

AFFORDABLE HOUSING IN THE CHICAGO REGION: PERSPECTIVES AND STRATEGIES.



A collaborative project of Roosevelt University's Institute for Metropolitan Affairs and the Center for Urban Research and Learning at Loyola University Chicago, and their community partners

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Institute for Metropolitan Affairs
Roosevelt University
&
Center for Urban Research and Learning
Loyola University Chicago
&
Community Partners

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INTRODUCTION

Jim Lewis, Phil Nyden & Kale Williams

A number of authoritative sources indicate that the Chicago region faces a serious shortage of quality housing that is affordable to low-income persons:

- The redesign of the Chicago Housing Authority's family developments expected to take place over the next 10 years will likely result in a net loss of public housing in Chicago of about 10,000 units. The CHA Plan for Transformation involves converting both high and low-rise developments, that have proven to be largely dysfunctional places to live, into mixed income developments that combine subsidized with market-rate units.
- Gentrification of neighborhoods such as Uptown, Logan Square and neighborhoods to the west and south of the Loop has had the effect of raising rents or removing housing units from the rental market into the ownership market. Many analysts expect these trends to continue on the south side of Chicago, gradually remaking the housing markets from Hyde Park to downtown, and also transforming housing markets on the near-Northwest side of the city.
- Community-based organization leaders are familiar with how devastating the cycle of "gentrification and displacement" can have on opportunities for low-income families. They have formed the Balanced Development Coalition, a citywide organization that has placed political pressure on the City of Chicago to pass inclusionary zoning standards that would require the inclusion of affordable housing as part of new housing development throughout the city.
- In response to perceived affordable housing shortages in the suburbs, the City of Highland Park has passed a model inclusionary zoning ordinance mandating the incorporation of affordable housing units in larger housing developments within its boundaries. Other suburbs, such as Evanston, are actively considering similar ordinances.

A 2000 study of Chicago area rental markets commissioned by the Metropolitan Planning Council concluded that the Chicago area rental market fell far short of being able to meet the current, and anticipated, demand for rental housing.

Employers of low-income workers in the suburbs have long struggled with the problem that they are forced to recruit those workers from Chicago, despite the great distance. The main reason for this is the lack of places for low-income workers to live in most Chicago-area suburbs. Industries affected include hotels, restaurants, manufacturers, and low-income service workers. In a related problem, many municipalities are unable to house their own service workers within their own municipalities because housing values within their municipalities far exceed what they pay their teachers, police, fire and service workers.

Departments of human services in both Chicago and numerous suburbs continue to be concerned about the presence of homeless persons in their communities.

The Housing Affordability Research Consortium (HARC) project was initiated to stimulate regional leaders to attack the problem of assuring an adequate supply of housing affordable to low-income people with the same vigor with which other imperatives such as economic development, Chicago school reform, infrastructure development or welfare reform, have been attacked. HARC is a cooperative project of the Roosevelt University Institute for Metropolitan Affairs (IMA) and the Loyola University Center for Urban

Research and Learning (CURL). The research process has been guided by input and participation from community partners.

The following four essays were written in response to the need for frank and open discussion regarding the future of affordable housing in the Chicago region. While they are ultimately written in the service of helping to find solutions to the problem, the present goal is a more intermediate one: to create an argument credible to people in communities across the Chicago area that our current policies regarding housing our lower income residents is inadequate and that allowing the housing market to function as it has in the past will not address the resulting problems. It is our belief that achieving broad recognition of the scope and nature of the problem will be a major step in convening the leaders, ideas, investors and support needed to address it.

The four papers presented below were commissioned to make the case that a public response is needed to address this issue and that it is unlikely to resolve itself on its own. One of the main obstacles to increasing public support for development of affordable housing is the perception that the free market will ultimately provide sufficient housing if left to do so. Certainly the spread, or sprawl, of municipalities to the north, west and south of Chicago indicates that developers build more and more new suburban housing in clear response to demand from middle and upper income homebuyers. Likewise, developers have responded to the “back to the city” movement by creating the gentrification alluded to above. However, both this suburban and city housing development has not included the needed quantity of quality housing for low-income individuals and families.

Art Lyons and Jason Hardy’s paper analyzes the workings of the Chicago area housing market and concludes that indeed it does produce housing affordable to low-wage workers, but that the problem is that the housing is concentrated for the most part in inner-city neighborhoods. Chicago’s history of neighborhood change has been characterized by succession patterns as housing built for middle-income people has often eventually passed to families with less income. This process was in part attributable to the racial segregation and white flight that took place on Chicago’s south and west side, as well as the changing location of industry across the Chicago area. There also has been a tendency as well for immigrant families to live in denser concentration in their homes than natives. But even if it is true that through this market succession process affordable housing is created, it remains a problem that it is not located near employment, and that the process results in concentrations of poverty that have adverse effects on schooling, crime, public investment and social stability.

That low-income people are hurt by concentration in low-income communities has been the subject of much scholarship and is extremely well documented. James Rosenbaum has documented that the living conditions of many low-income persons are improved appreciably by moving from areas of concentrated poverty into suburbs that are more economically diverse. This extends to their job prospects, children’s educational progress and their sense of satisfaction and well-being. In terms of building better human capital for our society as a whole, and avoiding expenditures on compensatory social services programming, avoiding concentration of poverty that the past operation of the market, as well as public policies, have created would be a good thing.

But as Art Lyons suggests, the housing marketplace will never solve this problem on its own. As Kathleen Kane-Willis’ paper demonstrates, a significant gap exists between how much it costs a developer to build, or rehab, housing stock and the amount they will be able to recoup in rent. Without some kind of public contribution, this all but precludes construction of new housing for low-income people. While one could argue cynically that perhaps new development is too much to expect for people who earn little and cannot pay market rates for a newly built dwelling, suburban employers still have an interest in enabling their low-wage workers to live much closer to where they work than most of them live now. Because suburban housing markets are extremely tight currently, particularly in portions of the region experiencing the greatest

job growth, very little housing can be expected to “trickle down” the market to low wage, suburban workers soon.

In fact, there has been major public commitment to housing policy during the past 65 years, some of it helpful, some of it misguided. As David Hamilton writes, garnering significant public support for creation of housing affordable to low-income people has significant political and perceptual barriers to overcome. Perhaps the greatest is the damage done by the housing policies that conspired between the federal and local levels to create the massive urban public housing complexes now being made-over in Chicago, as well as in other cities across the nation. The concentration of poverty and resulting concentration of social dysfunction make “public housing” anathema to many who moved to suburbs, at least in part to avoid these types of urban ills. And of course the high correlation of race with income that continues to maintain virtually guaranteed that in the main, whites and African Americans, and to some extent Hispanics, would live among themselves. The result has been that many suburbanites, as well as city dwellers comfortable in their middle income (or better) neighborhoods, have resisted attempts to create new developments or increase residential density ceilings, in order that lower income people might live in their communities.

These then are the facts that the region faces:

- Most of the housing available to low-income people is of poor quality and often is located far from areas of economic growth.
- The current concentration of affordable housing creates concentrated poverty and contributes to social dysfunction.
- The prospect of improved quality of life for low-income individuals and families improves when they move to more economically diverse neighborhoods.
- The Chicago area housing market will tend to maintain the status quo, and it could become even more adverse depending upon the number of low-income units ultimately preserved in the CHA.
- People generally support in principle that there should be quality housing for low-income people but they are concerned about the impact of those people living in their neighborhoods and they can be expected to resist policies imposed from outside their communities.
- Government programs account for the ability of many low-income people who live in the suburbs to do so, and are the only way at present for developers to break even building housing for low-income people.

The principals of the HARC project hope that by deepening the understanding of these problems, that a consensus can emerge around the nature of the problem that will lead community leaders, real estate developers and policymakers to work collectively to solve the affordable housing problem in the Chicago region.

THE CRISIS IN HOUSING: THINKING THE UNTHINKABLE

Arthur Lyons, Center for Economic Policy Analysis and North Park University and Jason Hardy, Center for Economic Policy Analysis¹

Summary

Any efforts to meet the demand for affordable housing must deal with several vexing questions and seeming contradictions: How has the housing market contributed to shortages of affordable housing? Why do affordable housing gaps exist after decades of public production of affordable housing? Because the number of new housing units constructed in many metropolitan areas is higher than the number of new households formed, why have markets not become saturated—leading to deflationary pressure on housing prices and better housing at the low end? Why are many municipalities experiencing an affordable housing crunch at the same time that inner-city communities and some suburbs are suffering from high vacancy rates and numerous demolitions?

Answering these questions requires examining all aspects of the housing market simultaneously and looking at ideas that, initially, seem to challenge conventional wisdom. We will argue in this paper that the affordable housing problem in America has been and is being exacerbated by an ongoing excess in housing construction. New construction attempting to solve the problem will continue to make the problem worse.

To understand this conclusion, it is helpful to examine previous efforts to explain why affordable housing shortages exist and persist. Much of our paper is a literature review, attempting to synthesize the elements of different papers into a comprehensive explanation of how housing markets function. For the sake of simplicity, our empirical data reflect only one housing market, Chicago's, though housing markets across the country are similar to this one.

Our review has four steps: *first*, we will look at various statements about the affordable housing shortage, examining how they measure the problem, what sections of the market they include in their evaluations, and which elements they may have left out.

Second, we will outline several characteristics of the housing market. In many respects, housing functions like any other market; but in other key respects, it is unique. Though some analyses attempt to distinguish sharply between private and public housing markets, the two markets are so intertwined as to make real separation impossible. We will focus instead on unique aspects of the overall public-private market, and explain how those aspects have contributed to affordable housing problems.

Third, we will summarize past policy efforts to overcome affordable housing problems. These efforts can generally be divided into “demand-side” or “supply-side” solutions. Supply-side solutions have often been favored, and we will look at some of the successes and failures of such programs, as well as the possible merit of shifting to more demand-side solutions.

Finally, we will look at some of the questions raised in our attempt to present an overall picture of the housing market, and provide the beginnings of answers to these questions.

¹ We gratefully acknowledge comments on earlier drafts by members of HARC and others. We are especially indebted to Jean Rudd, Ken Oliver, and Robin Snyderman. Nevertheless, the analysis and conclusions herein are those of the authors alone and may or may not represent the opinions of these commenters, the funder, or the Consortium.

Finding and answering the right questions is important because a problem whose causes are incorrectly diagnosed can never be solved. The persistence, and even worsening, of the housing crisis over the last several decades suggests that current diagnoses need to be improved. We offer this essay as a step in that direction, beginning with a description of just what the symptoms are.

I. Size and Scope of the Housing Problem

A large quantity of literature documents the crisis in affordable housing for low-income households. The articles offer many explanations for specific parts of the problem, but explanations often exist in isolation, not taking into account the entire context of the housing market. As a result, few authors have successfully analyzed the locus of the affordable housing problem or the housing market dynamics behind it.

The first split that occurs for most authors is between rental and owner-occupied housing. Because the rental market is generally considered the most appropriate for meeting the housing needs of low- and even moderate-income households, most authors focus on construction and occupancy in this segment of the market with little or no discussion of the ownership segment. Conversely, discussions of the mostly small public and private initiatives to promote home ownership for lower income families generally focus on the benefits of ownership, with little or no analysis of the rental segment.

Although it may be true that the rental segment is the most appropriate for lower income households, failure to explore the intimate nexus between the rental and owner segments of the market makes it impossible to understand the real nature of the housing problem. Before explaining why this is so, we will summarize some of the existing literature that elaborates the quantitative extent of the low-income problem. Jason DeParle writes about the nationwide picture:

To put things in perspective, consider that 15 million households qualify for federal housing assistance, but only 4.5 million actually get it. (Out of these, about a third live in government-run developments, and two-thirds [sic] rent from private landlords with government help.)

Of the 10.5 million that don't get help, the five million that spend at least half their income on shelter are simply the most desperate. Indeed, the scarcity of housing assistance offers a preview of how other programs may fare in a post-entitlement, balanced-budget world. Only one eligible family in three receives aid, and the demand is so great in many cities that even the waiting lists are closed (DeParle 1997: 10).

Jennifer Daskal of the Center on Budget and Policy Priorities analyzes data originally collected for the U.S. Census Bureau's American Housing Survey of 1995. She finds 4.4 million more low-income households than there are low-cost units nationwide (Daskal 1998: 12).

Daskal also notes that the 1995 gap is the largest since 1970, when there was a surplus of approximately 300,000 low-cost units. She explains that the gap grew because the number of low-income renters rose steadily after 1970, increasing from 6.2 million to 10.5 million. By contrast, the number of low-cost units in 1995 is slightly lower than the number of such units in 1970 (6.1 million as compared to 6.5 million) (Daskal 1998: 11).

Though Daskal does not show how regional housing gaps have changed over time, she does provide a measure of the affordable housing gap in the Chicago region for the most recent year of her data. In 1995, there were 245,000 low-income renters—defined as households with annual incomes of \$12,000 or less—and 115,000 low-cost units. This left a gap of 130,000 units (Daskal 1998: 50).

DeParle, Daskal, and most others define affordable units similarly: units whose combined rent and utilities cost less than a stated share of household income, usually 30 percent. Households actually spending more than this for housing are assumed to be improperly burdened. They further assume—usually implicitly—that the distribution of incomes is to be accepted as it is, and that housing units should be made available with appropriately low total costs for people in each income category.

In other words, while many reports mention the problem of housing costs rising faster than income, their solutions are nearly always to increase available housing rather than to increase incomes.

Accepting this framework, Daskal finds that 82 percent of poor renters nationwide were rent-burdened in 1995.² The Chicago region is about the same, where she finds that 84 percent of poor renters paid more than 30 percent of their income for housing, and 64 percent were paying half or more of their income (Daskal 1998: 49).

A more recent study released by Chicago’s Metropolitan Planning Council (MPC) focuses solely on the Chicago region.³ This report, which is based in part on original research, divides rental households into categories according to income, and then counts the number of units that have rent levels appropriate to each income grouping. Although limited data are provided for public housing and the subsidized portion of the private market, the principal findings and discussion are limited to unsubsidized units and tenants. “The reason for looking only at those units and renters that are not currently being subsidized is to identify what proportion of renters might be eligible for assistance based on income, and to examine further where there are likely gaps and overlaps in the supply of unassisted, private market units in different rent ranges” (MPC 1999: 31).

Some of MPC’s data and terminology require explanation because they are potentially misleading. At each income level—for example, 30-50 percent of the area median income (AMI)—MPC counts the number of rental units costing 30 percent of the incomes in that particular range. MPC describes this number of units as the pool of “affordable” housing for that income group (MPC 1999: 31, Fig. 33); but except for the very lowest income group, these units are only some of the units affordable to group members. Households with higher incomes can also afford all units in lower price ranges.

MPC’s presentation is particularly open to misunderstanding for their highest income category, 80 percent or more of AMI, especially in light of the stated desire “to identify what proportion of renters might be eligible for assistance based on income.” The report’s summary table identifies 267,300 renter households at this income level, and then says only 39,800 units are “affordable” to them, leaving a “Supply-Demand Mismatch” of 227,500 units (MPC 1999: 32, Fig. 34). What this means is that there are 39,800 units costing \$1,200 or more per month, because \$1,200 is 30 percent of the lowest income in this range (80 percent of AMI). Presumably, the lack of more high-cost units is not a public policy problem because these middle and upper income households, if they really wanted to pay this much for rent, could easily induce building owners to rehab and charge more for their space.

Our Table 1 adds a row to the MPC data in order to clarify the data’s meaning. The last row is the cumulative total of rental units affordable to the households at each income level.

²For Daskal, “poor” renters are different from “low-income” renters. The “poor” are renters whose household income is below the federal poverty line, which varies based on household size. “Low-income” renters, discussed in previous paragraphs, had 1995 incomes of \$12,000 or less, regardless of household size.

³The research for this report was prepared by the following organizations: The Great Cities Institute, University of Illinois at Chicago (UIC); Survey Research Laboratory, UIC; Center for Urban Real Estate, UIC; Urban Planning and Policy Program, UIC; the Urban Institute; and Applied Real Estate Analysis, Inc.

Table 1: Rental households and affordable units in different income categories

(based on MPC 1999: 32)

	Up to 30% of AMI¹	30 to 50% of AMI	50 to 80% of AMI	80% or More of AMI
Number of unsubsidized rental households in this income range	192,000	191,900	245,100	267,300
Number of unsubsidized rental units costing about 30% of income in this range	38,700	519,100	346,400	39,800
Cumulative total of units affordable to renters in this income range ²	38,700	557,800	904,200	944,000 (938,000 ³)

¹AMI: Area Median Income, or \$63,800 for the Chicago region in 1999.

²Each cumulative total is the sum of the number of units at the indicated rent level plus the number of units at lower rents, since these, also, are affordable to renters at the indicated income level.

³This is the total as reported by MPC; the sum of the units in the individual cells is 944,000. MPC does not explain the discrepancy.

Another limitation in the MPC report arises from the exclusion of public housing, explained as follows: “Public housing was not included, because while these properties are considered to be part of the overall rental stock, the rent levels and vacancy rates need to be examined separately, since they are determined by factors other than market forces” (MPC 1999:10).

Although partially true, this statement fails to recognize that the public and private housing markets cannot be easily or completely separated. People can and do move back and forth between the two markets, and increased or decreased availability of low-income housing in the private market either reduces or adds to pressure for public housing. Similarly, construction of new public housing or demolition of existing public housing either reduces or adds to pressure in the private market. Public housing is an integral part of the larger housing context we will discuss in Section II.

In any case, MPC’s affordable housing gap for the lowest-income households (153,300) cannot be directly compared to Daskal’s (130,000). Both studies define the Chicago region in the same way, but they use different income limits. Daskal’s lowest-income group includes rental households with incomes up to \$12,000 in 1995; this is equivalent to \$13,100 in 1999 dollars. MPC, using 1999 income, focuses on renter households making up to \$20,000.⁴

MPC’s higher income limit means it includes a larger number of households in its lowest-income category. Thus, even though MPC’s housing affordability gap for the lowest-income households is larger than Daskal’s, this may not mean that the gap grew from 1995 to 1999. An indeterminate part of the difference is due to differences in methodology.

Regardless of methodology in these and other studies, it is clear that many renters are paying more than 30 percent of their income for rent and utilities. MPC, citing the Census Bureau’s American Housing Survey, estimates that about 37.5 percent of all renters (including but not limited to low-income) paid more than 30 percent of their income for housing costs in 1995. They further estimate that about one third of these households, or as many as 12.5 percent of all renters, paid more than half of their income toward housing (MPC 1999: 10).

The U.S. Department of Housing and Urban Development (HUD) has similar measures of the affordable

⁴This, in turn, is 30 percent of the area median income.

housing gap, though HUD's data are older and not as regionally specific as MPC's and Daskal's. According to a study released in 1993, Midwest central cities had a combined total of 953,235 families making less than 30 percent of the median income for their area, and 618,009 units that were affordable to these families (HUD 1993: 81).

HUD has one interesting piece of data the other studies lack: vacancy rates by rent level. Despite the apparent affordable housing gap, HUD found that in Midwest central cities the vacancy rate for affordable units was 13.6 percent, compared to an overall vacancy rate of 8.7 percent (HUD 1993: 81).

This raises a question beyond simply counting the number of units and matching them to incomes. Given the higher vacancy rate for affordable units, it appears that at least some households are choosing to pay a greater portion of their income in rent and utilities than study authors consider appropriate. Why households might do this and whether it might be a problem is discussed in subsequent sections.

Findings in the MPC study, although presented differently, are consistent with the HUD data. MPC calculates the average cost of rent plus utilities for the entire Chicago region, along with averages for 11 sub-regions. The average cost for the entire Chicago region was \$723. The three sub-regions with the lowest average cost were Chicago-West and Chicago-South, both at just under \$620, and Cook County-South, with an average of \$639 (MPC 1999: 14).

Yet despite their lower than average housing costs, the Chicago-West and Chicago-South sub-regions had higher than average vacancy rates. For the region as a whole, average vacancy was 4.2 percent. Compared to this, the vacancy rate for Chicago-West was 5.0 percent, and for Chicago-South it was 6.3 percent. The latter is the highest vacancy for any of the sub-regions (MPC 1999: 14). Thus, consistent with HUD, MPC shows that the highest vacancy rates are for the lowest-cost apartments. Some renters are choosing to live in more expensive areas even though less expensive housing is available.

Counting the number of low-income units is further complicated by the fact of housing demolition. The Chicago-South vacancy, even at 6.3 percent, is still only slightly above HUD's six-percent threshold for a "tight" rental market (MPC 1999: 11). But vacancy rates in this and other low-rent areas are difficult to interpret. These areas are the same ones that have experienced and continue to experience the greatest number of demolitions. In many low-income communities, entire blocks that used to be covered with multi-story apartment buildings are now only vacant lots.

Whenever apartments that would otherwise contribute to the stock of low-rent housing are demolished, the observed vacancy rate is reduced—even to the point of looking like a tight market—but a new question arises. Why are these units, which are thought to be in such high demand, being demolished, while tenants choose to pay higher rents elsewhere? Is it because tenants are fleeing poor quality housing? But if this is the case, why do they find it preferable to flee than to stay and pay for better quality where they currently live? We will return to these questions later on.

Here, we note that demolitions in the private market generally follow abandonment, first by tenants and then by building owners. The initial abandonment may be caused by tenants leaving a poorly maintained building, or leaving a building in a neighborhood they feel is not safe. After a few years of having a partially vacant building, the owner no longer has sufficient income to maintain the building and maintenance declines. Eventually, a municipal authority may cite the owner for code violations, and the owner chooses abandonment and demolition as the least expensive or most profitable alternative. If any tenants still remain at that time, they may be left with few options.

There seems to be no good count of the number of tenants displaced by demolition of private housing, but the number may be small compared to the number displaced by demolition of government-owned housing.

Reviewing the redevelopment of Chicago's Cabrini-Green public housing project, Jerry J. Salama points out that

The number of public housing units on site will be reduced by 79 percent, which represents a drop of more than 1,000 units affordable to very low income households. With a work requirement for at least 50 percent of the new public housing residents, only 139 of the original 1,324 units will be available for the nonworking poor (Salama 1999: 108).

Even though Chicago has a lack of affordable housing, some units affordable to the poorest of the poor are being removed because they have been judged by both government officials and some tenants to be inappropriate. Government officials, at least in the last few years, have promoted demolition of existing concentrations of affordable housing as part of a plan to rebuild the area and reshape it into a mixed-income community. Some of the demolished units were already vacant and had been so for many years, apparently because unmaintained and held off the market by the Chicago Housing Authority. In the private market, some households may reject units because they consider them to be deteriorated beneath livability standards or the neighborhood to be undesirable because of high crime, poor schools, or lack of public services. Overall, it appears that some, and perhaps many, renters, given the option, choose to burden themselves with rents higher than those considered "affordable," presumably in order to obtain better quality housing.

This does not mean, though, that all renters succeed at finding good quality units. Daskal reports that 14 percent of renters in the Chicago region live in physically deficient housing, and 19 percent live in overcrowded units⁵ (Daskal 1998: 51). She notes that "although housing quality problems are less widespread than housing affordability problems, high housing costs lead many poor renters to live in poor quality housing" (Daskal 1998: 21). She does not note the corollary to this observation: that low-quality housing, even if available at low rents, may lead renters to pay higher portions of their income for housing costs, in order to avoid low-quality housing.

Data in the MPC study on housing quality are based on surveys of existing housing using HUD's Housing Quality Standards. In the Chicago region, MPC found that while 82 percent of all housing units are in "good" condition, a disproportionate number of units in large buildings (buildings with 10 or more units) are in "poor" condition. Within the city of Chicago, the disparity is even greater for large buildings. According to MPC, 36 percent of these units are in "poor" condition (MPC 1999: 17).

The preceding pages summarize the symptoms of the housing crisis as it is usually described: Many households, especially renters, are paying more than 30 percent of their income for housing. Even so, many households live in units deemed to be of inadequate quality. In spite of this, a disproportionate number of existing low-rent units are vacant, and very many more have been demolished so that they are no longer in the housing stock. And year after year the affordable housing gap seems to grow. To understand why this is, we need to look in more detail at how urban housing markets function.

II. The Housing Market

The problems described above occur in the context of housing markets. The literature on these markets describes several relevant factors, though not always in conjunction with each other. To help us understand the overall market picture, we will look at these factors individually, even though the factors are clearly related. Where appropriate, we will comment on some of the relationships

⁵Recently, there has been debate about the true meaning of "overcrowded" housing and whether the concept is used in a culturally biased way to create an impression that housing occupied by certain ethnic groups is somehow deficient. Daskal does not discuss this debate, and we make no further comment on it here.

A. Housing Is Immobile

Housing markets are intrinsically different from any other market because housing is immobile. This is important for two reasons. First, it means that a house is more than just the building and its qualities; it is also the sum of its surroundings. Jerome Rothenberg, in a study of how urban markets lead to housing deterioration, writes:

Because housing units are spatially fixed, a household establishing itself in one buys or rents not only the physical structure with its sheltering services, but also the location—the neighborhood. This comprises the people, with their styles of life, the other housing structures and lots, the public infrastructure (streets, parks, lights, sanitation, etc.) and other local public goods (public education, police and fire protection, etc.), the nearby sellers of public goods, and the physical environment (Rothenberg 1979: 38).

Second, housing cannot be easily disposed of when it is no longer in use. Vacant and even demolished housing continues to have an effect on its surrounding community. For decades after a building is gone, the vacant lot resulting from demolished units may shape the desirability of nearby occupied housing:

Neighborhoods suffering from high vacancies, vandalism, and demolition by violence [arson and extreme vandalism] have considerable wastage of land. . . . But the land can rarely be used, because so long as remnants of the highly deteriorated neighborhood are still present, they cast an environmental pall over prospective new uses. . . . the land is an economic liability. So it remains wasted (Rothenberg 1979: 62).

Doris B. Holleb describes how abandonments have affected Chicago neighborhoods:

Poverty areas have been emptying out . . . With low expectations about future property values, with limited access to credit and insurance, and with deteriorating neighborhood conditions, housing disinvestment has quickened. Abandoned buildings are prime sites for fires and crimes. After years of neglect, the end of the line is the empty lot. By 1990, in a city that had been virtually all built up decades ago, vacant lots dominated the scarred landscape of concentrated poverty areas (Holleb 1992: 65).

Unlike any other product that has outlived its usefulness and that people no longer want, a vacant or abandoned housing unit cannot simply be tossed in the trash heap or towed away to the dump. The neighborhood itself becomes the trash heap and dump. Demolition and the resulting vacant lot is scarcely any better, creating only an illusion that the problem has been solved. Each individual household needs a single housing unit, and a few households occupy more than one unit through vacation homes and the like; but when there are more total units than people want for these purposes, the units become abandoned and a blight on their surroundings.

This effect can be summed up as follows: Mistakes in housing production last longer and have broader effects than production mistakes in any other industry. It is critically important that total housing production be matched to the creation of net new households plus demand for second homes, or abandonment and blight must result somewhere in the market.

B. Separate Housing Markets Interact with Each Other

While it is clear that the various housing markets in a region are related to each other, the extent of that interaction is debated. Rothenberg writes that “the housing market for any urban area is in reality a complex of related markets for commodities with various degrees of substitutability. A market analysis of urban

housing must take these differing degrees of relatedness into account” (Rothenberg 1979: 39).

One important interaction is the relationship between growing suburbs and emptying inner cities. Calvin P. Bradford and Leonard S. Rubinowitz, in one of the earliest efforts to explain regional housing dynamics, write about what they term the “urban-suburban investment-disinvestment process.” They outline several factors that contribute to resources leaving inner cities and going to suburbs. These factors include a trend toward large-scale developments that need significant amounts of open space and also large investments that smaller community banks may not be able to handle, redlining practices that prevent new investment from entering low- and moderate-income communities, highway construction and other government programs that open up new areas for development or subsidize development once it occurs, uneven levels of city services in certain neighborhoods (with the worst quality usually being in neighborhoods undergoing private disinvestment), and questionable FHA practices that lead to and even promote foreclosures (Bradford & Rubinowitz 1975: 80-5).

In the Bradford-Rubinowitz model, neither the suburban investment nor the urban disinvestment dominates the dynamic; rather, each influences and builds off the other. For this reason, their model is often referred to as “push-pull”: Some forces push residents and money from disinvesting areas, while others pull toward areas of new investment.

Anthony Downs also observes a connection between suburban growth and urban disinvestment:

[O]ur development process . . . concentrates poor households—especially poor minority households—in certain high-poverty neighborhoods that become sites for high crime rates, poor-quality public schools, dysfunctional big-city bureaucracies, and lack of fiscal resources. These poverty-related problems soon spread to inner-ring suburbs (Downs 1999: 956).

Not every author, however, is convinced that a strong connection exists between development activities in the cities and suburbs. Ronald D. Utt writes that “*the suburbs did not grow because of the decline of the cities*. Moreover, reversing the decline of the cities, however crucial, will not stop suburban growth” (Utt 2000: 77, emphasis in original). He further states that:

There is a certain intuitive appeal to treating the diverse elements of contiguous communities as if they were connected parts of an organic whole, but from any practical standpoint it is difficult to establish any meaningful relationship between the emerging inconveniences of suburban living and the deep-seated social and economic problems that plague older central cities (Utt 2000: 80).

The main evidence cited by Utt is a comparison among metropolitan areas, classified according to whether their central cities gained or lost population between 1950 and 1998. Central cities that gained population were located in metropolitan areas that grew faster than the metropolitan areas of central cities that lost population. He concludes from this that rapid suburban growth does not result from the decline of inner cities, since the most rapid suburban growth occurred in areas where the urban center grew as well (Utt 2000: 79).

Utt’s conclusions are flawed by his failure to consider intra-regional mobility, the pace and location of new housing construction relative to household formation, and the empirical facts of housing abandonment and demolition. The data he presents are easily consistent with the investment-disinvestment dynamic observed by Bradford and Rubinowitz, among others.

Part of Utt’s problem may be that he misstated the implied direction of causality when he asserted that “*the*

suburbs did not grow because of the decline of the [central] cities” (Utt 2000: 77). A more correct statement may be that the decline of the central cities occurred because of the growth of the suburbs. That is, as new housing units are built in the suburbs in excess of the formation of net new households in the region, vacancies must be created somewhere. This has often been in the central city, but vacancies are increasingly also occurring in inner-ring suburbs and isolated pockets elsewhere in the metropolis.

C. New Housing Construction Is Generally Unaffordable to Low-income Individuals

It is not entirely clear why many policy proposals rely on new construction, rather than existing units, to fill the affordable housing gap. Several authors try to explain why new construction is a challenging option for affordable housing, usually focusing on the cost.

Anthony Downs and Jerome Rothenberg are among those who point to the standards required for all new housing as an obstacle to new low-cost housing. Downs writes: “[Public policy] requires all new housing to meet very high standards—standards too costly for most poor households to afford. Therefore, most poor households can afford to live in new housing only if it is somehow subsidized” (Downs 1999: 959). This need for subsidies whenever new construction is used as the solution is taken for granted by virtually all authors, whether or not they offer explicit explanations for the need. There seems little reason to belabor the point here with additional citations.

