housing" and other "publicly assisted housing." The first is financed, constructed, and managed by agencies of local government with federal regulation and support, while the latter is produced, maintained, and managed by private developers, either for-profit or nonprofit, but in some way is assisted financially by the government.

1. The Public Housing Program.

The first significant shift from the government's laissez faire policy came with the United States Housing Act of 1937, which intended to "remedy the unsafe and unsanitary housing conditions and the acute shortage of decent, safe, and sanitary housing for families of low income" by creating the federal Public Housing Program. Public housing, which is still in operation today, receives funding primarily through the federal government and is managed and operated by local autonomous bodies called public housing authorities (PHAs). The 1937 act called for production of only a modest number of public housing units. But after World War II, the severe housing shortage led to enactment of the Housing Act of 1949, which called for the production of 135,000 new units of public housing over five years. The production of public housing continued expanding throughout the 1960s. During this period, a combination of federal cost ceilings and local opposition to sites outside of low-income areas led many urban PHAs to build large high-rise developments that were concentrated in poor and minority neighborhoods (Massey and Denton 1993). As discussed further below, many of these developments became severely distressed—physically, financially, and socially—and were demolished or slated for demolition a generation later. By 1972, the federal government had financed nearly 1.2 million public housing units. Since then, the public housing stock has grown only slightly, and today there are approximately 1.3 million public housing units nationwide (Millennial Housing Commission 2002).

Initially, public housing was intended to provide decent and affordable rental accommodations for families with limited incomes. The federal government financed the construction of these units, but tenant rents were expected to cover operating and maintenance costs. By the 1960s, however, it became clear that many needy households could not afford the rent levels that were necessary to cover costs. Therefore, the federal government limited the public housing tenants' rent contributions to 25 percent of their income[4] and began supplementing the housing developments' rental income with annual operating subsidies. Subsequently, the federal government has also funded PHAs to modernize the aging public housing stock.

2. Private-sector production programs in the 1960s and 1970s.

Beginning in the late 1960s, in addition to expanding public housing production, the federal government sought to stimulate the production of affordable rental housing by the private market. A series of federal programs evolved to offer a combination of financial incentives that made it profitable for private developers to build housing for low-income occupancy. Ultimately, these incentives included below-market financing, federal income tax incentives, and annual operating subsidies. In exchange for financial assistance, private developers agreed to set aside units for low-income households either in the form of capped rents or rent contributions based on income. These

[4] In the 1980s, this affordability standard was increased to 30 percent.

production programs proliferated throughout the 1960s and 1970s, adding approximately 900,000 units to the subsidized rental stock (Struyk, Turner, and Ueno 1987).[5]

Although private-sector rental production programs were successful in adding units to the affordable housing stock, serious concerns began to surface in the 1970s about their high costs and about their quality and long-term financial viability. By 1975, HUD had taken over the mortgages for 2,900 rental properties containing 282,000 units and foreclosed on 1,700 properties (141,000 units) (Struyk, Turner, and Ueno 1987). Moreover, there was a growing awareness that the primary housing problem facing poor families and individuals was no longer the *availability* of decent quality housing units, but *affordability*. This contributed to a shift in the focus of federal housing policy from the production of low-rent housing units to tenant-based subsidies—or vouchers—to help low-income households afford the cost of decent housing in the private market. During the 1980s, federally subsidized rental housing production for low-income households was virtually eliminated.[6]

3. Tenant-based assistance emerges.

In 1974, Congress launched the Section 8 Existing Housing Program (now the Housing Choice Voucher Program). Conceived as a market-based solution to the problem of unaffordable rental housing and the concentration of assisted housing in largely poor and minority neighborhoods, the program has grown dramatically since its inception. Recipients choose a house or apartment available in the private market and contribute about 30 percent of their income toward rent, while Section 8 pays the difference up to a locally defined “payment standard.” When families first receive a voucher, they are responsible for finding a house or apartment that meets the program’s housing quality standards with a landlord who is willing to participate in the program.[7] Once they find a qualifying unit, they can begin receiving housing assistance.

Since the early 1980s, vouchers have been the federal government’s primary tool for providing housing assistance to poor renters. Although HUD still administers the public housing program and continues to provide subsidies to privately owned units developed during the 1960s and 1970s, it no longer provides deep capital and operating subsidies to support the production and operation of rental housing for the poor. Moreover, as subsidy contracts with developers who participated in that earlier generation of production programs come to an end, many projects are being "vouchered out," with eligible tenants receiving a voucher in place of their subsidized unit. And, as discussed further below, some distressed public housing units are also being vouchered out, as

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[5] Most of these programs were targeted to urban areas and operated by HUD, but parallel programs were operated by the Department of Agriculture to produce rural rental housing, and by the Department of Defense to produce military housing.

[6] Today, the original subsidy contracts for these projects are expiring, and owners are not required to renew. Some owners, particularly those with the most marketable properties, are opting out of the program, and raising rents to market levels. Eligible tenants in these properties receive vouchers, but often have to move to other neighborhoods to use them. In other cases, HUD may decide not to renew because rent levels are too high or the property is in disrepair.

[7] Some recipients are able to remain in their original housing unit by convincing the landlord to accept subsidy payments from the Section 8 program.

high-density, severely distressed developments are demolished and replaced with lower-density, mixed-income housing.

4. A new generation of federal production programs.

Instead of directly subsidizing the production and operation of low-rent housing developments, the federal government now supports affordable housing production through a combination of state-allocated tax credits and block grants to state and local governments. These programs give state and local governments more discretion and flexibility about whether and where low-cost rental housing is needed. However, unless combined with other subsidy sources, they generally cannot guarantee long-term affordability for households at the lowest income levels because they do not provide annual operating subsidies to fill the gap between what poor households can afford and what it costs to operate and maintain decent housing.

Two programs are central. First, the Low-Income Housing Tax Credit (LIHTC)—established by the Tax Reform Act of 1986—transfers to the states annual allotments of tax credits, which they allocate to private developers who build or rehabilitate housing at low to moderate rent levels.[8] The LIHTC program has become a primary source of new rental housing, producing an estimated 1.1 million units by 1999 (Millennial Housing Commission 2002; Keyes and Schwartz 1996). In 1990, Congress created the HOME program under Title II of the National Affordable Housing Act of 1990, with the goals of providing affordable housing and expanding the capacity of nonprofit housing providers. HOME is a block grant program that allocates federal funds by formula to state and local governments, which can use the money to finance the acquisition, construction, and rehabilitation of rental housing with locally designed grants and low-interest loans.[9] By 2001, more than 586,000 HOME-assisted units had been funded throughout the country (Herbert et al. 2001). Many projects combine HOME funds with the LIHTC, sometimes adding other state and local funding sources as well.

Both HOME and LIHTC rely heavily on nonprofit organizations to develop and manage affordable housing. Although nonprofits played a role in the production programs of the 1960s and 1970s, they are increasingly seen as the primary developers of low-cost housing in many communities throughout the United States. Nationwide, about 13 percent of housing units receiving federal support have been sponsored by nonprofits (Walker 1993). Nonprofit housing developers are often locally based, with long-standing commitments to the communities in which they work, and may be involved in other community development and social service activities as well. However, most operate on a fairly small scale, and not all communities are served by effective nonprofit developers. During the 1990s, the capacity of the nonprofit housing sector expanded substantially,

[8] The LIHTC provides approximately a 9 percent credit for new construction and major rehabilitation expenditures over a 10-year period, based upon the development cost and the share of units that will be available for occupancy by low-income households. These credits can then be used to reduce the tax liability of the developer's organization, or they can be sold to investors.

[9] HOME funds can also be used to support the construction or rehabilitation of homeowner housing and to pay for homeowner assistance, as discussed in chapter 3.

and in some metropolitan areas these organizations now produce and maintain a fairly large inventory of affordable housing (Walker and Weinheimer 1998).

5. Transformation of public housing.

The 1990s also witnessed a new approach to public housing. Despite its success in providing shelter for America's poorest households, public housing had become a symbol of failure in low-income housing policy. In many cities, shoddy construction, lax maintenance, ubiquitous drug and gang problems, and concentrations of profoundly poor families—with attendant high rates of unemployment and welfare recipiency—contributed to the creation of severely distressed neighborhoods. Moreover, the concentration of poverty in public housing was often accompanied by racial segregation. In their landmark work, *American Apartheid*, Massey and Denton (1993) argued that the construction of public housing created "a more permanent, federally sponsored 'second ghetto' in which blacks were isolated by class, as well as race." Indeed, many public housing developments were located in undesirable parts of the city, often isolated by natural barriers like rivers or man-made barriers like major highways.

Despite the visibility of its failures, most public housing did not match this negative image. In many communities (particularly those outside of big central-city jurisdictions), public housing was well-maintained and remained a vital and valuable asset. One study estimated that only 7 percent of public housing developments (15 percent of units) were troubled along four dimensions: social, physical, financial, and managerial (Epp 1996). Nonetheless, many public housing developments were in desperate need of rehabilitation. In 1989, Congress established the National Commission on Severely Distressed Public Housing to explore issues related to deterioration and to strategize about possible remedies.

Spurred by the commission's recommendations, Congress established the Urban Revitalization Demonstration—better known as HOPE VI—in 1992. The goals of the HOPE VI program were to revitalize public housing communities by integrating public housing into the larger community and creating housing environments that assist residents in becoming self-sufficient. Grants were competitively awarded to local housing authorities to fund both physical improvements (including renovations, demolition, and new construction) and community and supportive services for residents. By 2002, HUD had awarded a total of 405 grants, including 35 planning grants, 193 revitalization grants, and 177 demolition grants,[10] totaling more than $5 billion (HUD's HOPE VI website http://www.hud.gov/offices/pih/programs/ph/hope6/index.cfm). Although every HOPE VI project is unique, many are replacing high-density developments with lower-density town houses and garden apartments, mixing public housing units with market-rate rental housing and homeownership units, and substituting vouchers for some of the original public housing stock.

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[10] The demolition total does not include FY 2002 grant recipients, which had not been released as of April 2003.

Critics of HOPE VI have raised concerns about the loss of subsidized housing stock and the number of public housing residents who will be allowed to return to the site (Buron et al. 2002; Keating 2000; Kingsley, Johnson, and Pettit 2001; Wexler 2001). Although most HOPE VI sites are not complete, so it is too early to tell what the outcomes for original residents will be, a recent study of residents relocated from eight of the earliest HOPE VI developments found that most are living in better housing in safer neighborhoods, but that a substantial proportion are struggling to meet basic needs that previously were covered in public housing. In addition, some long-term public housing residents face multiple barriers to self-sufficiency and may need supportive services in conjunction with housing assistance (Buron et al. 2002).

6. Supportive housing programs.

Beginning in the 1950s, some rental housing programs were targeted to people with special needs, including the frail elderly, people with disabilities, and homeless people. These programs deliver social services and other supports in conjunction with affordable housing, often serving people who might otherwise be unable to live independently (Glauber 1996). Though the primary focus of this chapter is rental assistance programs, a brief overview of supportive housing programs is provided. The first federal supportive housing program—Section 202 Supportive Housing for the Elderly—was enacted in 1952 to provide direct, low-interest loans to nonprofit organizations to develop housing for low- and moderate-income elderly and physically disabled people who did not qualify for public housing. Over time, the Section 202 program was expanded to serve people with a wider range of disabilities, including developmental disabilities and chronic mental illness, and to explicitly require the provision of supportive services. However, by the late 1980s, it became clear that elderly and disabled people often have very different needs and are not well served by living in the same developments (Applied Real Estate Analysis 1995). Therefore, the Section 811 program was established to serve disabled populations, while Section 202 focused exclusively on the elderly. As of 2000, the Section 202 program has produced a total of 65,000 housing units nationwide, and 18,000 units have been produced under Section 811.

Beginning in the 1980s, the growing population of homeless people on the streets of the nation's major cities led to the enactment of a series of federal programs attempting to meet the special needs of homeless families and individuals. As discussed earlier, the rising cost of rental housing and the loss of low-cost units, such as rooming houses and single-room occupancy hotels, meant that poor people who lacked family and social supports were increasingly likely to face episodes of homelessness. Many homeless individuals and families face multiple barriers to finding and sustaining themselves in housing, including mental illness, physical disabilities, and drug or alcohol addiction. Their circumstances vary tremendously, requiring different types and levels of supportive services in conjunction with temporary shelter, transitional housing, or a permanent place to live.

The Emergency Food and Shelter Program, enacted in 1983, provided funding to local jurisdictions to help build emergency shelters. Subsequent programs, beginning with the Stewart B. McKinney Homeless Assistance Act of 1987, were designed to fund the development and operation of supportive housing environments, including transitional housing to help people prepare for independent living, and permanent supportive housing for people with long-term or chronic service needs (U.S. General Accounting Office [GAO] 2000; Urban Institute 2000a). These programs rely on local jurisdictions to plan and implement a continuum of supportive housing solutions, to meet the needs of different segments of the homeless population and to help families and individuals transition toward permanent housing (Fuchs and McAllister 1996). As of 2000, estimates indicate that the federal Emergency Shelter Grants program and the various McKinney Act programs have been used to support or create 70,000 beds (including emergency shelter, transitional facilities, and permanent housing) (Millennial Housing Commission 2002). In addition, localities across the country have used the LIHTC program, HOME and CDBG funds, and Housing Choice Vouchers, along with state and local funds, to produce and maintain transitional and supportive housing for people who have been homeless or are at risk of homelessness.[11]

B. Performance of Rental Housing Production Programs

Chapter 1 outlined seven housing policy objectives that promote healthy families and communities. A comprehensive review of the research literature reveals that rental production programs have been successful in meeting some of these policy objectives while doing little to advance others. Moreover, the existing research suggests that, at their worst, some rental production programs may have exacerbated problems in low-income communities. It should be noted that research on the current generation of rental production programs is quite limited. Most of the existing research focuses on the subsidized production programs of the 1960s and 1970s; much less is known about the impacts of housing developed with Low-Income Housing Tax Credits and the HOME program, or about the performance of HOPE VI housing developments. Nevertheless, the existing research offers important lessons for today's rental production programs. The remainder of this section discusses each of the seven policy objectives, reviewing findings from the existing research literature on the effectiveness of rental housing production.

1. Preserve and expand the supply of good-quality housing units.

For the past 70 years, the main goal of rental housing production programs has been to expand the supply of affordable housing for low- to moderate-income households. At face value, the evidence indicates that rental production programs meet this goal. Today, approximately 3.3 million units receive some type of federal subsidy. According to the Millennial Housing Commission (2002), 1.3 million of these units are public housing, 1.1 million receive LIHTC, and the remaining receive funding from a mix of other federal subsidy programs. In addition, estimates indicate that state and local governments have used funding from the HOME block grant program to produce almost 253,000 units of rental housing (Herbert et al. 2001). Due to the eligibility guidelines for these various programs, it is safe to say that most families who are now living in subsidized housing have

[11] In some cases, nonhousing programs, such as state mental health programs, are combined with subsidized housing programs to finance needed supportive services.

seen dramatic improvements in their housing affordability and quality, as many were previously living in substandard housing or were severely rent-burdened.

However, to answer the question of whether or not rental production programs have expanded the supply of affordable housing, it is not sufficient to merely add up the number of housing units subsidized by rental production programs. A more sophisticated analysis should examine whether government incentives have encouraged private developers to increase the number of units above what they would otherwise have produced. Research conducted by HUD in 1974 suggests that most rental production programs were reasonably successful in expanding the housing supply beyond trends in production. The exact number of additional units is not certain, however. One estimate suggested that "for every 100,000 units subsidized during the 1960s and early 1970s, as few as 14,000 were net additions to the housing stock" (HUD 1976).

Although federal production programs have been successful in expanding the stock of affordable housing, they have by no means met the nation's low-income housing needs. Most extremely low-income households today are underhoused, rent burdened, or living in substandard housing. According to the National Low-Income Housing Coalition, 5 million households that are eligible for housing subsidies do not receive them. Dolbeare (2001) examined data available from the American Housing Survey and found that almost two-thirds of very low-income renters occupy units outside of their affordable range. Thus, production programs have been effective in expanding the stock of affordable rental housing but have not met more than half the need nationwide.

Programs that subsidize the production of affordable rental housing are not always successful in providing decent-quality housing. As discussed earlier, both public housing and privately owned subsidized housing developments have faced serious problems of financial mismanagement, physical deterioration, crime, and social disorganization. These problems are by no means inevitable, but their prevalence demonstrates that simply building low-cost rental housing is not sufficient. Managing low-income developments is very challenging, and owners need to have both the capacity and the resources to maintain and operate them effectively.

2. Make housing more affordable and more readily available.

The research literature indicates that rental production programs are successful in making rental housing more affordable. However, affordability is a relative term; the extent of affordability (affordable for whom) depends on how deep the subsidy is. Due to differences in program structure, funding, and regulations, subsidized units may not be affordable for the lowest-income households. Public housing and housing developed under the subsidized private production programs of the 1960s and 1970s generally require eligible households to contribute a fixed proportion of their monthly income for rent (currently 30 percent). Long-term operating subsidies or rent supplements fill the gap between resident contributions and the actual cost of the housing. Thus, these programs make housing affordable to even the poorest households, guaranteeing that no residents pay excess rent burdens.

More recent programs (including HOME and LIHTC) do not include long-term operating subsidies. LIHTC produces housing at rent levels that are affordable for households with incomes between 40 and 60 percent of the area median. These units are not affordable for households with lower incomes without additional subsidies (Cummings and Dipasquale 1999). As a consequence, the rent burden for households in LIHTC projects appears to be slightly higher than for those in public housing. Approximately 50 percent of LIHTC households report rent burdens of 30 percent of gross income. However, 13 percent of LIHTC households have rent burdens of more than 50 percent, which qualifies by most definitions as “worst case housing needs” (Buron 2000).

All rental housing developed with HOME funding must be affordable to households with incomes at 65 percent of the area median, and (in projects with five or more units) at least 20 percent of the units must be affordable at 50 percent of the area median. A recent study finds that almost all HOME-financed units met these requirements. However, the average rent burden among households living in these units was 41 percent. More than half of all households living in HOME rental units (59 percent) were paying more than 30 percent of income for rent, with 19 percent paying more than 50 percent. Rent burdens tended to be high because most of the households occupying HOME-funded rental housing had very low incomes. Specifically, eight of every ten HOME renters had incomes at or below 50 percent of the area median (Herbert et al. 2001).

The federal government requires both PHAs and the owners of properties with permanent rent subsidies to collect and submit information annually about resident incomes and rent contributions. Therefore, for these programs, it is possible to track who is served and how affordable the housing is. LIHTC and HOME, however, do not provide permanent rent supplements and do not require property owners to routinely submit data on the incomes or rent burdens of all residents. As a result, much less is known about these programs’ long-term impact on affordability.

Except for public housing, supply-side programs do not produce housing that is *permanently* affordable. Privately owned subsidized developments that were financed in the 1960s and 1970s are now at the end of their 30-year contracts with the federal government. As these contracts expire, some property owners are converting their developments to market rents, while others are seeking new subsidy commitments from federal, state, and local agencies. The minimum affordability requirement for the LIHTC program is 30 years (Millennial Housing Commission 2002), and affordability requirements under HOME typically extend 20 years. At the end of this period, units will either require additional subsidies or be lost from the affordable stock.

3. Promote racial and economic diversity in residential neighborhoods.

Most publicly assisted units, particularly public housing units, are located in low-income neighborhoods, often contributing to the geographic concentration of poverty. Although most early rental housing production programs did not specifically aim to reduce economic or racial segregation, the Civil Rights Act of 1968 required HUD to “affirmatively administer the Department’s programs to further the policy of fair housing” (HUD 1976). The question is, then: Do rental-unit production programs encourage racial and economic integration? The answer depends on which programs are evaluated.

Before analyzing where public housing is located, it is important to identify the characteristics of public housing residents. A majority (51 percent) of public housing residents are black; 34 percent are white, and 11 percent are Hispanic. About three-quarters of the public housing population report household incomes of less than $10,000 annually, and only 4 percent have incomes greater than $15,000 a year. Most households rely on Social Security or other public assistance for income, and only 21 percent of residents are employed (Goering, Kamely, and Richardson 1994).[12] It is an understatement to say that public housing residents, as a group, represent a population in need.

It is especially troubling, then, that public housing has had the worst results when it comes to racial and economic dispersion. A national analysis of the location of publicly assisted housing revealed that 37 percent of public housing is located in census tracts that are greater than 40 percent poor. Private developments that are publicly assisted are far less concentrated in high-poverty neighborhoods. Approximately 11 percent of private developments are located in neighborhoods that are greater than 40 percent poor (Newman and Schnare 1997). Another national analysis, conducted a few years earlier, found that minority residents of public housing are disproportionately concentrated in higher-poverty census tracts. Specifically, 51 percent of African-American public housing residents live in high-poverty neighborhoods (more than 40 percent poor), compared with 13 percent of white public housing residents (Goering, Kamely, and Richardson 1994).

Further, the location of assisted and public housing in the United States mirrors racial segregation patterns. This is particularly true for the location of public housing, where there appears to be an inverse relationship between the percentage of African-American residents living in the census tract and the percentage of white residents in public housing. In other words, if there is a small percentage of African-American residents living in the census tract, it is more likely that there the composition of public housing residents will be majority white, and vice-versa (Goering, Kamely, and Richardson 1994).

Housing supported by LIHTC also has a poor track record on this issue. Most LIHTC units are located in neighborhoods where a majority of the residents are minorities. Approximately 12 percent are located in neighborhoods where less than 20 percent of the neighborhood is minority; 39 percent are located in neighborhoods 21 to 79 percent minority, and almost half (49 percent) are located in neighborhoods with greater than 80 percent poverty rates (Buron 2000).

Though it is still too early to thoroughly assess the accomplishments of HOPE VI, one of the main program objectives is the economic integration of public housing developments. Advocates for the use of mixed-income housing feel that it can help eradicate many of the problems found in public

[12] Employment rates among public housing residents increased during the second half of the 1990s due to strong economic conditions and the advent of welfare reform.

housing (Ceraso 1995). Mixed-income housing may have a positive impact on crime levels, socially unacceptable behaviors, and unemployment by stabilizing a development through introduction of households with higher incomes (Brophy and Smith 1997). And, as discussed further below, low-income households who move to lower-poverty neighborhoods often experience very positive outcomes.

4. Help households build wealth.

The goal of rental production programs is to expand the availability of affordable housing and reduce housing costs for low- and moderate-income renters. These programs do not directly build wealth, although paying affordable rent levels may enable some households to accumulate savings. There are, however, some examples of programs that enabled residents of public housing to purchase their units. These programs have been met with mixed reviews.

Rohe (1995) examined the feasibility of converting public housing developments to limited-equity cooperatives in which tenants have ownership rights. The study focused on the experiences of three housing developments in Denver, CO, Paterson, NJ, and St. Thomas, VI, and identified several challenges with converting public housing to limited-equity cooperatives. These included the extent of renovations needed before transfer, prohibitions against involuntary relocation of tenants, the work of generating interest in the cooperatives, and the difficulty of financing.

Some of the challenges with converting public housing units to homeownership units may be due to the lack of interest from the residents. One study (Vale 1998) found that although residents are interested in owning their own homes, they are not, in most cases, interested in becoming owners of their public housing units. For most residents the "ideal of homeownership is seen as a mechanism for avoiding unwanted intrusions into personal domestic space." Further, and not surprisingly, there is a strong correlation between the condition of a resident's public housing unit and his or her interest in owning it. Respondents who favor ownership were significantly more likely to report involvement in the public housing community (e.g., participation in tenant meetings, etc.). Overall, there is limited resident support for recent proposals to sell public housing to its residents.

5. Strengthen families.

Subsidized rental housing can affect outcomes for families—either positively or negatively—in several ways. One common assumption is that living in assisted housing as a child increases the likelihood of dependence on government assistance as an adult. The evidence evaluating this assumption has been sparse, but Newman and Harkness (2002) found that living in public housing as a child (during the period 1968 to1982) actually improved adult outcomes. Public housing residence was associated with higher employment and earnings and lower welfare recipiency, after controlling for other relevant factors. The authors concluded that "poor adult outcomes of children who grew up in public housing are entirely attributable to their more disadvantaged family background characteristics, both observed and unobserved, not public housing itself."[13] They also suggest that "living in either privately-owned assisted housing developments or tenant-based housing assistance would be associated with even more positive long-term outcomes for children than public housing, since families [in these programs]…live in substantially better neighborhoods." In addition, a recent analysis of school performance and behavioral outcomes of public housing children indicates that they were at only slightly greater risk than other children in poor families (Morris and Jones 2002).

Another hypothesis about the effects of public and assisted housing on families argues that federal eligibility requirements and rent rules may discourage residents from getting married, thereby weakening families. Federally assisted households are required to report their income annually, and their contribution toward rent is typically calculated as a percent of monthly income. These rules may create financial incentives for mothers to remain single and for fathers to live elsewhere. In addition, rules that exclude people with criminal records from public and assisted housing may also discourage parents from marrying and living together. Almost no rigorous research has been conducted to document the impact of assisted-housing regulations on marriage or cohabitation. Some supportive housing programs provide services specifically designed to help keep families together or reunify families that have been split apart (Hart-Shegos 1999; Ceraso 1996).

Beginning in the 1980s, HUD implemented several programs for public housing residents that are designed to help families become self-sufficient. Bogdon (1997) reviewed assessments of three major public housing self-sufficiency programs: Project Self-Sufficiency, Operation Bootstrap, and Family Self-Sufficiency. She concluded that residents who volunteered to participate in self-sufficiency programs made some progress toward self-sufficiency but were unlikely to become completely independent of all assistance programs. Further, because most of the participants were volunteers, they may have been more motivated to succeed than the average assisted-housing resident.

More recently, the Jobs-Plus demonstration is exploring the potential of targeting public housing developments with high-quality employment services and incentives in hopes of dramatically increasing employment and improving family well-being. Although this demonstration is still under way, early evidence indicates that most public housing residents have worked at some point in their lives, and that a majority are either working or looking for work. However, many only work part-time and the majority are employed in low-wage jobs with no fringe benefits. Poor health (among both parents and children) is the most common problem preventing residents from working (Martinez 2002).

The HOPE VI program, in its effort to transform severely distressed public housing projects, attempts to improve the lives of residents in conjunction with the physical redevelopment process.

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[13] It is not clear if the results from this study can be applied to the residents living in public housing today. The authors warn that the characteristics of the study sample may be quite different from the families living in public housing today, who are more likely to be unemployed, very low-income, and dependent on welfare.

Although the effectiveness of these efforts varies considerably across sites, many HOPE VI projects have included the construction of new community centers, and integration of social services with job training and placement services to help residents prepare for work and achieve self-sufficiency. At least one site (Atlanta) includes a dramatically improved public school, serving children living in the public housing development and the surrounding community. And several sites appear to be achieving considerable success in engaging residents in decisions about community needs and strategies for addressing them (Naparstek, Freis, and Kingsley 2000).