At the other end of the spectrum from new construction is the cost of maintaining housing in communities from which people are moving and in which there is abandonment. Pierre de Vise 25 years ago suggested that lack of demand for housing could make it difficult for owners of any age construction to preserve affordable rental units. He described how buildings deteriorate to the point where they are left vacant:

Price decreases in certain neighborhoods . . . were so severe that many owners of rental housing no longer could make ends meet and walked away from their buildings. First, the owners with their high mortgage indebtedness, and later other owners, could not collect enough rental income to meet rising costs of taxes, fuel, maintenance and repairs. Finally, even owners with paid-up mortgages could no longer afford to maintain their buildings. In other words, increasing operational costs set a price floor below which landlords could not descend without cash outflows (de Vise 1976: 10).

An alternate but related response to price decreases is for landlords to become slumlords, cutting back severely (or entirely) on maintenance while still charging rents as long as there are tenants willing to pay. These practices may accelerate the course of deterioration, but they still fit into the general cycle of decreasing rents and declining maintenance. While in de Vise’s scenario buildings are abandoned by landlords who cannot afford to pay maintenance costs, in this case buildings are abandoned by tenants who can no longer abide the increasingly poor living conditions. In either case, the end result is an abandoned, deteriorated building.

An important question for public policy, which still remains today, is the source of the shift in demand that leads to “Price decreases in certain neighborhoods.” Prices neither decrease nor increase of their own accord. In neighborhoods where they decrease, is it because the income of current residents is declining, and residents simply refuse to pay more as housing costs increase? Or is it because residents are moving out of the neighborhood, and no one is replacing them because there is a surplus of total units? Or is it something else?

Some neighborhoods not only in the central city, but also increasingly in certain suburbs, are undeniably experiencing price stagnation and price decreases—abandoned and near-abandoned housing whose cost is close to zero—but explanations for this phenomenon remain elusive. More attention seems to be focused on

neighborhoods with price increases.

A second policy question is posed by de Vise's "price floor." If he is correct, there is a simple explanation for the lack of affordable housing: in current economic conditions, it may not be financially feasible for landlords to keep rents affordable while also performing an acceptable amount of maintenance. While we did not find any Chicago-area research about whether there is a rent floor—the minimum rent a property owner is able to charge while performing all necessary maintenance—we must take the possibility of such a floor into account when designing housing solutions.

D. Suburban Housing, Especially New Construction, Is Often Inaccessible to Lower-income Households

Several factors combine to keep many suburbs inaccessible to lower-income households, thereby concentrating poverty in inner cities and other suburbs. One of these is simply that the suburbs are where land is available, so that is where new construction takes place. As discussed above, most new construction is unaffordable to low-income households.

However, some studies point to government policies that contribute to the trend of unaffordable housing being built in the suburbs. "[O]ne policy that generates core-area poverty zones combines fragmented control over land uses in many small outlying municipalities with their adoption of exclusionary zoning and other policies designed to raise local housing costs and keep poor people out" (Downs 1999: 959-60).

Utt, on the other hand, de-emphasizes any public role leading to the growth and shape of the suburbs. For him, the suburbs are the way they are because that is the way people want them to be:

Although many new urbanists and growth-control advocates blame government policies, such as federal mortgage insurance and highway funding, as important factors contributing to the suburbanization of America, data indicate that population shifts from rural to urban areas—as well as the natural growth through births and immigration that added 119 million more Americans since 1950—account for the lion's share of the forces that have shaped America's metro areas and their suburbs (Utt 2000: 81).

Peter Gordon and Harry Richardson agree with Utt that the effect of local land policies on housing has been limited: "poor people are excluded from buying into expensive residential neighborhoods not because of exclusionary zoning, but in the same way that they are excluded from buying Lexus or Mercedes automobiles; they cannot afford them" (Gordon and Richardson 1997: 102).

Jonathan Levine's reply to this argument is that it "might be more apt if some level of government were limiting production of Geo Metros" (Levine 1998: 135). He goes on to say:

Land use controls enforcing low-density, large-lot, automobile-dependent development styles are a subsidy for those who choose to and can afford to live in the housing thus produced; by reducing the prevalence of other forms of residential development, they increase the supply of the standardized product (Levine 1998: 145).

Downs agrees:

No metropolitan area has anything remotely approaching a free land use market because of local regulations adopted for parochial political, social, and fiscal purposes. Most suburban land use markets are dominated by local zoning and other regulations that are aimed at

excluding low-income households and that distort what would occur in a truly free market (Downs 1999: 963).

An earlier but more thorough discussion of regulatory obstacles is contained in a 1990 report entitled *Not in My Back Yard* (Advisory Commission on Regulatory Barriers to Affordable Housing 1990).

Tracy L. Kaufman points out that other public policies besides local land-use decisions influence the housing landscape:

[H]ousing subsidies for home owners—through mortgage interest, property tax, and capital gains deductions—are increasing. These subsidies are expected to cost the treasury almost \$100 billion in lost tax revenue next year, with the majority of those dollars benefiting upper-income people. These subsidies, however, are not available for renters, and generally are not available to lower-income people—even if they are home owners (Kaufman 1997: 28).

Kaufman's general point is correct that many policies other than land-use affect housing markets, but some examples are misstated. The mortgage interest and property tax deductions are not available to renters on their personal income tax forms, but these deductions *are* available to the owners of rental buildings. In addition, rental building owners benefit from depreciation deductions that are available to home owners only under very restricted circumstances. These benefits to owners of rental buildings are reflected in rent levels, and to the extent that renters are “lower-income people,” the tax benefits do in fact reach low-income households.

More appropriate examples of public subsidies for development are state-funded construction of new schools in rapidly growing areas; federally and state-funded extensions, new construction, and widening of roadways; regulated utility rates that permit or encourage shifting the cost of extending new service to rate-payers in previously developed areas; and other programs that reduce the cost of local services in developing areas by using tax revenue collected in developed areas. This may mean that providing affordable housing is as much a matter of removing inappropriate subsidies and obstacles as creating new programs to build housing.

E. Negative Social Policies Have Also Shaped Urban Housing Markets

Social forces such as racism or redlining, often exercised through various sections of the real estate industry, can also affect where people live. Bradford and Rubinowitz provide an early analysis of such forces. Although some of the institutional players to which they refer may have changed, the core of their analysis remains true:

[O]lder neighborhoods are at a serious financial disadvantage compared to newly developing suburban areas. Older communities are without major institutional investments to help increase, or even to maintain, their desirability and value. Local lenders, as well, have tended to choose to invest in suburban areas, forsaking the communities from which they receive a large share of their deposits. The neighborhoods are then left in the hands of mortgage bankers and other lenders who use FHA mortgage insurance programs. The result is the concentration of foreclosures and abandonments, which dot these communities and blight the area (Bradford & Rubinowitz 1975: 84).

In some cases, the newly developing areas are no longer exclusively suburban, but parts of the central city previously left abandoned by investors and dominated by vacant lots. In 1985, Brian J.L. Berry referred to these areas as “islands of renewal within seas of decay” (Berry 1985: 71). By 1999, Elvin K. Wyly and

Daniel J. Hammel felt that “[w]hen viewed at the level of the inner city, Berry’s islands of renewal in seas of decay have been transformed into islands of decay in seas of renewal” (Wyly and Hammel 1999: 715); in a reply, Berry asserts their conclusions are over-enthusiastic (Berry 1999: 786). Either way, there is no longer a clear distinction between the central city and the suburbs on this point. Parts of central cities are witnessing extensive new construction, while parts of the suburbs are experiencing extensive abandonment.

Many authors emphasize racial discrimination as a factor in creating and promoting decay. According to Anthony Downs:

The fourth cause of inner-core concentration of poverty is racial segregation in housing markets. Racial discrimination by owners, real estate agents, and lenders is still widespread. And the unwillingness of most whites to move into neighborhoods where more than about 25 to 33 percent of households are African American is a key factor. Reducing residential racial segregation is hard, because even if both whites and African Americans desire integrated living, the different ways they define it cause almost total segregation to emerge from free choices (Downs 1999: 960).

While acknowledging that social forces including racism have shaped housing markets, Pierre de Vise argues that “the casting of real estate institutions as the principal villains in neighborhood decay relieves us of the necessity to consider and to deal with the more complex social realities of racism, poverty, crime, slum schools, delinquency and vandalism” (de Vise 1976: 7). He adds that:

The practice of which [the] real estate industry is guilty is the maximization of its profits, which follows the cherished American tradition of capitalistic free enterprise. In the Chicago area, this means that home builders, home lenders, and real estate brokers have catered to a market of preference rather than to a market of need (de Vise 1976: 8).

This argument does not, in fact, completely absolve the real estate industry, since several studies have shown that some of the “preferences” that the industry caters to are motivated by racism (see Urban Institute 1999 and Yinger 1995).

F. Many Jobs Have Moved from the City to the Suburbs

In 1968, John Kain seems to have been the first to propose in writing what is now called the spatial mismatch hypothesis. The hypothesis states that jobs have been shifting from urban to suburban locations (or, in recent years, from inner-ring suburbs and urban locations to outer-ring suburbs), and that a lack of affordable housing has prevented lower-income households from moving to where these jobs are. This makes the jobs difficult for lower-income individuals to access. More recently, HUD described the problem as follows:

Aggravating the urban employment situation—and the great need for people coming off the welfare rolls to find entry level and low-skill jobs—is a mismatch between the urban workforce and the jobs that are being created in cities. For example, in the early 1990s, 87 percent of the new jobs in the lower-paying and lower-skilled service and retail trade sectors were created in the suburbs. Compounding that situation, large numbers of low-skilled jobs that can serve as a first step in breaking the cycle of poverty lie in the suburbs and are often inaccessible using public transportation—the only method of transport available to many of the city’s most needy residents (HUD 1997: 32).

A recent review of studies evaluating the spatial mismatch hypothesis concluded that there may now be enough evidence to remove the “hypothesis” tag: “In areas with high levels of housing segregation and poor transportation for reverse commuters, mismatch may play a much more dominant role in explaining the labor

market problems of the inner-city poor” (Ihlanfeldt and Sjoquist 1998: 880-1).

Elvin K. Wyly, Norman J. Glickman, and Michael L. Lahr documented the shift of jobs from central cities to suburbs in several metropolitan areas including Chicago. From 1970 to 1990, Chicago’s central city lost 0.4 percent of its jobs, while jobs in the entire metropolitan area increased by 1.3 percent (Wyly *et al.* 1998: 12).

Virtually all reports that mention spatial mismatch assume that the solution is either better transportation for reverse commuting, new low-cost housing in the suburbs, or some combination of the two. Left unexamined, at least in the housing mismatch literature, is the question of whether employment might be generated in job-poor neighborhoods through the encouragement of local entrepreneurial activity. Some authors focusing on community development have investigated why businesses might choose to locate in the suburbs rather than the city, but analysis of this work is beyond the scope of our paper.

G. The Primary Method for Creating Unsubsidized Affordable Housing Has Been a “Filtering Effect”

The relationship among different housing markets is important because it has become the chief mechanism for allocating what affordable housing there is. A name frequently given to this process is the “filtering effect.” Rothenberg describes it as follows: “How are the low-quality units demanded by low-income households supplied? . . . In U.S. cities . . . they are supplied almost entirely by downward stock modification of old housing units originally built at much higher levels” (Rothenberg 1979: 51).

For filtering to work, vacancies must be created into which low-income households can move. Anthony Downs outlines how the process is assumed to work, including an explanation of why it fails to provide quality affordable housing:

Existing housing units are vacated by households with rising incomes who move to more modern and hence more desirable new units. These new units are out of the reach of low income households. . . . Relatively lower income families unable to afford the increasing costs of maintaining the older units replace the higher income groups who have moved out. Over time, as successively lower income groups come to occupy the structures, the buildings fall into disrepair and deterioration sets in (Downs 1973: 2-6).

De Vise offers a much stronger critique of the filtering effect:

There is a rather fuzzy and unsubstantiated concept called the “filtering down” or “trickling down” process which gives credence to some of the benefits claimed by these supporters of a high level of housing production. As some housing economists have described it, this process is beneficial to all because of lower prices and the upgrading or elimination of substandard units (de Vise 1976: 8-9).

De Vise is not convinced of filtering’s merits. He points out how inner city housing has deteriorated past usefulness and been demolished, rather than becoming affordable:

This massive housing deterioration was not anticipated by proponents of the filtering process. They were not prepared for the fact that the price decline in the inner city, resulting from the housing surplus created by housing construction in the suburbs, led to under-maintenance and abandonment (de Vise 1976: 9-10).

This is one of the clearest early statements pointing out that low-cost housing becomes available but does not become occupied by low-income households. Instead, because of surplus construction, it becomes abandoned and soon demolished.

H. Filtering Requires Changes in Housing Costs and Location for People in Many Income Categories

The most visible effects of the filtering process are seen in neighborhoods at either end of the process: newly built-up, usually higher-income, neighborhoods receive new construction and rapid population growth, while lower-income neighborhoods experience greater poverty, abandonment, and demolition as people leave. Usually, the first people to leave a low-income neighborhood at the back end of the process are the households with relatively less-low incomes. As the neighborhood becomes more disinvested, households with ever lower incomes move to escape the blight. They choose to pay higher rents elsewhere in the hope of finding a neighborhood whose quality matches what their old neighborhood used to offer.

The two ends, however, are not the only places where filtering affects housing quality and cost. The process affects many areas between those where new buildings are constructed and old ones are abandoned. This is due to an essential characteristic of filtering: in order for it to work, people must move. That is to say, one group of people must move into the new construction, then another group must move into the housing left by the first group, and so on down through many neighborhoods and income categories. This shuffling of households changes the dynamics of communities all along the way, and it can have a significant effect on housing affordability within some communities.

A slightly different but related process occurs in previously disinvested neighborhoods when large amounts of outside money suddenly flow in. Chicago's Bronzeville community serves as an example. It is experiencing new construction as public housing units are demolished and replaced by mixed-income developments assisted by various government programs. Even though the new developments are not yet complete, the rest of the neighborhood is already being affected.

Brian J. Rogel finds that the number of property sales in Bronzeville dramatically increased in recent years. In the late 1980s, very few properties in the area were sold; this increased to 24 sales per year from 1991-1996, then to 55 per year from 1997-1999 (Rogel 2000: 4).

Accompanying the increase in sales was an increase in the price of properties. The average sale price in 1995 was \$61,087 (\$66,779 in 1999 dollars). The average jumped to \$154,063 for properties sold in 1999 (Rogel 2000: 2).

Rapid increases in housing prices can both prevent lower-income households from moving into the neighborhood and push other households to move out. Current renters are pushed out as landlords raise rents in response to new residents' willingness to pay more, while low-income owners are encouraged to sell by the thought of capital gains far in excess of anything they ever imagined. So while the MPC survey shows an abundance of housing units for households making 30 to 80 percent of AMI, this does not mean that these households are completely without housing problems. As communities change, people throughout the income spectrum find that the quality of their neighborhood is altered and housing costs in the vicinity can go up or down dramatically.

At first glance, this problem may not seem as significant as the problem of simply not having enough housing. However, the filtering process also influences the type of relationships household members enter into, since moving people away from their community forces them to sever local relationships. If the housing market prevents these relationships from forming, or breaks up many existing relationships, then the quality of communities deteriorates.

Lyons' 1990 survey of 766 residents of subsidized rental housing provides an illustration of the extent and importance of community relationships. The survey looked at a wide range of activities—including grocery shopping, doctor visits, visits to friends and families, and volunteering in social, political, and neighborhood organizations—and found that, not surprisingly, more residents engaged in most of these activities within their

own community than without. The report discusses the problems of relocating such residents and breaking their relationships:

Even if displaced tenants are given handsome relocation fees, how can their ties to the community ever be recreated—either for them or for the churches, medical institutions, and social and neighborhood organizations they would leave behind? What will happen to the people who now depend on their volunteer activities? How can the elderly or infirm who now rely on informal community relationships re-establish those associations in a suddenly unfamiliar setting? (Lyons 1990: 27)

Other housing analysts have also begun to recognize the importance of relationships among community residents. A study of healthy diverse communities in nine cities identified several characteristics these communities shared, and one of them is “social seams.” “‘Social seams’ are those points in a community where interaction between different ethnic and racial groups is ‘sewn’ together in some way” (Nyden, *et al.*, 1997: 507). One of the identified flaws in some public housing developments is that even the architecture isolated residents from their surrounding community and prevented these seams from ever being created, so public housing residents and people in the surrounding community had difficulty forming relationships with each other.

The filtering effect makes it especially difficult for relationships to exist across income groups, since it promotes frequent moving and tends to keep higher-income people and lower-income people away from each other. As Anthony Downs has noted, the filtering effect is a major contributor to economic segregation in American cities: “the particular form our peripheral growth has taken has resulted in an intensive concentration of very poor households, especially minorities, in the older, more central portions of our metropolitan areas” (Downs 1999: 959). Conversely, filtering also creates concentrations of higher-income households in outer suburbs and new central-city planned unit developments.

This constant shifting of households makes it difficult to maintain communities of any type, especially mixed-income communities. One result is that the affordable housing for many lower-income households is that which is left behind as certain neighborhoods empty out. So while aggregate data seem to show sufficient housing units for all households, the filtering effect makes it difficult for many households to remain living where they want and to further develop the relationships they have established.

I. Household Incomes Have Not Increased as Rapidly as Housing Costs

From 1975 to 1998, real median income of renters decreased by 3.2 percent. At the same time rents increased by nearly 6 percent (Joint Center for Housing Studies 2000: 30). Reasons for the decrease in renters’ income are not entirely clear. Certainly one factor is the proliferation of programs to provide home ownership options, which skim out of the rental market households toward the upper end of the low- and moderate-income range. Another explanation is the conversion of many buildings that provided luxury rental units in 1970 into high-end condominiums by 1994. This removes many high-income households from the group of renters and causes the median income for remaining renters to drop. Nevertheless:

Millions of families across the country, living in metropolitan areas in every state, cannot find a decent, affordable place to live. Even with a steadily growing economy, low unemployment levels and expanding home ownership opportunities, many renters still find the cost of housing out of reach.

While the minimum wage has been increased and more people are working now than at any time in the recent past, large portions of workers remain in precarious living conditions. The

reason for the current situation is simple: the incomes of many renter families have not kept up with, or ever caught up with, rents (Kaufman 1997: 25).

J. What the Housing Market Factors Mean

Taken together, what do all these characteristics of the housing market mean? First, it is impossible to talk of a completely private housing market. Public programs—from local zoning laws to federal mortgage insurance to state cost-sharing for new schools to all types of subsidized housing construction—either directly or indirectly impact everyone looking for housing, both owners and renters, regardless of income.

Second, high levels of housing production have not closed the affordable housing gap. In fact, as several authors have observed and we will discuss in more detail later on, housing production can and does serve to exacerbate rather than solve housing problems.

Finally, there are two ways to talk about the housing problem. One is to say that housing is too expensive, while the other is to say that people's incomes are too low. These views suggest two very different approaches to solving what is called the housing problem but what is, under the second view, an income problem.

III. Previous Government Efforts to Provide Affordable Housing

Efforts to address affordable housing shortfalls can be classified as either demand-side programs, which are targeted at helping tenants to afford a broader range of housing, or supply-side programs, which are targeted at increasing the supply of low-cost housing.

Initial housing programs in the United States fall squarely into the supply-side category. Charles Orlebeke, in his account of the history of public housing programs, refers to the first public housing program in 1937 as “a way to house the temporarily unemployed and, not incidentally, to create jobs for the building trades” (Orlebeke 2000: 492).

Louis Winnick states the case even more forcefully: “It was public housing, not as shelter or community but as a gigantic public work, that marshalled the margin of victory [in 1937]” (Winnick 1995: 102).

Housing measures passed in 1949 continued the emphasis on production. This is characteristic of many early housing programs—in order to gain approval, they had to be seen as more than just housing for low-income families. By including significant money for production, the government portrayed these programs as providing an economic stimulus through employment not only in the construction industry but also in many other sectors of the economy that produce lumber, hardware, furniture, and other components of new housing, as well as in the service sectors of construction planning and finance.

The idea that housing production is always a desirable economic good led to increased subsidies for housing production until, as Utt notes, “these generous subsidies for low- to moderate-income housing stimulated the building industry to achieve record levels (from 1971 to 1973) of new housing and apartment construction that have yet to be surpassed” (Utt 2000: 85). Utt misstates the locus of many subsidies, since most new units cannot be characterized as “low- to moderate-income housing,” but he is correct that construction subsidies have led to a mismatch between newly constructed units and newly formed households to fill those units.

As housing production continued apace, in the early 1970s the federal government began to experiment with demand-side subsidies in the shape of rent vouchers. The initial experiments led to the Section 8 program in 1973. According to Winnick, the shift to demand-side subsidies was based on realizations about the nature of housing problems:

The redirection of aid from building to tenant was forcefully dictated by old, failing programs and by a realization that the root problem of the housing disadvantaged was the unacceptably high rent burden, not the substandard or overcrowded dwellings posing hazards to health and decency that had been the mainspring of historical housing reform. Increasingly, it was the tenant who was disabled, not the dwelling. The nature of the housing problem having shifted, so too must its solution (Winnick 1995: 111).

Margery Austin Turner and Veronica Reed agree that the changing housing situation seemed to make demand-side solutions more sensible: “Demand-side subsidies make the most sense when affordability is the greatest housing problem to be resolved. And the evidence is convincing that this is indeed the case—in most housing markets and for most types of units” (Turner and Reed 1990: 7).

Winnick evaluates supply-side programs solely by asking whether they created quality affordable housing. Since the answer is often “no,” he judges the programs to be a failure. He does not address the issue of whether these programs had unintended effects beyond the housing they directly paid for, and in particular, whether these unintended effects might have further exacerbated the housing problem rather than simply leaving it unsolved.

Orlebeke notes some of these unintended consequences:

[B]y the early 1970s, one of the critical underpinnings of the quantified goal was looking increasingly shaky: the notion of a desperate physical shortage of shelter that could be addressed only by a huge production effort. Housing, including much in reasonably sound condition, was being abandoned in the cities as entire neighborhoods seemed to be emptying out. The middle-class exodus to the suburbs was clearly connected in some way to abandonment (Orlebeke 2000: 496-7).

However, the early-1970s shift to demand-side programs did not last long. The late 1970s saw a resurgence in housing production programs, including an alteration of Section 8: “major chunks of Section 8 [were tied] to new buildings by long-term contract (up to 40 years) as a lifeline for the rent roll and hence the mortgage” (Winnick 1995: 111). But then the pendulum swung back again:

By 1986, 140,000 Section 8 vouchers had been issued. Moreover, then and since, Section 8 has been progressively retargeted from thinly disguised production subsidies to a true tenant-based allowance by drastically truncating its term (with exceptions) to 5 years, adding portability, and focusing more subsidy on the very-low-income family (Winnick 1995: 111).

More recently, the usefulness to tenants of Section 8 has been hampered by failure of the program to recognize how high rents are in communities where most tenants want to live and by failure to authorize enough funds for all income-eligible households. Ironically, one of the biggest uses of Section 8 in Chicago is to provide a form of compensation to tenants being displaced from demolished Chicago Housing Authority buildings.

The 1970s also saw the development of another new funding source for housing, Community Development Block Grants (CDBG). “CDBG virtually eliminated federal funding discretion by providing automatic, formula-based annual grants to all cities with populations of more than 50,000, to urban counties, and to states for distribution to nonmetropolitan areas” (Orlebeke 2000: 508).

Unlike practically all housing programs enacted to that point, CDBG did not have a component earmarked for new construction. Rehabilitation was an allowable use of grant funds, but new construction was not. Still

unmet were the needs of households struggling to make ends meet in apartment units that did not require or qualify for significant rehabilitation. In the end, CDBG was for capital projects, not operating assistance.

Still, between CDBG and the shift of Section 8 away from production subsidies, direct government support of affordable housing production had become thin by the mid-1980s. Winnick believes that was not an entirely positive development, saying that housing allowances cannot and should not totally replace production subsidies: “Urban America—its thousands of cities, its scores of thousands of neighborhoods and communities—is too diverse to rely on any single instrument of subsidy” (Winnick 1995: 117).

Probably the most prominent current program for the production of affordable housing, the Low-Income Housing Tax Credit (LIHTC), began in 1986. LIHTC allows investors to purchase reductions in their federal tax liability—that is, to obtain tax credits—by investing in approved low-income projects. The investment is typically made in a lump sum prior to project construction, while the tax credits are redeemed over the following 10 years.

Though it started slow, use of LIHTC has grown until it has become a significant producer of housing. According to one estimate, about 550,000 to 600,000 units have been built using LIHTC (Cummings and DiPasquale 1999: 303). Bob Arcand estimates that LIHTC’s effect is even more significant: “Today the LIHTC accounts for nearly every new apartment created for low-income renters. Since its inception in 1986, LIHTC investments have helped finance more than 900,000 new and rehabilitated apartments” (Arcand 1997: 6).

In addition to federal government programs, some state and local programs focusing on housing affordability bear mentioning. Only a few of the many in Illinois or Chicago are listed here, but most states and large cities have similar programs:

- The Illinois Affordable Housing Trust Fund has paid for new development of both rental and homeowner units across the state. Since its inception, it has paid to develop 1,615 homeowner units and 8,631 rental units in the Chicago region.
- The Illinois Circuit Breaker program provides property tax and rent relief to low-income seniors (but not younger households) and people with disabilities based on their income and housing expenses.
- The Chicago-based Center for Neighborhood Technology is working with area banks to create Location Efficient Mortgages (LEM). The theory behind LEM is that some locations allow home owners to reduce certain expenses, thereby allowing them to spend a larger percentage of their income on housing costs. For example, a home near public transportation allows the owner to save money on automobile-related expenses (car payments, parking, gas, insurance). The thesis is that lenders should allow borrowers to pay a higher fraction of their income toward housing costs than the standard ratios normally used in loan underwriting.
- This is an interesting approach, not least of all because it runs counter to the traditional thesis that housing costs are always burdensome if they exceed a certain percentage of income. In the LEM analysis, housing costs can properly absorb a higher percentage of income as long as other expenses are lower. LEM itself neither supplements income nor reduces housing costs, but rather justifies a higher debt-to-income ratio than mortgage lenders would otherwise find acceptable. Whether this is a benefit to moderate-income buyers or simply a mechanism to drive up the price of location-efficient housing is unclear.

- The City of Chicago has instituted a policy that 20 percent of the housing units subsidized through tax increment financing (TIF) should be affordable, meaning that rental units should be affordable to people making no more than 80 percent of the area median income and ownership units should be affordable to people making no more than 120 percent of area median income. This paper is not the place to discuss all the ramifications of using TIF for affordable housing, but a thorough treatment of this and other TIF matters can be found in *Developing Neighborhood Alternatives* (2003).

IV. Remaining Questions (and Some Answers)

Though the existing literature covers many aspects of the housing market, it still leaves many questions. We will look at some of these, and provide some possible answers.

Do production subsidies contribute to a surplus of housing?

While none of the studies we reviewed discussed this in detail, several referred to the fact that production subsidies may create excess housing. In discussing the circumstances that led to the Section 8 program, Winnick presents the view of landlords and realtors:

They pleaded the case for using rent certificates as added housing purchasing power. Certificates would make affordable, at a fraction of the subsidy for public housing, the huge reservoir of vacancies in every local market and forestall the evictions or moveouts of hard-pressed tenants, all without bureaucratic regulation and administrative override. Why build more when there was already an oversupply? (Winnick 1995: 101)

Unfortunately, Winnick does not pursue this question any further, and he does not explore the nexus between low- and high-cost housing production in an already oversupplied market.

Orlebeke mentions one possible effect of surplus construction, but again does not explore its full ramifications:

In the 1980s version of this story, Congress reacted to bottom-scraping housing production—fewer than a million units in 1981—by shortening depreciation schedules for multi-family construction, which was especially depressed, at only 319,000 units nationwide. The stimulus had the desired effect, and more: Apartment construction more than doubled by 1985, causing a glut of over-building in many markets that would shortly contribute to the S&L debacle of the late 1980s (Orlebeke 2000: 511).

The glut of over-building referred to by Orlebeke and others is both of a large magnitude and long-standing in time. Since the mid-1950s, both nationwide and in the Chicago area, approximately 100 new vacancies have been created for every 300 units of new construction, as Table 2 shows. Most of these vacancies do not appear in housing analyses that report a snapshot of existing units at a given point in time. This is because the units have been demolished and removed from the stock of available units. Had there not been so much new construction, there would not have been so much demolition.

Table 2: Approximately one vacancy is created for every three new housing units built⁶

	United States				Chicago-Gary-Lake County, Illinois-Indiana-Wisconsin CMSA			
	Units	Claimed by Households	Vacancies Created	Demolitions	Units	Claimed by Households	Vacancies Created	Demolitions
1950 Total	46,137,076	44,147,633			1,717,897	1,685,255		
New 1950-60	15,973,226	10,635,835	5,337,391	3,783,945	529,710	435,056	94,654	34,772
New 1960-70	16,824,779	8,989,784	7,834,995	7,254,528	536,716	306,310	230,406	205,939
New 1970-80	22,413,449	17,430,435	4,983,014	2,988,650	551,142	355,680	195,462	154,474
New 1980-90	20,786,946	12,702,921	8,084,025	7,126,654	360,621	137,107	223,514	194,982
New 1990-00	19,701,058	15,149,110	4,551,948	4,778,116				
2000 Total	115,904,641	109,055,718						
New 1950-00			30,791,373	25,931,893				
1990 Total					3,105,919	2,919,408		
New 1950-90							744,036	590,167

The first data column of the table shows that in the United States in 1950, there were 46 million housing units. Between then and 1960, almost 16 million units were added. During that same period, the second column shows that only 11 million units were absorbed by net household formation plus demand for vacation and other “second” homes. Similar mismatches occurred in every decade since. By 2000, 96 million units had been built but only 65 million absorbed by the market. The extent of the glut is obscured only by the fact that 26 million units were demolished.

The Chicago metropolitan area shows a similar pattern, with nearly 2.0 million units built between 1950 and 1990, but only 1.2 million absorbed. Nearly 600,000 units were demolished. The 2000 data, when added, will show a continuation of the same trend. The numbers are not reported here because the Census changed the definition of the Chicago area CMSA for 2000. For consistency, this requires an adjustment in data for the previous decades, and we have not yet had time to make all the necessary changes.

If more units are being built than are needed by new households, why are units not filtering down and filling the demand for affordable housing?

Anthony Downs, in more than one work, discusses how the filtering process concentrates poverty in inner cities. He also concludes that the concentration of poverty will continue to be a side effect of growth as long as market conditions remain as they are.

⁶ Computations based on U.S. Census reports from indicated years. Beginning and ending totals are the Census counts. New units for intervening decades are units reported as having been built in last 10 years. The Census’ use of occupant-reported unit ages may overestimate the amount of recent construction, but the authors cited throughout this report and other data make it abundantly clear that whatever the exact numbers are, the direction remains unchanged: the surplus of new over claimed units is persistent and severe. Units claimed by households are all occupied units plus those held vacant for seasonal, migratory, or occasional use. Vacancies created is the difference between units built and claimed. Demolitions is the previous Census’ total units plus new units minus the current Census’ total units. Difference in time series between the U.S. and Chicago area is explained in the text.



Photo 1: Conventional wisdom is that new housing units, such as these three new developments on previously unused land near Chicago's downtown, are good for the city and the region.

Downs' conclusions are based on the assumption that growth, or new construction, occurs to meet expanding demand. Brian J.L. Berry, however, points out that the housing industry "has consistently constructed many more housing units than the growth in numbers of households appeared to warrant" (Berry 1985: 69).

Berry then goes on to connect this surplus construction to the filtering process:

Any excess of



Photo 2: The truth is that the new construction in Photo 1, when combined with the surplus of other building elsewhere in the region, will continue to create new blight, such as these Chicago blocks previously covered with structures and teeming with life—but now abandoned for many years because of prior surplus construction.

new construction . . . thus is transferred down the housing chain; “filtering” takes place as households climb the commodity chain and as older housing moves down the social scale. The final resting place of any excess supply is in the least attractive locations. If excess supplies are large, removal of the unwanted units can empty these locations of their structures (Berry 1985: 70).

Berry, however, does not address the causes of surplus construction. We think that much of the surplus construction is driven by supply-side subsidies of many types. As more and more excess units are constructed, inner cities and inner-ring suburbs will continue to see the decay and abandonment that is the final result of this process.

The problem will become even worse if net household formation is slowed by a reduction in foreign immigration due to tightened U.S. restrictions since 2001. Communities that have served as ports of entry will no longer find replacement residents when previous immigrants continue to move out.

Rothenberg describes this process of decay and abandonment as follows:

Overall, the pattern is a widespread move by households into better neighborhoods. At high quality levels, increasing percentages of shifts are into new units. Since more total units now exist with an increase in number of households only via a higher income-induced splitting of *households*, net vacancies will be created as a result of the musical chairs shifting. These vacancies are clustered at the lowest quality levels—the poorest neighborhoods. So while each neighborhood experiences high turnover, . . . higher vacancy rates—at least a trigger for deterioration, as we shall note below—afflict already low quality neighborhoods (Rothenberg 1979: 50).

So the filtering effect, which was supposed to provide affordable housing, instead creates vacant buildings that have a blighting effect on their community. Because of housing’s immobility and the negative effect of vacant lots, the remaining housing in the surrounding community becomes less desirable.

Families who did not leave when the first opportunity arose are now almost forced by encroaching blight to look for alternatives. Anyone who can afford to move does so as soon as the next wave of construction-induced moves opens up a unit for them in a nearby community that, at least for the time being, seems to them more stable. The construction that begins this cycle may be in a nearby central-city gentrifying neighborhood or dozens of miles away in a town the family will never see, but it soon results in a unit becoming available which—if they stretch their income just a little bit further—they will just barely be able to manage.

They move to escape the blight created around them by excessive construction elsewhere. For them, the unit to which they move, although taking more than 30 percent of their income, is “affordable.” The unit they leave becomes abandoned, and they become a statistic in the affordable housing merry-go-round.

Is it thinkable that the solution might be not more housing production, but less?

When, if ever, is it appropriate to subsidize housing production when there is already surplus construction?

This is difficult to answer without further research. Winnick seems to be correct when he says it is impossible to impose a single housing solution on the many varied communities of the nation. Additionally, we need to remember the traditional real estate mantra that the three most important qualities of any building

are location, location, and location. While there may be a surplus of housing in the aggregate, some units are undesirable because already surrounded by blight.

This is especially true of units that remain in disinvested communities suffering from abandonment caused by decades of surplus construction elsewhere. In these communities, new construction seems warranted. However, unless the volume of total construction in the region is reduced to a level more nearly matching the ability of households to absorb new units, the net effect of any new construction will continue to be another set of vacancies somewhere in the region's interrelated housing markets.

Moreover, the nature of the problem may be not so much a lack of adequate housing as people's lack of income to afford housing already in existence. If this is the case, it is entirely appropriate to re-emphasize and expand demand-side solutions. Separate papers could be and have been written on how to improve Section 8 and other subsidies to individuals, but these are beyond our current scope of investigation. Other program options include:

- Establish refundable income-tax credits for lower-income households.
- Expand property tax circuit breaker programs to make income, rather than age or disability, the sole factor determining eligibility. Circuit breaker grant levels can be increased to put more money directly into low-income homeowners' and renters' pockets.
- Institute living-wage ordinances to increase individual incomes.
- Encourage the creation and growth of locally-owned businesses in distressed communities. This can have the dual effect of increasing individuals' income so they can afford better quality housing while also bringing jobs into the inner city to reduce the jobs mismatch and rejuvenating the local building stock.

As important as any of these policy recommendations is, our key point is that future discussions of housing production must include an analysis of housing surpluses and how the proposed production might affect both this surplus and the overall sequence of moves within the region. This awareness needs to spread beyond discussions of affordable housing programs, considered in isolation, to any program that subsidizes or encourages housing construction. A significant part of solving the affordable housing problem is reducing the number of abandoned buildings and vacant lots. This must include stopping the creation of new vacancies caused by surplus construction.

In short, part of the reason the housing problem has been so hard to solve is that it has lacked a diagnosis that adequately accounts for all the symptoms. A misdiagnosed illness cannot be cured. If the housing problem is defined as an insufficient number of adequate units, it is counter-intuitive to consider surplus construction a significant cause of the problem.

Yet, having combined and carefully evaluated the observations of multiple authors on affordable housing, we are forced to conclude that construction is where the problem lies. Successful solutions, whether they emphasize the supply side in certain neighborhoods or the demand side, must also include the goal of reducing the total amount of new housing construction.

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COMMENT ON LYONS AND HARDY

Joe Persky, University of Illinois Chicago⁷

Art Lyon's analysis of filtering is an intriguing concept, though a more thorough assessment will find some flaws in his arguments. The filtering approach has been applied in a range of market settings, including automobiles, housing, and labor markets. In examining the filtering process in the used car market, we can see how the model is supposed to perform. As individuals' incomes increase, they become more willing to purchase new cars. At the top end of the market, wealthier consumers want the newest, most stylish cars with the best features. Lower-income individuals will accept the older used cars – the trade-ins – as they are primarily concerned with finding a car that runs. Filtering occurs as there exists a hierarchy of tastes, with the wealthier consumers buying the most luxurious cars, trading in their older cars – which are often bought by middle-income buyers who then sell or trade in their older cars – which go to lower-income consumers. The poor families buy the less desirable but still running cars, which represent an upgrade from their previous car (or lack of a car). Cars that won't are just taken to the junkyard.

The filtering processes in the post World War II housing market had strong resemblance to the used car story. During the 1950s housing developers built about 400 new housing units for every 100 that were demolished. However, those 100 units demolished did not have hot water, had minimal plumbing and heat, and many other problems. They did not meet any notion of basic physical soundness. Examining the experience of lower-income households and middle-income households throughout the 1950s demonstrates a dramatic improvement in the quality of people's housing. Similar developments occurred in the labor market, where individuals began getting well-paying union jobs in manufacturing, where previously they had no such option.

This filtering process worked well in the 1950s but it seems to fail today. In the 1950s, there was an enormous pent-up demand for autos and new housing. With little increase in the supply during the depression of the 1930s and a rapid rise in incomes and household formation in the 1940s and 50s, excess demand for cars and housing was at an all time low. Similarly, in the 1950s, good blue collar jobs, like used cars and decent housing, filtered down to low skilled workers. Indeed, the filtering of jobs provided new home and car owners with the income to purchase and maintain their asset acquisitions. There were real accomplishments in this period and the US experienced a rapid growth in household income, as well as a substantial reduction in the inequality of the distribution of family and household income in the country. Filtering worked during the 1950s because of the high demand and the growth in income.

In each of these markets – cars, housing, and jobs – there is a revisionist position. The revisionist position generally emerges during the 1960s. There is a famous piece on the market for lemons in the used car market – examining why only poor-quality cars come into the used car market, not those good ones people wanted. In the automobile context there was a whole discussion of under-investment in public transportation and much discussion about the externalities in the 1960s of the abandonment of cars and the demolition junkyards, both common metaphors for what was happening to urban communities. Similarly in housing, the arguments of Lyons' paper also have a history. The attack on filtering in the 1960s was most prominently associated with Ira Lowry and his critique of the filtering model. He and others emphasized that you need a certain income level to maintain a building; if you don't have enough income to maintain it, the structure will deteriorate, no matter how fast you're moving up. If you can't maintain the structures, they will eventually be demolished. People will disinvest in a community. For filtering to work we need enough employment and we need enough income.

⁷ Comments based on speech given November 5, 2003 at Loyola University Chicago.

The problem in the filtering process is that the chain often never filters to those at the lowest end – the poor who need to improve their housing conditions. The poor are not upgrading their housing conditions, or are not finding housing that is affordable for them. Housing gets destroyed, becomes too dilapidated to live in, or gentrification occurs; but something is not working this filtering process. The real culprit in these cases the slowdown in wage growth and the resulting expansion of economic inequality.

This is where the paper strays a little. In many ways the modern affordable housing movement is a response to that critique rather than part of the original filtering story. In particular, faced with a slowdown in the filtering process that seems to leave many people in substandard conditions, not only in terms of housing, but also in terms of employment and transportation, people started talking about targeted subsidies rather than relying on the trickle down process that seemed to work in the post WWII period. Policy makers and advocates decided to focus on targeting our programming; they began to target public transit, affordable housing, and neighborhood economic development programs to meet the needs of the poor. The major problem here is the question of the commitment to that intervention. Filtering has this nice appeal to it where everyone can benefit while no one has to do anything – families move on to their new house, someone gets their old house, and everyone is better off – that is very attractive. Suddenly, especially in the late 1960s in response to these critiques, the argument shifts to saying substantial funding towards redistribution targeted in transportation, housing, and neighborhood development is needed. These demands came along at the same time, and in competition with, new broad demands for healthcare, education, and retirement subsidies. As we all know, these programs are very expensive.

The basic problem is one of a lack of commitment; targeted subsidies have great difficulty in gaining support from the large share of the population that does not directly benefit from them. It matters little whether we talk about targeted supply subsidies like affordable housing or in jobs. Redistribution has never been very popular in the United States. The irony is that in the midst of this urban renaissance, the affluent have become claimants for many of the programs that people had fought for to introduce as anti-poverty measures. New fights over land and housing subsidies for these programs have arisen. Benefits are going to a range of high income households. This occurs when a housing project is torn down and the push for mixed income housing results in building \$300,000 units. The region and nation are undertaking an expansion of public transportation, but it is the affluent that are making claims on these programs that were fought for in a very different context.

Lyons is right to identify the problems created by building new housing for low income households, but the point can be overdone. When the filtering process breaks down, supply side responses must play a role. We need to build housing, public transit, and in the process, create new jobs.

COMMENTS ON LYONS AND HARDY

Sarah Jane Knoy, Organization of the NorthEast⁸

These comments on Art Lyon's paper stem primarily from working within Chicago communities that need to keep or build more affordable housing. The Organization of the Northeast (or ONE) is a broad based community organization in the Uptown, Edgewater, and Rogers Park communities. Their mission is to build and sustain a successful mixed economic, multiethnic community on the northeast side of Chicago. These communities are home to immigrants and refugees from all across the globe as well as to African Americans and Anglos. They represent a model community for their diversity and have often been studied for that. The perspective of these comments also stems from the work of the Balanced Development Campaign, a coalition of more than 15 grassroots organizations that cover all areas of Chicago working for an affordable housing set aside program, which will be discussed later.

Art Lyons is correct in this paper in stating that one could look at the problem of affordable housing as a problem of lack of income. When one considers the fact that a minimum wage worker would have to work approximately 110 hours a week to afford the average cost of a Chicago two bedroom apartment of over \$700 per month, then the magnitude of the gap between wages and housing costs becomes apparent. As a society, we cannot have it both ways. We cannot as a society refuse to set a minimum wage that is a living wage and refuse to provide subsidized affordable housing or policies that support affordable housing for the people who earn these wages. In other industrialized nations of the world they consider affordable housing to be a basic human right, which takes this whole discussion in another direction. Instead of having to talk about the deserving or the undeserving poor, or what levels government should intervene in the process, housing becomes viewed as a right for all.

The drawback of this paper is how easily it could be misinterpreted as claiming there is an overabundance of affordable housing or that development of affordable housing is unnecessary or harmful. There is no surplus of low-cost affordable in the Chicago area. There is a surplus of luxury housing in neighborhoods like those in which ONE works. People are buying luxury condominiums for their children who go to Loyola University to use as dorms, or buying second homes that they stay in when they have a busy week at work. In the ONE office (which is not a housing office, but a community organization office) there are at least two or three people coming in and calling every day begging, often in tears, for help finding a place to live. At a recent meeting of ONE's member organizations they reported receiving twelve calls a day from people looking for affordable housing that they are not able to serve. Furthermore, one of the local Salvation Army centers recorded that they turn down 15 to 20 unduplicated families per week who are looking for affordable housing.

Housing is about more than shelter; housing is about family, housing is about communities, and housing is about help. Families can make the of choice paying more than 30% of their income on housing in order to stay in the communities they have identified as safe, healthy communities for their families. However, the fact of choosing does not mean that spending 50, 70, or 80% of their income on housing costs is not an enormous burden on them – it is. Frequently families pay \$400 a month to squeeze 5 people into a 1 room apartment with bad plumbing and poor electric connections to stay in the community where their children go to school and where they find the social services that they need. Recently, 20 Cambodian families were evicted overnight from the apartments that they had lived in for decades with no warning, despite city laws against such practices, in order to make room for 10 luxury condominiums. The lack of affordable housing and our current affordable housing policies are causing real human suffering and destroying stable communities while making a small number of developers quite wealthy.

⁸ Comments based on speech given November 5, 2003 at Loyola University Chicago.

It is dangerously disingenuous to talk about housing problems in Chicago without talking about race. (To be fair, the paper does briefly discuss racial issues). We live in a racist society, housing choices are often made based on race, and neighborhoods are blighted and un-blighted because of pattern of racial migration – much of which is driven by public policy. It is too dangerous and will hurt too many people to make this analysis without having a racial justice analysis, an analysis of the racial history of this country.

In terms of the diagnosis, this paper may be asking the wrong question, such as going to the doctor with a sore foot and finding out about a stomach problem. The question that needs to be answered is what are the policies that are driving this sort of over-expansion of luxury housing and the under-construction of affordable housing. What are the policies that not just blight a neighborhood, but what policies that lead to the blight of a community that was successful? Look at the Bronzeville Community, what policies drove the blighting of that community and then allowed the people who were profiting off the blight to profit off the revitalization in that community? What policies are driving that engine? How do affordable housing developers sometimes play into that? Sometimes affordable housing developers are called into a community after it's been blighted, asked to build affordable housing, asked to bring social services in, only to then to be forced out when that community has become desirable again

Finally, one solution, which may be better than any of the solutions listed in this paper, such as location efficient mortgages and so on, is balanced development. The Balanced Development Campaign is working for what is called mandatory “set-asides,” which would be included in zoning. It is a policy that has been done in many cities across the nation for years, but which the city of Chicago is resistant to. The Balanced Development Campaign is advocating that every new development 10 units or more must set aside 20 to 25% of the units as affordable; housing units made available at a lower cost for purchase by moderate-income households who are being forced out of neighborhoods that they want to stay in. Through doing this on a voluntary basis 200 units of set-aside affordable housing have already been created in luxury developments for moderate-income people in the city of Chicago. If Art Lyon's analysis is correct and there exists an excessive construction of new, non-affordable housing, then this solution should prove realistic. Making this a citywide policy is one of the best solutions we have to the injustice in the housing market today.

THE POLITICS OF AFFORDABLE HOUSING

David Hamilton, Roosevelt University

Introduction

Three independently conducted housing studies recently reached strikingly similar and troubling conclusions: a housing affordability crisis has been gathering momentum in the country during a period of record economic growth and rising homeownership rates. The U.S. Department of Housing and Department (HUD) reports that the same economic growth that fueled the high-tech sector is driving up housing costs in both central cities and suburbs and is contributing to a worsening of the nation's affordable housing crisis. A study published by Harvard University stated that record numbers of low-income households are devoting more than half of their incomes to housing. Perhaps most sobering is a Center for Housing Policy report which noted that, although the nation is experiencing unprecedented economic prosperity, one out of every seven American families has a critical housing need. This study further noted that having a job does not guarantee a family a decent place to live at an affordable cost (Farnsworth, 2000).

Using data primarily from recent housing surveys, Stegman, Quercia, and McCarthy (2000) assert that there are 13.7 million families (14 percent) in the United States who spend 50 percent or more of their income on housing or live in a substandard unit. Of these, more than 3 million are working families. Moreover, the researchers found that between 1995 and 1997, the number of working families with such needs increased by 17 percent. Of these 3 million working families with critical housing needs, more than one-half are homeowners; more live in suburbs than in central cities; workers with crucial but low-paid jobs, such as teachers and police, are especially vulnerable; and the lack of affordable housing for working families in some regions is hindering economic growth because workers cannot find housing and companies cannot attract workers.

As the number of families being priced out of the housing market increases, the number of affordable housing units decreases. HUD reported that the nation lost 400,000 low-income rental units during the four-year period from 1993 to 1997. The rate of loss is apparently escalating as HUD reported a loss of 425,000 units in the previous eight years. The reduction in available affordable housing is particularly acute in Chicago with the demolition of selected Chicago Housing Authority buildings and gentrification that is causing rents to escalate in many neighborhoods (Irvine, 2000).

Although many different issues bear on the problem of how to develop a sufficient stock of affordable housing, it is clear that political considerations have a major impact on the design, amount, location, and cost of this type of housing. Political issues at all levels of government are major barriers in the development and implementation of affordable housing policy. The author found in his study of affordable housing that politics at the federal level has become more contentious over the years. In an in-depth study of housing issues in the Chicago area, he also found that, as affordable housing policy changes and programs are instituted to meet seemingly ever growing needs, local level resistance to affordable housing does not appear to abate. It appears that most suburban residents in Chicago continue to resist any efforts to introduce affordable housing into their communities. However, suburban political leaders and nonprofit officials involved in suburban low-income housing, feel that progress is being made in dispersing low-income residents throughout the suburbs. Often, barriers other than suburban residents' resistance conspire to keep low-income residents out of suburban communities. Even though progress is being made, there are still many barriers and political resistance that must be overcome. Based on his study, the author recommends educational programs, public-private partnerships, and financial incentives -- not federal or state mandates -- to win acceptance of affordable housing in communities that resist it.

In this chapter the author reviews the politics of the federal government's involvement in public housing since the 1980s. The remainder of the chapter is devoted to affordable housing politics at the local level. The Chicago region is the focus at the local level, especially the middle-class and affluent suburbs. The literature on low-income housing at the municipal level provides a frame of reference for the study. The author uses a variety of sources including personal interviews, newspaper articles, studies and reports of nonprofit agencies, and surveys of residents in metropolitan Chicago. Personal interviews were conducted during the winter and spring 2000-01 and were mainly in-person interviews using open-ended questions to elicit information and perspectives. To encourage openness, interviewees were guaranteed anonymity. Informants included suburban mayors, low-income housing developers, board members and executives of civic organizations involved in affordable housing advocacy and research, officials from local government planning departments, and executives from councils of governments. For purposes of this study, the term affordable housing includes all types of housing that are subsidized or regulated by government and designed for people who are not able to pay market rates. We use interchangeably affordable housing, public housing, low-income housing and subsidized housing.

Federal Involvement in Low-Income Housing

Over the years federally subsidized housing programs have varied from the supply side to the demand side, and from direct subsidies to private developers to block grants and tax credits. Political pressures have abruptly changed housing programs. Federal government involvement has been problematic at best. In attempting to improve the housing opportunities for the poor, the federal government often has ultimately created a worse situation. Prior to 1937, housing needs for the poor were generally met by the private sector and in some cases local governments, if they were met at all. The private sector supplied a variety of options in low-cost housing including tenements, low-rent hotels, apartments over stores, boarding houses, apartments in basements and over garages, flats in back, etc. These options became less available with the emerging zoning laws that separated living space from commercial and industrial activity and building regulations with building lot coverage restrictions (Norquist, 1998).

When the federal government became involved in housing through the passage of the Housing Act of 1937, it injected politics into low-income housing, replacing the pragmatism of the private market and humanitarianism of local governments and private individuals. Since this time and especially since World War II, low-income housing has basically been driven by federal policies subjected to tremendous political maneuvering and pressure by developers and local government political officials. Politics has informed every aspect of federal policy regarding subsidized housing, including the types of housing to be built and where to build them. The decisions often proved to be disastrous, as the large high rises built in the 1950s and 1960s attest. Housing was often built in inner-city areas where low-cost private housing stood, sometimes reducing the total available low-cost housing. High-rise housing had the effect of further concentrating the poor in inner-city slum areas and isolating them from the surrounding community. The buildings often became drug and crime infested, plagued by maintenance problems and vandalism, and many apartments became uninhabitable. Starting in 1972 with Pruitt-Igoe in St Louis—built just seventeen years earlier—the worst high-rise buildings have been leveled, and there are plans to demolish a number of others over the next few years (Rusk, 1999).

Even though federally subsidized housing in the United States has always been controversial, in the early years there was much more bipartisan support than at present. For example, Senator Robert Taft (R Ohio), a leading conservative, co-sponsored the 1949 Housing Act that pledged to guarantee decent housing to every American. Indeed, until the cost-cutting Reagan years, every Republican and Democratic administration from the genesis of the federal government's involvement under Franklin D. Roosevelt increased federal housing assistance (Dreier, 1997).

Federal Affordable Housing Politics After the 1970s

Since the advent of the Reagan administration, political support for federal housing programs has waned. Both parties avoid making affordable housing a campaign issue. Republicans have threatened to eliminate the Department of Housing and Urban Development (HUD), the federal cabinet-level department that oversees federal housing programs for the poor. Although conservative Republicans provide the most vocal opposition, even President Clinton was willing to consider deep cuts in housing programs and the elimination of HUD. Federal housing assistance programs had very little political support in Congress. David Rusk, (1999), a noted government consultant, observed that the only major constituency for HUD's housing programs is the National Association of Housing and Redevelopment Officials (NAHRO), the association of public housing authorities. Peter Drier (1997), a long-term student of federal government housing policy noted that the political constituency for federally subsidized housing is weak and fragmented.

For the most part, support for housing the poor is composed of those who have a direct stake in housing them: big-city mayors and local government housing bureaucrats, private housing developers, landlords and speculators, and poor people and their advocacy organizations. These groups are fragmented and often work at cross-purposes. Each group lobbies for its own specific policy and funding, which weakens the overall impact of their efforts and undermines the likelihood of building broad support for federal housing programs. Big city mayors and housing bureaucrats have been losing clout for years as cities decline in voting strength and as national PACs replace city-based political machines as the keys to winning urban seats in Congress. The private developers have benefited from federal subsidies since the HUD housing programs began. However, scandals during the Reagan era revealed how unscrupulous private developers can take advantage of housing programs. For a large segment of the public this confirmed suspicions that federal housing programs were poorly administered and open to large-scale corruption. Groups advocating for decent housing for the poor generally not well funded or organized. They have limited access to decision-makers and their impact is, therefore, limited. They are often dismissed by Congressional leaders as self-interested or well intentioned but misguided 'do gooders' and, as a result, are seldom taken seriously (Dreier, 1997).

Until the scandals and abuses that came to light in the 1980s, a politically attractive alternative to public housing was to provide direct subsidies to private developers to build low-income housing. Thereafter, more emphasis was placed on the Section 8 program passed in the 1970s. Under this program, housing vouchers are given to qualified low-income people to find housing in the private market. The voucher is used to pay the difference between what the low-income family could pay and the fair market rent. During this period, there was increasing turmoil regarding the role of the federal government in subsidized housing (Orlebeke, 2000). With the 1994 election of a Republican majority in Congress, federal housing programs in general were at risk. Conservative Republicans were hostile to federal subsidies for low-income housing and threatened to eliminate HUD. HUD Secretary Henry Cisneros, struggling to save his agency, proposed to 'reinvent' the agency by adopting a series of conservative Republican proposals that Democrats had previously resisted. This included extricating the federal government from its partnerships with both private developers and public housing authorities by privatizing most federal housing programs. Tenant vouchers were proposed to replace unit-based subsidies, and rents would revert to market level. Government-held mortgages would be sold to the highest bidder (MacDonald, 2000).

Cisneros's plan predictably drew strong opposition. Residents in subsidized units feared the use of tenant-based vouchers would result in their displacement. Private building owners feared the loss of federal subsidies would reduce the value of their buildings and possibly bankrupt them. Nonprofit building owners felt that they were meeting a need that the private market would not meet under the proposed restructuring. In the end, federal involvement in housing proved impossible to dismantle. It is ironic that a Republican Congress ended up opposing a Democratic administration's privatization proposals (MacDonald, 2000). Republicans criticized the plan to deregulate public housing authorities as a way to cripple many housing authorities that were effectively providing housing. The plan to provide housing vouchers was criticized as

costing twice as much as public housing and reducing the number of people served. Also, the National Association of Housing and Redevelopment Officials (NAHRO) predictably opposed the proposal to replace federal subsidies to its members with tenant vouchers. Opposition to the reinvention of HUD's housing programs prevailed when the Senate and House could not reconcile different versions of the reform legislation. A major factor in their inability to reach agreement was the fact that House conferees insisted on including language repealing New Deal legislation that had launched the federal public housing program, which President Clinton threatened to veto. (Rusk, 1999).

Finally, after over two more years of contention, the Republican Congress and the Clinton administration reached agreement on a housing bill. This bill, the Multi-Family Assisted Housing and Affordability Act passed in October 1997, did not include the radical changes proposed by HUD Secretary Cisneros or the Republicans in 1994. It did make marginal changes by pushing federal housing programs in the direction of privatization. However, opposition to complete privatization was too overpowering. The relationship between the federal government and private and nonprofit landlords providing affordable housing remained, but aspects of the relationship were altered. Owners of subsidized housing who opted for HUD's favorable rates on debt restructuring and continuing FHA insurance were required to maintain a minimum level of affordability for 30 years. Because it was not possible to extricate the federal government from low-income housing, much of the existing subsidized housing stock remained a federal responsibility. The bill also provided more discretion to local housing authorities to choose between project-based assistance and rental vouchers. The legislation also required that federal subsidies for renting on the private market be more reflective of market rents. To be eligible for Section 8 vouchers most rents must be set at market rates or 90 percent of fair market rates as determined by local housing authorities (MacDonald, 2000). Reaching closure on the 'great housing debate,' the Republican Congress and Democratic administration agreed on a housing appropriation measure that returned some of the deep cuts made in previous years. HUD's appropriation for fiscal year 1999 was set at \$24.5 billion including an increase of \$2.7 billion for Section 8 rental assistance, which provided an increase of 90,000 rent vouchers, the first increase in four years (Rusk, 1999, 275).

The passage of the bill ended almost two decades of turmoil and conflict over the federal government's policy for low-income housing assistance. The direction seems to be pretty well established on three pillars:

- Vouchers to families to use in renting housing on the private market. The family pays not less than 30 percent and up to 40 percent of their income toward the government-approved fair market rent. The voucher covers the remainder of the rent.
- Block grants transferring funding and control of most housing programs from the federal government to state and local governments.
- Tax credits to spur the private production of low-income rental housing. Developers can take a dollar for dollar offset against other taxes equal to their investment in 10 annual installments if they rent at least 20 percent of their units to families earning 50 percent of the area median income or at least 40 percent of their units to families earning 60 percent of the median income. No low-income family can be charged rents more than 30 percent of their income (Orlebeke, 2000).

In addition to the block grants devolving more control over housing programs to state and local governments, the other programs are largely under state and local control. For example, local agencies determine area fair market rents and provide assistance in finding rental housing under the voucher program. In the tax credit program, monitoring and enforcement is shared by state housing agencies and the IRS, not HUD. Undoubtedly, conflict and disagreements will continue, but housing advocates generally seem to accept this direction and are advocating expansion of resources in these areas—not changes. They have, therefore, accepted more state and local control of housing programs and will probably resist efforts by the federal government to add regulations and mandates. The federal government's role will likely continue to be to

provide grants with control and administration at the state and local levels (Orlebeke, 2000).

Impact of Devolution

In this era of devolution, state and local governments are increasingly taking on the housing needs of low-income citizens, including political responsibility for the results. Under the devolution policy begun by the Reagan administration in 1980, many housing programs were combined in block grants and handed to the states to administer (Van Vliet, 1997, 252). One block grant program is the HOME assistance program adopted in 1990 and funded in 1992. The HOME grant supports a variety of programs including the construction and rehabilitation of rental housing, homebuyer activities, homeowner rehabilitation, and tenant-based rental assistance. It provides flexibility for communities to address a wide array of affordable housing needs. Its requirement for a local funding match has leveraged an average of 1.6 to 1.7 dollars in private investment for every HOME dollar. It has resulted in broader community involvement from the private sector and nonprofit agencies in low-income housing. HOME projects also require approval of the local governing body. Some communities have established HOME advisory boards consisting of community residents and elected officials to make decisions or recommendations to their respective governing bodies. Local housing agencies that receive funds must hold at least two public hearings a year to obtain citizen input (Association for Local Housing Finance Agencies and National Association for County Community and Economic Development, 1997, 25).

Devolution of federal housing assistance to the local level increases local initiative and local policy decision making on affordable housing. Although local political leaders and housing agencies must continue to work within federal guidelines, devolution has made local politics and policies even more important in determining the future of affordable housing. When decision-making is decentralized to the local level, decisions theoretically are more representative of the wishes of the local residents. However, local level decision-making can be impacted by activists or advocacy groups who may be pursuing their own narrow interests. This adds a dimension to public policy decision making as the agendas of these activists and neighborhood groups may be contrary to the broader needs of the area (Swindell, 2000). Their involvement in low-income housing issues could have both positive and negative implications as activists and neighborhood organizations can be either for or opposed to subsidized housing. Activists and grassroots organizations, combined with required citizen input and elected leaders' review for approval of federal block grants, increase the potential at the local level for political conflict over controversial issues such as affordable housing. With devolution and participation requirements, it is harder for political leaders and housing agencies to make decisions that may be unpopular among important local constituencies.

Opposition to Affordable Housing

Political opposition to affordable housing often stems from opponents' underlying ideological and economic concerns. Developers view affordability mandates as depressing the value of their investments. Business interests are notorious for opposing most forms of regulation on principle. Large segments of the public view the poor as lazy, and they oppose government assistance as weakening any incentive for the poor to get ahead on their own (Calavita, Grimes, & Reynolds, 1994). Local governments have historically viewed their purpose as promoting economic development and providing essential municipal services, such as police and fire protection and garbage collection, rather than social programs. Affordable housing advocates have had minimal influence in local politics because of the ideological barriers and the traditional municipal orientation to economic development and the provision of property-related essential services.