A growing body of evidence suggests that, even in the absence of self-sufficiency or employment services, living in assisted housing may make it easier for welfare recipients to get and keep jobs (Zedlewski 2002; Sard and Waller 2002). However, the location of the assisted housing in relation to suitable employment opportunities also appears to play a critical role.

6. Link housing to supportive services.

As discussed earlier, some of HUD's rental production programs were explicitly designed to serve elderly or disabled households or both, and over the past 50 years, these households have come to represent a large proportion of the population living in assisted housing. For example, elderly and disabled households represent 48 percent of public housing residents, 74 percent of households in Section 8 project-based units, and 43 percent of those in Section 236 developments (HUD 1997).

An early evaluation of the Section 202 program found that it was successful in providing quality affordable housing for elderly households. The program produced housing that was "generally acceptable to tenants and to the communities that they are located in." Residents reported "high levels of satisfaction that translate into low turnover rates and long waiting lists." Further, the program reported very low loan default rates. More recent assessments of Section 202 housing stock suggest that a majority of these properties remain in "good physical condition" (Coalition on Human Needs 2003).

Despite these positive results, it is unclear how successful Section 202 has been in linking residents to supportive services. The research literature shows that there is significant variation in the quality of supportive services in these developments. For example, some developments provide a broad range of services that include transportation, community centers, activities, and access to on-site health care, while others fail to go much beyond housing (HUD 1997). Recent evidence suggests provision of services is increasing. In 1998, HUD conducted a survey of all Section 202 developments and found that 27 percent reported "providing some form of meal program or other supportive services for their residents." The study also revealed that about 50 percent of all Section 202 developments have service coordinators on staff (HUD 1998).

Not enough is known about the overall efficacy of supportive housing for homeless families and individuals (Burt 1997). To a large extent, this is because few long-term evaluations have followed up to find out what happens to clients after they leave the supportive housing environment

(Ceraso 1996). However, several recent studies have concluded that supportive housing can lead to improved outcomes for many vulnerable populations. For example, a literature review conducted by Culhane, Metraux, and Hadley (2001) found that supportive housing interventions for homeless individuals with mental illness not only have high rates of retention but also help reduce homelessness and improve housing stability among program participants. They also found that the use of supportive services translated into reduced use of hospital services, reduced length of stay in hospitals, and reductions in inpatient mental health services.

Other research has also shown that supportive housing can be more cost-effective than having clients receive services from various state and local agencies. This was true in the New York/New York (NY/NY) Program, jointly funded by New York State and New York City, which created 3,600 community-based permanent housing units for homeless individuals with severe mental illness. Looking at NY/NY clients during a four-year span (two years before NY/NY placement and two years after), Culhane, Metraux, and Hadley (2001) found significant declines in the mean number of shelter days; use of state psychiatric hospitals, city public hospitals, inpatient services reimbursed by Medicaid, Veterans Administration hospitals, state prisons, and city jails; and days spent incarcerated. All told, the authors show a $16,282 net reduction in health, corrections, and shelter use annually per supportive housing unit. Similar findings were realized in a study of supportive housing programs in Minneapolis. Hart-Shegos (1999) found that supportive housing programs in the Twin Cities were far less costly (showing a savings of 52 percent in one case) than services provided by public agencies (foster care, medical care, and other emergency services used by homeless families). A study of HUD's Shelter Plus Care Program found that program grantees reported a reduction in the participants' needs for services, including emergency room use, inpatient care in hospitals, substance abuse treatment centers, and jail time (Fosburg et al. 1997).

7. Promote balanced metropolitan growth.

The impact of rental production programs on metropolitan growth patterns largely depends on where subsidized units are located. The existing research literature suggests that communities that are strategic about the location of affordable housing can contribute to balanced metropolitan growth by including a mix of affordability levels in communities throughout a metropolitan region, particularly in areas of job growth.

However, as discussed earlier in this section, most federally subsidized housing production has occurred in central cities rather than suburbs, and in low-income and distressed neighborhoods, not areas of job growth. Thus, subsidized production has generally contributed to the concentration of poverty in distressed city neighborhoods and has failed to expand the availability of affordable housing close to suburban jobs.

Often, subsidized housing production is seen as a tool for the revitalization of distressed central-city neighborhoods. One of the original goals of the public housing program was "slum clearance" and urban renewal, and community development corporations have a long history of building and rehabilitating affordable housing to improve poor neighborhoods. However, the evidence on the effectiveness of affordable housing as a tool for neighborhood revitalization is mixed. Unless housing production is accompanied by other improvements (schools, safety, retail outlets, and parks, for example), it is unlikely to spark neighborhood revitalization and may simply exacerbate the concentration of low-income households in distressed neighborhoods.

Though not the original intent of the program, spurring communitywide revitalization was incorporated as one of the goals of HOPE VI as the program matured (Urban Institute 2002). Unfortunately, though the program has been in place for over ten years, very little is known about its impacts on neighborhood outcomes (National Housing Law Project 2002). Some sites have been successful in developing new community institutions such as community centers, police and fire stations, and schools, and a few have seen considerable revitalization in the surrounding neighborhood (Urban Institute 2000b). It will be some time, however, before the full range of neighborhood impacts of the program is realized and reported.

C. Performance of Demand-Side Rental Assistance

Like subsidized production programs, demand-side rental-assistance programs have the potential to advance many, but not all, of the goals of affordable housing policy. In particular, because demand-side assistance gives recipients more choices about where to live, it has the potential to promote racial and economic diversity and may ultimately help communities promote more balanced metropolitan growth. However, the extent to which demand-side programs actually live up to this potential depends critically on how they are implemented locally. The remainder of this section reviews findings about how effectively demand-side rental-assistance programs achieve the seven policy goals.

1. Preserve and expand the supply of good-quality housing units.

Although demand-side housing assistance does not directly increase the supply of affordable housing, there is a hypothesis that a large-scale voucher program would increase the effective demand for market-rate rental housing by increasing the number of households able to afford a rental unit. Over the long term, suppliers would expand production in response to this increased demand. Early evidence from the Experimental Housing Allowance program, a precursor to the federal Section 8 program, found that even an entitlement housing voucher program would not affect aggregate demand by more than 2.8 percent, which was less than the rate of inflation for housing services. The evidence also showed no effects on average rent levels or the construction of new housing (HUD 1979). But the program did cause suppliers to improve the quality of existing housing. Specifically, landlords paid for repairs so their units would meet program standards. In the two study sites, the program decreased the number of substandard units by between 13 and 34 percent and increased the supply of decent units by between 3 and 9 percent (HUD 1979).

2. Make housing more affordable and more readily available.

Demand-side rental subsidies are specifically designed to address rental housing affordability problems. They reduce housing costs for recipients and enable them to afford better-quality units. Demand-side rental subsidies represent a more cost-effective mechanism for delivering affordable housing than production programs (HUD 2000). However, not all voucher recipients are successful in finding a housing unit where they can use this form of assistance, and some recipients continue to pay unaffordable rent burdens even with their vouchers.

A demand-side rental subsidy increases the share of existing rental units that are affordable to recipients. A voucher can be used in any qualifying unit up to a locally defined payment standard, which is defined to reflect the prevailing cost of decent-quality rental housing in the market. This provides participating families with access to housing beyond the existing low-cost housing stock. The evidence suggests that participants are able to reduce their housing cost burdens. Herbert studied the use of HOME program funds, which are sometimes used to support local voucher programs, and found that households who received tenant-based assistance paid 36 percent of their income toward housing, while those without subsidy paid 44 percent (Herbert 2001). Although the Section 8 voucher program generally sets the household's contribution toward rent at 30 percent, a GAO study found that housing cost burdens among Section 8 recipients averaged 36 percent. In fact, 32 percent of Section 8 households had housing-cost burdens greater than 40 percent of adjusted income. The study offered several explanations for these high cost burdens, including structural and climate differences between units, and the use of major appliances not calculated in paying for utility costs (GAO 1990).

Not all households that participate in a demand-side housing program are successful at obtaining housing. Program recipients are required to find a suitable housing unit and a landlord willing to participate in the voucher program. The most recent study of success rates in the Section 8 program concludes that the share of voucher recipients who are successful in finding qualifying units in large metropolitan areas is 69.2 percent (Finkel and Burton 2001). This represents a substantial decline from the last national estimate, which was produced in 1993, possibly because of a tightening of housing markets across the country. Success rates also vary across metropolitan areas, partly due to local housing market conditions, but also due to participating PHAs' policies and effectiveness.

Households that receive demand-side housing assistance are able to improve the quality of their housing. The Section 8 program requires that units rented through the program meet a minimum set of housing quality standards. Units are inspected before households can occupy them, and inspections occur periodically during a household's tenure. Evidence indicates that these policies lead to program participants occupying housing of a higher quality than unassisted renters do. In general, Section 8 voucher holders who are able to find units under the program end up in housing of a much higher quality than those who are unable to use their vouchers (Finkel 1994).

3. Promote racial and economic diversity in residential neighborhoods.

Demand-side rental subsidies give recipients more choice about where to live than do supply-side programs. Recipients do not have to live in a particular project to receive assistance, but can use their assistance in any qualifying unit in the nation. Furthermore, households can keep their vouchers if they need to move to a different unit to be closer to work or for any other reason. One of the statutory goals of the Section 8 voucher program is to promote neighborhood choice in order to deconcentrate poor populations. Although the evidence to date indicates that vouchers have contributed to the deconcentration of poverty and to racial and ethnic integration, there still appears to be considerable room for improvement. Factors such as the availability and location of qualifying housing, landlords' willingness to participate, the effectiveness of local program administration, and racial and ethnic discrimination have all been found to affect the success of a demand-side program.

Participants in demand-side programs are more likely to live in diverse neighborhoods than their counterparts in supply-side programs**.** Several studies demonstrate that Section 8 households are less concentrated in low-income neighborhoods than other low-income renters and participants in other housing programs. In a study of six metropolitan areas, Turner and Wilson (1998) found that, compared with public housing residents, voucher holders are less likely to live in high-poverty or majority-black neighborhoods. However, black and Hispanic Section 8 recipients are more likely to live in high-poverty neighborhoods than their white counterparts. Rolf Pendall (2000) compared the residential location of Section 8 voucher holders to other renters' locations and found that voucher recipients were more concentrated in census tracts with moderate to high poverty rates than public housing residents, but less so than other low-income renters. The racial makeup of Section 8 recipients proved a significant predictor of their concentration in low-income neighborhoods. Both Pendall (2000) and Cunningham, Sylvester, and Turner (2000) found that Section 8 recipients in the Washington, D.C., region were able to move to neighborhoods with lower poverty rates than their original neighborhoods. However, many program participants chose to rent units close to their original neighborhood, with relatively few moving to job-rich locations in the region's western suburbs.

Early evidence suggests that Section 8 vouchers can be successful in helping public housing residents relocate to low-poverty neighborhoods. Kingsley, Johnson, and Pettit (2001) found that public housing residents who received Section 8 vouchers as a result of relocation through the HOPE VI program moved to neighborhoods that were less distressed than their original neighborhoods. However, the authors also found evidence of geographic clustering among Section 8 recipients in almost all of the 31 cities studied. Tracts where Section 8 recipients clustered tended to be minority neighborhoods with moderate poverty rates.

To date, vouchers appear to have been less effective in promoting racial and ethnic integration than in helping to deconcentrate poverty. Polikoff (1995) found evidence that voucher recipients were simply relocating to neighborhoods with similar racial characteristics. Specifically, 7,500 Section 8 voucher recipients in 19 public housing agencies were tracked and census data used to compare characteristics of their preprogram and postprogram neighborhoods. The level of minority concentration at the neighborhood level did not change when preprogram and postprogram locations were compared.

Relatively few voucher recipients make a significant change in where they live. For example, a study by Pope for the Metropolitan Washington Council of Governments (1995) found that 86 percent of Section 8 recipients stayed within the issuing jurisdiction. Cunningham, Sylvester, and Turner (2000) found that Washington-area voucher recipients relocated close to their original locations. There is considerable evidence that the housing search is more difficult for voucher recipients who attempt to move to a new neighborhood. In the most recent national study of Section 8 success rates, enrollees who wished to move to a new neighborhood were less likely to find housing than enrollees who chose to stay in the same neighborhood, even after controlling for other factors (Kennedy and Finkel 1994).

The quality of local program administration plays an important role in determining participant outcomes. Administrative practices at the local level affect the ability of voucher recipients to move to a new neighborhood. A poorly run program makes mobility more difficult for participants. Landlords are also less likely to rent to Section 8 participants if they perceive the program to be an inconvenience. In their guide to improving community relations in the housing choice voucher program, HUD states that there is no substitute for a well-run program. Community conflict is most likely caused by concerns about program administration (HUD 2001b). An exploratory study by Feins (1996) found differences in mobility depending on the method of Section 8 administration. Jurisdictions that had taken significant steps to reduce barriers to movement across jurisdictions (a process known as “portability”) showed some evidence of deconcentrating Section 8 recipients.

Voucher recipients who receive mobility counseling as part of program administration may be more successful than those without such help. A mobility program offers housing search assistance, usually with the goal of assisting households in moving to low-poverty areas. Turner and Williams (1998) argue that mobility counseling and search assistance programs make a difference in neighborhood outcomes for Section 8 recipients. Forty percent of families who received counseling through litigation-based programs have been successful in moving to target neighborhoods, and 48 percent of those counseled through HUD’s Moving to Opportunity (MTO) program have been successful in moving to low-poverty neighborhoods.

Many landlords either lack information about the Section 8 program or find participation unattractive. Aspects of the demand-side rental programs may make them unappealing to some landlords in the private rental market. To rent to a Section 8 tenant, the landlord must submit to unit inspections and other paperwork that would not be necessary to rent to an unsubsidized tenant. Because landlords can refuse to rent to a Section 8 participant, many choose not to because of the inconvenience (Cunningham, Sylvester, and Turner 2000). If a large share of landlords refuse to participate in the program, the recipients’ choice of units is limited to a Section 8 “submarket,” undermining the potential benefits of demand-side assistance.

A recent study of landlord participation in the Section 8 program using data from the Census Bureau's Property Owners and Manager's survey found that 43 percent of affordable-unit owners would be unwilling to rent to Section 8 participants. Among both affordable and more expensive unit owners, three main reasons for not accepting tenants were given: potential problems with tenants, too many regulations, and too much paperwork (HUD 1997). This study also found that many landlords are unfamiliar with the Section 8 program. Less than one in six owners of single-family rental units was familiar with the Section 8 program, and fewer than one in six had received inquiries from Section 8 participants. Owners of affordable single-family units were less likely to be familiar with the program than owners of more expensive units. Based on focus groups with participating landlords, Kennedy and Finkel (1994) concluded that most participants ended up renting from the same set of landlords who are familiar with the Section 8 market and choose to rent to Section 8 recipients.

Some programs have been successful by recruiting landlords into the program or making the program appear more landlord-friendly. A Massachusetts effort to target tenant-based rental assistance to homeless individuals achieved a 95 percent success rate and placed 10,000 homeless or imminently homeless households in affordable apartments. The success of the program is attributed to landlord recruitment as well as multifaceted housing-search services. Landlord recruitment may also have had a spillover effect, making other landlords more willing to participate in the program (Sard 1994). San Diego, CA, and Birmingham, AL, increased their Section 8 lease-up rates through strategies aimed at getting landlords involved in the program. Both cities actively recruited property owners to participate in the program and created newsletters for participating landlords (Slavin 2001). Although these programs have not been evaluated for their effects on racial and economic diversity, their success in landlord outreach suggests that these are useful tools to aid in mobility efforts.

In some housing markets, the federally established Fair Market Rent levels may be too low to permit families access to many desirable neighborhoods. The subsidies that the voucher program provides to participating households are calculated as the difference between 30 percent of income and a unit's market rent—up to a local payment standard. Payment standards are governed by Fair Market Rents, set by HUD based on data for the local market area. Although current law gives local housing agencies considerable discretion in setting payment standards, Fair Market Rents may be a constraint in high-cost markets or in areas where rents are rising rapidly (Turner, Popkin, and Cunningham 2000).

Another explanation for voucher programs' limited effect on racial and ethnic diversity is that minority voucher recipients may prefer to remain in segregated neighborhoods where they have close ties to the community. In a study of Section 8 recipients in Alameda County, CA, David Varady and Carol Walker found that a significant number of participants chose to stay in their original neighborhoods. When surveyed on their choice of neighborhood, those who chose to stay cited strong neighborhood ties as their reason. Furthermore, one in five Section 8 recipients who had moved to low-poverty suburbs during the study period ended up moving back to their original inner-city neighborhood (Varady and Walker 2000). Other evidence also suggests that any attempt to promote racially integrated neighborhoods through a demand-side program is limited by personal preferences. Farley, Fielding, and Krysan (1997) analyzed the residential preferences of a sample of blacks and whites in four metropolitan areas, using several tests to evaluate preference for and comfort with neighborhoods of different racial makeup. The research found that although both blacks and whites prefer an ethnically mixed neighborhood, both groups are reluctant to move into a neighborhood without other representatives of their racial group. Only 35 percent of the black subjects were willing to move into an all-white neighborhood. If program participants hold these same preferences, they will be less likely to move to neighborhoods without significant representation of their own racial group.

Discrimination in housing markets also affects the ability of voucher recipients to obtain housing outside of high-poverty and high-minority areas. In the Experimental Housing Allowance Program, over a third of households seeking a new unit reported discrimination by age, gender, marital status, race, income source, number of children, or some combination of these characteristics (HUD 1979). More recently, Popkin and Cunningham (2000) conducted focus groups with successful and unsuccessful Section 8 recipients in Chicago and found that although some recipients reported overt racial discrimination, many said they avoided particular neighborhoods because they believed they would not be able to rent an apartment due to their race. Successful examples of mobility through a demand-side subsidy may be due to lower levels of discrimination in the region. Varady and Walker (2000) conducted their study of Alameda County, CA, because a high number of residents chose to take advantage of portability. The authors argue that the program's success may be due to greater acceptance of racial and economic diversity in the study area. Participants who moved to low-poverty neighborhoods may have faced less discrimination during their housing search than participants in other parts of the country may.

4. Help households build wealth.

Demand-side housing assistance programs have no track record of helping recipients build wealth. However, by making rents more affordable and increasing housing stability, they may enable some households to accumulate savings as well as provide evidence of financial responsibility by making regular rent payments.[14]

5. Strengthen families.

Demand-side rental programs have shown success in improving family health, with benefits including reduced rates of juvenile delinquency, improved educational achievement among children, and higher rates of employment for their parents. The primary reason for these changes is that relocating families from high-poverty neighborhoods to low-poverty neighborhoods often creates more positive family outcomes. Ellen and Turner (1997) reviewed existing empirical studies of

[14] Note that Section 8 vouchers have recently been extended to low-income homeowners as well as renters, but no definitive evidence is yet available on the impact of using vouchers for homeownership.

neighborhood effects and concluded that they generally support the hypothesis that neighborhood environment plays a role in shaping long-term outcomes for families and children.

Rosenbaum and DeLuca (2000) evaluated family outcomes in a study of the Gautreaux program in Chicago. The program relocated Chicago housing project residents to other city neighborhoods or to suburban neighborhoods. Participants who relocated to middle-income white suburbs were more likely to have jobs than their counterparts placed in low-income black neighborhoods. Improved safety and greater availability of jobs were primary factors in suburban movers securing employment. Children of residents who relocated to the suburbs were less likely to drop out of school and more likely to enroll in college than their urban counterparts. In a follow-up study, Rosenbaum and DeLuca found that families who had moved to neighborhoods with high levels of education under the Gautreaux program had a lower level of welfare receipt.

Several more recent studies of voucher recipients also find evidence of neighborhood effects. Leventhal and Brooks-Gunn (2001) recently evaluated family outcomes in the MTO demonstration program. Under MTO, residents of high-poverty public housing developments who volunteered to participate were divided into three groups: experimental households, who were given vouchers to move into low-poverty neighborhoods; Section 8 households, who received a standard voucher and could move to any apartment of their choice; and in-place households, who remained in public housing. Parents and children in experimental households had better mental and physical health than their in-place counterparts. Parents in experimental households and Section 8 households also had less harsh parent-child relationships than in-place households. Ludwig, Duncan, and Pinkston (1999) found that among a sample of families in Baltimore, participants in the MTO programs had lower rates of welfare receipt than renters without subsidy. Section 8 grants were found to have little effect on welfare receipt. Similarly, MTO recipients stated that they had greater access to employment and training opportunities in their new homes.

Despite these successes, moving out of their original neighborhoods may put a strain on some families. In a study of the MTO program in Baltimore, Ludwig, Duncan, and Pinkston (1999) found that program participation may have increased the number of single-parent households. MTO families were also more likely to have adult children living in the home. A qualitative study of the MTO program (Popkin, Harris, and Cunningham 2001) found other challenges. Adults in participating households reported feelings of isolation in their new neighborhoods. Many participants maintained contacts with family and friends, but others commented that the distance made it difficult.

Families with demand-side rental subsidies can also reduce their welfare dependence. The Center on Budget and Policy Priorities (2000) highlighted two examples in which Section 8 programs are linked to a well-designed welfare reduction program. The Minnesota Family Investment Program helped reduce poverty as well as increase employment and marriage rates. Similarly, a study of households eligible to receive Job Opportunities and Basic Skills (JOBS) program services in Atlanta and Columbus found that employment and earnings gains were substantially larger among families in public or subsidized housing, compared with families not receiving such assistance (Martinez 2002).

The Operation Bootstrap program tied Section 8 assistance to a series of employment and support services to help families achieve economic independence. A study by Abt Associates (Frees et al. 1994) found that the program showed modest but noticeable progress toward employment, but did not significantly decrease reliance on public assistance. Similarly, Ong (1998) found in a study of single-parent households receiving Aid to Families with Dependent Children benefits in California that Section 8 recipients worked significantly more hours than either public housing residents or those in the private rental market.

6. Link housing to supportive services.

Demand-side rental subsidies may be less effective and costlier than project-based assistance when it comes to providing services to special populations. Such programs aim at dispersing populations throughout the private rental market. But when special services are linked to housing, a deconcentrated population leads to service-delivery costs that would not exist in a project-based development. Sard (2001), while arguing in favor of the effectiveness of housing vouchers in comparison to other housing programs, states that vouchers may not be the most cost-effective option in serving special populations. Similarly, in a 30-year overview covering the existence of the Section 8 program, HUD (2000b) identified this same weakness. Furthermore, the lack of suitable special-needs housing in the private rental market makes it harder to utilize a Section 8 voucher. In their analysis of the success rates of Section 8 users, meanwhile, Kennedy and Finkel (1994) found that being disabled or elderly or for some other reason requiring special-needs housing reduced the chance that a Section 8 recipient would successfully utilize their certificate.

There are several examples of situations in which demand-side rental assistance has been used in conjunction with supportive services. These programs have been successful, for example, when a special-needs recipient may move in and out of a supportive housing environment or may require temporary assistance as life needs change. In several instances, vouchers have been utilized in conjunction with educational and job search programs. The Housing Opportunities for Persons with AIDS program has been successful in helping low-income individuals who are HIV-positive retain their housing by supplementing what they can afford to pay for mortgage or rental payments. Furthermore, the Center on Budget and Policy Priorities (2000) found some evidence that the Section 8 program helped victims of domestic violence escape abusive living situations.

In a study of HUD-assisted housing for nonelderly disabled residents, Locke (2000) found that Section 8 assistance was popular among recipients, but it was difficult to obtain and use. In the 10 metropolitan areas surveyed, 15 to 25 percent of voucher holders were nonelderly disabled. An even larger share of households on the waiting list for assistance was disabled. Acceptable units are hard to find, especially in older cities where most of the housing is not wheelchair accessible. The same study provides examples of special tenant-based assistance programs that are tailored for disabled populations. Colorado, Michigan, and New Jersey have programs that connect Section 8 assistance with supportive services. In Colorado's program, the state housing agency coordinates with community organizations to provide support, community integration, and liaison between landlords and tenants.

The HOPE IV program was established as an experimental effort to link Section 8 assistance with funding for supportive services aimed at low-income elderly residents. The goal was to allow these residents to retain their homes despite their service needs. In their evaluation of the program, Ficke and Berkowitz (1999) found that there was an unmet need for services among current Section 8 tenants. Furthermore, many participating housing authorities had not considered the frail elderly to be a targeted service population. Many PHAs were unprepared for the level of service coordination that this population required. However, after an adjustment period, PHAs were successful in providing a cadre of services to the frail elderly population. In many cases, the adjustment required them to rethink their entire service delivery approach. HOPE IV participants were evaluated against a comparison group of Section 8 recipients who were not part of the program. A surprising finding was that the comparison group had service-delivery rates comparable to the HOPE IV participants in many categories. In several quality-of-life categories, HOPE IV participants scored higher than the comparison group. The results suggest, however, that elderly Section 8 recipients have access to existing services through other means.

7. Promote balanced metropolitan growth.

Demand-side rental subsidies have the potential to contribute to a balanced metropolitan growth policy in two ways. First, because vouchers are not site-based, recipients can move to neighborhoods that best meet their needs, including areas close to job opportunities. Thus, vouchers can give low-income households access to suburban job centers, as long as moderate-cost rental housing is available in the communities. In addition, deconcentrating poverty helps to address the decline of inner-city neighborhoods. Concentrations of poverty not only undermine the health of inner-city communities, but may also contribute to sprawl by driving higher-income residents away. Goodman (1978) outlines a policy for attracting middle-class households into central cities while at the same time deconcentrating poor populations between the city and suburbs. Demand-side rental assistance is one component of this broader vision because it allows recipients to choose between urban and suburban areas.

However, as discussed earlier in this section, the effectiveness of vouchers in enabling poor households to move out of low-income and racially segregated neighborhoods depends on how these programs are implemented. In addition, relatively few suburban communities offer an adequate supply of rental housing that is within reach of a household with a voucher, and landlords in these communities may be particularly difficult to recruit into the voucher program. In at least one case, suburban voucher holders moved back into central cities to take advantage of better housing opportunities. Malaby and Lukermann (1996) evaluated the effects of an effort to ease cross-jurisdictional moves on the part of Section 8 recipients in Hennepin County, MN. In a surprising result, the researchers found that more tenants were moving into the central city than away from it. Among those moving into the central city, respondents cited lack of acceptable units elsewhere and need for larger housing units as reasons for the move.