The literature on subsidized housing indicates that people resist its introduction in their neighborhoods for many reasons. Freeman and Rohe (2000) have cataloged the following objections:

- It will upset the racial balance in the neighborhood and lead to racial transition.

- The social pathologies associated with people living in low-income housing, such as dysfunctional families, welfare dependency, criminal behavior, etc., will not be contained within the boundaries of the assisted-housing developments.
- Introduction of assisted-housing leads to further concentration of poverty.
- People living in low-income housing are not desirable neighbors.
- Any neighborhood with assisted housing becomes stigmatized leading to lower property values.

Although studies conclude that these perceptions are generally without merit, they still persist. For example, research has shown that there is no consistent relationship between assisted-housing and racial transition in surrounding neighborhoods. Moreover, researchers have found that in most cases the introduction of low-income housing does not negatively impact property values of neighboring non-subsidized housing. While it is true that large public housing developments further concentrate poverty in the adjacent neighborhood, scatter-site housing should reduce this impact (Freeman & Rohe, 2000).

One reason that community leaders resist affordable housing is that it tends to be the least desirable housing in the most blighted area of the community. It, therefore, brings in little tax revenue. Community development, including the upgrading of housing stock to increase tax revenues, is a centerpiece of most local government initiatives. Targets of community development tend to be the blighted areas of the community. To the extent that communities do upgrade or gentrify, it reduces the supply of low-income housing in the community. Moreover, neighboring housing units become more valuable as the area develops, with the result that property taxes and rents increase. Low- and moderate-income residents thus are forced out of the developing area, further reducing the supply of affordable housing. Low-income housing, particularly if poorly maintained, does not fit well with any community's efforts at economic development.

Goetz (2000) writes about one attempt to upgrade housing in Brooklyn Park, an inner-ring Minneapolis suburb. It embarked on a plan to upgrade its housing stock through demolition and renovation of low-rent apartment complexes, citing the high vacancy, crime-ridden, and deteriorated conditions. A grassroots organization, formed by residents of one of the complexes slated for demolition, fought the demolition and enlisted aid from other affordable housing groups in the metropolitan area. While the issue was being fought, a new management group reduced crime and vacancy rates in the complex. The municipality continued to seek demolition, changing its justification to community benefits from lower densities. Opponents claimed that the 1,140 apartment units involved represented more units than were built in the entire metropolitan area in a given year. They won a lawsuit blocking the community from using tax increment financing for the project. The city then indicated it would pursue the project using its own funds at a cost that by this time had ballooned to \$41.2 million—more than the annual budget of most suburbs in the region. Faced with another lawsuit, the city finally withdrew its designs. The suburb appeared willing to go to great lengths to eliminate affordable housing in its community.

Affordable housing advocates share the community's objective to reduce poverty concentration. However, it is not enough to reduce low-income concentration in a community because it remains extremely difficult to locate affordable housing in other areas where none exists. Those communities with existing affordable housing argue that concentrations of poor people are detrimental to developing the community while other communities refuse to let them in for the same reason. The result, according to Goetz (2000, 170), "is an ironic consensus about affordable housing in the region—no one wants it."

Support for Affordable Housing in Metropolitan Chicago

Despite the stigma and the negative stereotypes associated with subsidized housing, surveys of residents of Chicago and its suburbs suggest that there is more support for affordable housing than might be expected. For example, a 1995 survey by Metropolitan Chicago Information Center (MCIC)¹ of over 3000 randomly

selected people in metropolitan Chicago showed that only 40 percent agreed that increases in subsidized housing would harm their community. Only 41 percent of suburbanites and 39 percent of white respondents felt that increases would harm their community. This is compared to 42 percent of black respondents and 43 percent of Hispanic respondents who felt that increases would be harmful to their community. The results of this survey counter the stereotype of white suburbanites' adamant opposition to subsidized housing. Indeed, the survey results suggest that blacks and Hispanics may be slightly more opposed than whites. It is also significant that a majority of the respondents did not oppose increased levels of subsidized housing. These survey statistics contradict other evidence that suggests that people are generally opposed to subsidized housing and are bitterly opposed to its location in their communities. Although any analysis of the survey is speculative, it may be that people responding to an anonymous phone call may say what they think the caller would like them to say. The wording of the question on 'increases in their community' may also be interpreted broadly by the suburbanites to mean Chicago, and since most suburbs do not have subsidized housing, any increases would not affect their community.

MCIC framed the question somewhat differently in 1992 and 1996, asking respondents whether they supported subsidized housing for low-income workers in their neighborhood. For this question support was substantially lower. While 62 percent of city respondents indicated support, only 49 percent of suburban respondents did. Likewise, barely 50 percent of white respondents versus 65 and 66 percent respectively of black and Hispanic respondents supported the statement. The same question has been asked each year since 1996. Later surveys show minor erosion of support from the 1992 and 1996 surveys. City, suburban, white, and black support for subsidized housing for low-income workers is down in each of these categories by 2 to 3 percent, which is still within the margin of sampling error. It is interesting, however, that it seems to be trending down despite increased publicity about the problems suburban businesses are having in finding workers for low-paying jobs. Indeed, perhaps increased awareness of the prospect of developing new affordable housing in their communities leads to suburban residents' increasing opposition. This does not explain, however, the increasing opposition of city residents and African Americans. It is interesting that only the Hispanic community indicated greater support, rising from 66 to 68 percent.

When asked if they supported low-income housing near jobs, respondents gave overwhelming support. Although suburbanites and whites at 73 percent were less enthusiastic than blacks and Hispanics at over 80 percent, the percentages were very favorable. The MCIC surveys show there may be differences in what people perceive in the terms near 'jobs,' 'community', and 'neighborhood.' There was more support for low-income housing near jobs and in the 'community' but substantially lower support for in the 'neighborhood.' Neighborhood connotes a closer proximity to one's own house and environment. People are less supportive of affordable housing when it is located in close proximity to their own home.

Indeed, depending on how the question is asked, the response may be different. For example, a National Low-Income Housing Coalition (NLIHC) survey showed that most people react negatively to low-income housing issues. The majority in their survey did not agree that, in a rich country such as the United States, families should be guaranteed a decent place to live. Instead, most indicated that since they themselves work hard to pay for housing without a government handout, everyone else should be able to also. A typical response came from residents in a Boston suburb; they acknowledged the need for affordable housing for poor people, but they opposed housing for low-income people in their suburb because it might bring crime and drugs into the community and lower property values (Power, 1999b). The mayor of a Chicago suburb told the author of this paper that people generally agree with the concept of affordable housing but not with its implementation.

Suburban Resistance to Affordable Housing

In many suburban communities opposition to affordable housing occurs because it can introduce a different type of housing into the community. One mayor said in an interview that people do not want the character of

their community to be changed. He stated that residents of a community or neighborhood with single family, detached homes, do not so much oppose subsidized housing but the introduction of different housing (such as multi-family buildings). In the eyes of these community residents, multi-unit structures lead to deterioration of the community and lower housing values

Anecdotal evidence supports the mayor's contention regarding the introduction of multifamily housing into suburban communities consisting mostly of single family, detached housing. One person interviewed described casting the deciding vote in an upscale suburban community for a townhouse development whose units were more expensive than many of the single family houses in the community. There was bitter opposition to the proposal despite the fact that they were to be priced beyond the range of even middle class families. Needless to say, the person who cast the deciding vote was not re-elected because of this issue.

In another exclusive suburban community, three village board members lost their re-election bids because they supported a high-rise development project for condos and rental units near the community's downtown. Again, the issue was not about affordable housing but about the introduction of a different type of housing into the community. Arlington Heights, another wealthy suburban Chicago community, had a similar battle over the introduction of a high-rise condo development in its downtown, the first in the area. Residents from the surrounding neighborhood, many living in houses worth less than unit prices in the new development, were bitterly opposed. Despite the opposition, the development was approved and built. The development has been so successful that it is used as a model for other suburban communities for their downtown development. Furthermore, Arlington Heights officials met little resistance in approving an additional high-rise development on the south side of the downtown.

Another negative stereotypical image is that where there is affordable housing, there is a blighted neighborhood. Community leaders and neighboring landowners who believe this oppose affordable housing because they think it reduces property values. Indeed, some housing that is affordable is deteriorated or is in a deteriorating neighborhood. According to the executive director of a nonprofit organization involved in affordable housing in the suburbs, multifamily rental housing complexes that are affordable are often poorly maintained resulting in code violations and continued deterioration. Municipal building departments are often understaffed and judges are often lenient towards building owners. Furthermore, code violations may not be reported for fear of reprisals from the landlord, and people living in substandard units may be illegal immigrants who do not want to come in contact with government authorities.

Unlike Chicago with its housing watchdog groups, there are few affordable housing advocacy groups in the suburbs to advocate for, and educate people about, affordable housing. This is another aspect of the politics of affordable housing. Housing advocates in the central city fight for additional and improved affordable housing., educate the community about affordable housing, fight for better housing conditions for the poor, and work to make sure that landlords do not take advantage of low-income people. There are few such groups in the suburbs to advocate for or protect the rights of low-income residents. Suburban housing groups would likely be an asset in improving the image of affordable housing in the suburbs.

Racial Barriers to Location of Affordable Housing in the Suburbs

Some observers claim that racial bias is a major impediment to dispersion of affordable housing throughout the metropolitan area. The general perception is that people in subsidized housing tend to be African Americans. Indeed, over 91 percent of the users of Section 8 housing vouchers in Chicago are black (Dreier, & Moberg, 1996). Although there are African Americans living in the suburbs, they tend to be clustered in a few suburbs. Many Chicago suburban communities have no or very few black residents (Hamilton, 1999; 299-306). There is general consensus among policy analysts that concentrations of poor minorities in inner-city developments further social isolation and racial segregation. Dispersing them throughout the region would put them closer to job opportunities, decent schools and a safer environment. However, blacks who

move out of Chicago Housing Authority (CHA) high rises often end up in segregated areas in the city or the suburbs. According to Representative Weller, over 40 percent of CHA residents who have used vouchers to move to the suburbs live in two contiguous south suburban zip codes in largely black and increasingly stressed communities (U.S. House of Representatives, 1995).

Voucher holders face significant obstacles besides discrimination in searching for housing options. These include financial barriers (the cost of transportation, credit checks and security deposits); limited time to search, particularly for employed participants; large family sizes; and personal problems, such as lack of communication skills, substance abuse, family members with criminal backgrounds, illness, and disability. People from the CHA may face increased discrimination. One resident searching for a new apartment said, “You want to go somewhere nice, but landlords know you are from the projects, and they think you’re bad” (Maney & Crowley, 1999, V2).

Most minorities who have relocated from the Chicago Housing Authority since it announced plans to demolish selected buildings have found it more convenient to stay near the old neighborhood, or they have moved to other familiar parts of the city. Only about 5 percent have moved to the suburbs, and, of those, most have found it more comfortable to live in the largely black communities in the south suburbs where they feel they will be welcome. This is understandable, given the stereotypical image of the ‘hostile, discriminatory’ white suburbs. Only a few have been successful in finding housing in these largely white communities. Anecdotal evidence suggests that those who have been successful have been accepted in the community. The problem is not so much discrimination but adjustment to a different life style. In one instance, a family that moved into a largely white suburb had a supportive landlord, received financial assistance from local government sources, and received job offers that assisted in the adjustment. This family did not find the stereotypical ‘hostile, discriminatory’ community (Myers, 1998).

One person interviewed claimed that race is not the issue it once was in the suburbs. The suburbs are more racially and ethnically diverse with East Indians, Asians, Latinos, African Americans, and new immigrants increasingly moving into what were previously all white communities. She claims the discrimination is now based more on income than on race. People with money who can maintain their housing are generally accepted in the community regardless of their race and ethnicity. People who are poor and landlords who do not maintain their housing are not welcome regardless of their race and ethnicity.

Additional Barriers to Affordable Housing in Chicago’s Suburbs

The paucity of support services can make affordable housing in the suburbs less desirable for low-income people. Public transportation in the suburbs is not as convenient or accessible for shopping, health care, work, etc. An automobile is almost a necessity to live in the suburbs, adding expense to a poor family’s budget. Needed health and welfare support services may be located only in Chicago.

Government regulations and bureaucracy are also a hindrance to affordable housing. Housing providers who were interviewed do not find the Housing Choice Vouchers (formerly Section 8) program very attractive, except in rental markets with higher-than-average vacancy rates and lower-than-average rents. The program requires a landlord willing to lease to a family with a housing voucher to wait until the unit is inspected and the rental payment authorized, a process that may take from two to four weeks. The delay between a landlord’s acceptance of a tenant and the housing agency’s authorization can result in a loss of 8 percent of a landlord’s annualized rent each month the unit remains vacant. If everything else is equal, the landlord will rent to the first person who can pay the rent and move in. Moreover, especially in a tight rental market, landlords can be selective and screen out tenants they deem undesirable, even though these practices are in violation of fair housing practices. This makes it extremely difficult for racial minorities, large families, single parent households, and tenants without established work, credit, and renting histories. Finally,

providers complain that Fair Market Rents established by the housing agency are below the asking rents in many neighborhoods (Metropolitan Planning Council, 2000b).

It is no wonder that most of the Housing Choice Vouchers end up being used in a relatively few neighborhoods in Chicago and southern Cook County--areas with higher vacancy rates, lower rents, and higher concentrations of poverty than other areas of the metropolitan area. This concentration could result from limited tenant knowledge about the market or property owners' dislike and mistrust of government. Even property managers otherwise sympathetic to low-income residents complain about the voucher program's red tape, intrusive inspections, and low rent levels (Metropolitan Planning Council, 2000a).

To some extent, the tight rental market, the high rents, and the lack of large rental units for families is the result of past local government policy. DuPage County offers a good example of government policies that restricted the supply of affordable housing. Before 1970, there were no government-subsidized housing units in the county. By 1980 there were only 4,154 units. The county had a zoning ordinance that prohibited construction of multifamily developments without a zoning variation or special use permit. This was only granted if the project did not increase the school population or would not increase taxes to current property owners. As a result, most multifamily housing consisted of one- and two-bedroom units with rents sufficiently high that low-income families could not afford them (Possley & Gould, 1981; Ziemba, 1981). These exclusionary policies were changed subsequent to a judge's ruling in a court case in 1981. Because of previous policies, the supply of affordable multifamily rental housing has been severely restricted. The DuPage Housing Authority has not been able to use all the Housing Choice Vouchers that are made available to it. The authority uses only about 1800 of the 2500 vouchers it has at any one time (Grady, 2000). This is alarming given the large number of families waiting for vouchers in many jurisdictions. The national average wait to receive a voucher is 28 months, and in Chicago the wait is five years (Maney & Crowley, 1999).

In built-up areas in the suburbs there is insufficient land or land prices are too high to develop complexes large enough to accommodate affordable housing in a mixed-income environment. As discussed above, communities are not inclined to require developers to build affordable housing units, nor are developers prone to work through the bureaucratic red tape and concomitant delays to obtain the subsidies to build affordable housing.² Developers are not interested in building affordable housing when they can make more money with fewer bureaucratic delays building other housing. This is especially true in developing suburbs with booming housing markets. One suburban official said they would consider affordable housing development proposals, but developers do not propose them. Municipalities are simply reacting to projects proposed by developers.

Overcoming Obstacles to Affordable Housing

It is difficult to change people's perceptions about contentious issues. Studies show that people take cues from sources they perceive as credible on issues about which they are not knowledgeable or do not have strong feelings. However, if people have strong feelings and perceptions, they are less susceptible to the influence of a respected source (Hamilton, 1999). Mutz and Soss (1997) conducted a study of the influence of a newspaper to mold public opinion on the issue of low-income housing. One of the two newspapers in the metropolitan area consciously chose to emphasize the issue for a calendar year. The newspaper's goals were to heighten the general salience of the low-income housing issue within the area and promote support for a requirement that all new multifamily housing developments include some low-income housing units.

The researchers conducted surveys before the newspaper announced its agenda and at four different times during the year of the campaign. They found that readers of the newspaper were no more likely to change their opinions on low-income housing than were readers of the other newspaper or nonreaders. The

newspaper did not change people's preconceived opinions: those who supported the issue continued to support it and those who were opposed continued to oppose. Also, the salience of low-income housing as a personal concern to individuals did not change significantly over the one-year period. However, on a collective level, citizens' perceptions of popular support for low-income housing did move in a more favorable direction during the year. In other words, while readers of the newspaper were individually not affected, they believed public support for affordable housing increased during the year. The end result was that the newspaper's low-income housing proposals met with substantial opposition and were not enacted. However, three years later the county executive worked with the two US senators to amend federal legislation to provide funds for a pilot project for mixed-income housing. The concept of a pilot program had been favored in the surveys conducted by Mutz and Soss three years earlier as a more acceptable alternative than the newspaper's original proposal to require low-income housing in all new developments. It is impossible to know whether the newspaper's crusade had any significant impact on this policy change.

The surveys by MCIC discussed above indicate that there is general support for affordable housing although there is substantial opposition to its location in one's own neighborhood. To overcome this 'not-in-my-backyard' (NIMBY) opposition, positive steps must be taken to eliminate the negative image. Steps include educating political leaders and citizens on the need for affordable housing, the benefits for economic development, and the advantages to the community. Community leaders, including nonprofit and religious groups, should be enlisted to help win support. A positive outreach effort to the community showing that affordable housing units can be as well kept, if not better, than other units would help to eliminate the negative image of subsidized housing. The opposition's issues should be immediately addressed, not by the affordable housing advocates, but by respected members of the community, who are perceived as non-biased (Association for Local Housing Finance Agencies and National Association for County Community and Economic Development, 1997).

To win acceptance for affordable housing, the need has to be expressed as more than just a benefit for the poor. With the cost of housing skyrocketing, the public must perceive that affordable housing is also for middle class people or first-time homebuyers. The community must also learn the impact on the economy in the area if businesses have difficulty recruiting employees from other parts of the country or in filling low-wage jobs without nearby affordable housing. Moreover, the relationship between the decline of affordable housing to homelessness must be understood. The increase in panhandlers and street people creates economic and social problems for the community and fosters a negative image.

Community acceptance of affordable housing depends on the credibility and preparation of the local housing agency, the support of political and community leaders, and the power and influence of the opposition. Private developers are a key component of any affordable housing plan. They should be represented on task forces and be involved in meetings as the plans are being created. Their commitment is essential to the success of affordable housing. Community leaders from the public, private, and nonprofit sectors must be committed and willing to help build support (Calavita, Grimes, & Reynolds, 1994). San Jose's Department of Housing is an example of a successful housing agency. Since its inception in 1988, not a single affordable housing project has been rejected. Factors in its success include:

- City-financed affordable housing is often more attractive than the existing housing stock, effectively raising or stabilizing property values.
- The city works aggressively in the community to educate residents about the need for affordable housing and its relationship to economic development.
- The city has invested significant funds in developing and distributing agency and program marketing materials that bring a familiar face to housing by describing the kinds of people who need affordable housing (nurses, teachers, etc.).

- There are many avenues for the community to express its views about housing, from the Housing Advisory Commission all the way to the City Council.
- Housing costs in the area are high, meaning that affordable housing is clearly a benefit to moderate-income as well as low-income families (Association for Local Housing Finance Agencies and National Association for County Community and Economic Development, 1997).

New Approaches to Low-Income Housing

There is general consensus that deconcentration of poor people into mixed-income housing is the best policy, both for community acceptance and to improve their opportunities for a better quality of life. However, there is no agreement on how to implement this policy. Some housing and civil rights advocates argue that the federal government should condition federal funds to localities on strategies to encourage a mix of housing. A few states have enacted laws allowing developers of low-income housing to override local zoning laws that inhibit low-cost housing (Dreier, & Moberg, 1996). For example, more than two decades ago Massachusetts enacted a law allowing a special state commission to override local zoning ordinances interfere with the development of affordable housing. The goal of the law is to spread the responsibility for providing affordable housing to all jurisdictions with the state. Over the years more than 25,000 affordable housing units have been developed in areas where they would not have been previously allowed (Andrews, 1998).

After decades of using public housing and other federally subsidized housing developments to shelter the poor and only the poor, the federal government has shifted to policies that mix households with varying incomes. Housing policy increasingly emphasizes two approaches that deconcentrate the poor. The dominant method is to disperse the poor throughout a metropolitan region by providing them with rental vouchers for use in privately owned housing. The other approach is combining low-income and higher income households in the same development. Although they share the objective of deconcentrating poverty, the two approaches operate in different ways. Dispersal strategies try to move the poor into more affluent neighborhoods, while mixed-income housing attempts to attract higher income households to developments that are also occupied by the poor. By the late 1980s, dispersal strategies (Section 8 certificates and vouchers) constituted the single largest form of federal housing assistance. Because the subsidy is tied to the household and not to a specific building, rental vouchers enable recipients to seek out housing in any neighborhood, provided the landlord accepts them and the rent does not exceed the area's fair market rent (Schwartz & Tajbakhsh, 1997).

Mixed-income housing is not new. Some states and localities have promoted it since at least the 1970s, through land-use regulations and tax-exempt financing. In New York City, mixed-income housing has long been a way of life as a result of rent regulation and public housing management that selected relatively higher income families from the public housing waiting list. However, the federal government has only recently embraced the concept of mixed-income housing developments, largely in an effort to revitalize public housing (Schwartz & Tajbakhsh, 1997).

Local governments are also experimenting with new approaches to encourage the development of affordable housing. One such approach, inclusionary zoning, was pioneered by Montgomery County, Maryland. The county requires all developments over 50 units to make between 12.5 and 15 percent of the units available for low-income housing. In return developers are allowed density bonuses, waiver of water and sewer impact fees, and other incentives. With an ordinance enacted in 1974, it took about two years for builders to realize that the county was serious in enforcing this requirement. Builders now accept this as a requirement for building in the county, and over 10,000 affordable housing units have been built under this program (Business and Professional People for the Public Interest, 2000).

Despite the success of the Montgomery County program, few other jurisdictions have adopted it. Obstacles raised to replication of inclusionary zoning in other jurisdictions include:

- Elected officials are concerned about the public's response to their support for inclusionary zoning and its impact on their own political future.
- Private sector builders are concerned that it will negatively affect the marketing of their developments. This has not been the case in Montgomery County.
- Affordable housing will all end up in one place, concentrating low-income people. This can be prevented if the government enacting the inclusionary zoning covers a large geographical area, such as a county, and it applies throughout the jurisdiction.
- Inclusionary zoning does not supply affordable housing quickly enough to meet the needs (Meeting America's Housing Needs (MAHN): A Habitat II Follow-up Project, 1998).

Political Solutions for Metropolitan Chicago

Evidence suggests that the voucher program has been more politically acceptable than creating mixed-income housing. Housing vouchers access existing rental housing, and do not require local government to issue permits, as would be required for a mixed-income development, thus avoiding a political confrontation. There has been some success at placing families in middle-class suburban communities in the Chicago region while there has been little or no success in developing mixed-income housing in these suburbs. The Gautreaux program, a desegregation program resulting from a court order, has relocated some 6,000 low-income residents from Chicago to middle class suburbs using vouchers. Although there has been residential dispersion, outside the Gautreaux program there is evidence that many low-income families move from a poor, segregated neighborhood in Chicago to a similar situation in the suburbs. A study of 1,000 families using vouchers to relocate from Chicago found that the overwhelming majority moved to suburbs that were heavily segregated with high levels of poverty--not much different from the communities they came from. Close to 80 percent of these families found housing in census tracts that were over 90 percent African American and over 90 percent relocated to suburbs in census tracts where the annual median income was under \$15,000 (Metropolitan Planning Council, 2000a). However, research by Popkin, Rosenbaum, and associates (1991, 1993) on low-income families relocated through the Gautreaux program show that those minorities who moved into middle-class suburbs achieved significant gains in employment and earnings and experienced less welfare dependence than those who relocated within the city. In addition, children in these families experienced greater gains in educational achievement and job opportunities than children whose families did not relocate to the suburbs. Moreover, with improved counseling and assistance to voucher holders, more relocaters are finding housing in middle-class neighborhoods.

The population in the Chicago region increased by 11 percent in the 1990s, but renter-occupied housing increased by little more than half a percent. There was an actual decrease of over 3,000 rental units in Chicago and almost 2,000 units in suburban Cook County (Immergluck and Smith, 2001). Undoubtedly, continuing condominium conversions continue to deplete the availability of rental units, and in some areas affordable rental units are being torn down and replaced by more upscale housing. There is a definite need to increase the supply of affordable rental housing. Demand-side incentives to increase the supply of multifamily housing include vouchers combined with development subsidies for project-based, mixed-income housing. According to developers, more multifamily rental housing would be built if there was less community resistance. This resistance is especially strong in many suburban communities, where it is reflected in local zoning ordinances that limit multifamily housing. Many suburban communities in metropolitan Chicago have approved moratoriums on multifamily development, and a number of suburban communities, including Hoffman Estates, Grays Lake, Northbrook, and Elgin, issued no multifamily development permits in 2000. Inflexible building codes, lengthy permit review periods, and high land costs are additional barriers. Limited subsidy dollars also make development of affordable rental housing difficult.

Moreover, condominium conversions have reduced the supply of rental housing in parts of the region. These conditions limit rental housing development of any type—including apartments for middle-income or elderly people. Given that middle class apartments tend to “filter down” to less affluent renters over time, the lack of new rental units for middle and upper income groups will further constrain the number and location of apartments for lower-income tenants (Metropolitan Planning Council, 2000b).

Adoption of inclusionary zoning similar to Montgomery County’s program would, over time, increase the supply of affordable rental units and disperse them throughout the region. For such a program to be effective, it would need to be adopted at the county level and apply to both incorporated and unincorporated areas of the county. Another, more immediate solution to the short supply of low-income rental units is to allow the use of the rental vouchers to purchase homes. The federal government has just established rules and regulations that allow rental vouchers to be used for this purpose. The DuPage Housing Authority, which for lack of rental housing has struggled to use its allotment of rental vouchers, has announced that it will use the program to help pay mortgages for low-income homeowners. The DuPage County Board also has set aside funds to help participants cover down payments (Grady, 2000).

Even without inclusionary zoning, local governments can encourage development of multifamily housing. They can change local zoning ordinances to allow more multifamily housing, or make exceptions in current zoning ordinances with the overall control still retained by the community. They can provide density bonuses and other incentives to encourage developers to include a percentage of low-income units within their developments. This would be politically risky and might raise opposition in the community. However, if the community is educated about the housing needs of first-time homebuyers or older, retired people, (perhaps the sons and daughters or parents of community residents), residents may accept more multifamily housing. At the same time, a reasonable case can be made to include a few larger rental units so families can live closer to jobs. If a good case is made and is supported by community leaders, and the multifamily development blends into the overall character of the neighborhood opposition should be minimal.

Anthony Downs (1994) asserts that if local elected officials changed municipal ordinances to make it easier for developers to build affordable housing, it would result in more multifamily housing. He advocates state action to force local governments to remove barriers to affordable housing. However, developers do not find affordable housing as lucrative, especially in a booming housing market, and there often is intense opposition to state action forcing local governments to change local zoning ordinances. Developers generally build the type of housing that returns the biggest profits and may not take advantage of the opportunity to build affordable housing. They would need incentives, such as density bonuses or government subsidies that do not require substantial time delays and red tape.

Community opposition to state mandates is another matter. Although a few other states—such as Massachusetts discussed above—have state override laws, community leaders and residents could bitterly resist state laws overriding local government building regulations or zoning restrictions. Those interviewed for this paper were unanimous in their opposition to any solutions imposed on local governments by the state or other outside organizations. The state legislature would find it politically difficult to impose such laws. Local land use control is a major article of faith for suburban communities. With substantial political power in the legislature in the hands of suburban legislators, it would be next to impossible to enact a law that would be opposed by a majority of suburban voters and political leaders. However, the state may be able to pass affordable housing legislation that provides financial incentives to local communities. It also may be possible for county commissions to establish programs to encourage affordable housing in local communities. A coalition of state legislators representing Chicago, suburbs with large concentrations of low-income residents, and representatives from more rural parts of the state might advance legislation mandating affordable housing programs throughout the suburbs. This is a strategy advocated by Myron Orfield (1997),

a state legislator in Minnesota, to solve regional issues in the Twin Cities region. However, his strategy has been more polarizing than successful.

The state should have a role but not mandate low-income housing in middle-class and affluent suburbs. The state legislature can provide incentives to suburban communities to encourage low-income housing. For example, it could offer additional tax revenue sharing to local governments where the housing stock includes a certain proportion in multifamily units with rents below the median. At the same time, it should provide property tax incentives to landlords with well-maintained affordable housing, as determined by local government inspectors, and property tax penalties to landlords with housing code violations. The state could offer an annual cash prize to the community and the developer with the most attractive mixed-income development. This approach would let communities to not only allow, but to encourage landlords and developers of mixed-income developments. It would also encourage landlords to maintain their affordable housing. Although not all communities would participate, enough should to develop and disperse affordable housing throughout the suburbs.

Observers generally agree that local government building codes and approval processes add substantially to the cost of building housing (Power, 1999a; Downs, 1994). Although empirical evidence substantiates this, one affordable housing developer asserts that the major cost is the land and local inspectors' interpretation of the building codes. Any state laws establishing uniform and reasonable local building and fire safety codes would still require local interpretation. This developer felt that there would not be significant cost savings in Illinois from state mandates on building and fire safety codes.

The political solution to expanding affordable housing into the suburbs is not to rely on a quick fix or impose a solution from the outside. The solution is to provide market incentives to the suburbs and developers. Well-maintained, mixed-income housing developments and housing vouchers should slowly increase the supply of affordable housing. Multifamily housing is becoming more accepted in communities throughout the suburbs, even in exclusive communities. Even without federal government subsidies, state and local governments can provide incentives, as outlined above, to encourage developers to build, and communities to accept, mixed-income developments. The key to success in mixed-income housing is ensuring that the percentage of low-income units in the development is kept low and that the units are well maintained. To increase rental supply, condos could be purchased by affordable housing agencies and rented to low-income families.

Partnerships between governments and developers could also help to increase the supply of affordable housing. A municipality could buy land and lease or sell it to a developer at an attractive interest rate as an incentive to build mixed-income housing. Since multifamily housing is being accepted in more and more suburbs, scattering affordable housing units into these developments would probably not raise opposition. Indeed, if they were well maintained, neighbors would not know or care that they were reserved for low-income families. Although housing discrimination still exists, there has been progress. As indicated elsewhere in this paper, discrimination may be more income-based than race-based. If minorities are able to maintain their apartments or homes, they are generally accepted into the community.³

Employers looking for entry-level and unskilled employees should also become more active in helping employees find nearby, affordable housing. A few companies provide housing assistance ranging from rental subsidies or grants that cover closing costs to low-interest or forgivable loans. Although nationally companies that provide housing assistance are few in numbers (less than 10 percent of a sample size of 600), their numbers appear to be growing. The assistance also varies. For example, Howard University bought and restored row houses in a nearby deteriorating neighborhood. It provides forgivable loans equal to 7 percent of the purchase price to employees to move into the houses. The loans are forgivable if the employee stays for more than five years (Pugh, 2000).