In some circumstances, demand-side rental assistance may contribute to the stabilization or revitalization of housing in low-income neighborhoods by providing landlords with sufficient rent revenues to maintain and improve their properties. Benjamin, Chinloy, and Sirmans (2000) analyzed rental rates and revenue for a sample of apartment buildings in Washington, D.C. A multivariate regression showed that buildings with a policy of accepting Section 8 tenants had higher rental revenue than those that did not accept Section 8. Buildings that advertised the acceptance of Section 8 tenants, however, showed a decrease in revenue. The authors argue that advertising Section 8 acceptance appears to signal low quality. In recent years, serious concerns have been raised about possible detrimental effects of housing vouchers on neighborhoods. Although there is little systematic evidence that the federal voucher program is damaging the health of large numbers of urban neighborhoods, if many recipients are clustered in weak neighborhoods there is a risk of adverse neighborhood impacts (Turner, Popkin, and Cunningham 2000).

D. Summary and Implications for Local Action

Despite significant limitations of the existing research literature, it offers useful guidance for housing policy advocates, policymakers, and practitioners. Rental assistance programs—including both subsidized housing production and demand-side assistance—clearly play a central role in any housing strategy. The accumulated research evidence shows that these programs can contribute to almost all of our policy objectives. However, the effectiveness of rental housing programs is not guaranteed. If they are poorly targeted or ineffectively implemented, these programs can actually work against the goals of an effective housing policy. Exhibit 1 summarizes the findings presented in this chapter, showing what is known about the performance of both rental housing production programs and demand-side assistance programs for each of the seven policy objectives introduced in Chapter 1.

Exhibit 1: Rental Housing Assistance—Summary of Findings

	Rental Housing Assistance	
	Supply-Side Production	**Demand-Side Vouchers**
Preserve and Expand the Supply of Good-Quality Housing Units	Yes—rental stock has been expanded, though more units need to be produced	Somewhat—may encourage landlords to maintain existing housing
Make Housing More Affordable and More Readily Available	Yes—but affordability depends on size and duration of subsidies	Yes—primary goal of these programs is affordability; success depends on household's ability to find units
Promote Racial and Economic Diversity in Residential Neighborhoods	Rarely—depends on where new units are located and who is eligible to occupy them	Possibly—if recipients can find units in diverse neighborhoods
Help Households Build Wealth	Generally not—though lower rents may lead to increased family assets	Generally not—though lower rents may lead to increased family assets
Strengthen Families	Possibly—but little literature exists to confirm program's ability to strengthen families	Possibly—but less impact if units are located in distressed neighborhoods or occupancy rules discourage family unification
Link Housing with Essential Supportive Services	Sometimes—when units are designed in conjunction with effective supportive services	Generally not
Promote Balanced Metropolitan Growth	Rarely—depends on where the new units are built	Possibly—depends on recipients' ability to find units in suburban areas and close to job opportunities

What are the implications for action of this substantial body of literature? First, it is critical to recognize that **federal policy continues to play a central role in shaping rental housing assistance strategies**. Despite devolution, decisions at the federal level largely determine the resources available for rental housing assistance and set the broad parameters within which state and local actors operate. Although the goal of federal housing policy has been consistently articulated as "a decent home in a suitable living environment for every American family," Congress has never allocated sufficient funds to housing assistance to make this goal a reality. And over the past two decades, annual additions to the pool of available assistance have been small, resulting in a widening gap between needs and resources. Thus, the options available to local policymakers in the area of rental housing assistance are constrained by the limited availability of federal resources. Some state and local governments allocate their own funds to rental housing assistance, but federal programs constitute by far the lion's share of resources available. In communities all across the county, these resources fall short of needs.

The literature also underscores that **affordability is the central challenge for rental-assistance policy**. In most housing markets, the overall supply of private rental housing is large enough to meet demand, and the vast majority of rental units are in decent condition. Although the problems of overcrowding and physically deficient housing should not be ignored, by far the most prevalent problem facing low-income renters is that they cannot afford prevailing rent levels.[15] Even in weak housing markets, where vacancy rates are high and landlords are eager to find tenants, rents for decent housing in the private market are unaffordable at very low-income levels. Moreover, producing units that are affordable for households at the lowest income levels (where hardship is most prevalent) requires deep and long-term subsidy commitments. Tax credits, grants, and low-interest loans are not sufficient to guarantee rents low enough for extremely low-income households to afford.

This means that **building more rental units is not necessarily the solution to the housing problems facing low-income renters**, particularly given the scarcity of federal housing resources. Policymakers need to diagnose local market conditions intelligently to decide whether some types of rental housing are really in short supply, or whether the units are actually available but low-income renters simply need subsidy assistance to supplement what they can afford to pay for these units. Subsidizing the rents for existing units is much less costly than building new units and can help stabilize a faltering housing market, enable low-income households to compete in a tight market, provide struggling landlords with sufficient rent revenues to maintain their properties, and prevent rental units from deteriorating and dropping out of the housing stock.

In some circumstances, subsidizing the production of new rental housing units makes sense. If vacancy rates are low and rent levels are rising, if particular types of rental housing (like units with more than two bedrooms) are in short supply, or if large numbers of federally subsidized properties are transitioning to market rent levels, building new units may help address problems of affordability, crowding, and physical deficiencies. But without deep, long-term subsidies, new rental units will not necessarily be affordable for the households whose needs are most severe. Local policymakers may have to link vouchers or other demand-side rental subsidies with production programs like the LIHTC to ensure that the households with problems can afford to rent the new units.

Because unaffordability is the primary cause of housing hardship for low-income renters, **housing policymakers should explore strategies for building incomes as well as for subsidizing rents**. At best, affordable housing can provide a platform on which poor households can stabilize their lives, obtain more education or training, find work, and build savings. Programs that deliver effective support services, child care, and job training in conjunction with housing

[15] Note that most renters living in physically deficient or overcrowded housing also pay unaffordable rent burdens (Millennial Housing Commission 2002).

assistance can help families improve their overall well-being and increase their incomes until they can ultimately afford to pay private-market rents.

Location plays a critical role in determining the effectiveness of rental-assistance programs. Historically, subsidized housing has been built in neighborhoods where poor people live, often increasing the supply of housing where demand is weakest, exacerbating the concentration of poverty and distress, and reinforcing patterns of racial and ethnic segregation. A growing body of research now indicates that living in a high-poverty neighborhood can undermine the well-being of families and children and that affordable housing alone cannot revitalize a distressed neighborhood. Local policymakers need to focus their attention on where affordable housing should be developed and whether low-income households have access to decent neighborhood environments.

Both supply-side and demand-side programs can play a role in a local rental-assistance strategy that takes location seriously. Using production programs to expand the availability of affordable rental housing in healthy neighborhoods (where it is scarcest) promotes economic and racial diversity and broadens opportunities for low-income households to live in neighborhoods that offer safety, good schools, quality services, and access to employment opportunities. At the same time, vouchers and other demand-side programs can be used to supplement what poor households can afford to pay for market-rate housing in neighborhoods of their choice. Some voucher recipients are likely to use their vouchers to remain in their current neighborhoods (in fact, many use their vouchers in the original rental units), reducing their rent burdens and increasing their landlords' capacity to maintain the property. Other recipients will use their vouchers to move to other neighborhoods, potentially contributing to racial and economic diversity and helping to break down concentrations of poverty.

But **low-income and minority households often need help to gain access to the full range of affordable housing opportunities available**. Limited information about unfamiliar communities, fear of the unknown, discrimination, and landlords' unwillingness to accept vouchers all create barriers to mobility and choice. If a voucher program is to live up to its full potential, local policymakers and administrators need to systematically monitor the availability of rental housing in neighborhoods throughout the region, actively promote landlord participation in the program, track the location choices of assisted households, and assist households in finding suitable units in neighborhoods that meet their needs. Moreover, if local production programs are expanding the supply of rental units in healthy neighborhoods, it is essential to make these units available to voucher recipients and other low-income households seeking better living environments. Thus, policymakers who understand their local housing markets can strategically coordinate the limited resources available for rental housing production, demand-side assistance, and supportive services to systematically advance the goals of affordable housing policy.

E. Priorities for Future Research

The existing research literature on rental-assistance programs clearly leaves important gaps in what we know. Over the past decade, far more research has focused on the performance of demand-side assistance than on the performance of the latest generation of supply-side strategies. Although individual case studies may document various strategies for combining funding sources and subsidy mechanisms to get affordable housing built, few studies rigorously assess the impact of these efforts on households or neighborhoods. As discussed earlier, this stems in part from the devolution of control over rental production. Programs that tie long-term federal operating subsidies to rental housing units have maintained detailed information about where these units are located, who lives in them, and how much the residents are contributing toward rent. This data makes it feasible to conduct extensive analysis on questions about affordability, diversity, family well-being, and neighborhood effects. State and local agencies that use federal tax credits or block grant funds to finance the development of rental housing are not required to maintain this kind of unit-level data. And, as HOPE VI replaces traditional public housing with mixed-income communities, data are only available for those units that continue to receive long-term operating subsidies. Thus, while devolution offers opportunities for locally crafted housing development strategies, it also creates new challenges for investigating the effectiveness of these strategies.

To fully assess the effectiveness of today's rental production programs, and to provide meaningful guidance to local policymakers, researchers will need to collect in-depth information on unit locations, costs, occupancy, and neighborhood conditions for developments in representative samples of markets. For example, a study of how rental housing developed under the HOME program is contributing to neighborhood diversity and revitalization would need information on the characteristics of residents and neighborhoods for HOME projects in different types of communities. This kind of data collection is costly and time-consuming, but without it, we can only determine how much rental housing has been produced, not how it contributes to the fundamental goals of housing policy.

III. Homeownership Assistance

For most of the past century, American housing policy has successfully promoted the "American dream" of homeownership. Mainly via significant tax preferences and government creation and facilitation of an advanced housing finance system, federal policy has helped the overall homeownership rate reach unprecedented levels in the United States. But even with this success, homeownership remains out of reach for many resource-constrained low-income families. Persistent gaps also remain between white and minority homeownership rates. Given the potential of homeownership to build wealth and strengthen communities, recent public policy emphasizes extending the reach of private mortgage markets to meet the needs of traditionally underserved low-income and minority households. This chapter reviews the history of programs promoting homeownership in this country and then evaluates their effectiveness in advancing our seven policy objectives.

A. Low-Income and Minority Homeownership Needs

Homeownership in the United States has grown significantly, from 47.8 percent in 1950 to an all-time high of 67.9 percent in 2002. Middle- and upper-income households account for the vast majority of this gain, as government programs and an increasingly sophisticated housing finance system extended access to homeownership more broadly to the American public. However, recent years have seen increases in lending to low-income and minority borrowers. For instance, Duda and Belsky (2002)[16] report that from 1993 to 1999, loans to high-income buyers increased by half (52 percent), while loans to low-income buyers nearly doubled (94 percent). Also, loans to white buyers increased 42 percent, while blacks and Hispanics saw gains of 98 percent and 125 percent, respectively.

This increased lending fueled significant gains in low-income and minority homeownership rates. While non-Hispanic white households' homeownership rates increased 4 percent from 1993 to 1999, black and Hispanic rates increased 11.2 percent and 15.5 percent, respectively. Obviously, a smaller percentage gain in non-Hispanic white homeownership results in a significantly higher absolute number gain, due to the larger base, but the relative rates of increase are still significant. While representing only 15 percent of 1993 homeowners, minorities accounted for 41 percent of the net growth in owners over the next five years. Minority, first-time buyers as a share of all new buyers increased from 19 percent in 1993 to 30 percent in 1999.

Even with these gains, significant gaps in homeownership rates remain across economic and racial lines. For example, families with incomes above the median had a homeownership rate of 83 percent in the fourth quarter of 2002, compared with a 52 percent homeownership rate for families earning below the median (U.S. Bureau of the Census 2003).[17]

[16] All figures in the rest of this paragraph and the next are from this study.
[17] The median reflects all families that reported income for the Census Bureau's quarterly survey on homeownership.

Racial and ethnic gaps also persist. The most recent census data ("Homeownership Data" on the U.S. Bureau of the Census's website) show the homeownership rate for non-Hispanic white households at 75 percent—more than one and one-half times the 47 percent rate of black households. Hispanics owned homes at about the same rate as blacks (48 percent). Little more than half of the nation's remaining minority populations of all races owned homes. Minorities' mortgage application rejection rates are still well above those of whites, despite their growing access to home financing. In 2001, minority applicants were denied far more frequently than whites, with blacks being denied twice as often as whites, and Hispanics being denied one and one-half times more often than non-Hispanic whites during that year (ACORN 2001).

Considerable research has been devoted to exploring why these gaps exist. Most obviously, the literature underscores the serious impediments that income constraints and wealth shortfalls pose to homeownership (Duda and Belsky 2002). Minorities tend to have lower incomes and less wealth than non-Hispanic white households (Oliver and Shapiro 1997). Income-constrained households may be unable to meet the monthly costs of owning a home (i.e., principal and interest repayments on the mortgage, property taxes, insurance, ongoing maintenance). Low-wealth households may lack funds to meet required down payment and closing costs. Of these two major constraints, the literature suggests that the lack of wealth has a more profound effect on a household's ability to move to homeownership (Pew Partnerships for Civic Change 2001; Rosenthal 2001).

Although many sophisticated research efforts[18] have sought to control for these differences, they still have been unable to completely explain the gaps between minority and white homeownership rates. Other barriers also play a role. Evidence from paired testing studies clearly indicates that discrimination by both real estate agents and mortgage lending institutions limits the information and options available to minority homebuyers (Turner and Skidmore 1999; Turner et al. 2002a; Turner et al. 2002b; Turner and Ross 2003). In addition, low-income households frequently face difficulties in demonstrating creditworthiness, due to factors such as a lack of participation in mainstream financial institutions and past credit problems. Lack of information may also hinder low- and moderate-income households' access to homeownership, since many low-income consumers may not know enough about the home-buying process to make informed decisions. And finally, some minority households struggle with language and/or cultural barriers that raise special complications. Lenders not only may have trouble understanding the language of potential immigrant clients, but they also may be unfamiliar with acceptable practices in a borrower's native country (Listokin and Listokin 2001).

A final barrier to low-income families' homeownership remains the limited supply of affordable housing in many regions and neighborhoods. Despite the many changes that have widened access to homeownership, these shortages seriously complicate lower-income households' efforts to buy homes (Collins, Crowe, and Carliner 2002).

[18] See, for instance, Courchane and Cobas (1995), and Browne et al. (1996).

B. Homeownership Programs in the United States

The promotion of homeownership in the United States has been a major policy concern since the Great Depression (Shlay 1993), and it has had a distinctive and persistent policy orientation. With a few notable exceptions, national homeownership policy in America has focused much more on making homeownership affordable than on creating new owner units. State and local housing policy has had more of a mixed focus, including production of new and rehabilitated units, promotion of affordable housing finance, and direct subsidy programs. The form and emphasis of subnational housing policy has typically been driven by federal programs such as the HOME Investment Partnerships program, Community Development Block Grants, the Low-Income Housing Tax Credit program, mortgage revenue bonds (MRBs) and certificates, public housing, and Section 8 rental assistance.

Some states and localities, however, have devoted significant direct resources[19] to homeownership via such mechanisms as the creation of affordable housing trust funds and matches for federal program dollars. In addition, state and/or local regulatory powers have been used to promote affordable homeownership. Land use planning, zoning, and building codes greatly affect the affordability of homeownership, and have often been used directly as a means of promoting affordable housing or as an indirect approach to restricting housing opportunity for low-income households (see Chapter 4). Finally, some jurisdictions combat housing discrimination either independently or as part of an overall human rights program.

This section examines the various approaches that have characterized government—mainly federal—homeownership policy. The supply- and demand-side typology we follow in the rental chapter has to be expanded for the purposes of considering the various tools to promote homeownership. The main supply and demand categories involve the provision of mortgage credit. Supply-side mortgage credit interventions (housing finance, regulation, and mortgage market innovations) facilitate the flow of mortgage credit in a systemic fashion, while the demand-side approaches (tax preferences and homeowner education and counseling) focus on reducing the individual borrower cost of mortgage credit and/or improving the odds that an individual can obtain mortgage credit. A third dimension, though, must be added to this typology: direct housing production, which expands the physical stock of homes available to targeted populations.

1. Housing finance.

Although the American housing finance system appears to be a triumph of private-sector innovation, the framework of current mortgage markets can be traced back to Depression-era legislation. Government policy built the foundation for our current mortgage market, mainly through two tools: creation of specialized housing finance circuits and insurance. In addition, the national government has used direct and guaranteed loans, often at subsidized interest rates, albeit at a much lower volume than the first two interventions.

[19] See Stegman (1999) for a good overview of state and local housing programs.

Federal legislation has created several "government-sponsored enterprises" (GSEs) whose main purpose is to create liquidity and lower the cost of capital for preferred investments: in this case, housing. GSEs are privately owned, publicly chartered companies that are limited to a specific set of activities in return for a range of benefits. They are typically exempt from various state and local taxes, have a line of emergency government credit, and may be exempt from federal registration requirements for various financial instruments. They are *not* directly subsidized or guaranteed by the federal government, but are typically highly rated in debt and equity markets because of a perception that they would not be allowed to fail (a so-called "implicit guarantee"). Because of their favorable market status, the GSEs' cost of funds is close to that of federal borrowing, resulting in a lower cost to mortgage borrowers. The perceived safety of the investment also attracts more capital than might normally go into the preferred investment (mortgages), increasing the supply and reducing the cost of capital, again reducing borrowing costs for homeowners.

Insurance is the second major federal tool used to promote the supply of affordable housing finance. It reduces the risk to lenders that borrowers might default on their mortgage obligations, and has also has been used to promote the aggregation of capital (i.e., savings deposits) that can then be used by lenders to make home mortgages. Government insurance stimulates mortgage lending activity by protecting the security of lenders' liens against the property securing the mortgage. These innovations have helped to create more affordable and accessible mortgage products and to increase availability of mortgage capital.

Finally, direct loans, often at subsidized rates, have been used to provide homeownership finance to typically low-income households. The volume of mortgage capital flowing from these interventions pales in comparison to the broader insurance and GSE production, but they are more targeted in their reach, and can assist households at much lower income levels.

Prior to the Great Depression, there was little federal involvement in the home mortgage finance system. Mortgage lenders were typically mutually owned building and loan societies and banks. Home mortgage loans took the form of short-term (usually three to five years), interest-only balloon loans that had to be refinanced or repaid in full at maturity. Generally, loans covered less than 50 percent of the property value, therefore requiring huge down payments. Given those terms, credit was scarce for many households, forcing a reliance on small building and loan societies. The community-based lending exemplified by George Bailey's building society in the movie *It's a Wonderful Life* was limited because lenders were unwilling to tie up their money by investing in long-term loans to home buyers.

With the economic disruption and attendant loss of jobs, a huge wave of foreclosures hit the country during the Great Depression, and the inability of private mortgage insurers to cover the huge resulting losses triggered federal intervention. The resulting changes—which essentially federalized the housing finance system—were designed to ensure safety and soundness and increase the availability of mortgage capital. Federal policy established safety and soundness requirements for financial institutions and created a specialized housing finance system with active federal government involvement. From this general description of the New Deal mortgage finance system—a system whose structure survives mostly intact today—we turn to some of the specific institutions created during that era.

The Federal Home Loan Bank Act (1932) established a system of Federal Home Loan Banks (FHLB). The system was initially capitalized by federal funds, and members of the system included savings and loans and, to a lesser extent, mutual savings banks and insurance companies. The system provided guidance, standards, and supervision of member institutions. The Home Owners' Loan Act of 1933 authorized the FHLB governing board to provide for regulation of savings and loan institutions. Savings and loans were virtually confined to making first mortgage loans within a 50-mile radius of their home offices, but in return were given preferential tax treatment.

The FHLB system still exists today as a GSE, and provides an important specialized housing finance circuit that attracts capital into the mortgage market. Many of the restrictions previously placed on member institutions have been liberalized, but the FHLB system still provides an important source of liquidity and cheaper finance to the mortgage market. As a result of requirements in the savings and loan bailout legislation in 1989, the FHLB system now also provides a limited amount of specially targeted grants and concessionary financing to support affordable housing and community development.

The National Housing Act of 1934 established the Federal Housing Administration (FHA), which provides insurance for home mortgage loans made by private lenders. FHA's overwhelming contribution to homeownership is its basic mortgage insurance program, which encouraged broader use by lenders of what is now a fixture of the current American mortgage market: long-term, low down payment, self-amortizing loans (Struyk, Turner, and Ueno 1988).

The initial FHA insured mortgage product also helped to liberalize down payment requirements by permitting higher loan-to-value ratios. FHA mortgage insurance was responsible for expanding homeownership in the United States far beyond the ability of previous market instruments (Struyk, Turner, and Ueno 1988). Since 1934, the FHA and, later, the U.S. Department of Housing and Urban Development (HUD; FHA was consolidated into HUD's Office of Housing in 1965) have insured almost 30 million home mortgages and 38,000 mortgages for multifamily housing projects representing 4.1 million apartments ("About Housing" on HUD's website).

In 1938, Congress created a government corporation that would later evolve into another GSE—the Federal National Mortgage Association (now Fannie Mae)—to purchase FHA loans on the secondary market. Originally part of the FHA, Fannie Mae was authorized to buy FHA-insured loans to provide a stronger market for this new type of loan because, even with insurance, many financial institutions were reluctant to tie up their money by making and holding such loans over such a long period. Over the years, Fannie Mae's role was expanded to include buying mortgages from other government programs as well as conventional mortgages worth more than traditional government loan limits, reaching out to a broader cross-section of Americans.

In 1968, Fannie Mae was split into two separate entities: one that retained the original name and became a private entity, and the Government National Mortgage Association (Ginnie Mae), which remained in the government. Ginnie Mae is restricted to buying FHA- and Veterans Administration (VA)–backed loans. Fannie Mae's traditional customer base was the mortgage banking industry. The Federal Home Loan Mortgage Corporation (now Freddie Mac), established by Congress in 1970, was created to serve the savings and loan industry. As a result of the GSE modernization bill (Federal Housing Enterprises Financial Safety and Soundness Act of 1992), Freddie Mac has essentially achieved parity in form with Fannie Mae, and now generally competes with Fannie Mae for a broader customer base. Together, these GSEs have created a continuous flow of funds to mortgage lenders by purchasing mortgages that may be held in their portfolios or sold to investors as mortgage-backed securities. Increased funding of the mortgage market, combined with the reduced GSE borrowing costs, ultimately reduces the interest rate for mortgage borrowers (although the exact extent of the consumer benefit is subject to debate).

Fannie Mae and Freddie Mac's charters have always mandated a general priority for them to serve low- and moderate-income families. In the 1992 GSE modernization bill, however, Congress challenged Fannie Mae and Freddie Mac with more specific goals for meeting the credit needs of what were termed traditionally underserved populations and communities (Bunce 2002). The legislation established explicit goals, to be calibrated by HUD, for GSE service to underserved areas and households. These objectives include a low- and moderate-income goal, which targets borrowers with less than median income; the "special affordable" goal, targeting very low-income borrowers and low-income borrowers living in low-income census tracts; and geographically defined goals, targeting low-income and high-minority census tracts (Bunce 2002).

The legislation also severed HUD's general regulatory authority over Fannie Mae and Freddie Mac, granting HUD authority to set and evaluate compliance with affordable housing goals and transferring safety and soundness regulation to the newly created Office of Federal Housing Enterprise Oversight. By imposing more specific, transparent affordable housing goals, Congress felt that Fannie Mae and Freddie Mac would have very strong incentives to improve their products and business practices to meet the mortgage credit needs of more low-income households and minority/low-income neighborhoods (Bunce 2002).

The Department of Agriculture's Rural Housing Service (RHS)[20] is a good example of federal housing policy promoting homeownership through direct loans and guarantees. Created by the Housing Act of 1949, the Section 502 Rural Homeownership Direct Loan Program provides direct loans to rural homeowners seeking to purchase homes or refinance existing mortgages. In 2001, there were 547,622 loans outstanding, and approximately 15,000 new direct loans have been made annually in recent years. The Housing Act of 1949 also created the Section 502 Guaranteed Rural Housing Loan Program. Through this program, a commercial lender makes an approved loan to an eligible borrower and RHS guarantees repayment to the lender in the event that the borrower defaults. There were 215,708 units insured under this program as of April 2001. The VA also

[20] Formerly the Farmers Home Administration.

provides mortgage loan guarantees, a benefit originally created in 1944 through the GI Bill for returning World War II veterans. From 1944 through 1996, VA guaranteed 15.3 million loans.

As a final example of subsidized lending, state and local governments sell tax-exempt housing bonds, commonly known as mortgage revenue bonds (MRBs), and use the proceeds to finance low-cost mortgages for lower-income first-time home buyers (as well as affordable rental units). Investors purchase MRBs at low interest rates because the bonds produce tax-free income. State housing finance agencies then pass through the savings from reduced borrowing costs to private lenders, who then lend to first-home purchasers at reduced interest rates. Congress caps the amount of tax-exempt bonds each state can issue each year based on a formula reflecting each state's population. MRBs have made first-time homeownership possible for nearly 2.3 million lower-income families—approximately 100,000 every year. A complementary program, authorized by the 1984 Tax Reform Act, is the mortgage credit certificate program. This program makes more direct assistance to eligible borrowers through a tax credit that directly reduces tax liability, dollar-for-dollar.

2. Regulation.

The federal government regulates[21] financial institutions to increase the availability and affordability of homeownership to lower-income and minority borrowers and communities. Tools discussed can be considered supply-side interventions facilitating the flow of mortgage credit. Federal regulations use a variety of techniques, including goals, data collection and reporting, enforcement, and incentives.

Virtually all these techniques target increased lending or housing opportunity for specific populations and/or geographic areas. Goals may be stated generally, identifying the desired behavior, or specifically, setting specific numeric or percentage of business benchmarks. Typically, these goals are set for individual firms, and then a regulator conducts *ex post facto* reviews to evaluate performance. Collecting and reporting data is also used as a regulatory tool, creating opportunities for public attention to and evaluation of industry and/or individual institutional performance. Enforcement is used to sanction firms that violate the law, and may be triggered by such techniques as paired testing to detect illegal discriminatory treatment. Finally, incentives are used to encourage institutions to voluntarily engage in desired behavior.

The most significant regulatory efforts to expand homeownership have centered on influencing private mortgage market institutions by creating goals for their performance in meeting the credit needs of low-income minority households.[22] Intended to prevent and reverse the effects of

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[21] In the context of this discussion, the term "regulation" does not refer to specific executive branch rule-making implementing and enforcing legislation. Rather, it refers more broadly to the use of public power, through the enactment and implementation of public policy, to influence and change private behavior, with a goal of producing more desirable outcomes.

[22] Two examples of the use of goals to promote homeownership opportunity have already been discussed: Fannie Mae and Freddie Mac have various goals to promote minority and low-income homeownership, expressed as percentages of business to be devoted to traditionally underserved populations. In addition, the FHLB system is required to devote a percentage of its revenues to a number of special programs designed to

decades of redlining—the practice of not lending to particular geographic areas based on racial composition—and urban disinvestment, the Community Reinvestment Act (CRA), enacted in 1977, required federally insured depository institutions to meet the credit needs of the communities in which they are chartered, including low- and moderate-income neighborhoods.

In return for extensive federal backing and support (i.e., deposit insurance, Federal Reserve Board backing, etc.), CRA established three requirements. The law reaffirmed the responsibility to meet community credit needs, directed regulators (Federal Deposit Insurance Corporation, Federal Reserve Board, Office of Thrift Supervision [formerly part of the Federal Home Loan Bank Board], and the Office of the Comptroller of the Currency) to examine and rate the institutions' performance, and permitted regulators to sanction institutions with weak records. Most lenders' activities in response to CRA fall into one of two categories—increased lender outreach to qualified borrowers, and the modification of their underwriting guidelines to reach those who don't qualify under traditional criteria (Avery, Bostic, and Canner 2000). It was hoped that requiring depository institutions to provide more lending opportunities in their communities would provide a powerful revitalization tool for inner cities (Haag 2000).

The prime example of encouraging homeownership by data collection and reporting, the Home Mortgage Disclosure Act (HMDA), preceded CRA by two years. Congress enacted HMDA in 1975, responding to concerns that some depository institutions were not making mortgage loans to qualified borrowers on reasonable terms and conditions, therefore contributing to the decline of many urban neighborhoods. While originally applicable only to depository institutions and their direct subsidiaries, the scope of HMDA coverage has expanded over the years to include most mortgage lending institutions, including savings and loans, independent mortgage banking companies, and mortgage banking subsidiaries of commercial bank holding companies. Today, HMDA reporting captures most mortgage market transactions.

Originally, HMDA sought to illuminate disparate geographic lending patterns of financial institutions so that the public could choose where to save their money and to help public officials direct public resources to underinvested areas. Thus, HMDA reporting was originally confined to identifying the areas where reporting institutions were making their loans. In response to concerns about discrimination, Congress amended HMDA in 1989. The amendments substantially expanded reporting requirements to include the race/ethnicity, gender, and income of applicants for mortgage credit. In addition, Congress required that applications not resulting in the extension of credit, including reasons for denial, be reported, as well as the secondary market disposition of loans made or bought and sold in the same year. In response to concerns about abusive lending practices, most notably in the cost of loans, the Federal Reserve Board is implementing changes to HMDA reporting to require inclusion of loan pricing information.

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promote affordable housing and community development. These programs were discussed above in more detail, and are therefore not addressed in this section.

HMDA data make possible virtually all of the studies and reports that examine lending patterns by race/ethnicity, gender, and income. Research over the years has repeatedly uncovered disparities in loan denials by race/ethnicity and income, even controlling for the basic economic variables collected by HMDA. HMDA has focused the public spotlight on fair lending issues raised by persistent loan denial rate disparities.

The Fair Housing Act, contained in the Civil Rights Act of 1968, prohibits discrimination in the sale, financing, or rental of housing because of race, color, religion, sex, or national origin.[23] Under the act, as modified in 1988, individuals who believe they have been discriminated against can pursue specified administrative and judicial remedies.

Despite legal protections, the federal government's role in fair housing enforcement has been limited (Kushner 1992). Overall, funding for federal fair housing efforts has been inadequate to mount an aggressive assault on housing discrimination. Critics have charged that HUD's fair housing operation is essentially a stepchild in the department, and various administrations' priorities have not permitted a consistent long-term enforcement approach to be developed. Private fair housing groups have typically brought the most significant litigation.

3. Mortgage market innovation.

Mortgage market innovation by nongovernmental players also has opened many opportunities, although it is difficult to distinguish changes that are entirely private from those that evolved in response to public policies. Because these innovations tend to be systemic to the housing finance industry, they can be grouped under the general category of supply-side approaches to providing mortgage credit.

The most important market innovation that expanded both the availability and affordability of mortgage capital is, without question, the advent of securitization.[24] In the 1970s and early 1980s, the housing finance market experienced several financial shocks, including extraordinarily high interest rates. The mortgage markets were dominated by thrift institutions that borrowed short term via customer deposits and lent long term via mortgage loans. The high interest rates necessary to attract customer deposits outstripped the returns thrifts could realize from mortgage lending, leading to structural imbalances that often produced capital shortages for mortgage lending.

The Report of the President's Commission on Housing (1982) recognized and addressed this issue by recommending a series of measures to better connect mortgage markets to capital markets, seeding the growth of a fledgling secondary market in mortgage-backed securities. The previous housing finance system was primarily funded by customer deposits to thrifts that then made mortgage loans to borrowers, holding the loans in portfolio and making profit on the difference

[23] 1988 amendments extended the original coverage of the Fair Housing Act to protect the disabled and families with children.
[24] The discussion on securitization draws on Kent Colton's 2003 analysis of what he calls the "second revolution" in American mortgage markets.

between the cost of funds (i.e., interest paid on deposits) and the revenue from interest paid on mortgages. The President's Commission envisioned a radical expansion of a limited market in mortgage-backed securities, through which pools of mortgages with similar characteristics could be packaged and sold as securities, reaching a wider market of investors. This wider investor base would result in greater availability and continuity in the capital supply for mortgages, ensuring lower interest rates and a continuous supply of capital. Congress enacted much of the program recommended by the President's Commission in the Secondary Mortgage Market Enhancement Act of 1984.

Based on these changes, the American housing finance system has evolved to a point where the availability of mortgage capital is no longer a concern. The evolution and maturation of a robust secondary market helped to stimulate record homeownership rates, allowed record levels of mortgage originations to continue despite problems in global financial markets, and led to the dominance of GSEs—Fannie Mae and Freddie Mac—in the mortgage market.

In addition to issuing securities, GSEs, as part of their housing mission, have created new debt strategies to attract more mortgage capital. An important part of integrating global capital markets with the mortgage markets is the ability to provide investors convenient mechanisms for buying and selling the debt securities that finance housing. To help meet investors' needs, Fannie Mae and Freddie Mac have pioneered innovative debt securities, as well as creative new ways to market, manage, and create exchanges for their debt.

These innovations have increased both the flow and affordability of mortgage credit. Innovations in mortgage products have also extended the availability of finance to low-income households. FHA's contribution to the use and acceptance of the 30-year, fixed-rate, self-amortizing mortgage is the gold standard example. Although product innovation has led to the creation of many alternative mortgages, such as adjustable rate and 15-year mortgages, the most compelling advance that has benefited first-time and low-income home buyers has been the widespread availability of low down payment mortgages.

Typically, mortgage lenders view mortgages with loan-to-value (LTV) ratios of less than 80 percent to be safe investments because the borrower's equity is considered to be a powerful predictor of whether or not they will default on their mortgage. Due to the greater risk of loans with LTVs higher than 80 percent, the GSEs' charters actually require that they manage that risk differently than with lower LTV loans. From this requirement, a private mortgage insurance (PMI) industry has evolved that, for a fee, insures the lender for the loan amount above 80 percent LTV. More recently, the GSEs have developed the capacity to more accurately predict the additional risk of loans above 80 percent LTV, and thus can price their business to account for that risk.

Both of these developments, in turn, have led to the massive expansion of the market for so-called high-LTV loans. Essentially, the down payment barrier, shown earlier to be one of the biggest constraints to homeownership for low- and moderate-income households, has been all but eliminated for the price of either PMI or slightly higher interest rates (Rosenthal 2001). Although low-income households long faced problems saving enough to put 20 percent down, a down payment of 3 to 10 percent makes homeownership far more attainable. Of course, loans must be paid back, and higher-LTV loans mean higher mortgage payments, particularly with PMI payments or higher interest rates charged for increased default risks associated with high-LTV loans.

Two other market innovations also merit attention: technology and risk-based pricing. The massive quantities of data on mortgage payment behavior that have been collected as part of the mortgage business have led to increased ability to better predict payment behavior and default risk. Combined with advances in technology, this increased knowledge has been employed to automate underwriting processes. Most notably used by Fannie Mae and Freddie Mac (although other major mortgage finance institutions have also developed systems reflecting their own underwriting criteria), automated underwriting systems now dominate the origination business.

This increased understanding of consumer mortgage payment behavior has led to more sophisticated and refined underwriting criteria that are codified in software systems reflecting investor guidelines about what mortgages to make. This new generation of underwriting criteria, driven by knowledge and regulatory pressures to liberalize underwriting criteria, has arguably reached low-income borrowers who would have previously been denied mortgage credit (Gates, Perry, and Zorn 2002). In addition, automation has removed human bias—direct and indirect—from the system, which many have argued is a significant source of disparate treatment of minorities.

This combined advance of automation and application of more refined knowledge of consumer payment behavior is beginning to be applied in the servicing arena, also. Systems have been developed that allow servicers to more quickly identify and contact delinquent borrowers who are serious default risks, offering workout solutions tailored to their individual circumstances. This development is particularly critical to low-income borrowers, who may be more vulnerable to default due to more highly leveraged home loans and precarious incomes.

A final market innovation that holds promise—but also poses risks—is risk-based pricing of loans. The American mortgage market has typically had a threshold for borrowers—either an applicant qualified for a prime loan, typically meeting the GSEs' underwriting criteria, or not, and had few other options. Those other options typically involved subprime lenders that could charge significantly higher interest rates to compensate for the increased risk and because of lack of market competition. In recent years, particularly as national homeownership rates have increased to record levels, the prime market has almost reached saturation levels, making the market for subprime loans more attractive for mortgage lenders.

Unfortunately, this relatively undeveloped market has attracted players who engage in predatory practices designed to strip equity from homes. Many engage in blatantly illegal practices, but in addition, practices such as balloon payments, higher interest rates, and prepayment penalties—loan terms that are not, by definition, bad and, in fact, could be used beneficially—are combined and packaged in ways that take advantage of unwary borrowers.

4. Tax preferences.

Tax code–related subsidies have provided major support for homeownership for nearly a century. These subsidies can be considered as a demand-side intervention for mortgage credit, reducing the cost of credit for individual borrowers. These include the mortgage interest and property tax deductions, capital gains exclusions, and the exclusion of imputed rental income. The notion that American housing policy—principally expressed in the form of tax preferences—is skewed toward homeownership has become an accepted article of faith. Interestingly, these preferences were not originally enacted specifically to promote homeownership.[25] Rather, their purpose and political dominance evolved through the growing influence of the industries surrounding homeownership, the increasing dominance of homeownership as the "tenure of choice" for most Americans, and increasing house prices.

Federal tax preferences supporting homeownership come principally in three forms: deductions, deferrals, and exclusions. Tax deductions permit taxpayers to deduct certain expenses from their taxable income, thus reducing the amount of income subject to taxation. Tax deferrals permit normally taxable income to be sheltered from taxation until some future point in time. Tax exclusions eliminate normally taxable income from taxation.

The mortgage interest deduction (MID) is a federal tax deduction for interest paid on a mortgage used to buy, build, or renovate a residence. Typically, the MID is considered the major tax preference supporting homeownership, representing projected 2002 tax expenditures[26] of $69.9 billion under current law (Joint Committee on Taxation [JCT] 2002). When a federal income tax was first enacted in 1913, the legislation permitted taxpayers to deduct consumer interest, with no special provision or distinction for mortgage interest. The 1986 Tax Reform Act (TRA), in fact, was the first major codification of this evolving distinction of types of interest, enshrining the primacy of mortgage interest over other forms of consumer debt by preserving the MID and eliminating other consumer interest expense deductions.

The federal property tax preference is the second costliest homeownership preference measured by the JCT, costing a projected loss of $22.1 billion in 2003 federal tax revenue (JCT 2002). As was the case with mortgage interest, state and local property taxes did not enjoy any special status or distinction from other state and local taxes and their deductibility for federal income tax purposes. In response to the same influences that maintained the MID, the 1986 TRA preserved the deductibility of property tax expenses for homeowners while striking the deductibility of various other state and local taxes.

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[25] This discussion of the origins of homeownership tax preferences draws heavily on Carliner (1998) and his excellent analysis of the origins and purposes of homeownership tax provisions.

[26] "Tax expenditures" are defined under the Congressional Budget and Impoundment Control Act of 1974 as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."

The third major homeownership tax preference protects capital gains realized from selling a home. If a homeowner sells their house for a price, adjusted for improvements and sales transaction costs, more than the original price paid, they realize a capital gain. While tax rates can vary over time and type of capital gains, this income is normally taxable. The Taxpayer Relief Act of 1997 allowed taxpayers of any age to exclude $500,000 of capital gains if filing jointly (or $250,000 otherwise) on the sale of a home an unlimited number of times, as long as the home was used as a principal residence for two of the past five years.

The final major homeownership tax preference is not widely recognized as a benefit: the exclusion of imputed rental income. Homeowners receive two forms of benefit from their equity investment in their home: capital gains from house price appreciation and housing services from the shelter provided by the home. While homeowners live rent-free, they are, in fact, simultaneously owners and "renters." As their own "landlords," homeowners receive "rent" in the form of the market value of the shelter provided by their home. In essence, economists argue that homeowners engage in a barter transaction with themselves, accepting these housing services in lieu of "dividends" on their equity investment. The value of this benefit is termed imputed rental income, and is excluded from taxation. Estimates place the cost of imputed rent at about $140 billion (Green and Reschovsky 2001).

Although the general trend in federal tax policy has been to liberalize benefits for homeowners, the value of the deductions and exclusions are indirectly affected by changes in marginal tax rates. For instance, marginal tax rate reductions enacted in TRA 1986 and more recent legislation indirectly reduced the value of homeownership tax preferences by making these deductions less valuable. Another TRA 1986 reform effectively precluded many lower-income households from using various homeownership preferences, notably the MID and the property tax deduction. In an effort to simplify tax preparation, this legislation raised the standard deduction. Many low-income households' deductions do not exceed the standard deduction, so they do not itemize and thus cannot take advantage of deductions such as the MID.

5. Homeowner education and counseling.

Buying a home and securing a mortgage are among the biggest financial transactions that most Americans make in their lifetime. Ranging from basic educational materials to pre- and postpurchase counseling and foreclosure prevention, homeowner education and counseling (HEC) has emerged as a widely used type of homeownership assistance that can be provided as a stand-alone offering or as a prerequisite to affordable financing. Counseling benefits lenders in two ways. First, it helps qualify potential homeowners, since it is usually a prerequisite for affordable financing and mortgages. Second, HEC provides a way for lenders to connect to communities, thereby meeting some CRA requirements, through partnerships with community-based organizations and nonprofits that run HEC programs.

Less widespread than other types of HEC are efforts to sustain homeownership through foreclosure prevention. These efforts have become increasingly important, as homeownership has been promoted more and more among populations that traditionally have not owned homes. In fact, as the number of defaults has increased in the past couple of years (Leonhardt 2001), more programs are looking to establish ongoing post-purchase counseling to try to forestall defaults and foreclosures before a problem arises (Elugardo and Klein 1998). Mortgage foreclosure prevention is emerging as a new component of HEC, and lenders are doing more now than they have in the past to provide solutions for borrowers who may be in jeopardy of defaulting on their loans.

6. Housing production.

Supply-side interventions for homeownership have predominantly focused on increasing the supply of affordable housing finance. The federal government, however, has promoted homeownership through direct subsidies that localities and nonprofits use to expand the stock of affordable housing by physically building and rehabilitating homeownership units. The two main funding vehicles are the Community Development Block Grant (CDBG) and HOME programs. Of the six approaches discussed, housing production is the only supply-side intervention that actually seeks to expand and preserve the physical housing stock.

The Housing and Community Development Act of 1974 created the CDBG program, combining many of the New Frontier and War on Poverty single-purpose grant programs created in the 1960s into one block grant to states and localities to fund economic and community development programs. There are many eligible uses for CDBG funding, and decisions on how to distribute that funding are made by local governments. An overarching rule is that at least 70 percent of funds must be used for people with low or moderate incomes. The program has been split into parts for entitlement cities—larger jurisdictions that receive annual funding based on a formula—and small cities, for which grants originally were awarded directly from HUD and now are funneled through states.

The HOME program, established in 1990, provides formula grants to states and localities. Communities use them—often in partnership with local nonprofit groups—to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people. Participating jurisdictions may use HOME funds for a broad range of eligible activities: to provide home purchase or rehabilitation financing assistance to eligible homeowners and new home buyers; to build or rehabilitate housing for rent or ownership; or for "other reasonable and necessary expenses related to the development of non-luxury housing," including site acquisition or improvement, demolition of dilapidated housing to make way for HOME-assisted development, and payment of relocation expenses ("HOME Quick Facts" on HUD's website). HOME has funded creation, rehabilitation, or purchase of 627,000 units of housing.

B. The Performance of Homeownership Programs

How well do efforts to promote homeownership conform to the seven objectives of a housing policy that supports families and communities? A review of the literature on low- and moderate-income and minority household homeownership reveals that programs to expand homeownership among underserved groups advance the seven-policy agenda to varying degrees. Literature evaluated has come from a variety of sources, including government agencies as well as academic and research institutions. The literature includes program evaluations, policy papers, and original research.

In general, research in this area examines specific demand-side mortgage credit programs geared toward targeted populations. Many demand- and most supply-side mortgage credit interventions tend to be more broadly targeted, benefiting a wider range of households. Research on these categories has therefore generally tended to focus on system wide effects, with some emphasis on distributional effects across income, race, and ethnicity. Research on supply-side housing production programs is scarce, reflecting the limited scope of these efforts. This literature typically focuses on basic benchmarking, such as simply identifying how many homeownership units were produced under the umbrella of broader block grants.

1. Preserve and expand the supply of good-quality housing units.

The creation of affordable new homes and the rehabilitation of existing owner-occupied units have not been the primary focus of homeownership policy in the United States, nor has it been a major research issue. This makes it difficult to accurately assess the impact of efforts to promote homeownership on the overall supply of affordable housing units (Collins, Crowe, and Carliner 2002). A general discussion of the evidence reveals, however, that demand substantially outpaces supply, and that homeownership assistance programs contribute only modestly to the preservation and expansion of quality housing unit supply.

Evidence suggests that the supply of affordable owner units is not keeping pace with demand. A study of 17 metro areas showed that more than 200,000 working families[27] could afford a home priced between $50,000 and $75,000, yet only 30,000 homes were available in that range (Stegman, Quercia, and McCarthy 2000).

Collins, Crowe, and Carliner (2002) note three ways homeownership units can be added to the affordable housing stock, finding that none substantially increase the numbers of homes available for purchase. Building new units is the most direct way to increase the supply of dwellings available for purchase. However, just over 500,000 new affordable owner units[28]—30 percent of new units in the period—were added to the housing stock between 1997 and 1999. More than two-thirds of these units were mobile homes. Affordable homes can also enter the market through the filtering down of higher priced units as they lose value due to age and other factors. However, more units filtered up than down between 1997 and 1999: For every one unit decreasing in price, 1.4 units experienced a price increase. Finally, units can be converted from rentals to ownership. During this

[27] Working families, in this study, were defined as earning between $10,700 a year and 120 percent of the local area's median income.
[28] Defined as units that would be affordable to a household earning 80 percent or less of the area median income.

time frame, 1.4 million rental units were converted to ownership units, and 1.25 million ownership units were converted to rental, for a net gain of just 153,000 owner units.

Against this backdrop of a market shortage of affordable homes, the HOME and CDBG programs have supported a limited level of construction and rehabilitation of homes. However, at least one program evaluation suggests that more of these federal funds have gone to programs that finance rental housing and assistance programs, despite the recent push to increase homeownership. One review of the HOME program revealed that between 1992 and 1995 the percentage of state HOME funds used for the acquisition, construction, or rehabilitation of rental units increased from 49 percent to 57 percent (Urban Institute 1998). Meanwhile, programs producing new owner-occupied units saw their share of the funds decrease by half, from 33 percent to 16 percent. The share of the money allocated toward home-buyer assistance programs increased from 13 percent to 23.3 percent—but across the whole program, the money dedicated to producing or rehabilitating new units and fostering homeownership decreased from 43 percent in 1992 to 39 percent in 1995.

Since 1974, about 28 percent of CDBG funds has gone to housing, both rental and homeownership, with 35 percent of fiscal year 2001 funding being used for this purpose (Millennial Housing Commission 2002). These funds supported 172,445 housing units, of which 3,878 units were newly constructed, 11,812 were sold to first-time home buyers, and 156,755 were rehabilitated units (Richardson 2002).

Policies and programs promoting easier, cheaper, and more consistently available mortgage credit certainly provide indirect support for new building construction. Whether this resulting enhanced demand preserves or expands affordable homeownership opportunities is unclear. On one hand, more affordable credit can redefine what house price is affordable. If a family's borrowing costs are cheaper, they can afford to buy a more expensive house, all other things equal. Increasing demand by providing cheaper credit, however, can exert upward pressure on house prices, pushing them beyond an affordable range for many families. With many other factors influencing house prices and incomes, both of which help define homeownership affordability, discerning the impact of supply- and demand-side mortgage credit programs on this goal is difficult.

2. Make housing more affordable and more readily available.

The literature confirms that making mortgage credit more affordable and available generally has been effective in expanding access to homeownership. A review of these mortgage credit approaches suggests that entitlements, particularly tax preferences available to broad swaths of American homeowners—while more politically sustainable—may not fit the realities facing low-income households. More narrowly tailored approaches, such as goals specifically geared to target populations, appear more effective in promoting affordability and availability of mortgage credit to these groups.

Duda and Belsky (2002) concluded that regulatory oversight (such as increased enforcement of both CRA and HMDA), increased GSE lending goals, and FHA mortgage insurance have all played a major role in increasing low-income homeownership. Duda and Belsky note that the homeownership gains seen in recent years by these households cannot be explained by socioeconomic and demographic changes alone.

During consideration in Congress of a major financial modernization bill, extensive, often-acrimonious debate occurred on the effectiveness of CRA. While many argued that CRA was not cost-effective, research has suggested that CRA requirements have changed the behavior of covered lenders. For instance, research conducted by the Harvard Joint Center for Housing Studies found that CRA-regulated lenders had higher market shares of home purchase lending to low-income and minority households in their communities than noncovered and out-of-area institutions (Apgar and Duda 2002). In addition, CRA performance has been raised in the public hearing process required for regulatory approval of bank expansions. Although an accurate estimate of impact is difficult, a representative of community groups that use this public process to leverage commitments from covered financial institutions estimates that this process has produced in excess of $1 trillion in lending commitments from 1977 to 2000 (National Community Reinvestment Coalition 2002) Finally, a review of CRA literature on its spatial and population impact (Haag 2000) found that various amendments to the CRA seem to have increased both the number of loans made to low- and moderate-income and minority households and the lending activity in low- to moderate-income census tracts.[29]

When CRA was passed, banks and thrifts were the major source of mortgage loans, and relied heavily on their community deposit base to aggregate capital for mortgage lending. Over time, with the relaxation of geographic restrictions on interstate banking and the consolidation of the financial services industry, CRA has covered a progressively smaller base of mortgage lending activity. For instance, in 2000, less than one-third (29.5 percent) of all home purchase loans were made under the regulatory regime of CRA, down from 36.1 percent in 1993 (Apgar and Duda 2002). Given the relative success of CRA, there are now many calls to modernize the CRA system to keep pace with the massive changes in the structure of the financial services industry.

The creation of the FHA and the establishment of new goals for the GSEs have also been found to have expanded homeownership (HUD 2000a; Bostic and Surrette 2000; Duda and Belsky 2002), though there is evidence that the GSEs trail conventional lenders when it comes to funding affordable loans (Bunce 2002).[30] Bunce also found that although the FHA represented a relatively small share of the total market—insuring between 19 and 20 percent of all home loans in 2000—nearly 38 percent of its insurance covered loans to black and Hispanic households, and nearly 49

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[29] However, the literature also shows that increases in mortgage lending to minorities has occurred among lenders not subject to CRA requirements (Bostic and Surrette 2000), which suggests that these increases may have been driven at least partly by market forces and a favorable financial climate.

[30] Both Fannie Mae and Freddie Mac dispute these findings and note that they have conducted similar analyses, which show that they match or exceed the conventional market. See Fannie Mae (2000) and Freddie Mac (2000) for the GSEs' response to HUD's findings. HUD's position can be found in HUD (2000b) and Bunce (2000; 2002).

percent supported low-income borrowers. HUD's 2000 study examining FHA's performance found that in 1999, half of all FHA borrowers had low incomes and more than a third were minorities (HUD 2000a). Home buyers in underserved neighborhoods, moreover, received over 42 percent of FHA loans, compared with just 26 percent of conventional loans and 21 percent of GSE loans. Listokin et al. (2001) found that FHA loans were the "most potent mortgage products offered" and reported that black and Hispanic renters saw their absolute home-buying capacity nearly quadruple and triple, respectively, when they obtained more liberal loan products, including FHA loans.

Questions remain, however, about whether FHA loans actually expand homeownership or just accelerate renters' move to it. Goodman and Nichols (1997), for example, suggest that the main impact of FHA programs is merely to accelerate homeownership by helping households that would have eventually qualified for homeownership achieve it sooner. At the same time, these authors agree that that FHA initiatives increase the amount of housing that can be purchased by households and reduce the total cost of owning a given house (at least for some borrowers).

Mortgage market innovation has clearly expanded access to mortgage credit for low-income households. Literature on affordable lending products presents a case study on the market's success, while highlighting remaining challenges. Research suggests that product innovation—principally underwriting liberalization—has expanded both home-buying capacity (i.e., access to mortgage credit sufficient to buy a target-priced home) and renter affordability by a factor of two, compared with pre-1990 mortgage products (Listokin et al. 2001). Despite these gains, this analysis suggests that even the most aggressively liberalized mortgage products still do not reach four-fifths of the renter population. Research analyzing the impact of remaining down payment barriers (Rosenthal 2001) suggests that product liberalization to reach low-income households has reached practical limits. Both these findings illuminate the low incomes and negligible wealth of most renters, highlighting the fact that, absent income and wealth-creating strategies, homeownership is not for everyone.

Technological advancements have also expanded affordable lending by increasing the efficiency of mortgage origination and servicing, thus lowering the cost of credit. Innovations such as automated underwriting and servicing have been found to increase the number of eligible borrowers (Gates, Perry, and Zorn 2002). Automation has also removed human bias from the application of underwriting criteria, which critics long argued produced intentionally and unintentionally biased results.

Yet technological progress does not come without limitations. Large parts of the mortgage market can be handled through automated underwriting, which relies heavily on credit scores. Thus, the automation is premised on a borrower building a credit history and other characteristics that are readily available electronically. Bostic and Surrette (2000) note that this automation can place credit-constrained households at a disadvantage. Nontraditional borrowers may not fully participate in the mainstream economy, and as a result may have blemished, incomplete, or nonexistent credit histories. Although liberalized underwriting criteria may still permit mortgage credit to be extended, these loans may require manual processing to supplement the initial automated underwriting.