Another program sponsored by Chicago Metropolis 2020 recruits businesses to endorse a statement that they will not locate or expand in a community with policies that discourage the development of affordable housing.⁴ Although the program is fairly new, over 100 companies have endorsed the concept. Municipal officials interviewed for this paper welcomed business involvement but rejected any pressure or threats. However, private companies' encouragement of affordable housing is positive, and there are ways, short of threats, for companies to work with communities to develop affordable housing for their employees.

Educating communities about the need for affordable housing should be a priority. A broad coalition of stakeholders should be convened to provide information and lobbying for policies promoting affordable housing. This coalition should include not just advocates for the poor but working families, nonprofit housing groups, organized labor, and the business community. Creating and maintaining strong public-private coalitions and partnerships will reduce political impediments to the acceptance of low-income housing. Since local governments and the public are normally concerned with jobs and job creation, the private sector must have a key role in the coalition for affordable housing.

The Chicago region is vast and diverse. The suburbs are not all alike. Because the region so diverse, no one housing strategy can work region-wide. Different suburbs demand different strategies. Strategies for suburbs with a large concentration of low-income housing and low property valuation would differ from those for middle- and upper class suburbs. For stressed suburbs with substantial blight, place-based strategies could attract business and revitalize the community, making it more attractive to middle-class residents. Nonprofit community development corporations (CDCs) are needed to replicate in the suburbs their successes in improving housing and revitalizing inner-city neighborhoods many cities. Although there is at least one CDC operating in Chicago's suburbs, its impact so far has been minimal. CDCs can access government grants and become involved in broad community development activities in addition to low-income housing issues. Indeed, a reasonable strategy would be for a CDC to partner with a private developer to rehabilitate blighted housing and develop mixed-income housing to attract middle-class residents. At the same time, the CDC should work to attract business to the community, providing jobs for the residents. Strategies are needed to lure businesses to areas with affordable housing and to develop affordable housing close to business centers. Businesses should be actively involved in working with communities and their employees in order to provide nearby housing for their low-wage employees.

Last but not least, continuing federal government housing programs are essential to provide funding support for various housing and community development initiatives. The federal grants should establish guidelines and parameters but allow maximum flexibility for state and local discretion to tailor programs to meet local needs. These grants should be integrated with state and county programs to encourage dispersal of low-income families throughout the suburbs. Because of the resistance to subsidized housing in many suburban communities, federal grants should be administered by housing agencies that cut across local government boundaries. Housing agencies administering federal grants should have at minimum countywide jurisdiction and preferably region-wide jurisdiction. Housing agencies tend to focus their operations within their geographical boundaries. A regional housing agency would be more aware of housing opportunities outside of Chicago and have a greater incentive to assist low-income families to find rental housing in the suburbs. A regional housing agency would also have more incentive to develop mixed-income housing in the suburbs. Federal guidelines to the regional agency should also provide incentives to move low-income families to low poverty neighborhoods (census tracts where the poverty rate is below 10 percent) similar to the Moving to Opportunity program that has been operating as a small pilot program.⁵ Moreover, programs to encourage homeownership should be encouraged throughout the suburbs using government housing vouchers to help pay the mortgage and Community Development grants to subsidize the down payment.

The most overriding issue that has been the major focus of this chapter is the need to bring affordable housing to the middle-class suburbs. As indicated above, most low-income families moving to the suburbs concentrate in only a few suburbs. The result is a re-concentration of poverty in already stressed communities. The goal of an affordable housing program is to disperse housing throughout the suburbs and especially near jobs. For middle-class suburbs, a combination of vouchers and mixed-income housing developments should be used. Vouchers alone will not work in middle-class communities due to the paucity of affordable housing. There should be government incentive programs, such as those discussed above, for both the developer and the host community to encourage mixed-income housing. Progress has been made in bringing affordable housing to middle-class suburbs even though it has seemed glacial in its slowness. However, looking back ten years, one can see progress. The most viable political solution is to continue the steady progress to achieve the goal of developing a sufficient supply of affordable housing units dispersed throughout the suburbs in reasonable proximity to job sites. This progress can even be accelerated through the introduction of incentives and waivers to provide maximum flexibility in the use of federal housing funds and programs to meet the particular needs of the area. Efforts to force rapid change will be met with intense political opposition and may have negative consequences on policies that are working. Marginal changes to increase the progress and directing emphasis and resources to politically palatable programs, such as those outlined above, will increase acceptance. Political acceptance comes slowly and cannot be forced. As well maintained, multifamily housing becomes the norm in the suburbs, affordable housing will become more acceptable, and the pace of progress will quicken.

Notes

¹The Metropolitan Chicago Information Center (MCIC) conducts annual telephone surveys of over 3000 randomly selected, geographically stratified residents of metropolitan Chicago. All survey statistics on Chicago in this section are derived from these surveys.

²Many developers prefer not to apply for government building subsidies for low-income housing development because of the costly time delays and bureaucratic procedures required.

³There are obviously exceptions to this generalization. It is also the exceptions that receive the publicity. By far, the majority of minorities are accepted into the community.

⁴It is unclear whether those signatories to the statement are, in fact, bound by the statement not to expand or locate in such communities. That was the original intent of the pledge. However, it seems to have been watered down and is now a declaration of support for affordable housing not a binding statement.

⁵The Moving to Opportunity program has met substantial opposition. An attempt to expand the pilot program for fiscal 1994 budget was defeated in Congress with two Maryland Democratic senators leading the way. The pilot program in Baltimore and its suburbs experienced substantial opposition and it was an election year (Rusk, 1999, 273-274). The small pilot programs continue and the preliminary indications are that the program has had a positive effect on the lives of those who have been able to move (Pastor Jr., et al. 2000, 170).

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COMMENTS ON HAMILTON

Nancy Firfer, Metropolis 2020, former mayor of Glenview⁹

This discussion of David Hamilton's paper stem from two perspectives: one, as a member of Chicago Metropolis 2020, a civic organization that is working on regional cooperation in housing, transportation, planning, and economic development, and second, through my experience as a suburban mayor. Primarily this analysis of affordable housing politics in the suburbs will be looked at through the lessons learned from the experiences of housing politics in Glenview.

First, affordable housing advocates must be aware that housing is a regional problem, therefore the solution must be regional. While individual communities can have some impact on affordable housing, because of the current suburban landscape and fluidity of residential patterns, any effective policy will have to occur at the regional level.

This paper is correct in stating that there are many opponents of affordable housing in the suburbs. Coeducation must occur; advocates must educate opponents about affordable housing, but must also try to understand where they are coming from. An experience for Glenview should help to illustrate the difficulty of this task. The particular details of this case will illustrate why housing is not just a Chicago problem; it is a problem occurring throughout the region.

Six years ago, there existed a block of retail stores at the edge of the downtown area in suburban Glenview. The stores continued to have vacancies. A developer came in and proposed to redevelop the entire block. However, this particular block bordered a very upscale neighborhood of single-family housing. The developer proposed to put in a development containing retail on the ground floor and two stories of condominiums above – housing that is not necessarily affordable for low-income families. Nonetheless, many of the homeowners in the adjoining neighborhood opposed the development because they did not want any multi-family housing or condominiums (which many of them perceived as low-income housing) in their neighborhood. The neighborhood became extremely energized (and neighborhoods can be energized very quickly) in opposition to the proposed development. The Board of Trustees had to approve the project for the development to occur. The Board recognized the need for some redevelopment and the need for multifamily housing, but actually watered down the proposal by decreasing the density to try to appease the neighbors, making it even less affordable. They approved the proposal in the last meeting in December. The three trustees who voted to support this project were up for reelection four months later. They did the right thing by supporting the development, but it ended up costing them the next election. The opponents of the development continued to be highly energized and formed their own slate of candidates to oppose those trustees who voted for the project – all of these candidates won, unseating those who supported the project. This occurred prior to the actual construction of the development, so no one was truly able to evaluate the final product. Once the development was completed, it was recognized as very successful, and now the community is demanding more developments like this.

In this and many other instances, perception does not always equal reality. The multi-family housing that was built as part of the redevelopment project didn't have a negative effect on the value of their homes. Quite to the contrary, by offering a different housing choice it became a benefit to the community. This anecdote serves to illustrate the change in community sentiment about the construction of multi-family housing in their neighborhood. Residents initially resisted the proposal because they felt it would "change" their community for the worse. However, after the development was finished, many community members benefited from the new construction. Some of the initial opponents of the development, and many of their

⁹ Comments based on speech given November 5, 2003 at Loyola University Chicago.

parents and relatives, even moved into the new development. Their attitudes towards this type of development changed after seeing it. Experience is often very different from people's perception about affordable housing.

There is a great deal of misperception regarding affordable housing in the suburbs. Single-family communities often don't like multi-family housing. Homeowners want those who enter into their community after them to pay more for their homes than they did; they want home prices in their neighborhoods to be higher, because the increased value of your home adds to the increase of your own wealth. They would prefer homes of a different type and lesser value to be put on the other side of town. The need for affordable housing, however, is recognized. The last United Way needs assessment survey conducted in our community had housing listed as a great need. However, affordable housing was identified as housing for seniors and children of residents who would like to move back to Glenview as young adults.

In order to change communities affordable housing advocates must first overcome community resistance. This is the challenge, and it will not be easy to do. Supporters of affordable housing in Glenview were able to change people's perception about multi-family housing in the community, but only after fighting resistance to the new development and putting their re-elections on the line. People recognize that housing is becoming very expensive and is an issue in most communities. Attitudes soften when individuals take a personal perspective. The affordable housing movement has to educate people in order to solidify support among those who do not have a strong view opposing affordable housing. However, education must be put in a way people can understand; it must be personalized. Community residents can be shown that affordable housing can benefit their neighborhood, and them individually. Similarly, states have to frame housing and community planning in a way that provides incentives for developers to become involved.

We should also do more to study and model successful housing initiatives in other areas. These sorts of studies can not only inform those of us working in suburban communities on how we can create more affordable housing, but will also serve to educate the public, undermining misperceptions about affordable housing and demonstrating how it can benefit the entire community.

COMMENTS ON HAMILTON

Joe Hoereth, Community Development Associates¹⁰

In McHenry County a few years ago, a situation similar to the one that Nancy Firfer described and which complement David Hamilton's pieces occurred. A team of developers was looking at impact studies for a particular development and set up a community meeting. Those of us in the planning group had been assured beforehand that everything was fine in the study and there would be no questions. However, a woman who lived in one of the neighboring communities to the proposed development stood up and angrily said that this proposal had a very small amount of town homes, it was mostly single family homes which would generate more school children. The community opposition was rooted in the fact that this particular part of the development was going to "destroy their schools," because this development would bring in large numbers of children – which was not true. It is certain that 2 or 3-bedroom townhouses were preferred in this particular community. Yet, this woman stood up and, in reference to the school issue and traffic, asked, "How much further out do I have to move to get away from these problems?" This anecdote adds to the emphasis of this paper and previous comments that community opposition is strong, often misinformed, and almost always present.

There is much in this paper that accurately depicts the nature of affordable housing politics in the suburbs; there are also some things that could be taken further in terms of discussion. Essentially, the paper revolves around the issue of how affordable housing can be made politically acceptable, and once that is achieved, what steps can be taken to meet affordable housing needs in a commercially acceptable way. The overall goal here was to create a credible argument that affordable housing issues are not currently being met. Advocates often spend a substantial amount of time generating ideas about how to meet affordable housing needs, but then forget about how to make sure that they are feasible. The fact that there was a paper in this group that addresses the issue is a big step. The variance in the degree to which we meet affordable housing needs across the region is enormous. This paper cites many other studies and research that point to the issue of whether affordable housing will be truly solved if we have the political will. David Hamilton proposes that political acceptance can be won through education and encouraging public and private partnerships that spur more affordable housing.

The biggest political barrier, the most interesting part of the paper, is that federal policy devolves a lot of the responsibility for affordable housing down to the community, which has the benefit of giving communities some control of the process and also impact how people are allowed to gain a spot. This is a very important point. This paper points out that misperceptions about affordable housing fuel the basis of the local opposition. This includes the fear of racial transition within a community and the fear of a concentration of poverty with spillover effects; people see affordable housing as the place in their community where poor people will congregate, crime and other things will occur, and that is not necessarily true.

Hamilton offers political solutions, and he prescribes a balance between a demand and a supply approach. Increasing vouchers will give people the opportunity to move to the suburbs. They provide more mixed-income developments and are more politically viable than project-based subsidies. There are political justifications for this solution: certainly, vouchers give people greater choice, they are less visible than an actual physical development, and the mixed-income development allows for de-concentration of poverty. Hamilton proposes the strategy of inclusionary zoning (this has potential), but recommends that it be phased in over time in some of these suburban communities where opposition is strong. Financially or indirectly, density bonuses are other ways to get developers to make room for affordable housing. Certainly those are politically safe; you are still producing affordable housing in a private development with no mandate

¹⁰ Comments based on speech given November 5, 2003 at Loyola University Chicago.

associated with it. It is also not a policy that necessarily turns away developers. A financial incentive through the municipality was a very interesting proposal. This is a rather novel idea. Tax sharing is a way to entice a municipality to encourage affordable housing development in their community. Politically, it could be pitched as an additional source of revenue. The MCIC survey pointed out in their abstract that people continue to be supportive of affordable housing, yet we know that when it comes to affordable housing being developed next door or anywhere in suburban community, it often doesn't get built. Educating communities towards an acceptance this reduces opposition; the question remains how you do that.

Within that, race needs to be an essential part of that strategy and education. Affordable housing is associated with racial issues in the suburbs, so conversations for or against more affordable housing is often fueled by perceptions of a certain population living in their community. Education on affordable housing is a very important solution that this paper proposes but you need to take this further and figure out what argument will really win people over. If there is going to be some sort of organizing campaign, how does that get pitched to people that live in the suburbs? How does it get communicated to them and what is the argument that you use; what do you say? So, that would certainly need to be hashed out.

Hamilton touched on an example from Massachusetts where there was a regional effort to encourage affordable housing. The idea is rooted in the fact that affordable housing needs should be met consistently across the region. Another example that could be examined is New Jersey, where each municipality is required to produce its fair share of the region of affordable housing. Hamilton's argument that an affordable housing strategy should always avoid mandates in a lot of these communities is questionable. There are ways that a mandate could happen successfully, and on a regional basis we could talk about a mandate and pitch it in a way that it is understood as an issue of fairness. If a community has ten percent of the population and ten percent of the housing in the region, then that community should also provide ten percent of the region's affordable housing in proportion. There are ways to make it flexible and political feasible so more communities will contribute to the production of affordable housing in the region.

There are several questions for discussion. One of them was mentioned above, how do you educate or win people over while also addressing issues of race, power, class and power in affordable housing on a regional level? Another question is: Is affordable housing possible without a mandate? There is no mandate right now for this state and not enough affordable housing is being produced. Whether some use of incentives are actually enough to make it happen is questionable. It has to be very cost efficient to make it happen, and if we are going to rely on that, then we have to make it more profitable for them to be used. What is it about suburban communities that have been successful? The paper mentioned Montgomery County, which is an often-cited example in suburban Maryland. This is an oft-cited example of a place where inclusionary housing zoning policies worked. More examples such as this need to be examined. We need to go deeper into those issues to gain a better idea of what will work in suburban communities.

CLOSING THE GAP: FINANCING AFFORDABLE HOUSING IN THE CHICAGO AREA

Kathleen Kane-Willis, Roosevelt University

Introduction

This paper addresses the challenges that developers face when they attempt to construct affordable housing. A financing “gap” occurs when either for-profit or not-for-profit developers of affordable housing attempt to finance projects using traditional financing sources. These “traditional” financing sources—such as market-rate mortgages—fail to provide enough financing for developers or Community Development Corporations to raise enough funds to complete an affordable housing project.

The main reason that market-rate tools fail to address the financing gap is the income of the families for which the housing is produced. The lower the income level, the less rent the individual or family can afford to pay. Low rent lowers the rental income of the proposed project. The problem is, then, most acute with respect to building housing affordable for the lowest income families, the population suffering the greatest need for affordable housing in the Chicago area.

Numerous subsidies are required to build any type of affordable housing. It is not unusual for a developer to utilize more than seven different sources of funding. Some developers have referred to the number of subsidies needed in order to reach total financing as the “layered” or “lasagna” method of financing. This method of layering subsidies is common in affordable housing and is necessary in order to help close the financing gap. Most developers currently use a combination of federal money disbursed through local and state governments, a housing block grant program (HOME), and the Low Income Housing Tax Credit (LIHTC). The current system’s complexities are the direct result of changes in housing policy that occurred in the 1980s and early 1990s.

Previous affordable housing programs emphasized public housing as a solution to the affordable housing problem, or relied on production-based models, which were based on federal appropriations and planning. These federal programs began to fall out of favor for two important reasons: (1) they tended to be expensive; and (2) fiscal control of the programs remained in the hands of the federal government.

Although the seed of change in housing policy occurred prior to the 1980s, the most substantial changes occurred under the Reagan and subsequent Republican administrations. The Republican administrations favored changes that increased the public-private partnership and shifted monetary control from the federal government to the state or local authorities. One result of this shift was a focus on Section 8 vouchers, which allow low-income families to find private-market housing on their own while the federal government pays the difference between the cost of the unit and what the low-income family can pay. Although this program helps low-income people to pay more for a rental unit thereby making more housing choices available to them, it does not help to *produce* more housing in a city that already faces an affordable housing crisis.

Another change that occurred in policy under the Reagan administration was the implementation of the Low Income Housing Tax Credit, which exemplifies the public-private partnership. These tax credits provide a dollar for dollar offset against future taxes. Developers often utilize third parties, or syndicators, who sell these tax credits to companies searching for tax shelters. In this way, the sale of the tax credits are converted into equity that developers can use to help finance low-income housing. Since the LIHTC is a tax credit, it tends to escape federal budget cutting as the credit represents income that the government never collects. The LIHTC remains “invisible” since monies need not be allocated from the federal budget.

The third major change that occurred in the last fifteen years is the creation of the HOME program, which directly allocates the funds to state and local governments, thus giving the local authorities the power to decide which affordable housing proposals to fund. This allows the local government to choose which projects are most feasible and allows them to partner with private developers and not for profit Community Development Corporations.

While this process has its advantages—in particular more control by local governments and less “interference” by the federal government—one of the difficulties of the current system is its *extreme* complexity. Developers must apply to several agencies (state and local) in order to achieve total financing for their project. In addition, competition for funding is fierce, especially considering the expertise needed to complete a deal. Although the number of developers that primarily produce affordable housing in Chicago is small (fewer than twenty), proposals for funding outstrip funding sources by a three to one ratio.

The Illinois Housing Development Authority and the Chicago Department of Housing rank the allocation of subsidies. These agencies allocate scarce subsidies among developers based on their previous work with affordable housing, project feasibility and local political approval. For newcomers to affordable housing development, navigating the approval process is complex, especially since funding for subsidies is limited.

In order to close the financing gap, and help ease the affordable housing crisis, it would be useful to streamline the financing process. A public or non-profit agency needs to be developed that would serve as an information clearinghouse to help developers and CDCs both package deals and educate them in their financing options. Streamlining the process is not enough, however. In order to close the financing gap in affordable housing, funding for each program subsidy must be increased. In addition, increased funding must be provided directly to CDCs, who may lack sufficient resources to compete with for-profit developers. Adequate program and subsidy funding is essential for developers and Community Development Corporations to access the subsidies that are clearly needed in order to finance affordable housing in Chicago.

What Is Affordable Housing?

For the purposes of this analysis, the criterion for whether housing is affordable is that the cost of housing (including utilities) is no more than 30 percent of a low or moderate-income family’s gross earnings. This criterion is used when determining loan underwriting and provides a useful and commonly accepted definition for affordability in housing.

Across the nation, the availability of affordable housing has decreased. In twenty-one states, between 40 percent and 49 percent of the population can no longer afford the fair market rent (as determined by HUD) for a two-bedroom apartment. Illinois is one of one of twenty-seven states in which 30 percent to 39 percent of the population cannot afford the fair market rent for a two-bedroom apartment (Joint Center for Housing Studies 2001:23).

The federal government determines what families qualify as low-income, very low-income and extremely low-income. These definitions are based on the area median income. Low-income families earn 80% of the area median; very low-income families earn about 50% of the area median, while extremely low-income families earn about 30 % of the area median. For families across the country who are considered extremely low-income, the likelihood of paying *more* than 50 percent of gross income for housing is extremely high. About sixty-five percent of families across the nation who qualify as extremely low-income—that is they earn *less* than 30 percent of area median income—are considered severely rent burdened. Over 80 percent of extremely low-income households are severely or moderately burdened by housing costs. These families pay between thirty and fifty percent of their income for housing (Joint Center for Housing Studies 2001:22).

For low-income households, rent burdens are not as severe as those affecting extremely low-incomes, but serious rent burdens affect more than thirty percent of this population. Single parents, minorities and the elderly are more likely to be rent-burdened than the rest of the population. Seventy percent of households defined as very low-income are likely to be either severely or moderately rent burdened (Joint Center for Housing Studies 2001:22).

Of course, the lower the income, the less money people have available for rent, which increases the probability that a household will be rent burdened. For example, a family that works at minimum wage jobs and has only one wage earner would have to work 110 hours to afford a two-bedroom apartment in Chicago. For a household that lives in Illinois, but not in the Chicago Metropolitan Statistical Area, the same family would have to work 98 as opposed to 110 hours — still an enormous cost for housing. Even if the family has two wage earners, each earner would have to work an additional 15 hours of overtime a week in order to pay the rent (Chicago Rehab Network 2000).

In the above hypothetical scenario, the two-income family will earn just over \$20,000 a year if each wage earner works full-time. If they are able to find housing that is “affordable” they will be able to pay \$500 a month (including utilities). In the hypothetical, with only one family member working full-time, the amount they will be able to pay in rent is only about \$250 a month. Exceeding this limit would cause the family to be defined as “rent burdened.”

Unfortunately, the average rent in the Chicago area is well over \$700 a month for a two-bedroom apartment (HUD). In order for a hypothetical one-wage earner family to earn enough to pay for rent (without becoming rent burdened), the working member must increase his/her wages to \$12.58 an hour to afford housing. (Chicago Rehab Network 2001). Even so, this family would only earn just over \$26,000—well below the \$70,500 median wage for the Chicago area. This family, even when they are able to raise their wages to the aforementioned level, still would earn well below fifty percent of the median income. As defined by HUD, this family would still be included in the *very* low-income category.

Low-Income Definitions

Definition of low-income families is dependent on the area median income level (AMI). Currently, the AMI for the Chicago metropolitan area is \$70,500 for a family of four. The Department of Housing and Urban Development categorizes low-income families or individuals as earning 80 percent or below the median income--\$56,000 for a family of four. Very low-income families earn about \$35,250 a year (50 percent of the area median income or AMI). Extremely low-income families earn about \$21,150 a year and are designated extremely low-income because they earn only 30 percent of the AMI. Each of these definitions is based upon a family of four, but adjustments are made for larger and smaller-sized families. The low-income family that earns \$56,000 a year can afford to pay rent of about \$1,500 a month without becoming “rent burdened.” Since the average rent in Chicago for a two bedroom apartment is well below this level, the low-income family (or moderate-income family) will not have a problem finding a unit that is “affordable”.

On the other hand, the very-low or extremely low income family will have a more difficult time securing housing because of two factors: (1) they can afford to pay substantially less for their unit; and (2) there are fewer units available for the very-low and extremely low-income family in Chicago at the present time.

Availability of Units

Although the Chicago metropolitan area population has increased by nearly half a million over the past ten years, rental unit stock decreased by 52,000. This shortfall is exacerbated even more highly in the case of very low-income affordable housing. A recent study by the Metropolitan Planning Council found that, for very low-income families, the demand in the Chicago-land area for affordable housing was much greater

than the supply. The MPC discovered that there were 308,200 low-income¹¹ renters and only 125,700 available units. The gap in low-income housing is about 182,000 units (MPC 1999:32).

Since demand for affordable housing has increased dramatically in the past ten years, why is the production of units so low? If market factors worked (absent subsidies or incentives), one would expect that the supply would rise to meet the shortfall in demand. But the supply of affordable units has not increased. In fact, the Chicago area faces an even greater demand for affordable housing in the next five to ten years, as immigration and the demise of public housing drive up demand to even larger numbers. Over the next five years 18,000 units of public housing will be demolished and this will only aggravate the housing shortage, especially among the poorest of the working poor.

In order to understand why the market does not meet the demand for very low-income affordable housing units it is important to understand how affordable housing is financed. Simply put, since the low-income renter has less money to spend on rent, the rental income anticipated by a developer is not enough to secure loans to create the units. A unit may cost \$150,000 to build. A low-income renter may only be able to pay \$400 a month or \$4,800 a year. Even without interest, tax, and other operating expenses, it is clear from this example of the low-income renter that the developer could not *raise* enough money from rents alone to pay off the mortgage on the property—in the unlikely event that a mortgage was obtainable. How does the developer raise the money to make a project feasible and still provide affordable rents? The difference between what the project costs to build and the income derived from the property can be viewed as the first step of the “financing gap.”

The Financing Gap

Since the low-income property will not generate enough income for the developer to pay for the development, the problem of how to finance the property becomes more complicated. Suppose developer ABC has decided to build an extremely low-income rental building with 20 units—all of which are targeted toward families earning approximately twenty-five percent of the AMI (\$17,635 for a family of four). The units cost \$150,000 each to build and develop (excluding land). The “soft” cost of developer’s fees, architects, and other professionals are also calculated into the cost per unit. The family that earns 25 percent of AMI can afford to pay thirty percent of their gross income for rent without becoming rent burdened. This figure amounts to \$4,800 a year or \$400 a month. In addition, the developer must subtract the operating expenses (taxes, insurance, maintenance, etc) from the anticipated cash flow from rents. Assuming that the building is entirely geared toward those families who earn 25 percent of AMI, then the income generated from a single unit can be illustrated as follows:

Total Income From Rent (per unit) for Family Earning 25 % AMI

Rent per Year	4,800 (\$400 a month x 12 months)
Net Operating Expenses per year	(4,600)
Rental Income (Net Operating Expenses) per year.	200

As the chart indicates, the rental income is practically non-existent when operating expenses are deducted from rents collected in any given year. The developer must borrow the money in order to finance the unit. A bank will generally assume a debt coverage ratio of 1 to 1.25—this means that only about 80 percent of the

¹¹ In the MPC study, different criteria were used to determine low-income families. MPC defined low-income as 30 percent of AMI, at the time \$20,000 a year.

income generated from rents can be amortized over the life of the loan. Since the bank will only amortize 80 percent of the \$200 dollar income or \$160 (on the unit each year), the bank will loan the developer \$1,945 per unit (assuming an 8 percent interest rate). If we look at the cost of construction again and the amount of money that can be conventionally financed, it becomes quite clear where the financing gap occurs.

Traditional Financing Structure with Family earning 25 percent AMI

Construction Cost per Unit	\$(150,000)
Amount Conventionally Financed	\$ 1,945 ¹²
Gap	\$(148,055) Subsidies needed to finance project

Even if the developer uses 20 percent of his own equity, (which is not uncommon for market rate developments), this amount of equity will still not close the financing gap since the shortfall is so large. In addition, the developer would not choose to invest his/her own capital into a low-income housing development because there is very little likelihood of ever regaining the capital investment.

Traditional Financing Structure with Developer Equity

Construction Cost per Unit	\$(150,000)
Amount Conventionally Financed	\$ 1,945
Developer Equity at 20 percent	\$ 30,000
Gap	\$(118,055)

It is clear from this chart that the financing gap is still very large. In fact, without subsidies, the developer would never find it feasible to build this unit—or any kind of affordable housing--simply because the income from rents is so low that there is not enough income to leverage a mortgage which comes close to covering the construction costs. Even with a \$30,000 investment of the developer’s own capital, no traditional bank will lend the developer the funds needed to build the project. The project is simply not economically viable unless there are sources of funds that can subsidize this large gap.

This is true even if the wages of the family are substantially higher. If a developer targets his/her low-come development to those individuals making at least 50 percent of AMI (approximately \$35,000) the financing gap is less because the family can afford to pay more for rent. The gap, however, is still quite substantial.

Total Income From Rent (per unit) for Family Earning 50 % AMI

Rent per Year	9,600 (\$800 a month x 12 months)
Net Operating Expenses per year	(4,600)
Rental Income (Net Operating Expenses) per year.	5,000

When a family earns 50 percent of AMI (only *twice* as much as the family earning 25 percent of AMI), the rental income per unit is much higher—over *twenty-five times higher*—because operating expenses are fixed. Since the unit produced \$5,000 in income per year, traditional financing sources will lend the developer more money. For example:

¹² Under current banking practices, *current* income is used to determine amortization rates. Although in some aggressive banking circumstances inflation may be added to income and operating expenses, the most conservative strategy is to use the current anticipated income stream.

Traditional Financing Structure with Family earning 50 % AMI

Construction Cost per Unit	\$(150,000)
Amount Conventionally Financed	\$ 48,633
Gap	\$(101,367) Subsidies needed to finance project

This assumes that the bank will amortize \$4,000 (1 to 1.25) at eight percent interest for a thirty-year period, a loan amount that totals \$48,633. Even with a rental income that is twenty-five times higher than the family able to pay only \$400 a month, the financing gap is still substantial—over \$100,000.

Even with the added equity of the developer, the financing gap still remains high. Assuming the developer invests 20% of his/her own capital, the gap will only be reduced by about 30 percent. The monies needed to complete the project will still be substantial.

Traditional Financing Structure with Developer Equity

Construction Cost per Unit	\$(150,000)
Amount Conventionally Financed	\$ 48,633
Developer Equity at 20 percent	\$ 30,000
Gap	\$(78,633)

Even after developer equity is invested in the project, as well as a reasonable income derived from rent, the gap is still about half of the total per unit cost. Deep subsidies will still be required to fill this financing gap, so that the project can be built.

After looking over the numbers of development costs, and the income that affordable rents can provide, it becomes quite clear that the market does not support the building of affordable housing units. The approach the developers—both for-profit and not for-profit—currently use requires working with a combination of subsidies to provide funds to close the financing gap. How these subsidies have worked has changed dramatically over the past thirty years. Programs have been created, dismantled, and re-created or changed completely. The following section will offer a brief history of affordable housing programs, along with the current status of subsidy programs and other financing tools that have been created to fill the affordable housing “financing gap”.

1949 To 1973 Federal Government Controls the Money and Means

When Congress passed the Housing Act of 1949 it declared the goal of, “a decent home and a suitable living environment for every American family.” These words were more a basis for rhetoric than action during the next several years. No mention was made of helping to house the poor or low-income families. Instead the Act was put in place to create more housing in order to ease the post-war housing shortage and to clear away blighted areas and “slums”. The part of the Act that refers to clearing away “blighted areas” led the way for the disastrous urban renewal programs of the 1950s, which destroyed more housing than it built (Orlebeke 2000: 492).

The goal to *produce* more housing was clarified by President Harry Truman, who authorized the building of 810,000 units of public housing over the following six years. Unfortunately, authorization of the building program meant little as Congress failed to appropriate money for the new units. The money appropriated for housing covered only the cost of construction of about 25,000 units. In addition, local authorities had to

decide where to build the units, in most cases local battles ensued, and the housing was generally built in the poorest parts of town (Orlebeke 2000: 492-493).

In Chicago, the most noticeable housing produced by the federal government were the high-rise public housing projects. In the 1950s, construction began on many high-rise public housing developments with several public housing developments constructed well into the mid-1960s. These developments helped to concentrate public housing residents on cleared tracts of land, mainly in poor areas of the south and west sides. On the south side, construction of the Dearborn Homes, the Ickes residences, the Ida B. Wells extension, Stateway Gardens, and later the Robert Taylor Homes helped to create the infamous State Street Corridor. The State Street corridor represents an almost continuous thirty-four-block development of public housing, broken only by the Illinois Institute of Technology campus (Bowly: 1978). To many Chicagoans, affordable housing became equated with the monolithic high-rises built by the Chicago Housing Authority. These public-housing developments began to fall out of favor when the problems inherent to concentrating the city's poor became apparent.

Although the 1960s resulted in high production in public housing in Chicago, the policy emphasis on the federal level was changing from public housing to subsidized housing. Legislation passed throughout the 1960s demonstrated this shift. The focus began to center around subsidies, which could either be augmented by the private market or simply supported by the private sector.

Under the 1961 Housing Act, Section 221(d)(3) was created to allow moderate-income families who didn't qualify for public housing to qualify for subsidies. Basically, the 221(d)(3) program allowed for lower rents—between fifteen and twenty percent below the market rate—by guaranteeing loans for affordable housing at a three percent interest rate to qualified sponsors of affordable housing. In addition, under the 221(d)(3) program the federal government, under Fannie Mae (the Federal National Mortgage Association Board, a government agency in the business of providing FHA insured loans), bought out the mortgages and paid the banks the difference between the market-rate interest rate and the lower three percent subsidy. The program faced difficulties, however, both from the Treasury and the Budget Office since the subsidies directly impacted the Federal Budget through the buy-out of the below market-rate interest program. In addition, potential legislative sponsors were not eager to embrace the program because of cost-constraints imposed by the government and a lack of available sites for building (Orlebeke 2000:493).

In 1965, President Lyndon Johnson attempted to rectify the problems of the 221(d)(3) program by initiating the Rent Supplement Program. This program, rather than supplementing interest rates, would provide directly to the project 25 percent of the monetary difference between the tenant's income and the Fair Market Rent to enable lower rents. The Rent Supplement Program targeted the same "moderate" income group as the 221 (d)(3) Program. Congress, however, did not embrace the Rent Subsidy Program, and made no appropriations in the program's first year. In 1966, the program received about half of the money requested by the President. After five years, the program had built only 31,000 units of affordable housing (Orlebeke 2000:493).

One change that indicated the future development of affordable housing occurred in the realm of public housing. Many Public Housing Agencies (PHA) in the central cities were losing population, and more units in the private rental market became available. Since the PHA lacked the authority to lease privately owned apartments, the PHA could not utilize these growing vacancies for low-income tenants. The new Section 23 Leased Housing program was introduced to allow PHAs to lease existing privately owned units and rent them to low-income families. The PHAs offered deep subsidies and for the first time the Public Housing Authorities became linked in a public-private partnership. This beginning would demonstrate the value of the public-private relationship into the future (Orlebeke 2000:494).

Attempts to Mobilize

In 1968, Congress attempted to redress the shortcomings of the 1949 Housing Act since its beginning—its lack of production. Congress wanted to build and build quickly, mobilizing to target 6 million units for construction for low and moderate-income families in the following ten years. The program would be funded through two new programs: Section 235 and 236. Administered by the Federal Housing Authority (FHA), the programs subsidized interest rates for both individuals (235) and developers (236) at an extremely low one percent.

Congress embraced the program, and perhaps even more surprisingly, so did the Nixon administration. It received both funding from Congress and the blessings of the new President. In 1969, 197,000 units began production. New starts for 1970 climbed even higher—to a total of 431,000 units. It was anticipated that new starts in 1971 would result in even more completed units.

While the FHA proved that it could produce units rapidly, after 1971 Presidential support for the program began to falter. Probably the largest concern of the administration was the escalating cost of the program. As more and more units came under production, the cost of subsidizing units began to spiral upward. FHA subsidized not only units currently in production, but every unit already built. For building to continue, the Authority had to continue subsidizing the mortgage rates. During the first year, the costs could be absorbed without much difficulty. Increasing production of a program that entailed subsidies for the life of each of the loans required large amounts of available cash deducted directly from the federal budget. In addition to concerns about these large cash expenditures, some in the Nixon administration felt that production would not solve the affordable housing crisis. Too much emphasis had been placed on production alone, and not enough to quality, cost, administration of the programs, and the planning necessary to implement a purely production-oriented program.

Other problems also surfaced. Aside from the cost, concerned mayors, HUD officials and housing lobbies (the National Association of Home Builders, the Mortgage Bankers' Association, and the National Association of Real Estate Boards) found that many of the subsidized housing projects had become subject to the problems inherent in public housing. Claims of shoddy development, fears about lack of planning—particularly in large cities—as well as a failure to help low-income families *improve* their housing situation all became complaints around which reform could be targeted. Bi-partisan support for the subsidies waned, and a moratorium on housing starts began in 1973 (Orlebeke 2000:500-502).

Evolution to Local Control and the Public-Private Partnership: Section 8

After the demise of the large, production-based programs of the late 1960s and early 1970s, a policy shift occurred that promoted the public-private partnership. In addition, the shift in policy began to enable local governments to exert more financial control over subsidized housing. One of the first programs signed into law under the 1974 housing act was the Section 8 Program (often referred to as Project-based Section 8), which provided subsidies for construction and substantial rehabilitation of existing structures directly to the owner or developer. In essence, the developer, private or not-for-profit, would build or substantially rehab a multifamily building for low-income tenants. The federal government subsidized the difference between what the family could pay (at that time 25 percent of gross income) and the cost of a HUD-determined Fair Market Rent. Because the subsidy was tied to the project, rather than to the family, the developer could use the subsidies to qualify for financing. The system of Project-based Section 8 allowed for a funding stream that generally could be applied to the life of the mortgage because HUD required the property to be kept low-income for 20 to 30 years. Section 8 enabled the developer to bring the income generated by rents up to a market level, thus qualifying the project for financing, which was generally provided by the FHA.

Developers found it easy to use and qualifying the property to HUD standards was not overly cumbersome. Developers also found the process uncomplicated and the relative ease with which the subsidy could be used helped to facilitate new unit rehabilitation and construction.

The Section 8 Program, in addition to the Project-based funding, included a component resembling the “voucher” system currently in use. Under this program, a low-income family received a certificate that allowed it to find housing in the private market. The family (or tenant) paid 30 percent of their gross income for rent. HUD paid the balance between the cost of the apartment (up to the Fair Market Rent) and what the tenant could afford. This “voucher” or “certificate”-based Section 8 is one of the only vehicles today that allows a family to “pay” more for rent.

The production programs for Project-based Section 8 were strictly curtailed under the Reagan administration. The new administration wanted to curb social spending and encourage the use of the “voucher”-based Section 8 Program, which had proven to be less expensive than the production or project-based programs. Unfortunately, the movement from a combination voucher/production program to one which only provided vouchers did not expand the supply of affordable housing. It did, however, allow extremely low-income people to “pay more” on the private market. This ability to “pay more” increased the supply of affordable housing to those families who received vouchers. In recent interviews, Chicago-area developers indicated that, Project-based Section 8 is needed, but except for project renewals, the program no longer exists to *produce* rental units.

Community Development Block Grants

The 1974 Housing Act also contained a new program--the Community Development Block Grant--that enabled local governments to have more control over federal funds. Community Development Block Grants provided the first opportunity to allow local governments to decide how to spend federally allocated money. The program consolidated seven programs for urban development into a single block of funds. Unlike previous programs—like urban renewal—which required the federal government to approve a particular local plan, funding under CDBG was automatic (under a formula based on population, poverty rates and other factors). CDBG money could be used for a variety of purposes such as slum clearance and relocation, funds for displaced persons, rehabilitation of housing, and other public services. In addition, CDBG funds had to meet one of the following “national objectives”: (1) benefit people with low or moderate incomes; (2) aid in the prevention or elimination of slum or blight; (3) meet an urgent need (e.g. flood or disaster relief). As long as these objectives are met, the money could be used in a variety of ways as determined by the local government (HUD: 2000).

Eighties Subsidies—End of the Traditionally Structured Subsidy

Two important programs would emerge from the 1980s. The first was the aforementioned Section 8 voucher, and the second the Low Income Housing Tax Credit. While the housing vouchers operated in the same way as they had in the 1970s, the Low Income Housing Tax Credit was a new program without a prototype. Both programs indicated the Reagan Administration’s objective to decrease the role of the federal government and to stimulate the private market for the “common good.”

The Low Income Housing Tax Credit (LIHTC) was enacted in 1986 after changes were made that rescinded the 1981 tax code. The 1981 tax code included changes designed to stimulate growth in a sagging economy, and in the housing market in particular. These changes to the tax code allowed for shortened depreciation schedules for multi-family housing. While the changes in the tax code increased housing production, the shortened depreciation schedules eventually caused a glut in production and led to the later S&L crisis of the late 1980s. When the tax code was again changed in 1986, many developers of low-income housing were concerned about the future of affordable housing. The LIHTC attempted to give developers an incentive to develop low-income housing, since the new tax code lacked incentives like the shortened depreciation schedules that had spurred the building and rehabilitation of low-income housing. LIHTC attempted to encourage low-income housing production, but used radically different tools than subsidies of the past.

The LIHTC is different than other subsidy programs. First, since it is a tax *credit*; the subsidy does not come out of the federal budget, because it is an *indirect* federal resource. The tax credit represents revenue that the treasury will never see, which has the political advantage of keeping the amount of money funding tax credits out of budget allocations. In this sense, the LIHTC money remains “invisible,” since funding comes from a tax credit rather than from the federal budget.

The LIHTC

The Low Income Housing Tax Credits provide a way of “capturing capital,” so that the developer will have to borrow less in order to close the financing gap associated with affordable housing. The credits are syndicated either by a non-profit (like the Chicago Equity Fund) or by a for-profit syndicator, such as a developer, in order to create equity for the development. The syndicator “sells” the credits to a company that needs the tax shelter. Companies purchasing tax credits, which are a dollar for dollar offset against taxes, use them over a period of ten years. The company invests a very small amount into the development and purchases the tax credit from the syndicator. The tax credits are then converted into equity—the present value of the tax credits over ten years is first calculated and then paid to the developer, which the developer will use to help finance the project.

In order to qualify for the LIHTC, each property must either rent twenty percent of its units to families earning at or below 50 percent of the AMI; or forty percent of the units must be rented to families earning at or below 60 percent of the AMI. The rents charged cannot be more than 30 percent of the individual or family income. In addition, the properties must stay low-income for at least fifteen years or refund the equity (in addition to other penalties). In reality, since the equity produced by the LIHTC is quite large (typically between 50 percent and 60 percent of total project costs), most developers find it easier to target the entire development toward those renters who earn 60 percent or less of area median income, because then each unit will qualify for tax credits. The more units that qualify for tax credits, the more equity the developer will receive from syndication.

Since the tax credits are syndicated, the value of the tax credit to the developer is dependent on the market for tax credits. For example, in 1986 the first year in which the LIHTC was established, the value of a tax credit syndicated through the Chicago Equity Fund (CEF) was only \$.40 on the dollar. In 1998, CEF’s value of equity for the same tax credit had risen dramatically to over \$.80 on the dollar (Chicago Equity Fund Annual Report 1999). In essence, this trend of higher equity values per tax credit means that the LIHTC is working better now than at its inception, when low-income housing only received 40 percent of the value of the tax credit.

Tax credits are allocated to the states based on the state’s population. Currently, the per capita value of tax credits is \$1.50, which means that the state receives \$1.50 in tax credits for each resident of the state (or \$1.50 times the state’s population). When the LIHTC was first introduced, the limit was \$1.25 per capita and remained at that level for fourteen years. In 2002, the volume limit will be increased to \$1.75 per capita, thus allowing more tax credits to be used to finance low-income housing. Even so, the demand for housing credit far exceeds the supply. Most estimates of the demand for tax credits are higher than a two to one ratio, and many experts in the field of affordable housing believe that the current ration is closer to three to one.

Since there exists competition for tax credits, developers must compete in order to be awarded tax credits. In order to be awarded tax credits, developers must go through a competitive ranking system where either the state or local financing authority awards points based on previous tax credit allocations, as well as project feasibility.

The HOME Program

The National Housing Act of 1990 created the HOME program. The program is a form of block grant. In Illinois HOME funds may be spent in several ways. These include: 1) rehabilitation and new construction of

affordable, multi-family housing; 2) purchase and rehabilitation assistance for homebuyers; 3) rehabilitation of single-family, owner-occupied homes; 4) rehabilitation of rural small rental properties; and 5) rehabilitation and new construction of supportive housing for the homeless. In addition the HOME funds require that state and local governments set aside 15 percent of the money for community-based nonprofits.

Since the inception of the LIHTC, HOME funds, and Section 8 vouchers, little has changed in the financing of affordable housing. The LIHTC and HOME programs are the primary tools available to developers to fill the financing gap when low-income housing is either built or substantially rehabilitated. Since Section 8 vouchers are portable—the holder of the voucher can choose to move, thus taking the subsidy with them—they cannot be used in the financing of new affordable housing because they provide neither an income stream nor project equity. The other programs that help to subsidize the cost of affordable housing are basically local programs. Together with the LIHTC, HOME monies, and local programs, developers find ways of layering financing options, combining traditional mortgages with subsidies from local authorities, along with the equity from tax credits.

In Chicago, the principal means of financing are derived from HOME funds, LIHTC, and other local programs. The Illinois Housing Development Authority (IHDA)—a state financing agency—generally allocates the *state's* share of HOME funds as well as other programs, including the State Affordable Housing Trust Fund. The State Affordable Trust Funds consist of monies from the real estate transfer tax. A small portion of this tax is collected by the state and set aside for the development of affordable housing. The Chicago Department of Housing determines who will receive the city's share of tax credits and HOME funds.

Illinois Development Housing Authority

Each state has a financing agency similar to IHDA. IHDA differs from other state agencies in several respects. First, IHDA can issue debt, generally in the form of bonds. These bond funds are made available to participating mortgage lenders, which provide financing (generally at below-market rates) for private and non-profit developers of affordable housing. Second, IHDA is not funded by tax dollars; instead it must generate its own revenue in order to remain solvent. IHDA generates revenue through the selling of bonds, origination of loans, and fees for services in connection with programs like HOME. Although IHDA receives no tax funding, it is still required to support state affordable housing policy initiatives. In addition, the premise behind IHDA is that the agency functions like a corporate entity, making decisions on projects based on the project's ability to tap into private capital, the developer's ability to maintain the project for the long term, and ensuring that properties (whether for-profit or non-for profit) are privately-owned. IHDA can be viewed as a symbol of the public-private partnership and the evolution to local control that has shaped the terrain of the affordable housing landscape.

Competition for IHDA funds is fierce. Several developers as well as IHDA representatives have indicated there are at least three developers competing for every dollar that IHDA finances. Since IHDA prefers to spread its funding over several projects, providing some gap financing—rather than filling the gap completely—most developers must find additional sources of financing. These might come from agencies like the Chicago Department of Housing, which has other local programs that help to subsidize the financing gap. The end result of spreading financing throughout many projects, rather than fully funding a few, is that the financing process becomes more complicated. IHDA believes in the philosophy of having at least three legs of financing—first, a traditional mortgage, LIHTC equity, and then IHDA funds. In reality, however, most developers must look for additional sources of subsidy to close the financing gap.

The Chicago Department of Housing

Another source of funding in Chicago is the City of Chicago's Department of Housing (DOH). While the Department of Housing has an array of different sources of funding, competition for funds remains intense. One of the programs administered by the DOH is the Affordable Rents for Chicago Program (ARC). ARC

supplies an interest-free, forgivable loan that can replace up to 50 percent of a developer’s private loan. Savings from this program are used exclusively to subsidize families that earn no more than thirty percent of the median income. DOH offers other programs; generally these are similar in nature to IHDA’s. One difference is DOH’s ability to provide land acquisition at no cost for community development corporations or developers who are interested in building affordable housing. The Department of Housing also may approve parceling of vacant land for acquisition, and provide free demolition of blighted properties. The City’s Department of Housing has other tools that it may use to help lower the cost of financing affordable housing such as Tax Increment Financing (TIF) funds and Enterprise Zone funds. Both TIF and Enterprise Zone funds are available only if the developer or community development corporation builds in an area that is either designated as a Tax Increment District or an Enterprise Zone.

Closing the Financing Gap

For many developers who either rehabilitate or build affordable housing, the only solution to the financing gap is to try to locate all sources of money available. This makes the process complicated and most developers who enter into the affordable housing business find that they need to hire a consultant to navigate the terrain of financing options. Even if the developer or CDC proposes to use every potential funding source available to them, there is no guarantee that the various organizations that control funding—IHDA or the Department of Housing—will approve the development. As mentioned earlier, the competition for subsidies is fierce and even application for Low Income Housing Tax Credits does not mean that a developer will be automatically approved (they are more likely to be declined). In addition, the developer must pay attention to the political environment of the development. If political support is lacking, the project may not receive subsidies.

The result of the public-private partnership is extremely complex financing. To fully finance an affordable housing project, the developer must layer as many levels of subsidies as possible – sometimes from six or more financing sources. This adds to the complexity of closing the financing gap as proposals must be submitted to several sources in order to receive financing. Currently, no agency exists that acts as a “clearing house” for affordable housing financing—although organizations like the Local Initiatives Support Corporation will aid community development corporations in packaging their deals so that their proposals will more likely be accepted.

To illustrate how these subsidies work to close the gap, we return to the chart demonstrating the need for subsidies for a family earning 50 percent of area median income.

Traditional Financing Structure with Family earning 50 % AMI

Construction Cost per Unit	\$(150,000)
Amount Conventionally Financed	\$ 48,633 (\$4,000 rental income per year amortized for thirty years at 8% ¹³)
Gap	\$(101,367) Subsidies needed to finance project

In the above chart, conventional financing provides almost thirty percent of the cost per unit. LIHTC credits generally provide about 50 percent to 60 percent of the project’s cost, substantially narrowing the gap.

Financing with LIHTC and Conventional Mortgage with Family Earning 50% AMI

¹³ This figure assumes \$800 a month rent minus operating expenses. Annual income derived from rents after operating expenses is \$5,000, bank will amortize \$4,000 based on 1:1.25 debt coverage ratio.

Construction Cost per Unit	\$(150,000)
Amount Conventionally Financed	\$ 48,633 (\$4,000 amortized for thirty years at 8%)
LIHTC Equity	\$ 78,266 ¹⁴
Total Financing Sources	\$ 126,899 (\$ 48,633 + \$78,266)
Financing Gap	\$ (23,101)

In order to close the balance of the financing gap, the developer must find additional sources of funding. Generally these must be at a reduced or zero percent interest rate because the income derived from rents will be used to pay the first mortgage. The IHDA loans require no interest payments. Additionally, these kinds of loans generally are repaid after the thirty-year term, with the “balloon” payment paid out of the proceeds of either sale or refinancing. Mortgages of this kind are generally referred to as “soft” mortgages—meaning that foreclosure on the property for lack of payment is unlikely.

Another financing structure follows.

Construction Cost per Unit	\$(150,000)
Amount Conventionally Financed (1 st Mortgage)	\$ 48,633 (\$4,000 amortized for thirty years at 8%)
IHDA Affordable Housing Trust Fund (2 nd Mortgage)	\$ 25,001 (0% for thirty year term)
General Partner Capital	\$ 100
LIHTC Equity	\$ 78,266
Total Financing	\$ 150,000

This financing structure requires only four layers to close the financing gap because the income derived from rents is relatively high, thus increasing the amount of the first mortgage. In addition, the developer did not locate the property in a TIF district or an Enterprise Zone, which lowered the number of financing layers. Also, the developer could not call on several programs aimed at extremely low-income families because the property was developed for those earning 50 percent of the median income. The primary reason why the financing required only four layers is that the financing gap was relatively small.

Closing the financing gap becomes more difficult as developers attempt to target extremely low-income families. The chart below demonstrates that the amount conventional lenders would loan offers very little capital towards closing the gap.

Traditional Financing Structure with Family earning 25 percent AMI

Construction/Rehabilitation cost per Unit	\$(150,000)
Amount Conventionally Financed	\$ 1,945 (\$200 rental income per year amortized for thirty years at 8% ¹⁵)
Gap	\$(148,125) Subsidies needed to finance project

¹⁴ Assuming a nine percent tax credit, each credit net value \$.80 on the dollar for ten years. This number represents the present value of the ten-year funding stream converted into capital.

¹⁵ This figure assumes \$400 a month rent minus operating expenses. Annual income derived from rents after operating expenses is \$200, bank will amortize \$160 based on 1:1.25 debt coverage ratio

In this hypothetical the subsidies required to finance the project are very close to the actual cost per unit because the income from rents is practically negligible after operating expenses have been deducted. In order to close the financing gap on a project with so little rental income the developer must utilize every program available for extremely low-income individuals. In the hypothetical, it is possible to close the financing gap even for extremely low-income families. But the reality of obtaining financing is less certain since deeper subsidies are required and the complexity of layering these subsidies makes financing the project much more difficult. Every agency that the developer or community development corporation applies to for funding must approve the deal. Since funds are limited, it is very challenging to finance the affordable housing deal for those who make 24 percent of area income. In addition, IHDA and the Department of Housing weight their formulas to favor mixed-income developments.

If the LIHTC are granted, then there exists a chance for this hypothetical scenario to be financed. The tax credits will provide between fifty and sixty percent of the project's costs, just as they did with the family earning 50 percent of the area median income.

Financing with LIHTC and Conventional Mortgage with Family Earning 25% AMI

Construction Cost per Unit	\$(150,000)
Amount Conventionally Financed	\$ 1,945 (\$200 amortized for thirty years at 8%)
LIHTC Equity	\$ 78,266 ¹⁶
Total Financing Sources	\$ 80,211 (\$ 1,945 + \$78,266)
Gap	\$ 69,789

Here the financing gap has been reduced. It is clear, however, that much deeper subsidies are required to close the financing gap for the family who earns 25 percent of the area median than for the family who earns fifty percent of AMI. Some Chicago programs are targeted at families earning less than 30 percent of the area median. Following are the programs that could help to fulfill the financing gap in the above hypothetical scenario.

Total Subsidies Required per Unit Targeted Towards Families Earning 25% AMI

Construction/Rehabilitation Cost per Unit	Position	Term	\$(150,000)
Amount Conventionally Financed	1st	30 year	\$ 1,945 (\$200 amortized for thirty years at 8%)
DOH/ARC funds			\$ 7,431
DOH (HOME funds)	2nd	30 year	\$ 35,484
IHDA (Affordable Housing Trust Fund)	3rd	30 year	\$ 24,193
DOE/Com Ed (energy)	Grant		\$ 2,581
General Partner Capital			\$ 100
LIHTC Equity	Equity		\$ 78,266 ¹⁷
Total Financing			\$ 150,000

¹⁶ Assuming a nine percent tax credit, each credit net value \$.80 on the dollar for ten years. This number represents the present value of the ten-year funding stream converted into capital.

¹⁷ Assuming a nine percent tax credit, each credit net value \$.80 on the dollar for ten years. This number represents the present value of the ten-year funding stream converted into capital.

In the above hypothetical scenario, seven layers of financing were required to close the financing gap. The developer had to deal with four separate agencies: (1) the Chicago Department of Housing; (2) the Illinois Housing Development Authority; (3) the Department of Energy; and (4) the Equity Syndicator. In order to achieve total financing for the project, the developer had to assure each agency that the project could be adequately financed, that need existed in the purposed project area, that the developer had a reputation for working with affordable housing programs in the past, and guarantee that the project would be built in a timely and cost efficient manner. In addition, the developer had to have the consent and political support of the alderman, the community, and other interested parties.

Each layer represents a different program. For example, the DOH program referred to as ARC—Affordable Rents for Chicago—is targeted at families earning less than 30 percent of the area median income. The IHDA-run Affordable Housing Trust Fund is targeted at low and very-low income families and is funded by a portion of the state real estate transfer tax, the tax collected when properties are bought or sold. HOME funding comes directly from the Department of Housing (but is financed by the federal government as housing block grant). The Department of Energy in combination with Commonwealth Edison grants money if the developer uses energy-efficient appliances and state-of-the-art heating and cooling systems. The tax credit equity is syndicated on the open market (but is not guaranteed until the DOH or IHDA awards them). This combination of different sources of funding and program subsidies is often referred to as “lasagna” or layered financing.

In actuality, complex deals may have even more layers than the seven listed in the above hypothetical. The array of financing options can be overwhelming and their combination is a daunting task for all but the most seasoned experts. Included in the array of financing options are tax-exempt bonds (which lower the amount of tax credit which can be allocated to the development if used in conjunction with each other), CHA housing loans, TIF funds, and an array of other tools. Some of these financing tools may be applicable only to a particular population such as the elderly, disabled, or even for extremely low-income TANF teenaged mothers. In addition, a pool of resources exists for developing former public housing developments (HOPE VI), and these are generally used in combination with TIF monies and Chicago Housing Authority building and financing loans.

The complexity of developing and financing affordable housing is not the only reason why developers may be hesitant to delve into the affordable housing field. Aside from packaging the financing of the project, developers find that affordable housing is more expensive to build with less money to be made in an individual deal. In fact, many developers either defer their fees or write down their costs in order to finance an affordable housing development. Even so, competition for affordable housing subsidies remains high although more money can (currently) be made in market-rate developments as real estate prices in Chicago have been on a continual upswing for the last several years. Market-rate developments take much less time to build than affordable housing developments, since developers need not submit proposals to several governmental agencies in order to achieve total financing. Another factor that makes the financing and developing of affordable housing projects more difficult is the income verifications of tenants that developers must provide on a yearly basis. Many developers fear the long commitment that developing affordable housing requires—most subsidies require the development to meet the affordable housing commitments for at least fifteen, but more often, thirty years.

Mixed-Income Developments

At this juncture some funding agencies grant extra points to developers who propose to build mixed-income developments. These kinds of projects entail the highest degree of complexity since tax credits cannot be applied to the entire project, nor do the market-rate units subsidize the below-market units, some of which may be targeted at those earning less than 30 percent of AMI. Developers report that market-rate rental units in mixed-income developments must rent for *below* the actual market-rate in order to attract residents who

earn median income or higher, particularly in the early stages of the development. In interviews some developers indicated that many high-wage earners may be anxious about living in a mixed-income development, particularly when it includes some former public housing residents, or if the development is located near a public housing development. In this case, the incentives used to attract the higher-income wages must come in the form of lower rents.

As mixed-income developments begins to flourish, and as nearby public housing high-rises are razed, more high-income individuals and families can be expected to be attracted to the new mixed-income developments. This is evidenced by the upward trend of townhouse pricing near the Cabrini Green public housing projects in Chicago. In addition to below-market rents, mixed-income developments must offer a desirable location in order to attract higher-income renters.

Financing Smaller Developments

The same problems cited in building (or rehabilitating) larger developments exist on the small scale. The complexity of financing options operates in the same manner as in larger developments and, since financing small developments is just as costly and time consuming, most smaller developments are left to community development corporations. Currently, IDHA's ranking system does give additional points to non-profit community development corporations. If small developments were further encouraged, it would help to provide more choices for affordable housing and help to stabilize low-income neighborhoods.

Recommendations

Are Current Subsidies Enough?

The list of existing programs that subsidize affordable housing is lengthy, but do they provide enough money to fill the affordable housing gap? The answer to this question can be answered simply by comparing the number of units produced in Chicago to the current need. According to the Chicago Rehab Network, the Chicago Department of Housing built or preserved only 971 rental units during 2000, with 67 percent of these units created exclusively for seniors. The National Equity Fund estimates that IHDA created an additional 500 units in 2000. Between these sources the total is less than 1,500 units in the year 2000, 650 of which were designated solely for seniors. In order for extremely low-income residents to not be rent-burdened, nearly 150 *thousand* units must be available at much lower rents. (MPC 2000).

The shortage of housing for extremely low-income renters demonstrates the need for more funding to help house this group. Since the LIHTC provides the largest subsidy of any program by far (generally subsidizing between 50 and 60 percent of the development project's costs), it should target some of the tax credits exclusively towards extremely low-income people. This strategy makes sense when one considers there is a 23surplus of housing for those who earn around 60 percent of the AMI. An expanded LIHTC is more easily defended politically as it represents a tax expenditure rather than an additional outlay.

Streamlining the financing process is one of the necessary components in easing the affordable housing crisis. The complexity of closing the financing gap can be overwhelming, particularly to a developer or community development corporation that is new to affordable housing. A clearinghouse that could package deals and provide information on the financing options available to developers would help to make this complicated process easier. The clearinghouse would have to be either tax-funded or not for profit in order to reach the most potential clients—CDCs and developers.

Most important, additional funding is needed whether in formulating new programs or funding current ones. Simplifying the process would make it easier for more developers to enter the affordable housing field but, without an increase in funding, a clearinghouse would simply provide more competition among developers, rather than creating more units. In addition, many developers have stated that another Project-based Section 8 Program would help to spur low-income housing development. Another solution would be to increase the

number of vouchers available to those who earn less than 30 percent of area median income. Since an oversupply of housing exists in the 30 percent to 80 percent AMI range, extra vouchers would allow the extremely low-income families to access this supply of housing that is currently out of their financial grasp.

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COMMENTS ON KANE-WILLIS

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Most “affordable housing experts” focus on the relatively few deeply subsidized, layered-financed developments and totally ignore the broad scope of the affordable housing preservation problem and the practical solutions that are now readily available. The overwhelming majority of households under 50% of Area Median Income (AMI) receive no benefit from housing subsidies and live in low-income, low-rent neighborhoods that we could never afford to rebuild at today’s costs.

Old housing stock in low-rent neighborhoods is the biggest affordable housing preservation issue in Chicago (and presumptively everywhere). The great majority of affordable (below 50 percent of AMI) rehabbed housing units are undertaken year in and year out by the growing neighborhood rehab industry of hands-on rehabbers and owners. In Chicago, the average total cost per unit for these developments is under \$50,000. These hands-on rehabber/owners do not utilize federal programs because of inherent delays and added costs.

Markets differ. Chicago is an older rental city (56 percent of the city’s households rent) with the percentage of renters increasing as family income declines. Rehab is now occurring in all neighborhoods. Chicago is a turnaround city, but still there is unnecessary demolition.

The federal law that has the greatest impact on the growth of this industry is the Community Reinvestment Act. Twenty years ago it was practically impossible to get a multi-family rehab loan in lower-rent Chicago and suburban neighborhoods (other than those served by South Shore Bank). Today in Chicago, private bank money through many bank neighborhood lending programs and through consortia, such as Neighborhood Housing Services (NHS) and Community Investment Corporation (CIC), rehab—with no federal subsidy—well over 12,000 affordable units per year at rents below LIHTC levels. Over the last five years CIC and ShoreBank alone have financed a combined average 6,000 affordable rental units per year.