Because automated underwriting has drastically reduced origination costs in a very competitive, thin-margin business, the cost structure of the process is biased against more difficult-to-underwrite loans, even if the prospective borrowers ultimately are creditworthy.

Homeownership education and counseling efforts receive more mixed reviews in the literature than pro-homeownership policies—even though the HEC industry has grown tremendously and is seldom criticized. Nevertheless, until recently, little evidence indicated that HEC helps to reduce the number of foreclosures and defaults (Mallach 2001; McCarthy and Quercia 2000). These programs do, however, increase borrowers' creditworthiness and mortgage readiness, and often help to match home buyers with lenders. These outcomes alone, which can help borrowers qualify for a mortgage and a better interest rate, make HEC valuable to achieving the goal of making existing housing more affordable and available.[31] More recent research (Hirad and Zorn 2002) has suggested that, in fact, the right kind of counseling and education can reduce delinquencies and default rates. Armed with this knowledge, underwriting criteria can be adjusted to qualify more borrowers who normally might not be extended credit.

Additional questions revolve around the certification standards for HEC programs, HEC curriculum, the financing of HEC activities, and most fundamentally, what programs are effective. Hirad and Zorn focused entirely on the effectiveness of prepurchase counseling.[32] While they found that this counseling can significantly reduce delinquency rates, not all counseling programs proved equally successful. Borrowers who receive individual counseling had a one-third reduction in delinquency rates, while borrowers receiving classroom and home study had 26 percent and 21 percent decreases, respectively. Telephone counseling was found to have no statistically significant effect on 90-day delinquency rates.

The biggest demand-side mortgage credit intervention—tax preferences—do not work as well for low-income homeowners. Though highly beneficial to higher-income segments of the owning population, tax preferences and programs have done less to promote homeownership among low-income homeowners than financial policy and market changes (Green 1997). Several studies indicate that the mortgage interest deduction and nontaxation of imputed rent have done little to improve homeownership rates among lower-income households because these households see few of the intended benefits (Green 1997; Case and Marynchenco 2002; Collins, Belsky, and Retsinas 1999; McCarthy, Van Zandt, and Rohe 2001).

As was noted previously, most lower-income taxpayers do not itemize their deductions—a prerequisite for tax-related homeownership benefits—because it makes more sense for them to take the standard deduction (Bourassa and Grigsby 2000).[33] The ability of tax preferences to make

[31] The true impact of HEC is unclear, though. In many cases, HEC may just be accelerating homeownership rather than expanding the pool of homeowners (McCarthy and Quercia 2000).
[32] They used the terms counseling and education interchangeably.
[33] Bourassa and Grigsby (2000) found that 90 percent of the benefit attributed to interest rate deductions goes to homeowners with incomes over $50,000, because most lower-income owners find that taking the standard deduction is more beneficial than itemizing.

housing more available and affordable is further limited because the initiatives do nothing to help lower-income borrowers overcome the two major barriers they face: their deficits of income and wealth (Collins, Belsky, and Retsinas 1999). Tax programs also do little to offset the risks associated with homeownership in poor neighborhoods (Ambrose and Goetzmann 1998).[34]

3. Promote racial and economic diversity.

Research suggests that supply-side housing production programs that promote affordable homeownership in poor neighborhoods do little to promote racial integration, even if they facilitate economic integration (Cummings and DiPasquale 2001). The impact of supply-side mortgage credit interventions on promoting affordable homeownership is more difficult to assess, as they mostly promote the general availability and affordability of mortgage credit without explicit regard to spatial impact. The general criticism of the collective impact of the overall housing finance architecture created by federal intervention has more to do with overall patterns and evolution of the business. In essence, the charge has been successfully levied that the restructuring of and consolidation in the financial services industry has led to a withdrawal from many poor, urban, and minority communities.

This trend, captured in the relatively recent term "underserved," spurred a number of regulatory[35] interventions (most notably CRA, HMDA, and GSE affordable housing goals) designed to increase capital flows to these areas. These responses may promote economic diversity in underserved areas by allowing higher-income households to either remain in or move into these communities. On the other hand, increased availability and affordability of mortgage credit may in fact promote economic diversity via increased low-income mobility. Analysis conducted by Duda and Belsky (2002) and JCHS (2001), reveal substantial progress toward economic integration, as large percentages of low-income and minority households have located in middle-income tracts and the suburbs.

The performance of supply-side interventions in mortgage credit in promoting racial integration is more troublesome. In general, racial integration remains rare, as whites and Asians have been found to disperse to a greater extent than blacks and Hispanics. These latter groups tended to buy in areas where they made up a majority of the population (Duda and Belsky 2002). Similarly, minorities who own homes are more likely to do so in the central city (Gyourko, Linneman, and Wachter 1999), even though low-wealth white homeowners locate slightly more frequently in the suburbs.

FHA's success is tempered by its history of racially biased underwriting criteria and the spatial impact of FHA lending patterns.[36] Although FHA helped to promote safer and wiser practices

[34] Their major argument is that targeted lending will do little to increase homeownership rates without major subsidies to offset the potential risk of equity loss.
[35] Consistent with the previous use of this term, "regulatory" is meant to capture both legislative and executive branch actions seeking changed outcomes and/or behavior.
[36] Nationally, the massive post–World War II expansion of homeownership encouraged by FHA and other government programs also arguably fueled sprawl. Many argue that this urban form emptied central cities, promoting segregation and encouraging inefficient and inequitable land use patterns. FHA lending also has

in such areas as construction, appraisal, and escrows, its underwriting criteria also mandated that FHA-insured homes be located in racially homogeneous neighborhoods. This official sanction for racial segregation assumed that homes in integrated neighborhoods would not hold their value. This discredited theory was officially overturned by a 1962 Kennedy administration action (Executive Order 11063) mandating equal opportunity in federal mortgage programs.

Some homeownership assistance programs seem to work better than others at promoting racial integration. Most obviously, demand-side mortgage credit programs—such as direct subsidies, affordable lending, and the like—appear to promote racial and economic integration more effectively than supply-side efforts to increase the housing stock in poor neighborhoods. Potential homeowners who are given subsidies to support purchases in the neighborhood of their choice have been shown to move to better neighborhoods than those that move into new owner units created in poorer neighborhoods (Urban Institute 1998; Cummings and DiPasquale 2001). Cummings and DiPasquale found that recipients of direct subsidies tended to move to better neighborhoods that had higher average incomes and home prices than the neighborhoods they were leaving. Whites also made up a larger percentage of the population in these settlement neighborhoods. Similar findings were reported in the study on the use of HOME funds (Urban Institute 1998). By contrast, the Cummings and DiPasquale study found that residents who chose to move to new housing developed in inner-city neighborhoods often found themselves residing in mostly, if not entirely, black communities that were poorer than the ones in which they rented, with higher rates of crime and lower-quality schools.

4. Help households build wealth.

Almost all programs that promote homeownership among traditionally underserved groups have the potential to increase household wealth through increased equity,[37] though not all owners will see this benefit (Belsky and Duda 2002). If a home sustains its value or increases in price, *and* the homeowner is not driven into default and foreclosure by the cost of owning and maintaining the house, equity can build. Home equity can prove an especially critical route to increased household wealth for low-income and minority households (Boehm and Schlottmann 2001). McCarthy, Van Zandt, and Rohe (2001), for example, found home equity accounted for 45.2 percent of net worth for all households. It accounted for 44.5 percent of net worth for whites, but 61.1 and 60.7 percent, respectively, for blacks and Hispanics. Housing wealth, in short, frequently accounts for most of the wealth of low-income and minority households.

Besides the accumulation of wealth, there are added financial benefits of homeownership (McCarthy, Van Zandt, and Rohe 2001) that can be used as indirect tools to increase wealth. For instance, over time, owners may devote a lesser share of their income to mortgage payments than

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been repeatedly vulnerable to various abuses and scams, destroying neighborhoods and communities. In particular, as FHA lending became more targeted to poorer, minority neighborhoods, illegal and unethical practices, such as property flipping, equity skimming, and inflated appraisals tipped many of these communities into severe decline through high vacancy rates, eroded property values, and bankrupt families.

[37] Some direct subsidy programs that typically provide down payment assistance and/or new unit production may limit equity gains through recapture mechanisms to preserve future unit affordability.

renters do to rent. Assuming fixed long-term mortgage debt and increasing incomes over time, mortgage costs for homeowners may diminish as a share of income, while renters must always be concerned with the possibility of ever-increasing rents. Homeownership also provides access to capital through improved and/or increased credit access, such as second mortgages, senior annuity mortgages, unsecured debt, and home equity lines of credit. Stability in housing costs and leverage are both platforms through which additional wealth can be created.

Though housing wealth accounts for a vast majority of total assets for low-income and minority homeowners, research has shown that those households are not receiving as much value for their home as their white counterparts. Rusk (2001) found that when income is equalized, black homeowners received 18 percent less value for their homes than white owners. Looking at the median income and median home prices, for every dollar of income, white owners owned $2.64 worth of house. Black owners, on the other hand, owned only $2.16 worth of house for every dollar of income. Rusk considers this 18 percent difference in home-value-to-income ratio a "segregation tax" that blacks pay as a result of living in racially segregated neighborhoods with homes experiencing slower than average appreciation.

Predicting whether homeownership will build assets is often dependent on highly localized circumstances. For example, Boehm and Schlottman (2001) and Belsky and Duda (2002) note that most research has focused on the *average* appreciation rates of either low-cost homes or homes in low-income neighborhoods and has rarely examined the household-by-household dynamics of low-income homeownership. They therefore withhold judgment on whether homeownership makes for an effective asset-building strategy.

Other work enumerates the many factors beyond the control of the individual homeowner that can determine whether or not a household actually realizes increased home equity (McCarthy, Van Zandt, and Rohe 2001). Scholarship of this sort has emphasized that wealth building through home equity depends heavily on the location of owned housing (McCarthy, Van Zandt and Rohe 2001; Ambrose and Goetzmann 1998) as well as the costs of maintenance, utilities, and property taxes (Case and Marynchenco 2002) and the timing of home purchase and sale (Belsky and Duda 2002). Advancing from a first to a second or a third home has been shown to enhance wealth accumulation (Boehm and Schlottmann 2001). Minority households, irrespective of income, prove less likely to move up the housing—and implicitly the wealth—ladder (Bradley and Zorn 1997).

5. Strengthen families.

Rhetoric about the benefits of homeownership has often explicitly connected it with strong families. Interestingly enough, only recently has a limited but growing research literature emerged to support such claims. Homeownership frequently does provide safer housing, greater family stability, and improved access to community supports, particularly if it is located in a good neighborhood.

McCarthy, Van Zandt, and Rohe (2001) and Green (1997) both found that households moving from renting to homeownership tended to improve the condition, safety, and size of the units they were living in, although Collins, Crowe, and Carliner (2002) observed that first-time, low-income buyers tended to buy older, smaller homes in poorer condition than those of others. Cummings and DiPasquale (2001) and Harkness and Newman (2003) also caution that despite improvements in unit condition, some homeowners were found less likely to improve their neighborhood by moving to homeownership.

Other work has documented other benefits of homeownership. Rohe, Van Zandt, and McCarthy (2002) also confirmed that homeownership stabilizes and benefits families by increasing satisfaction and by improving the psychological and physical well being of the individual. This work identifies an array of psychological benefits from homeownership, mostly tied to enhanced self-esteem associated with achieving a fundamental source of status in American life.

Some evidence points to positive impacts on homeowners' physical health, while additional work suggests that the benefits that homeownership imparts to owners can translate into significant benefits for their children. By changing the internal environment of the home, homeownership can positively affect parenting practices, the physical environment, residential mobility, and wealth, report Harkness and Newman (2003). Homeownership can provide a stable placement in the community that can greatly improve a family's network of social and neighborhood ties, or social capital, which is important in determining child outcomes (Haurin, Parcel, and Haurin 2002). Children's cognitive outcomes and behavior also appear to be aided by the improvement of a family's home environment through homeownership (Haurin, Parcel, and Haurin 2002; Boehm and Schlottmann 1999). These findings can all lead to higher educational attainment and greater future earnings.

Parental homeownership has also been shown to reduce the tendency of children to participate in deviant behaviors—such as the probability of 17-year-olds dropping out of high school or giving birth (Haurin, Parcel, and Haurin 2002). There is also an increased probability that the children of homeowners will become homeowners 10 years after leaving their parents' home (Boehm and Schlottmann 1999; Haurin, Parcel, and Haurin 2002).[38]

Rohe, Van Zandt, and McCarthy (2002) also describe numerous socially desirable behaviors that homeownership may elicit from owners. Through homeownership, homeowners acquire financial, organizational, and social skills as well as a sense of responsibility that may be transferred to their children (see also Green 1997). Likewise, homeowners' greater stability and reduced transience gives them a greater stake in the community, which can make them better monitors of their own and the neighborhood's children.

Of course, it should be remembered that not all homeowners realize such extensive benefits of homeownership. Some research suggests that the gains of homeownership can all be negated if the neighborhood in which the home is located is poor or in decline. Homeownership in these neighborhoods may not provide access to community supports (Cummings and DiPasquale 2001).

[38] Boehm and Schlottmann (1999) believe that housing is a "merit good," such as education, health care, or nutrition that is underconsumed by those who are not aware of the benefits homeownership can provide because they have not been exposed to it.

However, more recent research (Harkness and Newman 2002) suggests that homeownership in almost any neighborhood benefits children, while neighborhood effects are weak. The authors conclude, therefore, that children of renters may benefit more from homeownership—even in more distressed neighborhoods—than from remaining renters and moving to a better neighborhood. Still, they do caution that the more distressed the neighborhood, the less likely children are to benefit.

Rohe, Van Zandt, and McCarthy (2002) caution that low-income owners in particular may not gain as much control over their environment and fortunes as is often believed, given that variable incomes and meager savings make meeting monthly mortgage payments difficult. Mortgage indebtedness can lead to insecurity, anxiety, and fear, especially if there is risk of losing the home. Should an owner default, moreover, the costs of foreclosure, both financial and mental, can be punishing. Homeownership, finally, can tie low-income households to declining areas, with all of the social and economic disadvantages that entails.

On balance, the research literature indicates that homeownership assistance can strengthen families and communities, though much more work needs to be done to obtain higher quality data, characterize the particular gains realized by lower-income families, and “unbundle” these benefits from gains that may result from other possible causes (Harkness and Newman 2002).

6. Link housing with essential supportive services.

The housing literature has not focused on the promotion of homeownership and its relationship to supportive services. In housing programs, services have generally been delivered in conjunction with rental housing. Interestingly, homeownership is implicitly linked to supportive services from two unexpected sources: the disabled and aging communities. Both communities have promoted policies that maintain their target populations in their highest level of independent living. Community-based services provided in the home arguably offer more cost-effective alternatives than premature or inappropriate higher levels of care offered in other residential and institutional settings. Such services arguably link supportive services to housing, and, although not specifically intended to, can preserve homeownership.

One other minor example that potentially links housing—specifically homeownership—to supportive services is the home equity conversion (HECM) and reverse annuity (RAM) mortgage products. Commonly known as reverse mortgages, these products essentially lend in reverse, as lenders make payments over time to aging homeowners who want to access their home equity to use for other purposes. Many argue that the proceeds of HECMs or RAMs could be used to support in-home care for elderly homeowners, preventing premature institutionalization. Some propose that these proceeds could also be used to support the cost of long-term care insurance.

7. Promote balanced metropolitan growth.

The degree to which the promotion of homeownership supports balanced metropolitan growth and the health of existing neighborhoods depends on two variables: the location of affordable units in a region, and the general "neighborhood effects" of homeownership on communities. On regional location, the promotion of homeownership has a mixed record of supporting metropolitan health. By contrast, the literature shows such programs have a clearly beneficial impact at the smaller-scale neighborhood level.

The location of affordable housing units tends not to promote balanced metropolitan growth, given the location of most new and existing affordable housing. As noted in Chapter 2, most federally subsidized rental housing production has occurred in central cities rather than suburbs, and in low-income and distressed neighborhoods rather than areas of high job growth. The same is true of homeownership production programs. Additional research suggests that the most affordable units available for ownership in most regions are found in lower-income and distressed neighborhoods.

Neither of these locations supports the ideal of balanced growth across metropolitan regions. The availability of affordable housing mostly in distressed urban neighborhoods tends to concentrate low-income families, keep core neighborhoods weak in comparison with more affluent areas, and drive higher-income residents away toward the suburbs. McCarthy, Van Zandt, and Rohe (2001) mention a final metro-scale problem—that homeownership can actually exacerbate the spatial mismatch between jobs and housing by discouraging household mobility. While renters can more easily move closer to a job (assuming they can find an affordable rental unit), homeowners face high transaction costs in changing their residence, therefore limiting the ease with which they can move to employment centers.

At the same time, homeownership assistance plays a much more beneficial role at the neighborhood level. A review of existing literature by Rohe, Van Zandt, and McCarthy (2002) linked high levels of homeownership to neighborhood stability, while low homeownership rates have been empirically correlated with high levels of social problems. Critical to this stabilizing effect is the fact that homeowners move less frequently than renters: a positive facet of the reduced mobility discussed previously. This reduces resident turnover (Rohe, Van Zandt, and McCarthy 2002; Scanlon 1998; Green 1997). Reduced mobility, along with greater economic investment in their homes, causes homeowners to take better care of their property. This, in turn, increases property values and improves the overall social health of an area (Rohe, Van Zandt, and McCarthy 2002; Scanlon 1998).

And there are other benefits. One study that examined the impact of several projects sponsored by community development corporations around the country inferred that the construction of new ownership units appeared not only to strengthen local residential real estate markets but also to increase commercial activity (retail sales and commercial real estate sales) and even decrease crime (Higgins 2001). Ellen et al. (2002) found that two homeownership programs (Nehemiah and the NY Housing Partnership in New York City) appear to have had a positive impact on the surrounding neighborhood, though it is unclear why. Galster's (2003) review of the literature examining the impacts of both affordable and multifamily housing on the market values of nearby single-family homes found that affordable owner-occupied units seemed generally to have positive effects on the surrounding neighborhood. Large concentrations of new construction and rehabilitation in a community were seen as beneficial, and affordable owner-occupied developments were found to impart greater benefits than affordable renter-occupied ones.

Some research underscores the limits of homeownership as a metropolitan revitalization strategy. Rohe, Van Zandt, and McCarthy (2002) and Scanlon (1998) observe that the decreased mobility associated with homeownership may actually entrench households in low-income neighborhoods, perpetuating social problems found in these areas. Several studies indicate that homeownership revitalizes neighborhoods most when it is accompanied by a comprehensive package of initiatives, including improved services and infrastructure, as well as the creation and rehabilitation of rental housing (Scanlon 1998; Boehlke 1997; Rohe, Van Zandt, and McCarthy 2002).

Cummings and DiPasquale (2001) question whether scarce funding should be used to promote homeownership in distressed neighborhoods. They suggest that the goal of neighborhood revitalization may be better served by investment in entire communities than by homeownership assistance, given the cost of the subsidies frequently provided and the relatively small number of people helped in the programs they studied. They suggest that neighborhoods should be assessed to determine if the communities would benefit more from direct *neighborhood* revitalization efforts. Money can be better spent, they suggest, if it is used to reduce crime, improve schools, and promote economic development. This could attract new residents while improving conditions for families already living there.

C. Implications for Local Action

The promotion of homeownership has been a major focus of American housing policy, and this examination of program impacts highlights both the benefits and shortcomings of this strategy. We conclude that homeownership should be promoted with caution among underserved households. Evidence is building that supports the long-espoused—but relatively undocumented—rhetoric about the benefits of homeownership. Not every homeowner will, however, see all of the benefits of homeownership, and some may even suffer as a result of making poor housing decisions. Exhibit 2 below summarizes what the literature says about how well homeownership assistance programs, on both the supply and demand sides, meet our seven policy goals.

What should policymakers on the frontlines of affordable housing take away from the literature on homeownership assistance programs? First and foremost, the literature suggests that federal initiatives have had a tremendous impact on the expansion of homeownership, mostly in the form of the regulatory pressure that government has placed on lenders and the GSEs to meet the financing needs of underserved people and places. The federal architecture that essentially created and continues to nurture our current mortgage market (i.e., supply-side mortgage credit) has been extremely successful in promoting greater availability of generally affordable mortgage credit for the vast majority of American home buyers. However, most major interventions have predominantly

Exhibit 2: Homeownership Assistance—Summary of Findings

	Homeownership Assistance		
	Supply-Side Mortgage Credit	**Demand-Side Homebuyer Tax Policies and Assistance**	**Supply-Side Production**
Preserve and Expand the Supply of Good-Quality Housing Units	Maybe—but impact is indirect	Maybe—but impact is indirect	Yes—primary goal of these programs is expanding owner-occupied stock
Make Housing More Affordable and More Readily Available	Yes— but impact is indirect	Yes—enhances buying power, but depends on price of housing stock	Yes—primary goal of these programs is affordability and access
Promote Racial and Economic Diversity	Possibly—depends upon locational decisions of buyers	Possibly—if recipients can find units in diverse neighborhoods	Possibly—depends on location of units produced and local economy
Help Households Build Wealth	Yes—but depends on house price appreciation and individual borrower circumstances	Yes—but depends on house price appreciation and individual borrower circumstances	Yes—but depends on house price appreciation, individual borrower circumstances
Strengthen Families	Yes–but less impact if units are located in distressed neighborhoods	Yes—but less impact if units are located in distressed neighborhoods	Yes—but less impact if units are located in distressed neighborhoods
Link Housing With Essential Supportive Services	No	Probably not—unless services are explicitly linked with assistance	Probably not—unless services are explicitly linked with assistance
Promote Balanced Metropolitan Growth	Unclear—depends on general population's locational choices	Unlikely—though possible if recipients can find units in suburban areas and close to job opportunities	Rarely—the location of units thus far has generally not promoted balanced growth; however, neighborhoods have benefited from homeownership

focused on mortgage credit, rather than the physical stock of housing. The relative emphasis, in terms of funding and priority, on supply-side production has been minimal. To the extent that homes have been built and/or rehabilitated, it has often occurred in distressed neighborhoods needing broader community investment. In the end, for local policymakers, advocates and administrators, the upshot is clear: Federal lending criteria and fairness standards remain the most important impetus to homeownership in local areas of the United States.

Before using the tools that are available to promote homeownership, **local officials need to tailor homeownership strategies to local market realities**. They should have a clear understanding of the configuration of their local homeownership and mortgage market. What is the pattern of homeownership in their community? What is the quality of the homeownership stock, and what has been the house price appreciation history? Who are the lenders, realtors, mortgage brokers, and nonprofit organizations, and in what areas are they active? What public investments are planned, and where? Many local governments and/or housing and redevelopment authorities will have already assembled some of this information as part of their local planning process or for assessments mandated for receipt of certain federal funds.

Armed with this local “map,” officials can design strategies to promote action. Again, the nature of action is highly dependent on local circumstances and a careful assessment of neighborhood and household needs. Does the neighborhood need new ownership units? Can it rehabilitate existing units? Or should it take steps to make existing units more affordable? In most places, a combination of these three approaches will be appropriate, but it is important to know what mix will provide the optimal housing situation.

This assessment should also determine where affordable homeowner units will be placed, as **the actual location of affordable homeownership units is extremely important.** Location determines whether or not a family will see the value of its home appreciate. Location influences the types of social benefits—if any—their children may realize. And the location of the affordable housing needed by lower-income and minority households will determine whether or not homeownership assistance strengthens neighborhoods and the metropolitan area, or weakens them. In communities that cannot support homeownership, community reinvestment may be far more practical and effective than simply promoting homeownership. Relying on homeownership to improve poor and distressed areas may not stabilize and revitalize these neighborhoods and may even prove costly to the families who purchase there.

As most policies work to make existing owner units more affordable, **the importance of wealth and income cannot be overlooked.** Discussion in this chapter clearly points to supply- and demand-side mortgage credit programs and interventions as the most successful homeownership strategies that promote the goal of making existing housing affordable and available. While these interventions enable more households to move to homeownership, they do not address the underlying problem—some households do not have enough wealth or income, or both, to own. Strategies that help households build wealth, through increased savings, and help develop their income earning potential, through job training and education, would allow more low- and moderate-income households to become owners without having to rely on special consumer products.

Finally, the literature stresses that **policymakers, practitioners, and others should not oversell the idea of homeownership.** Not all households are guaranteed to see all of the benefits of owning, and homeownership poorly or inappropriately delivered can be more damaging than the status quo to families, as well as the health and fabric of the community. This fact has practical implications for program administration. Most notably, potential low-income and minority homeowners need to be made aware of the risks associated with homeownership so that they can make better-informed housing decisions (Goetzman and Spiegel 2002; Belsky and Duda 2002). Clearly, there are those for whom homeownership is not a viable option. For them, other housing choices should be available in the community. For those who are ready to buy a home, homeownership assistance should go beyond just getting a household into a home; the assistance also should be designed to work on keeping them in a home.

D. Research Gaps

As this review has shown, homeownership has been the focus of a great deal of both empirical and qualitative research. However, this evaluation of homeownership as a means of achieving the seven policy goals shows that there is still a great deal we don't know. While there is no doubt that homeownership can be beneficial, more research needs to be conducted on both the social and economic impacts of homeownership for families, with a special focus on the children of homeowners (Rohe, Van Zandt, and McCarthy 2002; Boehm and Schlottman 1999; McCarthy, Van Zandt, and Rohe 2001). All of our notions concerning the benefits of homeownership are based on the traditional model—suburban locales, and white, middle-income households. The existing literature rarely looks at the effects of homeownership across income levels or racial lines (Rohe, Van Zandt, and McCarthy 2002; Gyourko, Linneman, and Wachter 1999). Additional data is also needed on the impacts of the location of affordable owner housing. While Rusk (2001) found that higher degrees of residential segregation resulted in wider gaps between the housing values of black and white homeowners, there needs to much more research on this topic as it affects one of the biggest benefits of owning—building wealth. Gathering all if this information is extremely important as homeownership is promoted more and more among low- and moderate-income families and minorities to help close persistent gaps in homeownership rates.

While the drive to increase homeownership among underserved groups has brought homeownership to more urban neighborhoods, with varying levels of stability, and to minorities and lower-income households, the research has been slow to catch up and document what homeownership means for these groups and in these places. Though the benefits of owning are delineated, few studies describe under what circumstances a household may see these benefits, and which types of households are more likely to benefit from owning. We can infer homeownership's impacts, but without empirical analysis, proponents of low- and moderate-income homeownership may be promoting owning among groups that are not yet ready for this responsibility, or in neighborhoods where prevailing conditions may negate the benefits of owning. In addition, as more traditionally underserved households strive for and attain homeownership, the importance of homeowner education and counseling cannot be stressed enough, nor can the need for more studies looking at its effectiveness, both pre- and post-purchase.