Federal subsidies are useless to hands-on rehabbers in Chicago and across the country because they need to move quickly to buy buildings right and to move immediately to rehab, controlling their costs without sacrificing quality.

In contrast to rehabbers who use deep government subsidies, neighborhood rehabbers are motivated solely by basic real estate principles, mainly creating value and having their properties appreciate. They don’t get developer fees and they don’t look to complex income tax-motivated dealings; therefore they do not need special accountants, lawyers, processors, or (often) even architects. They bring cash to the deals and sign personally while deferring profits. Often they get their cash for their next deal by refinancing properties that have appreciated due to their hands-on control and management. Many are owner/general contractors. Others hire neighborhood-based minority or immigrant contractors, but they don’t fill out added reports on wage, race, or even tenant income but they rehab in neighborhoods where rents are affordable below 50 percent Area Median Income. Most receive no subsidy, but some deals need small nonfederal subsidies to make them work. In our area Chicago, Cook County and Illinois housing

¹⁸ Comments based on speech given November 5, 2003 at Loyola University Chicago.

agencies are working creatively to stimulate affordable rehab by hands-on owners without delays or added costs.

Good-hearted and intelligent people studying what to do to address real affordable housing issues in a practical manner need to focus on what tools presently are available and on the broad scope of the problem. The 1999 University of Illinois-Chicago/Metropolitan Planning Council study, “*Regional Rental Market Analysis*,” put forward some interesting facts that need to be built upon.

For example:

- There are 100,000 substandard rental units in the Chicago area needing “substantial renovation to meet basic HUD standards.”
- Of the total above, 68,000 substandard units are in the city, mostly in low-rent South and West Side neighborhoods. The remaining 32,000 are in low-rent suburbs.
- The average rents on the South and West Sides are affordable to households between 35% and 50% of Area Median Income. In 1999 average rents were
 - \$618 on the West Side
 - \$619 on the South Side
 - \$826 on the North Side.

Demolition needs to be greatly reduced in Chicago. The communities showing greatest loss of rental units between 1990 and 2000 were

South Side:

- Washington Park 30.5% loss
- Fuller Park 27.2
- Grand Boulevard 26.3
- Oakland 21.0
- Douglas 20.4
- Englewood 16.7

West Side:

- East Garfield Park 18.4%
- North Lawndale 14.4

Huge and growing federal deficits are projected at about \$500 billion for 2004. Discretionary programs such as those relating to affordable housing will be cut or eliminated. The impact of these discretionary cuts will fall most heavily on lower-income households and will likely depress job and economic growth opportunities even further. In addition to practical affordable housing research, the impact of cuts in discretionary programs on lower-rent neighborhoods will likely prove to be fruitful areas of study.

However, there is some good news. Chicago has an abundance of private sector and bank money available to foster the continued growth of the rehab industry working in low-rent neighborhoods. City, Cook County, state, and suburban municipal governments are all expanding their programs to help foster low-rent housing preservation by hands-on developers. Increased rehab activity is occurring in the low-rent city neighborhoods listed above. “Attainable workforce housing” is now an accepted strategy for many suburban areas. Let’s use what we have and build on our successes.

COMMENTS ON KANE-WILLIS

Michael C Rohrbeck, Andrea Raila & Associates²⁰

In looking at this paper, it is important to recap some of the history and cost issues of financing affordable housing. The way we financed things in 1990, when organizations such as PRIDE were going to CIC and getting financing, gap financing provided approximately half of what was needed to finance a project. Today, for affordable housing that serves the lowest-income households, financing requires so many complex layers, and costs have gone up so dramatically, that often only a about dime on the dollar comes from private lenders. There are not as many of those deals because the resources are so scarce. That represents a major change over the years.

One of the reasons for this is that the total development costs have skyrocketed. In 1988, developing a project for \$50,000 per unit was common; now it often takes \$200,000 a unit for the same size and type of development. If all the Chicago area housing advocates could lock themselves in a room for a weekend they could figure out how to bring people out of poverty or get them into affordable housing for less than \$200,000. They could probably improve the lives of three or four families. For a working poor family of four you could probably find rent subsidies (not section 8) for \$6,000 a year. At some point these skyrocketing numbers for development have to prompt us to step back and look at alternative approaches.

To complicate things further, while development costs have risen dramatically, management costs have also gone up steadily over time. An important topic on which there remains a lack of research is housing costs before debt services. These costs, on estimate, have gone up steadily on “layered” affordable housing deals from about \$275 per unit per month (on average) in 1988 to about \$425 a month today, before debt service and before profit. The question is, if that’s the expenses only and not the debt service, why are we undertaking all this work to attempt to leverage a dime on the dollar. The additional problem is you don’t have the rent subsidies in there you need to serve low-income people. When considering these cost issues and dilemmas, you have to start asking tough questions about how these funds are being allocated.

It may be useful to consider better ways to spend the money. There are other ways to create affordable housing, including partnerships with entrepreneurial private owners who would not otherwise think about using Section 8. Often the case is that lower-income households’ incomes do not go up with the rate of inflation – the buying power as far as housing has gone down; housing costs have increased much faster than income. This has confounded many projects all over the city and the nation because the poor are getting poorer and the rich are getting richer; energy costs and property taxes continue to rise.

The situation the paper addressed is the difficulty of managing the cost challenges and the fact that everybody needs a consultant to navigate the financing process. The idea of a having a clearinghouse for affordable housing developers, as proposed in the paper, is needed if it is considered as part of the solution, along with a larger set of reforms, in the field referred to as “streamlining”. Streamlining the subsidy process is very important and has been the subject of much discussion and little action. We need to have common applications, common places to go, legal support that is integrated and consistent, common calendars for different lenders and lawyers, shared inspectors and standards, reporting procedures and deadlines that are integrated, and asset management that is led by a single agency.

²⁰ Comments based on speech given November 5, 2003 at Loyola University Chicago.

Given the costs and complexity of affordable housing financing, the system is in a complete meltdown. The people who support low-income housing tax credits and the layered financing that go with them won't admit that. They say they are the largest producers of affordable housing in the country. However, during the rise of the low income tax credit, moderate rehab Section 8 was killed, substantial rehab Section 8 was killed – all these subsidy programs that actually worked pretty well without too much bureaucracy were wiped out. Tax credits and other “affordable” housing programs are usually targeted for people earning 50 or 60 percent of the area median income. Production for households earning less than 50 percent of the median income is not good. There is very little out there that poor working families can afford.

It's time to admit that public-private partnerships are not good at developing housing; it is too costly. It is hard those in the industry to say that public-private should not be about development in all cases. We need to think about redefining production; we need to think about what it is to create affordable housing. It is not all about construction, bricks and mortars. If we admit that it is inefficient from the cost perspective and from a bureaucracy perspective, we have to think about what is the best way to allocate public funds.

Finally, these notions about smart growth, regionalism, inclusionary housing that's mandatory, education efforts and trying to reverse discrimination are beneficial, but they are not likely to meet the need of the lowest income and working poor families in the short term. A point raised by Joe Hoereth was that we need to figure out how to make affordable housing profitable to the owners, which is something we need to examine. There are more reasons than just housing to do affordable housing projects, such as for jobs, for community reinvestment, etc. However, for a dime on a dollar, it does not make sense to have a private lender in there and not target the housing to the lower income people. Public subsidies should be streamlined and the private lender should be left out of the deal entirely in those poorest communities where there is no choice but to use the layered subsidy funding of projects.

In other areas we could work with the owners in CIC's portfolio – all these entrepreneurial owners that are responsible by providing “resource supportive inclusionary housing”. If CIC finances building with no subsidies who is to say that some of those projects that were done cost efficiently would not be ideal for affordable housing set-asides. For example if an advocate (with the City) came to an owner and asked him to set aside a unit that was rent restricted over time for a \$50,000 grant you would instantly create affordable housing. Likewise, a \$75,000 grant to buy down the owner's debt on a unit for the same reassurance of long-term affordability would have the same affect. These things are feasible.

The Chicago Local Housing Trust Fund provides rent subsidies as an alternative to Section 8. It was created over 15 years ago and has received little additional support since then. Presidential Towers funded the trust fund to create this program that is loved by managers and tenants alike. It is cost efficient, management efficient, and we must find ways to reallocate subsidy dollars to these kinds of programs. There are also ways to promote things like shared housing, which is being done in high-cost suburban areas on a small budget without any support, outside of a few small grants. If you took some of the CDBG dollars, HOME dollars, all these other dollars, and focused them, instead of spending \$200,000 per unit we could create ten or 20 units by using alternative means. If we open up our minds and our monies to new ways to create affordable housing without necessarily producing a costly development process, then we can start thinking of new and better ways to demonstrate how we can successfully provide affordable housing in this city, in this region.

PLACES MATTER: RESEARCH FINDINGS ON NEIGHBORHOOD INFLUENCES ON POOR PEOPLE'S ACHIEVEMENT AND THE IMPLICATIONS FOR HOUSING RELOCATION PROGRAMS, WELFARE REFORM AND OTHER POLICIES

James Rosenbaum, Northwestern University

Introduction

Poverty is a persistent problem in the US. The problem has been attacked with many approaches but with very limited success. From this dismal record, observers have offered many explanations for why people remain in poverty. Overlooked by these speculations is an obvious factor that social programs don't attempt to change --neighborhoods. As antipoverty programs have reformed schools, welfare policies, employment subsidies, and job training, they have almost always done so while the individuals who are their targets remain in the same neighborhoods. However, if neighborhoods affect people's behaviors or attitudes, then they may prevent individuals from responding to intended reforms.

From both scientific and practical viewpoints, neighborhood influences are a promising explanation of persistent poverty. Social scientists can directly observe aspects of neighborhoods that might influence specific behaviors, we can examine empirical relationships between them, and we can analyze processes occurring in neighborhoods that may affect behaviors. Moreover, from a practical viewpoint, social policy can alter aspects of neighborhoods, or it can help people to move to new neighborhoods in order to improve their outcomes. Social policy could alter neighborhood influences, if shown to affect individuals' behavior, or could move individuals to other neighborhoods. The present study suggests that policy wastes money on reforms if people are held back by their neighborhood limitations. Neighborhoods can be changed, and we can use this knowledge to vastly improve the effectiveness of our other policies. Our reforms are not misguided; they are just too narrowly focused. Instead of targeting only individual change, policies must also enable moves to new locations, given that neighborhoods can affect individuals' behaviors in so many ways.

Background

Government policy has determined that over the next few years, across the United States hundreds of high-rise public housing buildings will be demolished. An important question is whether relocation of the poor from these infamous high-rise "projects" can really make a difference in the lives of the families who move. The answer is undeniably yes. But the answer to this question has significance beyond the families themselves and beyond housing policy. Indeed, it may hold the key to the success of welfare reform, an endeavor in which we all have a stake.

A growing body of evidence suggests that demolishing high-rise public housing may have minimal benefits if families merely move from high-rise vertical ghettos to low-rise horizontal ghettos. Moves to better neighborhoods, on the other hand, may be an important ingredient in reducing dependence on welfare and improving families' futures.

This chapter reviews the social science evidence on the effects of low-poverty neighborhoods on low-income individuals. This research finds that neighborhood composition strongly affects many important outcomes. We then speculate about the nature of the processes that lead to these effects. Then we discuss how moving people to better neighborhoods can be done most effectively, and consider some of the difficult practical issues that arise.

This review relies on two kinds of evidence:

1. Statistical studies of the effects of low-poverty vs. high-poverty neighborhoods on low-income people. Statistical methods are used to estimate the effects of neighborhoods on otherwise similar individuals.
2. Experimental studies in which low-income families are randomly assigned to either high- or low-poverty neighborhoods. Because the two groups of families are initially identical, any difference in outcomes is due to neighborhood assignment. Chicago's Gautreaux Program, resulting from a court settlement, moved African-American families from public housing to areas that were not racially segregated or poor – largely to white suburbs. It has operated since 1976 and shows the long-term effects of moving to low-poverty areas. The Moving to Opportunity (MTO) is a national program run by the US Dept. of Housing and Urban Development, modeled on the Gautreaux program. It is explicitly designed as an experiment, with random assignment, and pre- and post-move data collection. Unlike Gautreaux, which began in 1976 and has been studied over the following 24 years, MTO only began in the 1990s, so only short-term outcomes are available.

These experimental studies allow us to compare outcomes for virtually identical groups of low-income people who move to high- or low-poverty areas. While Gautreaux movers to low-poverty areas went to predominantly white suburbs (generally 90%+), 32% of MTO movers to low-poverty areas went to middle-income black areas (50%+ black), and 60% of the MTO group moved to areas where blacks were more than a token presence (10%+). Thus, while Gautreaux is a program for racial and income integration, MTO is a program for income integration.

Relying on the evidence from these studies, this review reaches the following conclusions--

1. Low-income people have better employment rates and earnings, and less welfare dependency, in low-poverty areas.
2. Low-income children have higher educational achievement in low-poverty areas, as measured by proficiency in reading, eventual college attendance and test scores.
3. Low-income teens are less likely to get pregnant in low-poverty areas.
4. Low-income people are healthier and more satisfied living in low-poverty areas.
5. Low-income people are not more socially isolated in low-poverty areas.
6. Crime and violence rates are lower and people feel safer in low-poverty areas.

Theory

To date, welfare reform has centered on people and not place, and in the process has missed the larger point: that place affects poverty and dependence. In his groundbreaking studies of joblessness in the inner-city ("The Truly Disadvantaged" and "When Work Disappears"), William Julius Wilson contends that neighborhoods with high concentrations of low-income, poorly-educated individuals, isolated from informal job networks and outlying employment centers, have strong negative effects on their residents. If he is correct, other neighborhoods with better-educated residents and more access to opportunities can have the opposite effect and can be an important ingredient in reducing dependence on welfare and improving families' futures.

What is it about neighborhoods that affect residents? As a shorthand term, Wilson has stressed "concentrated poverty" as the main attribute of neighborhoods that negatively affects residents. He contends that the out-migration of working- and middle-class families from the inner city has led to concentrated poverty. However, he notes that this out-migration had many effects. It deprived neighborhoods of stability, economic and social resources, human capital and social capital, reinforcement of positive societal norms, and role models of the possibility of upward mobility and how to achieve it. These changes have negatively influenced education, employment, family formation, crime, and safety in these neighborhoods. As noted below, Wilson's theory has been examined by many studies, and its contentions have largely been supported.

Research Findings

Research has found that low-income people get many benefits from living in better neighborhoods.

1. Low-income people have better employment rates and earnings in low-poverty areas.

In a recent comprehensive review of the literature, Turner and Ellen (1997) concluded that, of seven statistical studies on this topic, five find a positive relationship between neighborhood characteristics and labor market success --employment rates and earnings (Case and Katz 1991; Corcoran 1989; Datcher 1982; Massey, Gross, and Eggers 1991; O'Regan and Quigley 1996) Jencks and Mayer (p. 171) estimate that "growing up in a low-income black neighborhood can lower young men's earnings by 27-35 percent."

In my own research on Gautreaux of youth who don't attend college, suburb-movers are much more likely to be employed than city movers (75% vs. 41%), to get paid over \$6.50/hour (in 1989; 21% vs. 5%), and to get job benefits (55% vs. 23%; Rosenbaum 1995).

For adults, Turner and Ellen (1997; p.18) report that "Studies of the Gautreaux program in Chicago provide the best evidence that neighborhood generally matters to adult employment opportunities ... (Rosenbaum and Popkin 1991). When suburban movers were asked about the advantages of their new environment, three factors emerged dominant: the greater number and better pay of jobs in the suburbs; the safety and security of the suburban neighborhoods; and the encouraging example of successful neighbors." The suburb movers were much more likely to be employed than city movers, especially for those who had never been previously employed (46.2% vs. 30.2%).

Studies since that review support its findings. A new study examines a very large sample of Gautreaux participants who moved between 1976 and 1989 and a related outcome --- their use of Aid to Families with Dependent Children (AFDC), commonly known as "welfare" (Rosenbaum and DeLuca, 2000). It found that where a family had moved strongly predicted whether the family would be on welfare at the end of the study period (1989). We found that welfare use distinctly decreased as the education level of the neighborhood increased. Even after controlling for mothers' age, years since the move, and use of welfare at the time of the move, the educational level of the neighborhood still strongly affected whether the family would be working or on welfare. In other words, families assigned to city and suburban neighborhoods with more educated residents were much less likely to be on welfare at the end of the period.

The new MTO studies find similar results. The MTO program was designed to test the effects of neighborhood income mix. This experiment has just begun, and individual outcomes are only available for Los Angeles and Boston, reported at a conference in November 1997. The program has three groups-- a MTO group who must move to low poverty areas, a Section 8 group using federal housing vouchers who usually chose low poverty areas (although they could move anywhere), and a control group who usually remained in high poverty areas. Many of the MTO and Section 8 neighborhoods were majority black, so this study is a test of the effects of income mix, and it does not examine the effects of racial mix of neighborhoods.

In the Los Angeles MTO study, 84.8% of the Section 8 adults report significantly higher earnings and work significantly more hours than the control group. People in the MTO group have higher earning and hours than the control group, but the difference is not statistically significant (Hanratty, McLanahan, and Pettit, 1997). For children, age 12-17, MTO and Section 8 group teens are much more likely to earn money (at part-time jobs) than control group children (75% and 85% vs. 40%).

The Boston MTO group was more likely to report that jobs were available than the control group, but they were more likely to report that family responsibilities prevented them from working (table 13). Therefore, the MTO group had no different employment or earnings in the first 2 years after program entry than the control group (Katz, Kling and Liebman, 1997). The authors note that 2 years may not be enough time to gauge this outcome.

Thus, two of the three experiments and the preponderance of statistical studies support the conclusion of better employment rates and earnings.

2. Low-income people have higher educational attainment in low-poverty areas.

There is strong evidence that that neighborhood influences educational attainment even when the teenager's own family characteristics are the same (Aaronson 1997, Duncan 1994, Haveman and Wolfe 1996, Rosenbaum, 1991)

Reviewing the statistical research, Turner and Ellen (1997) conclude that "[Studies] following infants during their first years of life find that having more affluent neighbors is associated with higher IQ at ages 3 and 5, after controlling for family attributes (Brooks-Gunn et al 1993, Duncan et al 1994; Turner and Ellen, 1997, p.9.) The number of affluent families in a neighborhood is thought to translate into better day care center, pre-schools, and playgrounds and greater adult supervision and monitoring." Recent research has added further support to these findings (Brooks-Gunn, et al. 1997).

Of Gautreaux youth, suburb-movers are more likely to complete high school than city movers (95% vs. 80%), to be in college (54% vs. 21%), and to attend four-year (instead of two-year) colleges (27% vs. 4%; Rosenbaum, 1995).

In the Boston MTO study, children in the MTO and Section 8 groups are more likely to read for enjoyment and less likely to have classes where discipline problems of other students interfere with educational process than control group children (Katz, Kling, and Liebman, 1997, Table 10). The lack of discipline problems probably is especially important since educational research indicates that even a few problem students can be highly disruptive to an entire classroom (Sedlak, et al.1986). It is noteworthy that Gautreaux families also reported fewer discipline problems in suburban classes, and that seems to have allowed for more effective teaching (Rosenbaum et al., 1986). Fewer disruptions may also explain why suburban teachers were able to give additional help to Gautreaux children, while city teachers rarely did.

In the Baltimore MTO study, children in the MTO and Section 8 groups improved in test scores compared with the control group (Ludwig, Duncan, and Ladd, 2001). Children ages 5 to 11 in experimental group were 18% more likely to pass the reading test, roughly double the rate of a control group. No test score differences are seen for teens, perhaps implying that moves may have less effect as children get older.

These results are very impressive. The magnitude of differences, especially in the Gautreaux and Baltimore MTO studies, is vastly better than one usually sees in ordinary school reform programs. Yet in both studies, the program provided no special efforts in the schools. It would appear that moving families to better neighborhoods has the potential to lead to better achievement gains than school reform programs. Put another way, from a policy perspective, it is possible that one can get better academic achievement gains by putting money into moving poor families than by investing in ordinary school reforms.

3. Low-income teens are less likely to get pregnant in low-poverty areas.

"Virtually all of the existing empirical research points to some relationship between neighborhood environment and sexual activity or pregnancy among adolescents" (Turner and Ellen, 1997). A great number

of studies have found that low-income teens are less likely to be sexually active and less likely to get pregnant in low-poverty areas (Brewster, 1994; Brewster, Billy, and Grady, 1993; Brooks-Gunn et al, 1993; Crane 1991; Hogan and Kitagawa, 1985; Hogan, Astone and Kitagawa 1985; Ku, Sonenstein, and Pleck 1993; Mayer 1991).

Elijah Anderson, an African American ethnographer, has described the ways that high-poverty neighborhoods encourage teen pregnancy (Anderson, 1991). Anderson's observations of street culture support Wilson's (1987) hypotheses about the importance of role models: "Young people who are...able realistically to picture a better life are often successful in avoiding the draw of the street culture... [overcoming] the lure of becoming somebody by having a prize baby at age fifteen." (Anderson, 1991, p.397)

4. Low-income people are healthier and more satisfied living in low-poverty areas.

The Gautreaux study found that mothers who moved to low-poverty suburban areas were more satisfied with the curricular and extra-curricular programs in their children's schools than those who moved to high-poverty urban areas (Kulieke, 1985, p. 225). While one might have expected suburban teachers to be biased against low-income black children, and isolated incidents of teacher biases were reported, most Gautreaux mothers saw the suburban teachers as more helpful and more concerned about the children's welfare than city teachers had been. This is especially noteworthy because the children were younger when they were in city schools, and teacher support tends to decline as children get older.

The Boston MTO study asked many questions about children's and mothers' health and mental well-being. MTO and Section 8 children had fewer behavioral or mental health problems than the control group. (The Section 8- Control difference is statistically significant). For instance, MTO children are much less likely to bully other children (7.5% vs. 11.4%), to be unhappy (18.8% vs. 27.2%) or to be disobedient at school (19.8% vs. 24.2%). The MTO group also had half as many asthma attacks as the control group (.72 vs. 1.36; Katz, Kling, and Liebman, 1997, Table 15). Some have hypothesized that behavioral, mental health, and asthma problems are reactions to anxiety. If so, the Boston study may have found some sources of anxiety: the MTO children were much less likely to have seen someone carrying a gun or knife than the control children (4.0 % vs. 12.5%, Table 15).

As for the Boston adults, the MTO and Section 8 heads of households were more likely to be in good health, to have good mental health, and to have less anxiety than those in the control group. While 11.2% of those in Section 8 and 10.4% of those in MTO met the definition of having a major depressive episode during the past 12 months, 14.6% of those in control group did (Katz, Kling, and Liebman, 1997, p.29). Since there is a large literature showing the impact of maternal mental health on quality of parenting and child outcomes (Weissman et al 1972; Weissman et al, 1984; Galfand et al 1990, cited in Katz et al. 1997), these results are also likely to have implications for children.

5. Low-income people are not more socially isolated in low-poverty areas.

In the Gautreaux study, many low-income blacks worried about being socially isolated in the white middle-income suburbs. In fact, mothers were just as likely to interact with their neighbors in the low-poverty white suburbs as mothers who moved to high-poverty black city areas. They also had the same number of friends (Rosenbaum et al. 1991). Even in areas where they experienced harassment from some individuals, other white neighbors reached out to be friendly, offering help, advice, and friendship. The safety of the suburbs also allowed children to play outside more, and suburban children were as likely to interact and have friends as the city children.

In the Los Angeles MTO study, there were no significant differences in number of friends. While 60% of the MTO group children age 6-11 have 3 or more friends, 69% of the control-group children do. The same lack

of difference is evident for older children (age 12-17) where 50% of MTO children and 56% of control group children have 3 or more friends. Thus, the movers to low poverty areas are not more cut-off from friends (Hanratty, McLanahan, and Pettit, 1997). (The section 8 children at both ages are less likely to have three or more friends (26% of younger children, 28% of older children), but these two groups are very small (n=19 and 14) and thus percentages are less reliable).

In the Boston MTO study, there are no statistically significant differences among the groups in how often they visit with friends or family members, talk on the phone, or go to church. Indeed, the MTO and Section 8 groups are slightly more likely to visit with friends or relatives at their homes than the control group (Katz, Kling, and Liebman, 1997, Table 17).

6. People feel safer living in low-poverty areas.

Violence is strongly associated with the low socioeconomic status of neighborhoods (Short, 1997; Skogan and Maxfield, 1981). Sampson et al. (1997) find that normative disapproval of deviant behavior is less common in areas of concentrated poverty, and this reduced normative disapproval explains the increased violence and homicides in these areas. Case and Katz (1991) find strong evidence that youth are more likely to commit crimes and use illicit drugs if a greater proportion of the teenagers and young adults who live near them engage in similar activities.

In turn, housing-project residents tend to be the victims. One of every two public housing residents of the Rockwell and Horner developments said they or a member of their household has been a victim of crime in the past year (Popkin, et al 1996). During a period of gang warfare, "40% of residents said a bullet had been shot into their apartment in the past 12 months," in the Lake Street building in Horner, which was in good physical condition and recently renovated (Popkin et al. 1996). Moreover, residents are forced to cooperate with crime. "Because they needed protection, the Lake Street residents developed a cooperative relationship with the gang that controlled the building: the gang provided protection in return for the residents' tolerating their activities."(p.8-6). Other authors have detailed the difficulty of the living conditions in public housing (Kotlowitz, 1991, Rainwater, 1970), describing them as places where people fear for their lives and their property.

The Gautreaux families felt much safer in low-poverty white suburbs and viewed their new suburban neighborhoods as much safer than their former city neighborhoods -- both during the day and at night. Respondents were asked if the streets within a few blocks of their home were dangerous. Few suburban movers (10%) said their neighborhoods were dangerous during the day compared to 67% of city movers. (Looking back on their pre-move neighborhoods, 75% of suburban movers said their pre-move city area was dangerous in the day.) When asked the same question about the night, only 31% of suburban movers said the suburban area was dangerous compared with 71% of city movers. Looking back, virtually all suburban movers (96%) said their pre-move city neighborhood was dangerous at night. While it is possible that suburban movers' recollections exaggerate the danger in the city, it is also possible that city movers downplay the danger of the neighborhoods they must transverse every day (Rubinowitz and Rosenbaum, 2000, p. 94).

Even in their homes, suburban movers felt safer. Only two percent of the suburban movers believed their homes were dangerous during the day, while 44 percent recalled that being at home in the city during the day was dangerous (Rubinowitz and Rosenbaum, 2000, p. 94).

Unfortunately, white suburbs were not free of threats. Indeed, in the early years of the Gautreaux program, 1976 to 1981, racial harassment often occurred when participants first arrived. Yet harassment declined over the first year, and after a few years (by the time of the study in 1982), harassment in the suburbs was no more frequent than in the city (Rosenbaum et al., 1986). Moreover, unlike the city where threats were life-

threatening, most suburban harassment was verbal, and very few incidents involved threats of physical violence. That explains why, despite the racial harassment at that time, suburban movers did not feel that their white low-poverty neighborhoods were dangerous: racial harassment in the suburbs was unpleasant, but it rarely created the level of fear that occurred in high-poverty city areas.

In the Los Angeles MTO study, 92% of MTO movers said their neighborhoods are safe or very safe at night, compared to 72% of the control group. Indeed, 65% of the MTO movers said that drugs are no problem in their neighborhoods, compared to only 46% of the control group (Hanratty, McLanahan, and Pettit, 1997).

In the Boston MTO study, more household heads in the MTO group felt safe in their neighborhood than did members of the other two groups, and the differences were statistically significant (Katz, Kling, and Liebman, 1997, Table 7). Fewer in the MTO have heard gunfire, seen people using or selling illegal drugs in their neighborhood, or have been victims of crime than control group members. Indeed, the MTO members are much less likely to be victims of serious crime (6% vs. 14%), and they were victims of half as many crimes, and half as many serious crimes (Table 8).

The greater safety in low-poverty areas is not only important in itself, it is also likely to have other consequences. Crime and violence have harmful physical and psychological effects on adults and children. Obviously, crime and violence have harmful physical effects. According to FBI statistics, 2000 minors were murdered in the US in 1988 (Zinsmeister, 1990). Homicide rates for bystanders have increased dramatically, doubling between 1960-1980, increasing further since then (Gross, 1990). By 1985, a federal panel concluded that "For black males and females age 15-34, homicide is the leading cause of death" (Secretary's Task Force on Black and Minority Health, 1985, p. 160), and since then, the homicide rate has increased further.

The evidence on psychological effects is harder to measure with statistics, so we cannot tell how often it occurs. Yet the reports are compelling and suggest the potential for strong effects. Violence and crime can have harmful psychological effects on people, even if they are not direct victims (Marans and Cohen 1994). In an interview study, preschool teachers reported "regularly observ[ing] children as young as three years old playing at shooting up drugs, strutting like 'gang-bangers,' and taking turns being victims, mourners, and preachers as they act out the common occurrence of funerals resulting from gang warfare. Children's artwork contains gang symbols and events such as shootings, stabbings, and arrests." (Garbarino et al. 1991, p.139). "Parents report significant behavioral changes in children exposed to urban violence. Regressive behavior, such as the loss of toilet training..." and exaggerated startle reactions to loud noises, bad headaches and stomachaches.

This violence causes children to become violent. When a 13-year old Chicago boy was asked why he was carrying a .357 Magnum down the street, he answered that he was afraid (Blau, 1990). A national survey of tenth-grade students found a very strong relationship between feeling unsafe and a student's approving of taking a gun to school (Rosenbaum and DeLuca, 2000). In one four-month period in 1987 in Detroit, 102 children under age 17 were shot by other children (Zinsmeister, 1990). According to Gabarino (et al. 1991), the violence in Chicago Public Housing is as serious as the civil war in Lebanon in its traumatic impact on children. The greater incidence of discipline problems in high-poverty classrooms than in low-poverty classrooms, noted in the Boston MTO and Gautreaux studies, may arise from psychological responses to violence in the larger community.

Even after CHA's efforts to stop drugs, drugs remained a serious problem, and Popkin (et al., 1996) documents cases where addiction by parents led to neglect of clothing, washing, and feeding of children. Popkin also notes "Many residents remain extremely troubled, fighting problems that stem from years of exposure to traumatic stress and alcohol and drug abuse." p.8-34

In the Gautreaux study, when mothers checked "very unsafe" on our survey, they were not just describing a vague discomfort in the housing projects. Mothers described experiences that were very disturbing to their children, stories that sounded like life in a war zone. One child was afraid to go to school. The gangs "would take your cap and gloves, money, anything else they wanted, and beat you." Other mothers gave similar accounts, "teenage boys who would use guns and knives...to get [my son] to join the gang." "My windows got shot in several times, we had to sleep on the floor...It was like Vietnam." "The violence in the city was shocking and scary...It was nerve-wracking...I didn't... let my daughter go out for fear of her life...Here in the suburbs I don't have to worry about people shooting at people." In contrast, in the suburbs "the fights are not physical, they are exchanges of words" (Kulieke, 1985, p.147).