IV. Land Use and Regulations

State and local regulatory policies can profoundly affect the availability and cost of affordable housing. Most states delegate the authority to regulate the private housing market to local governments, which then establish and enforce zoning policies, land use restrictions, development fees, subdivision and design requirements, building codes, rent controls, and other regulations that reflect local priorities and objectives. Taken together, these regulations help determine whether and where different types of housing can be developed, how much it costs, and even how it is maintained.

In general, local zoning, land use, and building regulations have not had as their primary purpose the promotion of affordable housing. In fact, many local regulatory regimes have been designed to *exclude* lower-cost housing and its residents, so as to maximize local property values (Choppin 1994; Pendall 2000). In response to a survey (Lowry and Ferguson 1992), most local planning officials cited prevention of overload on utilities and school systems and "maintaining local atmosphere" as their top priorities. Among the least likely reasons given for regulating development was "maintaining or increasing the amount of affordable housing."

Although regulatory issues are often overlooked in discussions of affordable housing policy, their potential impact may be even greater than that of conventional housing assistance programs because they influence the location, characteristics, and costs of housing in the private market (Nelson et al. 2002). Some widely used subdivision requirements, traditional zoning provisions, and building codes create barriers to the production of affordable housing or simply raise the cost of all construction. Removing or reducing these barriers can make a big difference. But in addition, some communities have developed regulatory provisions that actually promote or encourage the production of affordable housing. And several states have used their authority over local land use and building regulation to encourage affordable housing development across jurisdictions. In recognition of the important role of regulations, even HUD recently created a Regulatory Barriers Clearinghouse (www.regbarriers.org) to help state and local actors inventory the array of regulatory policies that may affect the quality, price, location, and supply of affordable rental and ownership housing.

This chapter provides a brief overview of state and local regulation of housing development, including the evolution of regulatory tools for addressing local and regional housing needs. The chapter then reviews the available evidence about the effectiveness of these tools for advancing the goals of an affordable housing strategy.

A. State and Local Regulation of Private Housing Markets

Historically, local land use and development regulations have explicitly or implicitly limited or prevented the development of affordable housing—especially in suburban jurisdictions. Local land use regulations were originally established by landowners and municipalities to keep out unwanted uses, preserve property values, and separate people of different races and income levels. For instance, early zoning ordinances in the South were explicitly designed to separate black and white residents. Although they were ruled unconstitutional in 1917 (*Buchanan v. Warley*, 245 U.S. 60), local governments continued to adopt racial ordinances for another ten years. Land developers and homeowners then turned to private deed restrictions and covenants as tools to keep out minorities, but in 1948, the Supreme Court rejected racially restrictive covenants as unenforceable (*Shelley v. Kraemer*, 334 U.S. 1) (Nelson et al. 2002).

While land use and zoning regulations no longer directly create and maintain racial and economic segregation, many still indirectly (and sometimes intentionally) have this result. As summarized recently by Nelson et al., land use regulations “work indirectly by shaping local housing markets, encouraging or prohibiting the construction of certain types of housing, and thereby conditioning the tenure (rent versus own) and price of housing.” (Nelson et al. 2002).

For instance, subdivision regulations that mandate large lot sizes and costly amenities, zoning provisions that limit areas where multifamily housing can be developed, building codes that require costly materials or construction techniques, and development fees imposed to help pay for new infrastructure all discourage the production of housing that is affordable for low- and moderate-income households (Lowry and Ferguson 1992).

Some jurisdictions have practiced “exclusionary zoning” by preventing affordable housing construction through restrictive policies like outright bans on multifamily housing (Jackson 2000). These policies are usually justified as promoting community amenities, quality of life, safety, and property values, but often they also reflect residents’ fears of crime or lower property values, which they associate with economic or racial integration. Local policymakers may assume that residents of affordable housing will demand expensive social services and cause a strain on local budgets, or policymakers may simply favor higher-end residential or commercial development for the high property tax revenues they yield (Choppin 1994). Local opposition to affordable housing development is often called “NIMBYism,” an acronym for “Not In My Back Yard” (U.S. Department of Housing and Urban Development 1991a). NIMBYism is frequently a major driver for exclusionary zoning.

The most blatant exclusionary practices are “large-lot zoning, inadequate provision in the zoning code for affordable housing types, large lot width and setback requirements for subdivisions, and high impact fees” (Choppin 1994). Other practices include minimum house size requirements, prohibition of multifamily housing, and prohibition of mobile homes. Local zoning regulations that restrict medium-density, walk-up multifamily housing, for instance, can also severely limit affordable housing development. Requirements for design features such as side yards and large lots can also add greatly to housing development costs (Lowry and Ferguson 1992). Arguably, the most famous court case with regard to exclusionary zoning policies was decided in 1975. In that case, the New Jersey Supreme Court declared that the township of Mount Laurel's zoning laws were unconstitutional because they precluded the opportunity for construction of affordable units. The ruling stunned local government officials who, until then, considered exclusionary zoning to be their "natural prerogative" (*Harvard Law Review* 2003).

Other state and local regulatory policies that aim to control, limit, or ration development can have significant effects on the supply of affordable housing in a region. Such policies include building moratoria, permitting caps, and development quotas. If these growth control policies are formulated without considering affordable housing needs, they may have a negative impact on the availability of affordable housing (Downs 2000b). Also, in some cases, local governments have used growth controls such as building moratoria as a "stealth" way to prevent development of affordable housing (Choppin 1994).

Distinguished from growth control policies are policies designed to manage metropolitan growth. The distinction is important. Growth *control* policies are designed to limit the growth of the housing stock; growth *management* policies accommodate projected development. The goals of growth management are to: preserve public goods, minimize negative externalities, minimize public fiscal impact, maximize social equity, and elevate quality of life. These goals are consistent with, and often explicitly include, expansion of the supply and accessibility of affordable housing. Nelson et al. (2002) has developed the most comprehensive and complete review of the literature on the link between growth management and housing affordability. The authors conclude that growth management programs usually focus on increasing densities, mixing housing types, and promoting regional fair share housing.

Exclusionary zoning has come under attack from many fronts. Conservatives argue that the practice constitutes unnecessary regulation and prevents the market from meeting demand for affordable housing. More liberal voices contend that it undermines principles of social equity, as well as broader regional housing needs, in favor of narrow local interests. In particular, the fragmentation of regulatory authority among individual jurisdictions in a metropolitan area undermines regionwide efforts to effectively manage growth, make housing affordable, and promote racial and economic diversity.

Remedies to the exclusionary effects of traditional regulatory regimes can take three basic forms: 1) reform of zoning requirements, subdivision regulations, and building codes to eliminate exclusionary provisions; 2) adoption of explicitly "inclusionary" zoning and land development regulations; and 3) statewide efforts to rein in local exclusionary practices and promote regional strategies for meeting affordable housing needs. Each of these approaches is discussed in turn below. In addition, we describe a fourth regulatory strategy for making housing affordable—the imposition of rent controls on existing, private-market housing.

1. Regulatory reform.

An obvious first step in aligning regulatory policies with affordable housing goals is to correct regulations or requirements that explicitly exclude affordable housing types or that unnecessarily raise the cost of construction. For example, zoning laws can be reformed to allow for garage apartments and other kinds of secondary units, to permit higher-density residential development, and to encourage a mix of housing densities and types in new subdivisions through Planned Unit Development or cluster zoning provisions (HUD 1991a). Building codes can be modified or made more flexible to eliminate unnecessarily costly requirements (Belsky and Lambert 2001). Subdivision regulations can be reformed by reducing required street widths and other unnecessary infrastructure requirements, and by streamlining approval processes to make the development process less time-consuming and costly (HUD 1991a). Finally, local governments that impose impact fees and other infrastructure requirements can waive or reduce those fees for affordable housing developments to make them financially feasible.

2. Inclusionary zoning.

States, regions, and local governments have employed "inclusionary zoning" and other regulatory reforms aimed at increasing the number of affordable units—for both ownership and rental—especially in areas where they are traditionally scarce (such as more affluent suburbs). Using a combination of mandates and incentives, inclusionary zoning can help compensate for past local exclusionary practices or can balance the effects of growth controls and other regulatory policies that may indirectly limit affordable development (Downs 1999).

Among the most frequently used tools of inclusionary zoning are "developer set-asides." These programs require developers to make a certain percentage of units in a new residential development affordable and available to low- and moderate-income households. Set-aside programs may be voluntary or mandatory. They generally provide some form of developer incentives, such as "density bonuses," which permit more units to be built than otherwise would be allowed under conventional zoning. Such incentives may also reduce impact fees, thereby cutting development costs. Some jurisdictions allow developers to build affordable housing off site or contribute cash to an affordable housing fund in lieu of including affordable units in the new development. In some set-aside programs, county or local housing authorities and nonprofit organizations buy a percentage of the affordable units and operate them as a sort of scattered-site public housing program (Brown 2001). For example, Montgomery County, MD, an affluent suburb in the Washington, D.C. metropolitan area, has for decades required that all new housing developments larger than 50 units include 12.5 percent to 15 percent of units to be affordable for households at or below the county's median income. Over 25 years, this requirement has resulted in the production of 10,600 affordable housing units, integrated throughout more affluent communities. In addition, the county's public housing authority retains the right to purchase some of these "inclusionary" units so that they can be made affordable for the poorest households (Brown 2001).

In addition to developer set-asides, some communities have used "development allocation plans" to explicitly include affordable housing. Development allocation plans enable jurisdictions with strict growth controls to authorize at least some affordable units. For example, Thousand Oaks, CA, evaluates development proposals using a point system that favors projects including affordable housing (Landis 1992). The city of Davis, CA, limits residential construction to an average of 500 units annually over a period of 20 years, holding "what one developer described as a beauty contest to award permits on the basis of developers' proposals, considering…inclusion of affordable housing" as one of the factors for awarding a permit (Lowry and Ferguson 1992). A system based on development agreements, on the other hand, does not have a structured point system for allocating permits but allows different interests (local residents, developers, planners, and environmental advocates, for example) to enter a structured negotiation about the amount, types, and location of residential development to be permitted locally (White 1992).

3. Statewide strategies.

Although land use and building regulations are typically enacted and implemented by towns, cities, and counties, their authority to do so comes from the state. State legislation sets the framework for local planning and development regulation. In recent years, some states have begun exercising more oversight of local regulatory policies in order to promote affordable housing and encourage more regional coordination. The strongest state systems view affordable housing as a foundation for community growth, and require localities to explicitly assess their housing needs and to create an institutional framework within which residents, advocates, and planners can meet to discuss these needs. California, New Jersey, Oregon, and Connecticut provide examples of four different state approaches:

- California requires its municipal and county governments to adopt housing elements in their mandatory general plans; the state's laws on the contents of the housing strategies are among the most prescriptive of any of its laws on planning. Among other things, each local government must develop plans and programs, and identify sites, to accommodate a "fair share" of its region's new growth of all kinds of housing, affordable and market-rate housing alike. The state Department of Housing and Community Development reviews these elements, which must be revised every five years, for their consistency with state law. Penalties for noncompliance, however, are weak (Calavita, Grimes, and Mallach 1997).

- New Jersey also has a procedure through which local governments submit housing elements to a state agency, the Council on Affordable Housing (COAH), which also determines municipalities' fair share targets, but only for affordable housing. The New Jersey housing element process has much different roots from California's, however; it was established in response to the *Mount Laurel* court decision that allowed builders of market-rate housing to file suit against exclusionary suburbs and to build large developments that incorporated affordable housing. Jurisdictions with COAH-approved housing elements are immune from these "builders' remedy" lawsuits (Calavita, Grimes, and Mallach 1997).

- Oregon's well-known state growth management system—dating from 1973—has goals for urbanization and housing that each local government must meet in its comprehensive plan. In the Portland region, these goals have been embodied in the Metropolitan Housing Rule (adopted in 1981), which requires local governments to demonstrate that their zoning can accommodate an even mix of single-family and multifamily housing. The state's planning process also works more generally to ensure an adequate supply of sites for housing, although there is substantial dispute over how effectively it does so. Oregon's planning system has historically been weaker for truly affordable housing, however, and Metropolitan

Portland recently developed a fair share plan to ensure that all jurisdictions plan not just for density but also for affordability (Toulan 1994).

- Connecticut has experimented with a regional negotiation process, which is weaker because participation is voluntary for local governments. Individual jurisdictions in two metropolitan areas entered into a structured negotiation process to decide how to address regional housing needs. The conditions and terms of the regional negotiations were prescribed by the enabling legislation; each local government in a metro region sent one representative to the bargaining table. All decisions about regionwide zoning and regulatory reform had to be approved by a two-thirds majority, and an outside mediator facilitated the negotiations. This process produced regional affordable housing and zoning reform strategies within a short time period (Wheeler 1993).

Other states have taken a more reactive approach, allowing local governments to plan and regulate housing development as they choose, while providing special appeals mechanisms to override exclusionary behavior. To illustrate, Massachusetts enacted an "Anti-Snob Zoning" law in 1969 that provides a consolidated permit application and hearing process for developers. It also provides a state zoning appeals system that strongly favors developers over local zoning boards. For a local planning board to block a development project with an affordable set-aside, it must prove that other local considerations—environmental, open space, or safety, for example—outweigh the regional housing need. The state Housing Appeals Committee presumes that local affordable housing needs outweigh other local planning considerations in most cases. An executive order related to the legislation gives state agencies the authority to withhold financial assistance for development from communities that continue exclusionary practices (Stockman 1992).

4. Rent controls.

Although zoning, land use, and building codes are the most widely used tools for regulating the private housing market, some states also authorize local jurisdictions to regulate rent levels for existing housing. Rent control is most commonly imposed in high-cost housing markets in urban areas and covers an estimated 10 percent of existing rental units nationwide (HUD 1991b). Rent control programs vary considerably across municipalities. Although some of the earliest rent control programs (implemented during World War II) imposed absolute caps on rent levels, most existing programs are "second generation" rent control regimes, which allow for annual rent increases based on increases in operating costs. Typically, these programs also allow for rent increases when a landlord makes significant improvements to the building and "hardship increases" for landlords who are not earning a fair return on their investment. Many modern rent control programs also exempt new rental housing construction or luxury housing (Keating 1998).

B. Performance of Regulatory and Governance Tools

Because they govern the development and operation of the private housing market, state and local regulatory tools have a potentially far-reaching impact on housing outcomes. Research on the effects of various regulatory tools suggests that they can influence the overall supply of affordable housing as well as the geographic distribution of different housing types. The remainder of this section reviews evidence about the effectiveness of regulatory tools in advancing each of the seven housing policy objectives.

1. Preserve and expand the supply of good-quality housing units.

As already discussed, many widely used zoning, subdivision, and building codes create barriers to the production of low- and moderate-cost housing or add unnecessarily to the costs of housing development. Regulatory reforms that eliminate (or moderate) these barriers represent an important first step in expanding the production of affordable housing.

However, some states and localities have implemented more proactive regulatory strategies. Recent research has addressed two major questions about the potential impacts of these strategies on housing production. First, several studies have assessed the effectiveness of various inclusionary zoning provisions (particularly set-asides), generally concluding that these programs provide an effective and low-cost way for local governments to encourage affordable housing production. A second set of studies has focused on the impacts of growth management and other antisprawl strategies to determine whether they restrict the production of affordable housing. These studies conclude that even areas with strict growth management can continue to produce affordable housing if controls are designed and implemented intelligently.

Inclusionary zoning programs have been found to constitute an important source of affordable housing production in the jurisdictions where they exist. For example, in Montgomery County, MD, inclusionary zoning accounted for half of the suburban county's newly created affordable units since the programs' inception in 1974, adding more units than the Low-Income Housing Tax Credit and Section 8 project-based programs combined (Brown 2001). Administrative costs are minimal; the onus is on developers, not governments, to build and sell the units (and maintain them, if they are rental units). Developers or residents of market-rate units in the developments generally absorb any extra costs of building the affordable units (Calavita and Grimes 1998; Cowan 2001). Research shows that affordable units can be incorporated into a larger development through inclusionary zoning policies with little or no effect on the economies of the development as a whole (Mallach 1984). Set-aside programs can also save public funds by reducing the need for government housing subsidies. In Massachusetts, Rhode Island, and Connecticut, government subsidies decreased in areas that adopted set-aside programs (Cowan 2001).

Some set-aside programs have been criticized for failing to fully address local shortages of affordable housing. For example, Goetz (2000) argues that the Twin Cities Livable Communities Act did not set its production targets high enough to increase the relative availability of affordable housing in the Twin Cities region. As a result, he suggests that there was actually less affordable housing construction in most parts of the Twin Cities area than there would have been under the status quo. In addition, inclusionary zoning does not necessarily produce housing that is affordable over the long term. Although some set-aside programs impose caps on home sales prices for a number of years, these time limits eventually expire and jurisdictions lose affordable units (Brown 2001).

Housing market conditions can greatly affect the ability of inclusionary zoning programs to produce units (Philip B. Herr and Associates 2000; Burchell and Galley 2000). In periods of rapid population growth and in areas with a lot of new residential development, set-asides can produce large numbers of new affordable units. However, in areas where the supply of undeveloped land is great or in periods when little new housing is being produced, these programs have little impact (Choppin 1994). A strong housing market may be necessary to make affordable construction financially feasible for developers (Burchell and Galley 2000). For example, developers' use of California's inclusionary zoning provisions declined during the early 1990s as a result of land values being driven down by recession (Calavita, Grimes, and Mallach 1997).

Not all inclusionary zoning programs offer sufficient incentives to entice developers to include affordable units in their projects. For example, a survey of developers in California indicated that they "…were not much interested in density bonuses that limited the prices they could charge for their dwellings…(and that) financial incentives did not loom large in the developers' perceptions," particularly incentives designed to encourage residential development for families with low to moderate incomes (Choppin 1994). In general, mandatory set-asides appear to be more effective than voluntary programs that depend on incentives to induce developer participation (Philip B. Herr and Associates 2000).

Although much of the research on housing-market regulation and housing production focuses on inclusionary zoning practices, which are intended to promote affordable housing, other research has focused on the impacts of growth management programs, such as urban growth boundaries,[39] and their potential to restrict housing production. Recent research on Portland, OR (arguably the most frequently cited example of an urban growth boundary) finds no significant relationship between regional housing prices and the existence of the boundary (Downs 2002; Phillips and Goodstein 2000). This research focuses on house prices generally, not specifically on affordable housing production, but Nelson (2002) points out that a key element of the Portland area's growth management strategy is to explicitly and creatively increase the type and amount of housing provided in the region, which is meant to ensure that as land supply is constrained, the supply of housing is not.

[39] Urban growth boundaries (UGBs) and more general urban containment policies are designed to promote infill and redevelopment programs while preserving open space, agricultural land, and environmentally sensitive areas. They are commonly considered to be programs that discourage development outside of a metropolitan boundary while promoting development within it (Nelson and Duncan 1995).

Portland's policies are decidedly anti-exclusionary (as opposed to being specifically inclusionary) in that they promote a range of housing types spread throughout the metropolitan area. For example, Portland encourages housing units created out of existing buildings as well as lofts and other housing types that many localities restrict. In connection with regional and statewide growth management, Oregon's metropolitan housing rule is intended to address socioeconomic concerns in conjunction with growth management (Toulan 1994). In the Portland region, the rule requires every suburban city and county to adopt plans that set minimum housing densities and allow for at least 50 percent of new housing to be multifamily or attached single-family units (Span 2001). The result is that moderate- and low-income families are not necessarily restricted to the most distressed suburbs to find housing (Connerly and Smith 1996). The Portland Metropolitan Government adopted a Regional Affordable Housing Strategy in 2001. This program requires each part of the metro region to provide a fair share of affordable housing needs, determined on the basis of 5- and 20-year population predictions (Canada Mortgage and Housing Corporation 2001).

The potential negative effects of growth control strategies such as building permit caps and building permit moratoria, on the other hand, may be significant. Particularly if growth controls are implemented in conjunction with other exclusionary regulations, they can reduce the overall volume of housing production in a jurisdiction and increase the cost of housing significantly. And by limiting the amount of new housing that can be produced, growth control measures may cause gentrification and displacement (Pendall 2000). However, research shows that even areas with strict development and growth controls can enjoy a continued supply of new affordable units, if policies that promote affordable development are incorporated (Nelson et al. 2002).

While rent control is primarily intended to regulate the costs of rental housing, some forms of rent control discourage the production of new units, because limits on rent increases are expected to reduce the return on investment. Even in cities where new units are not covered by rent control, developers and investors may be wary of future regulation and invest elsewhere. In Los Angeles, Teitz (1998) found both an absolute and a relative drop in multifamily housing production during the initial years of the city's rent control ordinance. Other cases present contradictory evidence. However, Goetz (1995) analyzed trends in San Francisco's rental market and found that rent increases accelerated and the production of multifamily housing increased following the adoption of rent control. Similarly, Turner (1998) found an increase in multifamily housing production following the implementation of rent control in Washington, D.C.

2. Make housing more affordable and more readily available.

Despite the advantages of inclusionary zoning programs, they generally do not produce housing units that are affordable for the poorest households (with incomes at or below 50 percent of area medians). And relatively few set-aside programs produce rental housing units. Instead, the main beneficiaries of these programs are moderate-income families who are able to purchase homes. For example, most of the units produced in New Jersey since the Mt. Laurel decision have been targeted to home buyers making at least 50 percent of the area median income (Calavita, Grimes, and Mallach 1997). Without additional subsidies, inclusionary zoning alone probably cannot be expected to produce rental housing units that are affordable for the poorest households. Nonetheless, set-aside programs and other inclusionary zoning strategies can help reduce production costs and moderate market pressures (Choppin 1994). And as discussed earlier, they can be linked to other subsidy programs that supplement what the poorest households can afford to pay for housing. Montgomery County's inclusionary zoning program explicitly requires that some affordable units be purchased by the local public housing authority and set aside for occupancy by very low income households.

While zoning, subdivision, and building codes all have the potential to shape the production of new housing units, rent control is intended to make existing housing more affordable, primarily by moderating rent increases in volatile markets. Research on the impacts of rent control indicates that it does result in lower rent levels than would prevail in an unregulated market. However, rent control is often characterized as an inefficient affordability mechanism because it reduces housing costs for middle- and upper-income households as well as for the poor. In addition, some evidence suggests that rent control may discourage private investment in rental housing, undermining both the size and the condition of the stock.

Rent controls promote housing affordability by regulating annual rent increases. A study of rent control in Los Angeles found that the program has kept housing costs in the affordable range for 12,000 to 25,000 households that would otherwise be paying unaffordable rent burdens (City of Los Angeles 1985). Levine, Grigsby, and Heskin (1990) found that in Santa Monica, those paying the highest share of income for rent experienced a significant reduction in shelter cost as a result of rent control.

Rent control also smoothes out fluctuations in the rental market. Limits on rent increases prevent displacement that might result under volatile economic conditions. Nash and Skaburskis (1998) compared rent levels in Toronto, which has rent control, with Vancouver, BC, which is uncontrolled. Over the long term, rents in the two cities were similar. The authors found that rent control stabilized rents and smoothed the fluctuations in Toronto's rental market. Furthermore, rent control reduces uncertainty about future rent increases. In a study of rent control in Washington, D.C., Turner (1998) found that rent control provided residents the security to stay in their apartments if they wanted to.

One of the major criticisms of rent control is that its benefits are not necessarily targeted to those with the greatest need. Most rent control regimes enforce some form of vacancy decontrol, under which the landlord can raise rents to "market" rates when a unit is vacated and a new household moves in. As a result, those who benefit most from rent control are those who stay in their apartments the longest, and households that move frequently may actually pay higher rents than they would in an unregulated market. Although a significant portion of long-term renters are low-income households, middle- and upper-income households also benefit if they stay in their apartments. Some needy households get no benefit if they are frequent movers or recent arrivals.

The rent savings generated by rent control are not as substantial as many renters believe. Turner (1998) found that 90 percent of residents in the District of Columbia believed that rent control had made their units more affordable. About a quarter of those in rent-controlled units, however, were estimated to be paying rents as high as or higher than they would have paid in an uncontrolled market.

Some of the costs of rent control may be transferred to renters living in unregulated units through higher rents. In Los Angeles, renters of uncontrolled units who had moved the year before were found to be paying $15 to $28 more per month than if rent control had not been adopted (City of Los Angeles 1985). Using data from the American Housing Survey, Early and Phelps (1999) found that an uncontrolled unit's rent is $85 higher as a result of rent control. However, their study also found that the effects of rent control on uncontrolled units diminished over time. Therefore, the authors concluded that eliminating rent controls could not be expected to reduce the price of uncontrolled housing, but that the imposition of new rent controls would increase the price of housing in the uncontrolled market.

Landlords may also recoup revenues lost due to rent control by deferring maintenance of rent-controlled units. Moon and Stotsky (1993) examined the effect of rent control on the quality of rental housing in New York City. A hedonic price index showed that rent control reduces the chances that a unit will improve in quality. However, White (1992) argues that rent control need not be detrimental to the condition of the housing stock if the program of controls is well designed. And Turner (1998) found that the physical condition of controlled units in the District of Columbia was as good as or better than that of unregulated units.

3. Promote racial and economic diversity in residential neighborhoods.

Because local regulatory policies influence the volume, characteristics, and cost of new housing in individual jurisdictions, they can have an important impact on economic and racial integration. Regulations that discourage the production of affordable housing, including rental housing and high-density development, can exclude lower-income households from a community. More inclusionary policies, on the other hand, make it possible for lower-income households to find housing in a community and therefore create opportunities for racial and economic integration. Inclusionary zoning policies alone, however, cannot ensure that low-income households or minorities will gain access to affluent or predominantly white communities.

The regulations that are most detrimental to racial and economic integration appear to be low-density-only zoning and building permit caps (Pendall 2000). Low-density-only zoning discourages the production of lower-cost homes (such as townhouses) and rental units. Permit caps create incentives to build larger, more expensive homes and may cause communities to allocate the limited number of permits to higher-value housing (Pendall 2000).

Implementing inclusionary zoning in affluent suburban areas can play a part in regional strategies to open up the suburbs to lower-income and minority households (Rusk 2000). In fact, some researchers argue that set-aside-type inclusionary zoning is “the best, perhaps even the only currently available means by which residential integration can be actively fostered” (Calavita, Grimes, and Mallach 1997). However, inclusionary zoning programs that include “in-lieu of” provisions (allowing developers to produce affordable units off site or contribute to a housing fund in lieu of incorporating them into the new development) may limit the extent to which racial and economic integration is encouraged (Calavita and Grimes 1998).

Although there is clear evidence that various forms of inclusionary zoning can produce economic integration, the evidence of achievement on racial integration is mixed. Some jurisdictions have had some degree of success in promoting both. For instance, affordable units built under inclusionary zoning programs in suburban counties in metropolitan Washington, D.C., have been found to provide housing for low- and moderate-income households of diverse racial and ethnic backgrounds. A 1998 profile of a small sample of owners of inclusionary units in Montgomery County, MD, showed that 80 percent of the households were minorities and 84 percent earned less than $36,000 per year (Brown 2001). Tying the development of affordable units to market-rate construction in economically healthy areas has benefited minority and low- and moderate-income households.

The success of inclusionary zoning programs in New Jersey helped to “soften stereotypes” about affordable housing in many suburban areas (Lamar, Mallach, and Payne 1989)—perhaps easing the way for more low-income families to be successfully integrated into middle-class areas. However, relatively few minority households live in the new developments (Lamar, Mallach, and Payne 1989). Similarly, Goetz (2000) argues that the Twin Cities Livable Communities Act encouraged the development of more affordable housing in neighborhoods with higher housing prices. However, increased levels of affordable housing development were not linked with racial composition of neighborhoods, job opportunities, or percentage of households with very low incomes: “At the community level, the distribution of affordable housing under the program is virtually identical to what it would be under a continuation of the status quo” (Goetz 2000). And Cowan (2001) found that although inclusionary zoning was effective in increasing the supply of affordable housing units in metro areas in Connecticut, Rhode Island, and Massachusetts, it was not as effective in promoting racial integration, particularly in suburban areas. Cowan also found a lower rate of increase in affordable housing production in communities that were particularly affluent or had a very low percentage of minority householders.

4. Help households build wealth.

Inclusionary zoning programs have succeeded in creating considerable opportunities for first-time home buyers of modest means. The primary group benefiting from New Jersey’s inclusionary zoning requirements, for instance, is first-time home buyers (Lamar, Mallach, and Payne 1989). And because these affordable homes are tied to market-rate housing and often located in suburbs or economically healthy neighborhoods, inclusionary zoning programs can help lower-income households own homes that may increase in or retain market value.

On the flip side, traditional land use and zoning practices can help wealthy families build assets in their home by excluding poor families from their neighborhoods. Historically, housing market regulations have helped middle- and upper-income households build wealth through homeownership by limiting forms of development thought to undermine property values. Homeowners in jurisdictions with exclusionary zoning practices benefit from constraints on the availability of developable land and from zoning requirements that encourage only high-end development (Stockman 1992).

There is conflicting evidence on the role of land use regulations in increasing the cost of for-sale housing, thus potentially pushing homeownership out of reach for low- and moderate-income households. The literature review by Nelson et al. (2002) finds that the academic evidence by and large argues that market demand, not land constraints created by growth boundaries or other regulations, is the primary determinant of housing prices. Another study by Downs (2002) illustrates this point by finding that Portland's housing prices increased at the same rate as prices in other metropolitan areas without urban growth boundaries or growth controls. Furthermore, Nelson et al. (2002) argue that growth management policies tend to create walkable, mixed-income, mixed-use communities with access to jobs and amenities and that home prices tend to rise due to high housing demand. Thus, if traditional, exclusionary zoning and growth management regulations both ultimately result in higher housing prices, growth management policies are preferred because they mandate inclusion of affordable housing.

Other studies demonstrate that land use regulations push up the cost of housing. The National Association of Home Builders (1998) argues that, in a typical market, regulations can drive home prices up by 10 percent or more, making homeownership unaffordable for millions of Americans. One empirical analysis of the effects of regulatory environments on housing costs and homeownership rates showed that moving from a "permissive" to a "strict" regulatory environment could reduce homeownership rates as much as 10 percent (Malpezzi 1996). However, this study did not make a distinction between exclusionary regulations and those that encourage more affordable production.

5. Strengthen families.

Housing market regulations do not directly aim to strengthen families, although inclusionary zoning can have the indirect effect of providing lower-income families with opportunities to live in better neighborhood environments. See Chapter 2 for a discussion of the relationship between neighborhood characteristics and family well-being.

6. Link housing with essential supportive services.

Regulatory policies have little impact on the goal of linking housing with supportive services, unless they explicitly prohibit or limit the development of housing designed for people with special needs. Examples could include group homes for people with developmental disabilities or continuing care facilities for the elderly.

7. Promote balanced metropolitan growth.

State and local regulation of land use and development can help promote balanced metro growth and ensure that affordable housing is available throughout a metropolitan area, especially if states or regional authorities take action to mandate inclusionary housing approaches in suburban communities.

Regulatory schemes that promote the production of affordable housing across all communities in a region may be more effective than those implemented voluntarily by individual jurisdictions. In some states, fair share laws have helped to distribute affordable units throughout many suburban areas for the first time. For example, 20 years after the passage of the Massachusetts act, affordable housing had been introduced to many suburbs where it had never existed before, although the total number of units built and planned under the act did not come close to meeting affordable housing demand for the state (Stockman 1992). State and regional fair share mandates that require localities to plan for levels of affordable housing in line with regional needs can also be effective in promoting economic and racial integration because they require local governments to plan with the needs of lower-income households in mind (Pendall 2000).

The spatial mismatch between low-income workers and jobs and the need to build “workforce housing” near major employment centers are two of the major challenges of affordable housing at a regional scale. Studies have found that some reduction of spatial mismatch can be achieved through the use of linkage fees on commercial development and public-private trust funds for affordable housing (White 1992). By siting affordable housing in areas located closer to job opportunities, set-aside development itself also helps to solve problems of jobs-housing mismatch (Calavita and Grimes 1998).

Well-designed growth management policies, by definition, are efforts to anticipate and plan for growth at a metropolitan scale while ensuring that growth is environmentally and fiscally sustainable, promotes economic growth, and maximizes the benefits to all residents, including low-income persons and persons of color. Thus, well-designed regulatory regimes can address sprawl, revitalize central-city communities, and provide sufficient affordable housing throughout a metropolitan area at the same time.

Portland is a prime example of a metro area that has attempted to address the problems of sprawl, housing affordability, transit and congestion, and jobs-housing proximity comprehensively and on a metropolitan scale. According to its Regional Urban Growth Goals and Objectives statements, recently adopted by Portland Metro (Portland’s regional authority), “there shall be a range of housing types available inside the Urban Growth Boundary for rent or purchase at all costs in balance with the range of household incomes in the region,” and “housing should be located in proximity to major activity centers and regional transportation system.” Through mandatory inventory-taking of buildable land and careful planning for denser residential development, Portland has managed to avert many of the potential negative impacts of growth management on its housing market (Toulan 1994). Portland’s Downtown Plan, adopted in 1972, also helps to counteract potential housing price pressures of the Urban Growth Boundary by controlling land values in urban renewal projects, providing density bonuses for developers, and setting replacement policies that guard against net loss of affordable units under urban renewal activities (Toulan 1994).

To ensure regional equity among richer and poorer communities, regional governing bodies must be sure that incentives they provide for affordable housing development are enticing enough for richer communities to “bite.” For example, the Twin Cities Livable Communities Act offers loans and grants to encourage affordable housing development near transportation nodes, but the program makes little economic sense for communities that can easily attract upscale commercial and residential development. Sanctions as well as incentives are necessary for such initiatives to have any real impact on growth patterns and affordable housing development patterns in all areas of the city (Goetz, Chapple, and Lukermann 2001).

In Hartford and Bridgeport, the structured, mediated negotiations among local governments allowed participating municipalities to solve affordable housing problems within a context that took into account regional infrastructure and economic development and environmental protection needs. The negotiations also eased tensions between city and suburb (Wheeler 1993).

Some regulations undermine the goals of promoting balanced metropolitan growth and true regional housing choice. The primary ones are exclusionary land use and zoning policies designed at the local jurisdictional level, rather than on a regional scale. California is one state with a high number of local governments that have adopted growth controls with the explicit goal of limiting the supply of housing and thus excluding new residents (Nelson et al. 2002). Downs suggests that these local antigrowth controls helped reduce California’s production of housing units by 46 percent between 1986 and 1990 (Downs 1992). Statewide and metropolitanwide growth management programs can help ease the restrictiveness of local land use regulations and thus help reduce housing rents and home prices (Nelson et al. 2002).

C. Summary and Implications for Local Action

Regulatory policies are often neglected as potential tools for an affordable housing policy because they do not directly subsidize either housing units or households. But as the research presented here demonstrates, state and local regulations governing land use, residential development, construction standards, subdivision design, and property maintenance play critical roles, even when they are not explicitly considered as part of an affordable housing strategy. Some regulations may undermine housing affordability and exclude lower-income and minority households from parts of a metropolitan area. Others can be explicitly incorporated into a local or regional housing strategy. Exhibit 3 summarizes the findings presented in this chapter, showing what is known about the performance of regulatory and governance tools for each of the seven policy objectives introduced in Chapter 1.

Regulatory tools may be of particular importance to localities. Unlike the other programmatic tools discussed in this report, the federal government plays almost no role in the regulation of local housing markets. These powers belong to state government and are often delegated to local authorities. Thus, local policymakers enjoy a relative freedom from federal program rules and definitions when they weigh the use of regulatory tools. In fact, the biggest constraint on the effective use of regulatory tools is fragmentation of authority among individual cities and counties. This fragmentation makes it difficult to craft regional strategies for expanding the availability of affordable housing, promoting racial and economic diversity, or promoting balanced growth. Often, action at the state level is required to establish and empower regional decision-making bodies or to limit the authority of individual jurisdictions to implement exclusionary zoning and land use regulations. Without this kind of state intervention, the use of regulatory tools by individual localities can have only limited impacts.

Exhibit 3: Performance of Land Use and Regulatory Tools

	Land Use and Regulations
Preserve and Expand the Supply of Good-Quality Housing Units	Mixed—some programs expand supply while others limit new affordable construction
Make Housing More Affordable and More Readily Available	Maybe—rent control may moderate rent increases in tight markets
Promote Racial and Economic Diversity in Residential Neighborhoods	Mixed—some reforms can expand affordable housing in affluent communities
Help Households Build Wealth	Mixed—some programs provide wealth building opportunities while others do not
Strengthen Families	No
Link Housing with Essential Supportive Services	No
Promote Balanced Metropolitan Growth	Mixed—zoning and regulatory reforms can promote affordable development in all jurisdictions, though some do not

Historically, local land use and development regulations have tended to undermine the goals of affordable housing policy, whether intentionally or not. Requirements for large lot sizes; expensive subdivision design standards and construction codes; prohibitions against manufactured housing, townhouses, or multifamily development; and time-consuming permitting processes have all been shown to make housing more expensive. These regulatory barriers have also prevented the development of affordable housing and reinforced patterns of economic and racial separation. Getting rid of exclusionary regulations works. Even in the absence of a comprehensive regional approach, eliminating (or moderating) regulatory barriers to affordable housing development can be effective. This does not mean that all regulations on land use and residential construction should be eliminated. Many regulations that raise the cost of housing development have legitimate goals, such as protecting health and safety or preserving farmland. Local governments need not abandon these goals, but they can and should reassess their regulatory policies to ensure that they allow for the development of more affordable rental and homeowner housing.

While simply eliminating exclusionary regulations on a jurisdiction-by-jurisdiction basis can be effective, more comprehensive regional strategies can use regulatory tools to advance affordable housing goals across a metropolitan area and balance affordable housing with other goals, such as environmental protection and preservation of open spaces. Critics of regulations that attempt to limit urban sprawl or redirect new development to already urbanized areas have argued that these regulations undermine housing affordability. And indeed, development moratoriums and high permitting fees can raise the cost of new housing if they are implemented without accompanying tools for promoting affordable development. But the research evidence suggests that regional regulatory strategies like Portland's Urban Growth Boundary or Connecticut's regional negotiation process can expand the availability of affordable housing in communities throughout a metropolitan area. These innovations also can promote economic and racial diversity in suburban as well as central-city communities, limit sprawl, and preserve open spaces, all while helping to revitalize central-city neighborhoods.

D. Priorities for Future Research

Many questions remain unanswered by existing research on the link between land use regulations and affordable housing, although there has been renewed interest in the topic, as more states and localities are considering or adopting growth management approaches. Much of the academic literature to date has focused on two strands of investigation: the historical role of traditional land use and zoning regulations on racial and economic segregation, and the role of urban growth boundaries on home values, land prices, or home sale prices. This literature generally does not examine the effect of land use regulations on other measures of affordable housing, such as housing types, overall housing supply, residential mobility, or the price of rental housing.

Most of the existing research has focused on a single type of land use tool or growth control, such as urban growth boundaries or traditional Euclidian zoning. However, most jurisdictions use a multitude of land use tools to manage growth, such as open space preservation, density bonuses, adequate facilities ordinances, and the like. Additional research is needed to understand the effectiveness of comprehensive growth management regimes. Moreover, although some growth management strategies are implemented at the jurisdictional level, the effects are clearly regional, as is the housing market itself. Analysis of the effects of these strategies needs to take a regional perspective, rather than focusing narrowly on outcomes within individual jurisdictions.

A critical challenge for research in this area is the problem of generalizing across regulatory regimes and market conditions. To date, it has been difficult to isolate the effects of growth management policies from issues about the effectiveness of their enforcement, and variations in underlying market conditions. For example, most case studies examining the effects of urban growth boundaries or growth management policies on home prices have focused on Portland, OR, and to a lesser extent on Washington, California, and Florida, all of which are rapidly growing, high-cost housing markets, not representative of many other regions that may have an interest in growth management.

V. PUTTING IT ALL TOGETHER: A SUMMARY OF KEY LESSONS

Until this point, this report has separately reviewed the academic and professional literature on the effectiveness of each of the three broad approaches—rental assistance, homeownership assistance, and regulatory initiatives—in achieving the seven policy goals of affordable housing. This chapter summarizes this evidence, which provides important insights for state and local leaders on how they can evaluate, modify, or design affordable housing strategies.

A. Summary of Lessons by Goals

1. Preserve and Expand the Supply of Good-Quality Housing Units

One of the most important tools for increasing the supply of affordable housing is one that is often overlooked by housing experts—land use and other regulations. Regulations have a powerful role in shaping the housing market. In particular, conventional land use and zoning policies and growth controls are often the biggest deterrents to building affordable housing and therefore, if addressed, have the potential for opening up the supply of affordable homes. Traditional land use and zoning policies often exclude low-income and minority households by limiting the supply of affordable housing. They do so by banning the development of new multifamily housing and mobile homes or requiring minimum house or lot sizes, which in turn favors the larger, more expensive homes typically occupied by middle- and upper-income families. Growth controls go a step further by imposing strict limits or bans on housing supply without accommodating projected household growth in the region, which also limits the building of affordable housing and ultimately results in higher housing prices.

The response to these exclusionary practices is inclusionary zoning programs and, more comprehensively, well-designed growth management policies. Inclusionary zoning, which requires inclusion of affordable units in new developments, has been found to be an important tool for expanding the production of affordable housing in jurisdictions where they exist and are enforced. Inclusionary zoning is also inexpensive to administer because it relies principally on the role of the private sector. Three states experienced decreases in their government subsidies for affordable housing in communities that adopted inclusionary zoning programs. Growth management programs can expand the supply of affordable housing if creating affordable housing is explicitly part of the growth management plan. Portland, OR's growth management plan explicitly requires all jurisdictions in the region to meet multifamily housing targets as well as provide their fair share of affordable housing for the region, while being mindful of the household growth projections for the region.

Focusing on regulatory approaches is important because pure housing production programs, while effectively expanding the supply of affordable housing, has not been able to keep up with increasing needs among underserved and rent-burdened families. Further, while affordable housing production programs add to the supply, they do not always successfully provide decent-quality housing. Building low-cost rental housing is not enough; owners of such housing need to have both the capacity and the resources to maintain and operate them effectively.

HOME and the Community Development Block Grant are the only federal programs that also create affordable homes for ownership, not just rental. Both have been successful in producing and rehabilitating new units but have seen a larger share of total program funds go toward rental housing assistance.

2. Make Housing More Affordable and More Readily Available

Most of the literature to date indicates that low-income and working families who can find affordable housing are living in decent conditions but are struggling with the heavy costs of rent or mortgage. Although low supply of affordable housing is a critical issue in some areas, the more common challenge is how to make existing housing, particularly rental units, affordable to the poor and working poor.

The overarching lesson that emerges from analysis of federal rental assistance policies is that achieving affordability is highly dependent upon the depth and duration of federal subsidies. For instance, beyond public housing, Section 8 rental vouchers seem to be the most effective tool for helping low-income residents pay for rental housing. Federal rental vouchers are reliable, renewable subsidies specifically designed to reduce the cost of housing for low-income households. Housing vouchers are also a more cost-effective way to provide affordable housing than production programs. However, not all voucher recipients are successful in finding housing in the private market, and some recipients continue to pay unaffordable rent burdens.

On the other hand, privately owned, subsidized developments tend to produce housing that does not serve the poorest of the poor and is not permanently affordable. For instance, HOME, Low-Income Housing Tax Credits (LIHTC), and other subsidized housing programs that do not provide long-term operating subsidies do not generally produce housing that is affordable to those at the lowest end of the income scale. Although the programs are valuable, households living in HOME and LIHTC developments have higher rent burdens than those living in public housing.

Without subsidies, there are two regulatory approaches that seem to have mixed results in helping to reduce the cost of housing for low-income households. Inclusionary zoning, while producing affordable homes, tends to produce more units for ownership than for rent, and the units are often not affordable to the poorest households. Rent controls, by definition, promote housing affordability by regulating annual rent increases in a jurisdiction and have been found to benefit low-income renters. But rent control is often inefficient because it reduces housing costs for middle- and upper-income households as well as for the poor.

Finally, federal homeownership strategies have been very successful in making mortgage credit more affordable and available to low-income and minority home buyers. But there are some cautions here as well as we think about future approaches.

First, numerous studies have shown that the Community Reinvestment Act (CRA) has effectively changed the behavior of covered lenders to provide greater services and more loans to low-income and minority households and neighborhoods, particularly since the strengthening of enforcement in the 1990s. Given these successes, the main caution today is that CRA has been covering a progressively smaller base of mortgage lending activity than in the past. In 2000, less than one-third of all home purchase loans were made by CRA lenders, compared with 36 percent in 1993. Arguments have been raised to modernize CRA to meet the rapid changes in the financial services industry.

Second, mortgage market innovations, like underwriting liberalization and new loan products, have clearly expanded low-income households' abilities to qualify for mortgage credit and buy homes. However, research suggests that even the most aggressively liberal products have reached practical limits. Absent income- and wealth-creating strategies, not all renters are ready for homeownership.

Third, technological innovations, like automated underwriting and technology-supported risk-based pricing, have also expanded affordable lending by reducing the costs of extending credit and increasing the number of eligible borrowers. Automation has also removed human bias from the application of underwriting criteria, which critics argued led to discrimination. The one downside to automated underwriting is that the heavy reliance on credit scoring tends to place credit-constrained households at a disadvantage.

Last, homeownership education and counseling programs have had mixed results in helping to reduce the number of mortgage loan foreclosures and defaults among lower-income borrowers.

3. Promote Racial and Economic Diversity

Low-income and minority households have been long limited to neighborhoods with few job opportunities, good schools, and strong, stable families. In general, federal housing policies and regulations have helped fuel those patterns. The new strategies to reverse these trends and promote greater neighborhood diversity have made good progress. However, the evidence to date suggests that these programs have achieved more economic diversity than racial integration.

Both the public housing and LIHTC programs have been found to concentrate low-income residents in high-poverty, high-minority neighborhoods. Minority residents of public housing are especially disproportionately concentrated in high-poverty census tracts. The exception is public housing complexes with mostly white residents, which tend to be located in majority-white, lower-poverty neighborhoods.

The recent transformation of public housing through the HOPE VI program and the expansion of rental vouchers were designed in part to address the debilitating consequences of concentrated poverty. Although HOPE VI is too new to evaluate on this score, one of its primary objectives is to create mixed-income developments. Section 8 vouchers have broadened recipients' access to housing choice in the private marketplace. The result is that voucher users are more likely than public housing residents to live in diverse neighborhoods. But vouchers have been more effective in deconcentrating poverty than promoting racial and ethnic diversity. For instance, public housing residents who receive rental vouchers tend to move to neighborhoods that are less distressed than their original neighborhoods, but those neighborhoods tend to be clustered with other Section 8 recipients and have high numbers of minorities and moderate levels of poverty.

Regulatory policies have also had a mixed record in both cementing segregation in some communities and promoting diversity elsewhere. For instance, some existing zoning and land use regulations, such as low-density zoning and building permit caps, can keep low-income and minority residents from living in more homogeneous suburban communities. However, other regulations, like inclusionary zoning, have promoted economic and racial diversity by expanding the availability of affordable housing in growing neighborhoods.

And homeownership and mortgage credit programs have facilitated economic diversity but have done little to promote racial integration. Some evidence from 2001 Home Mortgage Disclosure Act data show that increased availability and affordability of mortgage credit have enabled large percentages of low-income households to locate to the suburbs and to middle-income tracts. However, minority households tend to own homes in the central city. Some advise that advancing mortgage access is more effective in promoting racial and economic diversity than developing housing in poor neighborhoods because it enables residents to move to better neighborhoods.

4. Help Households Build Wealth

One of the most significant benefits of housing is its wealth creation potential. Homeownership programs provide the most direct way to help lower-income and minority households build wealth. In fact, home equity represents 61 percent of household wealth for blacks and Hispanics, compared with 44.5 percent for whites.

This is not to say, however, that owning a home guarantees wealth accumulation. Wealth building through home equity depends heavily on the location of the owned home; the costs of maintenance, utilities, and property taxes; and the timing of the purchase and sale of the home. Those who purchase homes in growing, vibrant communities are more likely to see the value of their home increase than those who buy homes in stagnant, declining, or racially segregated neighborhoods. Minority households, irrespective of income, are also less likely to move up in housing (e.g., advancing to a second or third home)—and thus up the wealth ladder—than white households.

Zoning and land use regulations can directly affect wealth building through inclusionary zoning programs providing considerable opportunities for first-time home buyers of modest means. And because the development of these units is tied to market-rate housing in economically healthy neighborhoods, inclusionary zoning can help lower-income households own homes with market value, and thus wealth-building, potential.

On the other hand, exclusionary zoning or traditional regulations can help middle- and upper-income households grow assets in their homes by preventing the location in their neighborhoods of affordable homes and other types of development that are thought to undermine property values.

There is much debate about the role of growth management in driving up housing prices, which can potentially push homeownership out of the reach of low- and moderate-income households. One recent literature review found that market demand, not land constraints due to growth boundaries, was responsible for increases in home prices. It further showed that home prices can increase in housing markets with any kind of regulatory environment, traditional or growth management. Thus, regardless of market conditions or home price changes, growth management programs that mandate the provision of affordable housing throughout a metropolitan area is more effective in serving low- and moderate-income households than are conventional regulatory policies. Other studies, however, show that regulations can drive up home prices by 10 percent or more, and that “strict” regulatory environments can reduce homeownership by as much as 10 percent.

Finally, rental assistance programs generally do not directly build wealth, although they may enable recipients to save for homeownership by reducing their rent burdens. There have been programs that allow public housing residents to purchase their units, but residents are generally only interested in owning units in developments that are attractive and high quality.

5. Strengthen Families

Families are strengthened when they live in safe, stable, and affordable housing environments and neighborhoods that provide economic and social opportunities. Homeownership, more so than rental housing assistance, is often linked with strong families. Homeownership results in improved housing conditions and increased self-esteem from achieving homeownership. Both of these benefits create a strong home environment for raising children; as home conditions improve, so do children’s cognitive outcomes and behaviors. Homeownership can also provide families a stable place in the community that can greatly enhance their social and neighborhood ties, which in turn can improve child outcomes. Homeowners also acquire financial, organizational, and social skills as well as a sense of responsibility that may be transferred to their children. However, all of these gains in homeownership can be negated if the home is located in a distressed neighborhood or if the homeowner experiences fear, anxiety, and insecurity about making mortgage payments.

Low-income renters with housing vouchers who move to low-poverty neighborhoods also benefit from positive family outcomes. Studies of Chicago’s Gautreaux program confirm that voucher recipients who moved to middle-income, white suburbs were more likely to have jobs and to have children who were less likely to drop out of school (and more likely to enroll in college) than other public housing residents. Also, public housing residents participating in Moving to Opportunity programs and Section 8 voucher recipients were both able to reduce their dependence on welfare and find employment and job training programs when they moved out of their high-poverty neighborhoods. Despite these successes, however, some families who move out of their original neighborhoods experience stress from leaving behind their friends and families.

Although there is little literature on the role of public housing and other federal rental production programs on the overall well-being of families, there is a growing body of evidence that welfare recipients who live in assisted housing have an easier time finding and maintaining jobs than those without housing aid.

Finally, housing market regulations do not directly aim to strengthen families, although inclusionary zoning can have the indirect effect of providing lower-income families with opportunities to live in better neighborhoods.

6. Link Housing with Essential Supportive Services

Meeting the needs of disabled, elderly, or homeless households and individuals has generally been the responsibility of a specific set of initiatives. Programs serving disabled and older Americans are almost exclusively rental housing programs that come with a wide range of services. Although few studies have evaluated the effectiveness of these programs, some have found that most residents are satisfied with the quality and affordability of their housing. However, a recent survey of federally assisted elderly developments found that only 27 percent provided meal programs or some form of supportive services, and only 50 percent had service coordinators on staff.

Two important findings emerge from studies of the value of supportive housing for the homeless. First, some research has found that homeless persons who used such housing and services ultimately had fewer hospital stays and fewer uses of hospital and mental health services. Second, comprehensive, supportive housing programs for homeless people with severe mental illness were found to reduce the costs to cities and states for providing other piecemeal services, such as overnight shelters, medical and mental health services, and use of jails and correctional facilities.

Although less directly than supportive housing, homeownership strategies can provide support for elderly and disabled owners in two ways. First, the disabled and aging communities have promoted policies to ensure that their target populations remain in independent living conditions as long as possible. The availability of home-based services may increase the chances for older and disabled persons to remain in homeownership. Second, reverse mortgage products enable elderly homeowners to convert their housing equity into cash to pay for in-home care and other health care needs.

Finally, regulatory policies have little impact on the goal of linking housing with supportive services, unless they explicitly prohibit or limit the development of housing designed for people with special needs.

7. Promote Balanced Metropolitan Growth

In general, the nation's affordable rental housing (both existing and new) and homeownership opportunities are often located in central cities and distressed neighborhoods, or in far-flung communities near the suburban fringe. The result is that low- to moderate-income families are either concentrated near the core of a metropolitan area, or must move to distant communities, adding to the fiscal and land use pressures of sprawl. In both cases, housing choices near job growth centers or other neighborhoods in the metropolitan area are limited. And the effectiveness of rental vouchers, which are dependent upon true housing choice in a metropolitan area, are undermined when the suburbs lack adequate supplies of rental housing.

Land use and other regulatory policies are the ticket for increasing the availability of affordable housing throughout a metropolitan area. Inclusionary zoning expands the supply of affordable homes in the suburbs and in market-rich neighborhoods, often creating economically diverse, but not necessarily racially diverse, communities in the process. State or regional fair share housing laws that mandate affordable housing in all jurisdictions in a community have been found to be effective in creating affordable housing in suburbs where none existed previously.

Well-designed growth management policies anticipate and plan for growth at a metropolitan scale while ensuring that future growth is environmentally and fiscally sustainable, promotes economic prosperity, and benefits all residents, including low-income households and persons of color. Thus, well-designed regulatory regimes include as a priority the provision of sufficient affordable housing throughout a metropolitan area. Portland's growth management plan is often held up as a model because it requires every suburban city and county to adopt plans that allow for higher densities and for at least 50 percent of new housing to be multifamily or attached single-family/townhouse units.

However, some regulations undermine the goals of promoting balanced metropolitan growth and true regional housing choice. They include exclusionary land use and zoning policies designed at the local, rather than regional, level. California is an example of a state with a high number of local governments that have adopted growth controls with the explicit goal of limiting the housing supply and thus excluding new residents.

B. Summary of Lessons by Matrix

These collective findings show that while rental housing assistance programs, homeownership assistance programs, and regulatory tools all have the potential to advance the larger goal of promoting healthy families and communities, some of their specific programmatic approaches can advance one goal over another. Exhibit 4 combines the summary tables in Chapters 2 through 4. This matrix provides a quick synopsis of the performance of each program type and can be used as an easy reference for those thinking about how different programs might be combined to achieve specific policy objectives. For instance, if the major policy objective is to promote racial and economic integration, reading that row across the three major housing strategies will identify which one(s) can be expected to best achieve this particular goal. In many cases, it may be a combination of the three strategies that will advance the goals.

Exhibit 4: Effectiveness of Housing Programs by Policy Goals

	Rental Housing Assistance		Homeownership Assistance			
	Supply-Side Production	**Demand-Side Vouchers**	**Supply-Side Mortgage Credit**	**Demand-Side Homebuyer Tax Policies and Assistance**	**Supply-Side Production**	Land Use and Regulations
Preserve and Expand the Supply of Good-Quality Housing Units	Yes—rental stock has been expanded, though more units need to be produced	Somewhat—may encourage landlords to maintain existing housing	Maybe—but impact is indirect	Maybe—but impact is indirect	Yes—primary goal of these programs is expanding owner-occupied stock	Mixed—some programs expand supply while others limit new affordable construction
Make Housing More Affordable and More Readily Available	Yes—but affordability depends on size and duration of subsidies	Yes—primary goal is affordability; success depends on households' ability to find units	Yes—but impact is indirect	Yes—enhances buying power, but depends on price of housing stock	Yes—primary goal of these programs is affordability and access	Maybe—rent control may moderate rent increases in tight markets
Promote Racial and Economic Diversity in Residential Neighborhoods	Rarely—depends on where new units are located, and who is eligible to occupy them	**Possibly—if recipients can find units in diverse neighborhoods**	Possibly—depends on locational decisions of buyers	Possibly—if recipients can find units in diverse neighborhoods	Possibly—depends on the location of units produced and local economy	Mixed—some reforms can expand affordable housing in affluent communities
Help Households Build Wealth	Generally not—though lower rents may lead to increased family assets	Generally not—though lower rents may lead to increased family assets	Yes—but depends on house price appreciation and individual borrower circumstances	Yes—but depends on house price appreciation and individual borrower circumstances	Yes—but depends on house price appreciation and individual borrower circumstances	Mixed—some programs provide wealth-building opportunities while others do not
Strengthen Families	Possibly—but little literature exists to confirm programs' ability to strengthen families	Possibly—but less impact if units are located in distressed neighborhoods or occupancy rules discourage family unification	Yes—but less impact if units are located in distressed neighborhoods	Yes—but less impact if units are located in distressed neighborhoods	Yes—but less impact if units are located in distressed neighborhoods	No
Link Housing with Essential Supportive Services	Sometimes—when units are designed in conjunction with effective supportive services	Generally not	No	Probably not—unless services are explicitly linked with assistance	Probably not—unless services are explicitly linked with assistance	No
Promote Balanced Metropolitan Growth	Rarely—depends on where the new units are built	Possibly—depends on recipients' ability to find units in suburban areas and close to job opportunities	Unclear—depends on general population's locational choices	Unlikely—though possible if recipients can find units in suburban areas and close to job opportunities	Rarely—the location of units thus far has generally not promoted balanced growth; however, neighborhoods have benefited from homeownership	Mixed—zoning and regulatory reforms can promote affordable development in all jurisdictions, though some do not

VI. Conclusion: Implications for Local Housing Strategies

This final, concluding chapter offers a framework that local policymakers and practitioners can use to take advantage of the available evidence and thus craft housing strategies that make sense for their communities and regions.

A. Housing Strategies Should Be Tailored to Local Market Conditions

Housing needs and policy priorities differ from place to place, due to differences in housing market conditions, history, and political realities. Although this report has focused on a comprehensive set of affordable housing goals and the tools that can be used to achieve them, it does not make sense to implement the same strategy everywhere. In markets where population is growing rapidly and housing is in short supply, producing new affordable units might be a top priority. But in markets where the overall demand for housing is weak and vacancy rates are high, new units may not be needed, although poor households may still need help to afford the available housing.

A local—or metropolitan—housing strategy should be crafted to address current and expected market conditions. It is not sufficient simply to identify housing problems—local policymakers need to understand what is going on in the housing market to cause these problems. Then they can determine which goals make sense, and which should be the highest priority. Based on this information, a mix of programmatic initiatives can be crafted to promote the community's priority goals.

Since 1990, communities that receive housing block grants under the HOME program have been required to develop and submit housing plans as a condition of funding. More specifically, the National Affordable Housing Act of 1990 requires states and local jurisdictions that receive HOME funding to develop a Comprehensive Housing Affordability Strategy (CHAS). In 1993, the U.S. Department of Housing and Urban Development (HUD) linked the CHAS requirement to planning and administrative requirements for other programs, creating the Consolidated Plan (ConPlan). These plans are required to provide a fact-based analysis of local market conditions and trends, quantify the housing problems and needs of low- and moderate-income households, set priorities, and identify concrete strategies for allocating federal funding—in conjunction with state and local resources—to achieve the priority outcomes. Some jurisdictions have used the ConPlan process very effectively as a mechanism for strategic planning, and it offers an opportunity that more localities could exploit to systematically analyze and address their housing market circumstances (Turner et al. 2002).

Exhibit 5 illustrates how the basic goals of housing policy might be prioritized in two very different housing markets. We have exaggerated the contrast between these two hypothetical markets to make the point that priorities and strategies need to reflect local conditions and trends. In *City A*, the regional economy is booming, unemployment is low, and incomes are rising. The population has been growing rapidly, with large numbers of immigrants from Latin America and Asia attracted by the region's job opportunities. Rents and house prices in some central-city neighborhoods are rising rapidly, creating affordability concerns for both low-income renters and moderate-income homeowners. Although welfare rolls have declined dramatically, a significant number of long-time recipients appear to face serious obstacles to finding and keeping jobs; many of them live in public housing.

The economic boom of the 1990s never really reached *City B*, where central-city unemployment remains high. Incomes are stagnant, and population continues to decline. Rents and house values are generally low. Many units are vacant, and some are deteriorating and even abandoned or boarded up. Nonetheless, because incomes are low, many households have difficulty finding decent housing they can afford. The central-city population is majority African American. The surrounding suburbs, which are predominantly white, historically have been unwelcoming to minorities. A substantial population of homeless individuals—mostly men—lives on the city streets and in shelters.

Exhibit 5: Strategic Priorities in Differing Market Contexts

Housing Policy Goals	Growing City A Priorities	Declining City B Priorities
Preserve and Expand the Supply of Good-Quality Housing Units	**#1:** Increase the stock of modestly priced rental and homeowner units in neighborhoods where demand is high	**#7:** Improve the condition of existing housing units at risk of being removed from the stock
Make Housing More Affordable and More Readily Available	**#2:** Help low-income renters and moderate-income home buyers with affordability problems	**#1:** Help low-income renters and moderate-income home buyers with affordability problems
Promote Racial and Economic Diversity In Residential Neighborhoods	**#3:** Promote opportunities for neighborhoods to become more racially and economically diverse and combat discrimination in housing transactions	**#5:** Assist minority families who want to move to the suburbs to overcome racial barriers, while making city neighborhoods more attractive to families of all races
Help Households Build Wealth	**#6:** Create homeownership opportunities for new immigrants, in neighborhoods where house values are rising	**#6:** Strengthen house values and appreciation rates for existing and new homeowners
Strengthen Families	**#5:** Reform public housing occupancy and rent rules to encourage two-parent families and reward work	**#4:** Provide targeted job training and job search assistance to residents of assisted housing
Link Housing With Essential Supportive Services	**#4:** Provide intensive self-sufficiency services for welfare-dependent families living in public housing	**#3:** Link supportive services with housing subsidies to provide permanent housing for homeless individuals and families
Promote Balanced Metropolitan Growth	**#7:** Encourage development of affordable housing in the suburbs as well as the city	**#2:** Promote reinvestment in central-city neighborhoods as an alternative to higher-cost suburban sprawl

In both of these markets, all seven of our basic housing policy goals are applicable, but their relative importance differs. In City A, expanding the stock of decent and affordable housing is the top priority, while no new units are needed in City B. Instead, City B should focus on making existing housing more affordable for low- and moderate-income residents and strengthening the local housing market by attracting more households to the city.

Just as cities and metropolitan areas differ, neighborhoods within the same jurisdiction often have very different housing circumstances and needs. Although local policymakers need to craft a strategy for the city or region as a whole, this strategy may call for different programmatic approaches in different neighborhoods. For example, a low-income neighborhood with moderate rents and house prices and relatively high vacancy rates may not need any new affordable housing construction, but could benefit from low-cost rehabilitation loans or down payment assistance to first-time home buyers. In contrast, it might be possible to boost the supply of affordable housing in a high-cost, high-demand neighborhood through inclusionary zoning regulations. To match programmatic approaches to neighborhoods, local decision makers need information about current market conditions and trends—information that often can be assembled from a combination of national and local data sources (www.urban.org/nnip).

In virtually all communities nationwide, the magnitude of the housing need is likely to dwarf available resources. Thus, given local market conditions (and political realities), communities may adopt different strategic approaches. It is critical to align the strategy with local needs and the community's expectations for outcomes. For example, one community might decide to focus the bulk of its resources on its top one or two priorities, chipping away at these problems over an extended period of time. Another community might decide to focus instead on more narrow or short-term goals, such as eliminating all lead-based paint over a ten-year period or providing service-linked housing for all disabled people. A third strategic approach would be to focus on activities that leverage other resources from federal and state governments and from the private and philanthropic sectors.

B. Housing Markets Are Regional, and Housing Policies Should Be

The most appropriate geography for thinking about housing policy and programs has changed dramatically over recent decades due to the rampant decentralization of economic and residential life in the United States. During the 1990s, the metropolitan areas containing the 100 largest cities grew 80 percent faster than their central cities. The pattern of faster suburban growth held for all types of cities, whether their populations were falling, stagnating, or growing. Even sunbelt cities like Phoenix, Dallas, and Houston are growing more slowly than their suburbs. Cities have lost disproportionate numbers of the middle- and upper-income households that form the backbone of economically strong communities. From 1989 to 1996, 7.4 million upper- and middle-income households left cities for suburbs, while only 3.5 million moved from suburb to city (Kasarda et al. 1997).

The suburbs also dominate employment growth. A study of 92 metropolitan areas found only 17 places where city job growth outpaced suburban job growth during the middle of the 1990s (Hill and Brennan 1999). The bulk of the cities did gain jobs, but at a slower pace than that of their suburban neighbors. From 1994 to 1997, for example, the central business districts in Ohio's seven major cities experienced a net increase of only 636 jobs. Their suburbs, by contrast, gained 186,410 new jobs (Hill and Brennan 1998). A new spatial geography of work has emerged in metropolitan America. Across the 100 largest metro areas, on average, only 22 percent of people work within three miles of the city center. In cities like Chicago, Atlanta, and Detroit, employment patterns have altered radically, with more than 60 percent of the regional employment now located more than ten miles from the city center (Glaeser and Kahn 2001).

In the wake of decentralizing economies, central cities still harbor a disproportionate share of their regions' low-income families. Low-cost rental housing, including federally subsidized housing, tends to be concentrated in central-city neighborhoods, in part because wealthier suburban jurisdictions have limited the development of affordable housing within their borders. Historically, central-city neighborhoods were convenient to entry-level and low-skill job opportunities, but today's outlying employment centers are often inaccessible from low-income neighborhoods in the urban core (Pugh 1998; Coulton, Leete, and Bania 1999; Turner, Rubin, and DeLair 1999).

Sprawling metropolitan growth brings other economic and environmental consequences as well. The spatial divide between jobs and workers exacerbates the traffic congestion that has become the hallmark of metropolitan America. The reliability and productivity of the workforce are diminished as workers are forced to tolerate longer commutes. In sprawling regions, such as Atlanta and Los Angeles, the combination of employment decentralization, poverty concentration, and low-density settlement has diminished the utility of public transit. In these places, it has become virtually impossible for low-income workers, many of whom do not own cars, to get from home to work in a reasonable time using rail and bus systems.

The current reality of metropolitan economies has sparked a growing interest in metropolitan solutions. But, for the most part, housing policy discussions remain strikingly local. In an era of population and employment decentralization, the metropolitan area—not the individual political jurisdiction—represents the appropriate geographic space for which to be thinking about and acting upon access to affordable housing. Enabling low-income families to live closer to the employment centers in the new economy (and to more economically diverse schools) will not only benefit those families and their children—A better balance between jobs and housing will help ameliorate the negative consequences that are associated with current metropolitan growth patterns.

C. Income Policy *IS* Housing Policy

Most affordable housing strategies at the national and local levels are designed to expand the supply of affordable housing. A panoply of programs and subsidies focus on stimulating the construction, rehabilitation, and renovation of housing that is affordable to low- and moderate-income families. Production is a necessary component of a responsible affordable housing policy. But the lack of income remains the principal barrier to affordable housing. HUD’s annual analysis of worst case housing needs—the closest barometer available for measuring the nation’s affordable housing challenges—generally finds that 80 percent of the problem is not housing inadequacy or overcrowding, but affordability.

The causes of the housing affordability gap are, of course, complex. Household incomes are determined by the interplay of major economic, demographic, and government forces. At the same time, housing prices are determined by a host of market and regulatory factors. Given these structural issues, housing policymakers and advocates often conclude that there is little they can do to raise incomes at either the federal or local levels. As a result, they continue to focus their efforts on programs that subsidize some of the costs of housing production or supplement what low-income households can afford to pay for housing.

Increasingly, however, state and local leaders are realizing that they can raise the incomes of working families by enhancing access to and use of such federal investments as the earned income tax credit, nutrition assistance, health care, and child care. In recent years, for example, state and local groups have maximized the potential of the earned income tax credit by conducting outreach programs, supporting free tax preparation services, and helping families use the credit as a gateway to financial services and savings. It is now estimated that working families apply one third of their credits (or $10 billion of the annual $30 billion made available under this program) to housing needs. That makes annual expenditures under the earned income tax credit program larger than under any single HUD program. In designing effective housing strategies, therefore, housing leaders need to look beyond the narrow confines of federal supply- or even demand-side programs. Recent experience with the earned income tax credit shows that local leaders can have a dramatic impact on household incomes and, by extension, housing affordability. Other initiatives that help low-income families find and keep jobs, build skills, and advance economically should also be incorporated into strategies for making housing more affordable.

D. Regulation Can Be a Powerful Housing Policy Tool

Most affordable housing strategies try to subsidize the gap between what low-income people can pay and what it costs to produce and maintain decent housing. For example, rental housing production programs often provide grants or low-cost loans for the construction of new units, or offer investors tax credits to compensate for below-market rent levels. Similarly, homeownership programs provide down payment assistance to supplement what low- and moderate-income families can afford to pay on their own. But because resources are scarce, housing subsidies only serve a small fraction of those in need. The majority of low-income households with serious housing problems do not receive assistance, even though they are eligible.

State and local regulatory policies may offer opportunities to make private housing more affordable. Most states delegate the authority to regulate the private housing market to local governments, which then establish and enforce zoning policies, land use restrictions, development fees, subdivision and design requirements, building codes, rent controls, and other regulations that reflect local priorities and objectives. Taken together, these regulations help determine whether and where different types of housing can be developed, how much it costs, and how it is maintained. Although regulatory policies are often overlooked in discussions of affordable housing policy, they play a critical role.

The traditional approach to land use and development regulation has resulted in policies that explicitly or implicitly limit or prevent the development of affordable housing in a jurisdiction, through restrictive policies like outright bans on multifamily housing or through requirements for large lot sizes, houses set back from the street, and wide sidewalks. Eliminating (or moderating) exclusionary regulatory barriers to affordable housing development can be effective. This does not mean that all regulations on land use and residential construction should be eliminated. Many regulations that raise the cost of housing development have legitimate goals, such as protecting health and safety or preserving farmland. Local governments need not abandon these goals, but they can and should reassess their regulatory policies to ensure that they allow for the development of more affordable rental and homeowner housing.

Regulatory strategies can also create incentives for private developers to produce more affordable housing where it is needed most. States, regions, and local governments have employed inclusionary zoning and other regulatory reforms aimed at increasing the number of affordable units, especially in areas where they are traditionally scarce (e.g., more affluent suburbs). Using a combination of mandates and/or incentives, inclusionary zoning can help compensate for past local exclusionary practices, or can balance the effects of growth controls and other regulatory policies that may indirectly limit affordable development. Among the most frequently used inclusionary zoning tools are developer set-asides, which require that a certain percentage of units in a new residential development be affordable and available to low- and moderate-income households. Implementing inclusionary zoning in affluent suburban areas not only can expand the overall availability of affordable housing, but also can help open up the suburbs to lower-income and minority households, promoting racial and economic integration, and providing low- and moderate-income households with more choices about where to live.

E. Race Matters

Most communities in the United States remain profoundly segregated on the basis of race. The latest evidence from the 2000 census indicates that nationwide, the residential segregation of blacks from whites has declined slightly, but remains high. Levels of segregation for Hispanics from non-Hispanic whites and for Asians from whites are much lower, but may actually be rising in some metropolitan areas (www.albany.edu/mumford/census). Moreover, recent studies indicate that school segregation is on the rise, not only for racial minorities but also for children who are not native English speakers (Orfield 1997). Although the causes of residential segregation are complex, the persistence of segregation at high levels cannot be explained away as the result of individual choices by whites and minorities to live in homogeneous neighborhoods. In fact, most whites as well as minorities indicate that they would be comfortable living in mixed neighborhoods (Farley et al. 1997).

Residential segregation denies minority families full and free choice about where to live, while often denying minority neighborhoods the services and resources they need to thrive and grow. As a consequence, minorities' access to quality schools, jobs, and economic opportunity is limited. The most extreme consequences of residential segregation are found in the central cities of large urban areas. Because minorities experience higher poverty rates than whites, the concentration of minorities in inner-city neighborhoods also concentrates poverty and compounds its social costs (Massey and Denton 1993). As jobs, wealth, and economic opportunities have migrated to the suburbs, poor minority communities in the central city have become increasingly isolated, cut off from access to the mainstream of our society and economy (Wilson 1990). Thus, housing segregation helps sustain economic inequality and contributes to the persistence of urban poverty. Moreover, it perpetuates racial and ethnic prejudice by limiting opportunities for healthy interaction between minorities and whites.

Historically, affordable housing policies have done little to address the problem of segregation, and often have exacerbated it. At their inception, federal housing programs incorporated many of the prevailing practices of the private housing market and were explicitly discriminatory as a result. Over the years, as new housing programs evolved, successive administrations missed opportunities to aggressively combat discrimination and segregation, instead allowing prevailing practices and patterns to continue. For example, federal programs to assist low-income renters have helped concentrate poor minority households in poor minority neighborhoods, limiting housing choice and exacerbating segregation. Originally, public housing regulations and guidelines encouraged the assignment of households to projects on the basis of their race and the racial composition of the surrounding neighborhoods (Jackson 1985). The federal government's homeownership programs also reinforced patterns of segregation and discrimination in U.S. housing markets. The earliest Federal Housing Administration (FHA) mortgage insurance programs enabled and encouraged middle-class white families to obtain financing for new housing in the burgeoning suburbs, while lending institutions denied loans for homes in older, inner-city neighborhoods and appraisal practices discouraged racial mixing (Calmore 1993). Later FHA programs—which were intended to expand credit to older neighborhoods and less-affluent borrowers—sometimes played a role in the abandonment of urban neighborhoods by white homeowners, contributing to residential resegregation, high foreclosure rates, and neighborhood disinvestment (Massey and Denton 1993).

Although local policymakers may hope to design and implement color-blind housing policies, if the realities of segregation and ethnic inequalities are ignored, policies may not work as intended. For example, a homeownership assistance program may not lead to wealth accumulation for minority households if segregation and discrimination limit their home purchase choices to minority neighborhoods where house values are not appreciating. Vouchers fail to give low-income families real choices about where to live if they feel unwelcome in neighborhoods beyond the central city. And the successful revitalization of an inner-city neighborhood may lead to displacement of minority households if no efforts are made to resolve conflicts between groups and to actively promote diversity.

F. Implementation Matters

Even the best housing strategy will fail to accomplish its goals if it is not effectively implemented. The history of housing policy in the United States is replete with examples of well-intentioned programs that produced harmful outcomes because of poor administration. For example, some of the local housing authorities responsible for implementing the federal housing voucher program have failed to effectively perform basic administrative functions such as inspecting units promptly when subsidy recipients apply for lease approval, making rental payments to landlords on time, and responding effectively to landlord questions and complaints. As a result, landlords are unwilling to participate in the program, leaving subsidy recipients with limited choices about where to live and contributing to the concentration of poor households in distressed neighborhoods (Turner, Popkin, and Cunningham, 2000).

When new programs are launched, local policymakers should critically assess the capacity of the organizations that will implement them. Do they have sufficient staff and resources? Do they have the skills and experience needed to perform their new responsibilities effectively? Is the program designed to provide incentives for effective administrative performance? Sometimes, strengthening organizational capacity can be the most effective intervention to improve policy outcomes. For example, the National Community Development Initiative (NCDI) made a long-term commitment to strengthen the capacity of nonprofit community development corporations (CDCs), providing technical assistance and operating support to CDCs in selected communities and contributing to substantial increases in sophistication, performance, and production levels (Walker 1998).

Often, partnerships between organizations with complementary strengths can result in effective program implementation, particularly when a mix of diverse skills and experience is needed to meet client needs. In several communities across the United States, local housing authorities have collaborated with nonprofit counseling organizations and fair housing advocates to link housing vouchers with effective housing search assistance and mobility counseling. Voucher recipients have received not only demand-side housing assistance, but also hands-on help in finding suitable units in thriving neighborhoods, and counseling to prepare them to succeed in the private housing market (HUD 1999). But it takes real effort to establish and sustain effective partnerships; many organizations that have done so stress the time and resources that are required to be successful.

Implementation agencies must be held accountable for performance. It is not enough to assign responsibility for implementing a new program to the best-qualified agency (or partnership) and hope for the best. Clearly defined performance measures and systematic performance monitoring can strengthen implementation. Exhibit 6 offers a set of outcome and output indicators specific to each of the seven goals of affordable housing policy. *Outcome indicators* measure the communitywide conditions (such as an affordable housing shortage or racial segregation) that housing policies intend to change over the long term. *Output indicators* provide more immediate measures of program accomplishments (such as number of new affordable units or number of families making pro-integrative moves). Over time, programs that are successful in producing the desired outputs should contribute to progress on the larger outcome measures.

Local policymakers can choose from several alternative strategies for holding agencies accountable for the performance of housing programs. Sometimes, simply requiring that performance data is collected, and publishing it on a regular basis, creates strong incentives for effective performance. But communities can also enter into performance-based contracts with public agencies, private companies, and/or nonprofit organizations in which payments, bonuses, and/or contract duration are all explicitly tied to the achievement of measurable performance targets (Osborne and Plastrik, 2000; Osborne and Gaebler 1991).

The variety of available program options and their differing applicability to local conditions necessitate constant and thoughtful evaluation of potential policy choices in the light of the best available data on “what works.” This report organizes and summarizes what is known about the performance of various programmatic approaches. Local practitioners can take advantage of past experience to craft more effective strategies, given their own unique circumstances. We hope that this report will help practitioners and policymakers do just that.

Exhibit 6: Measuring Program Performance

Goals of Affordable Housing Policy	Indicators	
	Outcomes (long-term: five to 20 years)	**Outputs** (short-term: one to five years)
Preserve and Expand the Supply of Good-Quality Housing Units	▪ Number of housing units affordable for very low, low-, and moderate-income households ▪ Number of physically deficient housing units ▪ Number of overcrowded housing units	▪ Number of units built or rehabilitated ▪ Number of units improved/upgraded ▪ Share of new units affordable for very low, low-, and moderate-income households
Make Housing More Affordable and More Readily Available	▪ Number of very low, low-, and moderate-income households paying more than 30 percent of income for housing ▪ Number of very low, low-, and moderate-income households paying more than 50 percent of income for housing	▪ Number of vouchers issued ▪ Share of available vouchers utilized ▪ Number of households relocating with housing search assistance
Promote Racial and Economic Diversity in Residential Nieghborhoods	▪ Index of residential segregation by race and ethnicity ▪ Index of residential segregation by income level	▪ Share of new (assisted) units in low-poverty and nonminority neighborhoods ▪ Share of voucher recipients moving to low-poverty and nonminority neighborhoods ▪ Racial and economic mix of assisted developments ▪ Number of pro-integrative moves
Help Households Build Wealth	▪ Average household assets, by income and race/ethnicity ▪ Homeownership rate, by income and race/ethnicity ▪ Average house price appreciation rate, by neighborhood	▪ Number of new homeowners ▪ Average house price appreciation among assisted buyers
Strengthen Families	▪ Share of children living with two parents ▪ Share of children with elevated blood lead levels ▪ Share of children completing high school ▪ Average household income, by neighborhood ▪ Share of households with wage income, by neighborhood	▪ Number of families reunifying ▪ Number of assisted households completing self-sufficiency programs ▪ Number of assisted households moving from welfare to work
Link Housing with Essential Supportive Services	▪ Number of homeless people ▪ Number of frail elderly without services ▪ Number of disabled without services	▪ Number of units with transitional services ▪ Number of nonprofits serving special-needs populations
Promote Balanced Metropolitan Growth	▪ Geographic concentration of affordable housing ▪ Average commute times, by jurisdiction ▪ Ratio of jobs to housing, by jurisdiction	▪ Share of new affordable housing in suburban jurisdictions ▪ Volume of residential investment in older, city neighborhoods

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