Violence is also disturbing to adults. It is hard to convey the impact with statistics, but individuals' stories give a clear picture. A study of low-income housing project residents found many shocking descriptions of the dangers in housing projects. Most people found gunfire the most frightening part about life in their old communities (Miller, 1998):

"Shooting is what forced me from over where I was living at. Like at 10:00 p.m., you got to be in the bed, ...and you can be in the same room where bullets is hitting upside the wall! ... I can't live here."

For one, the gunfire resulted in a personal tragedy:

"My brother got killed. He was eighteen. ... They just constantly shooting. I mean, they just shoot in broad daylight and kids be outside playing. ...They can't go out and play, because they parents afraid they gonna get shot or hit by a stray bullet, 'cause it's just horrible"

Also common was the feeling that there was nothing that could be done to stop the violence. One woman told a horrifying story about seeing a woman raped in the hallway of her building, being too afraid for her own safety to stop it, and feeling guilty about her inaction (Miller, 1998).

"I wanted to help her at the time, but I did not know if the guy had a gun or what he could have done to me if I tried to interfere. I had to worry about her, but also about me, you know what I'm saying. Like I could have had the same thing happen to me if I wasn't careful"

Why Do Neighborhoods Matter?

As we have seen, a large body of research strongly indicates that neighborhoods matter. They can positively affect employment, earnings, welfare dependency, education, teen pregnancy, health, satisfaction, safety, and exposure to violence.

What is it about neighborhoods that affect these outcomes? Here the research is scantier. While few studies systematically examine this question, participants in neighborhood move experiments provide some insightful suggestions of what factors influenced their behaviors. While social scientists are often skeptical of respondents' perceptions, these particular individuals have experienced dramatic changes in their circumstances that make them unusually aware of their environments and how they could change.

In terms of movers' ability to find a job and remain employed, many different aspects of their neighborhoods seemed to be influences. All suburban participants mentioned the greater number of jobs in the suburbs, an observation supported by extensive research on the flight of jobs from central cities to suburbs (Wilson, 1996). Many participants also mentioned that positive role models and social norms inspired them to work. Upon seeing neighbors work, Gautreaux participants reported they felt that they too could have jobs, and they wanted to try. They learned the ropes of getting a job and how to juggle transportation and childcare. By contrast, in city areas with low employment, few adults saw neighbors working and it did not seem like something they could do.

Participants also stressed improved physical safety. While we have already surveyed the extensive research on the difference in safety between city and suburbs, participants asserted that this difference had a very

large impact on their behaviors in many ways. Mothers reported that while living in dangerous neighborhoods, they did not work for fear of being attacked on the way home from work. Some Gautreaux mothers report that they were afraid to get a job in the city because they needed to stay home to protect their children from being hurt or recruited by gangs (Rosenbaum, 1993). Violence also restricts children's chances to play outside, to get exercise or fresh air, or to go places. During periods of gang warfare, school attendance declines for good reason; children are sometimes shot on the way to school, as the highly publicized case of Dantrell Davis at Cabrini Green illustrated. Some mothers reported that violence prevented them from taking other initiatives, and in many, it seemed to create psychological depression and a fatalistic sense that no efforts could make any difference in their lives, what psychologists have termed "external locus of control."

Listening to the participants' descriptions of frightening conditions in housing projects, it is easy to understand how paralyzing such experiences must be and their powerful influence in preventing all kinds of constructive activity. As a result, it is not surprising that mothers who had moved to safer neighborhoods felt freer to go to work.

What is clear is that individuals can be changed by their neighborhoods. In particular, moving to better neighborhoods can dramatically change individuals, leading them to changed behavior. Women who had never been employed got jobs after moving to suburbs, and this was much more likely for suburban movers than for city movers. Similarly, our study of AFDC receipt found great changes in welfare dependency, depending on what neighborhoods people happened to get assigned. Whatever had caused people to be on welfare in the past (lack of skills, motivation or opportunity) is not irreversible. Obviously, these are not permanent attributes of individuals, and do not indicate a lack of competence. Many people left welfare and many got jobs for the first time in their lives after moving to better neighborhoods. These neighborhoods helped close the job gap between low-income black adults and their white neighbors. Conversely, our study suggests that welfare reform-related efforts to provide job training or work incentives may be frustrated by negative neighborhood influences if families remain in areas with high concentrations of poorly educated residents who are not employed.

Policymakers often blame individuals for their problems, and assume that problems must be fixed by changing individuals--their attitudes, skills, and goals. However, the studies reviewed here indicate that this interpretation alone is inadequate. Individual who move to radically improved neighborhoods can exhibit radically different behaviors, behaviors that even they had not realized they were capable of. These findings indicate that reforms to improve people's behaviors can be much more effective if combined with moves to better neighborhoods.

Central Features of Programs Moving Families Away from Concentrated Poverty

We have seen that changing neighborhoods can lead to dramatic results. However, such programs are complex, they have many details, and it is uncertain which details are crucial to their success.

The replication of reform programs is fraught with difficulties. Even if people want to follow the example of a successful program, new programs must respond to a variety of local pressures and constraints that prevent duplicating the original program exactly. Various details are inevitably changed, either by necessity, choice, or oversight, and disappointing outcomes are common.

A useful way to consider the details of a residential mobility program is to consider hypothetical alterations of the Gautreaux program and to speculate about their implications and outcomes.

A program that moves people to new places can vary four features – people, places, services, and size. Ignoring these possible variations, some people have assumed that any program that moves people into any

suburbs will have results similar to the Gautreaux program. Indeed, in the past few years, the Chicago Housing Authority has been emptying many high-rise housing projects and sending residents to other locations, with little concern for where they are placed. Claiming residents would benefit from changing their housing the CHA moved tenants from high-rises in high-poverty areas to low-rises in high-poverty areas, as if the building height was important and neighborhood composition was not. This is probably not true.

In the following, I will speculate about what makes the Gautreaux program have such strong positive effects, and by extension, what the pitfalls are that future versions of this program should try to avoid. In some cases, I have data to support the inference, in other cases they are based on observations by program staff, participants, or researchers. I must stress that these are speculations and we cannot be certain which details are crucial without testing systematic variations. Therefore, the following discussion is based on my personal knowledge of the program, and particularly administrators' and participants' reports of how it worked.

Involving People Who Match the Program's Demands

There are many kinds of people who may not match the demands of this program. The program can choose people who cannot handle the rigors of this program, the costs of the program, or the behavioral norms required by the program. Alternatively the program could be so selective that it chooses people who would succeed even without the program and proclaim their personal successes as program effects.

The Gautreaux program took a number of steps to involve appropriate participants. . The program selected people who had good rent-payment records and did not have large debts that would prevent their paying rent, and those who did not cause property damage to their apartments that would lead to their eviction from suburban apartments. These two criteria eliminated about 12% and 13% of eligible families. The program also selected families with fewer than four children to fit in the available 2-3 bedroom apartments, but this criterion only eliminated about 5% of eligible families.

These steps seem very reasonable. But not all social programs have taken such steps. Well-intentioned social programs sometimes seek to help the "most needy." This is certainly a worthy group to serve, but some members of this group may be ill suited to a housing mobility program. If the "most needy" have large outstanding debts or lack experience at budgeting to pay rent, then they are likely to run into difficulties in paying their rent regularly. If they don't know how to take care of apartments, or if they have violent family members or visitors, then property damage will be likely. These circumstances will not only lead to their eviction, but also to the landlord's refusal to participate further in the program. Even one such eviction can spread a bad reputation about the program, leading many landlords to avoid taking any more program participants.

Programs that are concerned about community acceptance might use other qualifying criteria. While the Gautreaux program did not do this, some have suggested that such programs screen out people with felony records. Some protesters of the Baltimore residential mobility program (MTO) were concerned about felons moving into their neighborhoods. If the program had this selection criterion, it could have reassured them on this point.

The Gautreaux program seeks to integrate low-income people into the private sector housing market. Therefore, the program must select people who can meet the expectations of the private sector: regular rent-payment and lack of property destruction. It must also select people who can wait until appropriate housing becomes available.

The Gautreaux program was operated by a nonprofit fair housing group, Leadership Council for Metropolitan Open Communities. One important side effect of their criteria for participants is that the Leadership Council came to be known and trusted by landlords. The Council's selection procedures became

an unofficial warranty for participants' capabilities. Informal reports suggest that even landlords prejudiced against low-income blacks felt they could trust the people selected by the Leadership Council. This is similar to the process by which some job training programs serve as warranties of people's job skills and work habits (Kariya and Rosenbaum, 1994). In effect, landlords could trust that low-income black families pre-screened by the Leadership Council presented fewer risks of property damage or rent nonpayment than a prospective white tenant, about whom nothing was known.

Given these considerations, housing agencies must consider whether families are prepared to be good tenants before assigning them to Section 8 housing mobility programs. It is possible that many families currently being relocated may not be prepared, and, if they fail, they will be evicted.

Selecting People who Need the Program's Help

It is crucial that housing programs not be so selective that they only choose people who would succeed without the program. The Gautreaux program was not very selective. On the basis of the above-noted criteria, which eliminated 12%, 13%, and 5% of applicants, I estimate that the Gautreaux program eliminated about one-third of eligible applicants. The program is selective, but it is not so selective that it can be called creaming.²¹

It is noteworthy that the Gautreaux program did not apply more restrictive criteria, such as checking on previous neighbors' complaints, on children's problems in school, or mothers' work histories. These are all plausible criteria and probably would have improved the success rate of the program, but the Gautreaux program did not choose to use them.

Highly selective criteria were unnecessary. The program had quite good results without them. While the Gautreaux program suggests that some selection criteria may be necessary, it also indicates that highly selective criteria are not necessary to lead to generally successful outcomes.

Some have criticized the Gautreaux program for removing the most qualified people from the central city, depriving these areas of potential leaders. This would be a serious problem if true. Yet most people selected for Gautreaux program had not exerted strong leadership in their communities because of the demands of single motherhood on AFDC and the struggle to survive and keep their children safe. They had not shown any greater leadership than their neighbors who remained in the city. Their ability to get jobs in the suburbs is a new achievement for many of them, something they were not able to do living in the housing projects.

The concern about the loss of leaders and talent in the inner city is a serious one. But as Wilson (1987) documented, this is a loss that began three decades ago when the black middle-class began moving to the suburbs. The black middle-class could provide leadership, jobs, and positive models to the central city. Most Gautreaux mothers are not positioned to do this nearly as frequently.

Targeting Communities that Match the Program's Demands

There is a tradeoff between seeking to move people quickly and seeking to move people only to the most beneficial places. The Gautreaux program chose the latter strategy, and it developed clear criteria for defining the right kinds of places.

²¹ As an aside, people have commented on the Gautreaux families featured on television reports, such as those on Sixty Minutes, CNN, ABC World News Tonight, etc. Those families are articulate, and observers have noted that they don't seem like typical housing project residents. That is true, and they aren't typical Gautreaux participants either. The reason why articulate families appear on television is because television producers want to feature articulate families. Average families don't make good TV.

Places can be inappropriate in a number of ways. A program can choose areas that are too expensive, too racist, too vulnerable to white flight or too vulnerable to "middle-class-flight" by the black middle class. The Gautreaux program was sensitive to all of these potential problems.

If housing is too expensive, then the program is subject to political criticism. In addition, increased costs per unit limit the number of families who can be helped. The housing-expense limitation is built into the Section 8 program. While some waivers were obtained to include some upper-middle class communities, some suburbs still had rent levels too high for Section 8 vouchers.

A map of housing placements reveals very few places in the six-county area surrounding Chicago where Gautreaux participants don't live. Most of those places are in distant outreaches of this large area, where 2-hour driving distances, not expense, reduced participation. Fewer than 10 suburbs had no housing units with rents within Section 8 guidelines.

Participants live in over 115 suburbs surrounding Chicago, and they are widely distributed across these communities. Even upper-middle class suburbs tend to have pockets of more reasonable rents amidst their high-priced housing. While some economic segregation occurred within some suburbs, this wasn't necessarily "class" segregation since many participants reported that they interacted with young highly-educated neighbors. These are apparently families who started their families in apartments with more affordable rents.

The Gautreaux program only eliminated two communities because of "intractable racism." Cicero and Berwyn have a long history of violent attacks on black residents, and they have active Ku Klux Klan groups. The program sent no families to those areas.

The Gautreaux program also eliminated communities that already had a higher proportion of African Americans, where additional move-ins could lead to white flight. While some research has tried to specify the stage at which a neighborhood reaches this so-called "tipping point" at around 7% black (Farley, et al.), it seems likely that the proportion depends on historical conditions and the rate at which the community has arrived at this proportion. A community that has quickly shifted from 0% to 7% African American is likely to be much more unsettled and prone to resist further integration than one that has moved to this rate over a decade. Other communities with a far higher proportion of blacks have remained stable over many years. However, in many metropolitan areas, there are communities that went from predominantly white to predominantly black in less than a decade. To avoid contributing to resegregation, the Leadership Council sent no Gautreaux families to suburbs that were thought to be near a "tipping point."

The program was also careful not to send too many families to any one location in a single year. If a town received ten families each year over ten years, that will be seen quite differently than if one hundred families move there in a single year.

As a court-ordered desegregation program, the Gautreaux program was not allowed to send black families to predominantly black suburbs. Other programs, such as MTO, are allowed to do so, and so they run the risk of contributing to another kind of neighborhood change. Black middle-class residents might be alarmed and begin to move out if they felt that MTO was sending too many low-income residents to their suburb. That has not happened, but it is a risk that programs should avoid.

It would be all too easy for reconcentration of poor families to happen, and it seems to be happening in current CHA relocations. If a program must place many families and knows only a few communities where those families feel comfortable, the easiest way to place additional families is to send them to the same locations. This is an old story from the bad old days of "real estate block-busting." A cynical realtor who has instigated neighborhood panic can easily maintain a high volume business of moving new families in.

Staff of a mobility program could inadvertently contribute to the same kinds of "block busting" by not taking time to discover additional communities. And while the program may see their 300 families as a small number relative to the suburb's population of 50,000, the community can see a sudden annual inflow of 300 families as a threat, particularly if rental housing is concentrated in one part of town.

Participants' choices can also contribute to such a resegregation process. Given a choice about where to move, low-income blacks are likely to choose suburbs with substantial black populations where they do not have to worry about racial discomfort. Yet this free choice process is likely to lead to racial and economic resegregation, as whites and middle-class blacks fear the worst and flee. Indeed, the regular Section 8 program relies on free choice, and it has sometimes been accused of creating resegregation. Similarly, the national housing voucher experiment found that, given free choices about where to move, most recipients moved to areas very similar to the areas they left (Cronin and Rasmussen, 1981).

Yet large influxes of low-income blacks can upset middle-class blacks just as they may middle-class whites, leading to fears of increased crime and deterioration of property values. Indeed, middle-class blacks may perceive their middle-class status as more precarious than their white counterparts. Some Gautreaux participants reported that white neighbors were sometimes more friendly than middle-class black neighbors, who seemed to act "snooty" and "too good to be friendly with us." Perhaps middle-class blacks worry that these low-income blacks will be stigmatized, and some of that stigma will spill over to them. While we do not have any systematic information about the magnitude of this concern, we expect that middle-class black suburbs are concerned about large influxes of low-income blacks.

Providing the Right Amount of Help

A housing program can provide too little help and the program won't succeed. It can provide too much help and the program will be too costly to be politically feasible.

The Gautreaux program provides a mixed picture on this dimension. It offered extensive help for families to locate housing far from the central city. The program had two housing development staff locate landlords willing to participate, and it had four housing counselors to take participants to see the housing. Without this help, they believed participants would not be aware of housing opportunities in white suburbs and couldn't visit these areas, especially given the poor public transportation in the suburbs.

While the Gautreaux program provided extensive help in locating housing, it provided very little help to families after the move. One staff person served up to 200 new participants for their first 6 months after moving. This person's main function seemed to be referrals to other sources of help in their new communities. Post-move help was limited in order to reduce program costs.

As a result, the total cost of placing a Gautreaux family was about \$1000 per family. This is an average, which takes all the Gautreaux program costs and divides them by the number of families served in a year. The number was somewhat more in years when fewer families were helped, and somewhat less when more families moved, so there may be some economies of scale.

In setting up the program, there was a concern that if the program provided more help, it would be too costly to be politically feasible as a model in other locations. There was also the opposite concern that it might provide too little help and thus not succeed. It is noteworthy that the program had great benefits despite the minimal post-move help it provided. Apparently, most families were able to cope with the difficulties they encountered. However, if the families remaining in housing projects today have greater problems than the Gautreaux families of 20 years ago, they may need more extensive help to make these moves.

It is also useful to consider the cost of the program relative to alternatives. In addition to placement costs, the Gautreaux program required a Section 8 housing certificate to maintain people in private apartments. A

Section 8 certificate cost approximately \$6000 per year during the later years of the program. Of course, Section 8 is already a large national program, so that converting the current Section 8 program to the Gautreaux program only costs an additional one-time charge of \$1000 per family.

In contrast, the costs of maintaining families in housing projects are much more expensive. The cost of renovating a single unit in a housing project is \$50,000 to \$90,000 in various cities (Bridgeport [Ct.], Chicago, Cleveland, Washington). This is just for renovation that must be done every 10-15 years; it does not include annual costs for operations and maintenance. It also does not include land costs or the decreases to land values (and taxes) of surrounding property. Nor does it include the social and personal costs that concentrated poverty imposes on the people in these buildings. The costs of public housing projects are much greater than the costs of the Gautreaux program.

Program size: Can the Gautreaux Program Only Operate on a Small Scale?

Many people have asserted that the Gautreaux program can only move a small number of families. This is probably mistaken. While such a program can only move a small number of families into any single neighborhood over the course of a few years, the program could move relatively large numbers over a decade if it includes many scattered neighborhoods in a hundred suburbs surrounding major cities. The key is widely scattered locations.

We can get a rough estimate of the potential magnitude of the program by offering some crude numbers. The Chicago metropolitan community has a population of roughly 7 million, of whom 4 million live in the suburbs. Most suburbs are over 90% white. Roughly 140,000 individuals resided in the Chicago Housing Authority buildings in 1990 (before demolition became extensive). If a program selected only the "upper half" of families (70,000 individuals) who are most prepared to be good tenants, and moved half of them to city apartments and half to suburban apartments, then such a program would have negligible influence on any suburban community. If these 35,000 individuals could be evenly spread among 4,000,000 people in the suburbs, that would change the suburban population by less than 1%. A 90% white suburb would become 89% white. This is not the kind of change that panics anyone.

It is unlikely that new programs will move families at anywhere near that scale. There is no source of funding for a program to move 35,000 families in the Chicago vicinity over the next decade. Such a large-scale program would require far more suitable rental housing, more landlords willing to accept vouchers, and expanded staff capacity to locate housing and counsel participants. So these rough estimates are all about a hypothetical upper-limit program that is beyond the scope of implementation. The point is that suburbs would not be greatly altered by a mobility program that is much larger than any likely to be implemented, if the program involves wide variety of areas.

Of course, availability of affordable rental housing is an additional potential constraint. But if government can create a ten-year housing mobility program, then the housing industry is likely to be able to build new housing to accommodate this new population along with other population growth over the course of a decade. Federal spending for subsidies can stimulate the private market to build new affordable housing. Moreover, as noted, the fact that the program would widely disperse families and would phase moves over a decade or more would further reduce its psychological impact on receiving areas. Serious problems only arise if the program does not involve a wide variety of areas. Indeed, even a small program of only 300 families a year (smaller than the Gautreaux program) could create panic and rejection if it is narrowly focused on only a few communities.

However, while the Gautreaux idea can be expanded to be a much larger program, it still seems likely that small programs have stronger benefits than large ones. If 3 low-income families move to a middle-income neighborhood (of 500 residents), the neighbors and church may provide extensive hospitality. Some Gautreaux families reported that local churches donated clothes and toys that they could not afford. If 30

families move in, neighbors may be friendly, but 30 may be too many to give hospitality. Yet the children of 30 families will be scattered across many teachers and so still may receive extra, individualized help in school. If 300 families move in, conflict and panic may be more likely than hospitality and help.

Numbers also alter movers' social interactions. Children in three new families must interact with neighbors if they are to have friends at their same age. If children in 30 new families live very close together, they can interact with each other and constitute a segregated enclave. The greater ease and comfort of segregated interaction may keep new movers from reaching out to white middle-class neighbors, limiting the amount of integration.

This is all speculation. If true, it suggests the possibility that the number of people moving to a given area does affect the strength of effects of the moves and that, as numbers increase, the amount and kinds of help decline.

Mixed-income Public Housing as an Effective Way to Reduce Violence and Vandalism

Can we use our knowledge of neighborhood effects to improve neighborhoods where poor people currently are concentrated? Maybe.

These findings may be useful in improving low-income neighborhoods if 1) we can infer what aspects of neighborhoods cause negative outcomes, and 2) we know how to change those attributes. Both of these are uncertain. While we have speculated that job and educational opportunities, positive role models, and lack of violence may lead to positive outcomes noted in the literature, these speculations have not been proven by research. The residential mobility programs have moved families to radically different neighborhoods, where all of these processes are likely to be different, so they all may be operating. Alternatively, some other factor on which these neighborhoods differ may account for the different outcomes.

Moreover, it is not certain that we know how to change these features of neighborhoods. For instance, given the undesirable aspects of threats to residents' safety, we might ask if public housing can be made safe? Effective security requires that management be aware of crime. Yet crime often happens in places where it isn't easily seen. Analysis of New York City Housing Authority crime records reveals that almost 80% of reported crime in public housing complexes takes place inside the buildings. The most dangerous places are elevators, stairwells, and lobbies, areas where assaults are less likely to be observed. (Newman, pp.27-32)

The Chicago Housing Authority (CHA) has tried to stop violence--often without success. Three efforts to control violence in the CHA (using Nation of Islam-affiliated guards at Rockwell Gardens, using private security guards at Horner, and CHA officers at Ickes), Popkin (et al., 1996, 2000) were found ineffective. Residents rarely reported crimes they saw because they feared retaliation, and they doubted the police's ability to protect them. The gangs reasserted their dominance, and at Horner they pushed the guards out of the building whenever they wanted them out.

A similar situation can be seen at Cabrini Green housing project. Since 1988, the CHA has drastically increased its security budget. Yet the number of serious crimes has not decreased: 1988--502 serious crimes, 1989-- 448; 1990--574; 1991--607; 1992--717; 1993--570 (Fischer, 1995, p. 8). Thus, these vastly increased resources devoted to security staff and procedures are associated with a 43% increase in serious crimes from 1988-92) or a 13% increase from 1988-93). These increases in crime rate clearly indicate that the increased security budget and staff have not purchased any increase in security.

However, the one place where CHA has clearly reduced crime is Lake Parc which reopened as a newly mixed-income development. Lake Parc's manager reported that Lake Parc had 5 fights a week in the summer of the first year, but by the summer of the second year, only 5 fights all summer. Official statistics confirm that Lake Parc had the lowest crime and vandalism rates of all CHA buildings (Rosenbaum, et al. 1997).

Providing for a mixed-income population may be essential to reducing crime and vandalism in public housing. Lake Parc's success is probably due to its mixed-income design. In most public housing, only one-third of residents report infractions (Popkin, et al., 1996). In contrast, at Lake Parc all residents know that middle-income tenants strongly support the rules and will report infractions-- 95% support the rules and insist on enforcement (Rosenbaum, et al. 1997). Although over 70% of low-income residents also support rules, a significant dissenting minority does not. Thus, a person considering violating a rule knows there is a 30% chance that a low-income observer won't care, but a 95% chance that a middle-income observer will care, and they care a lot. Since middle-income residents are scattered all over Lake Parc, one can be almost certain that violations will be reported.

The mixed-income design also helps low-income residents see that security rules are customary, usual, and needed. Lake Parc has had many rules that are not customary in CHA buildings (e.g., visitor sign-in sheets, rules against littering, yelling out windows, noise in the hallways). It would have been difficult to enforce these rules if Lake Parc was not mixed-income, since CHA residents were not accustomed to these rules, didn't realize they were normal in many private apartment buildings, and tended to see them as punitive or unfairly targeted at low-income people. However, seeing middle-income people accept and abide by these rules made them realize that rules are normal and benefit residents.

As a result, Lake Parc was highly effective in creating safe buildings. Serious crimes were much less frequent in Lake Parc than in comparison CHA buildings, according to police statistics (Cf. Appendix I below). This also translated to residents feeling safe. While 30% of former CHA residents felt safe in their prior CHA buildings, 94% felt safe in Lake Parc. Indeed, even the middle-income group who had lived in private apartments felt that Lake Parc was safer than their previous apartment: while 65% felt safe before moving, 84% felt safe at Lake Parc (Rosenbaum, et al. 1997). However, mixed-income buildings may not affect their surrounding neighborhoods, at least in the short-term. Lake Parc residents did not feel safe in the surrounding neighborhood.

Mixed-income Housing Provides Positive Role Models

As Wilson (1987, 1991) noted, in the old ghettos successful middle class blacks remained as role models. With civil rights gains and more housing choices, successful residents leave the ghetto, and successful models disappear. Therefore, children in the ghetto never see the successes. Youth see mothers struggling with two jobs and see children working hard in school, but when these struggles pay off, these mothers and children leave the ghetto. For many low-income youth, professional athletes and drug runners are the only ways known to be successful, and while professional sports offers few positions, there are many openings for drug runners.

In contrast, mixed-income areas show youth successful neighbors in diversity of fields. Thus, in the Gautreaux program, the suburban children understood the payoff to school work more clearly than did city children because they could see the college and job success that came from success in school. Even the suburb movers who didn't do particularly well in school saw payoffs to good behavior, in terms of well-paid jobs after high school graduation.

Similarly, children at the mixed-income Lake Parc could see neighbors who had stable jobs and were saving money for their own houses. At Lake Parc housing development, low-income residents were as likely to interact with neighbors as the middle-income residents. The low-income group had more friends at Lake Parc than the middle-income group. Yet both groups reported that they interacted with each other, some interacted often, and some middle-income residents even created employment opportunities for low-income residents as baby sitters, day-care assistants, or beauticians. About half the respondents from both groups reported some involvement in volunteer activities in the building--overseeing playground activities, child-care, children's field trips, and administrative duties (Rosenbaum et al. 1997).

Conclusions and Policy Implications

These findings indicate that neighborhoods have large impact on many kinds of individual behaviors for low-income people. Compared to low-income people who move to high-poverty areas, those who move to more affluent areas have better employment rates and earnings and less welfare dependency, children get better educated, teens are less likely to get pregnant, and people are healthier, more satisfied, and feel safer.

These results indicate that people have capacities for achievement that they may not show living in low-income areas. In effect, people have inner abilities that neither policymakers nor the individuals themselves may ever realize, as long as they are restricted to environments that offer few chances to show their capacity. In improved surroundings, low-income mothers can get jobs and can get off welfare, even though they have never done so before in their lives. Low-income children and young adults can do better in school, can attend college, and can get better jobs if they happen to move to middle-income suburbs, as opposed to similar children assigned to low-income city neighborhoods. Places matter.

This also has profound implications for social policy. If policymakers want to improve the employment or education of low-income people, they may be wasting money trying to change individual behavior while leaving people in low-income neighborhoods. Giving people job training programs in violent neighborhoods is like teaching people to swim with an anchor tied to their legs. A few extraordinary people may succeed, but many more would be successful if the anchor was removed by moving to safer communities offering more opportunities and role models.

Job training and educational programs will be far more effective if low-income people are allowed to leave low-income neighborhoods. Residential mobility can help these programs be more effective.

It is possible that some of these gains can occur by improving the conditions in low-income neighborhoods. As noted, this is more difficult, because it is not certain we know which aspects of low-income neighborhoods have the negative effects, nor is it certain we know how to change key features of these neighborhoods. We have discussed mixed-income housing programs that have had some beneficial effects, but research does not indicate that such programs have effects that are as large as programs based on moving people to better neighborhoods.

Research clearly indicates that such moves can lead to great gains in employment, education and social integration for low-income blacks. Contrary to pessimistic predictions of "genetic" models, the early failures of low-income blacks do not prevent them from benefiting from suburban moves. These programs indicate that geographic location has large effects on opportunities. Programs that help people escape areas of concentrated poverty improve employment and educational opportunities for low-income people.

COMMENTS ON ROSENBAUM

Robin Snyderman, Metropolitan Planning Council²²

James Rosenbaum's paper addresses one of the most gripping, albeit polarizing, issues facing our region. It was a well-done and relevant piece, as access to opportunity has been essential both to the history and the ongoing mission of the Metropolitan Planning Council (MPC). The MPC is a regional policy and advocacy organization working towards accessible growth and equity of opportunity. Central to our housing mission is promoting quality housing near jobs and transit throughout the region. The experiences of relocation programs affirm the key findings of this paper relating Moving to Opportunity Programs with better employment rates and earnings, higher educational achievement, lower teenage pregnancy rates and better health, higher rates of social integration, and lower exposure to crime and violence. That these are good programs that should be expanded and replicated is the most important finding in this research.

Four questions develop from a reading of this paper. The first is how to promote informed choice in these programs. Several years ago when the initial Chicago Housing Authority (CHA) plan for transformation was developing, the MPC was asked to facilitate a dialogue to prevent litigation regarding fair housing in the CHA and to promote some administrative changes. One side of the table argued that agencies counseling families moving from the CHA should only receive funding if they pushed opportunity areas. Others criticized this proposition arguing that CHA families did not have a choice that their buildings were coming down, and they should be able to move wherever they want. It was a heated discussion. A year later these parties came to a middle ground that, knowing the benefits of the MTO programs, agreed people should have the opportunity option encouraged but not have it forced on them. The disagreement was about how to promote informed choice. In relocation programs, there is a long list of tasks that must occur in terms of education, services, and access to the opportunities, housing, jobs, etc. There are numerous agencies and service providers who need to coordinate every step of the way; everything needs to be passed exactly at the right time with the right documents. The process is very complex for the families going through relocation. The questions of how to promote the opportunity areas, how to educate people, and how to structure the services in a way that people are informed enough to make the right decision for them and then to ensure that the housing options are indeed there for people who want to move.

That leads to question number two: how to replicate the program without posing it as the preferred solution to redevelopment, reinvestment, and affordable housing development in areas that are more expensive. We need more affordable housing outside of the city. The goal of the Gatreux program to move people into those areas assumes there is a supply of affordable housing there; we know that supply needs to be expanded. It is not merely economics that is driving the Chicago housing market; it is driven by public perception and politics, and the fact that there are 274 municipalities working without a state housing policy. The MPC is currently engaged in a program, the Regional Housing Initiative, which relates here. There are several housing authorities pulling their tenant based vouchers and saying to the Illinois Housing Development Authority that the tax credit program isn't meeting the needs of very low-income households, demanding project based subsidies. Developers are willing to set aside some affordable housing units in these mixed income deals if they are given a competitive edge for tax credits and meet the mayor's housing endorsement.

The third question is how to further this dialogue without fueling tensions in race relations. It is an important question to consider. We have all heard the story about the frog that jumps in boiling water and jumps out right away. However, if you put a frog in water and you turn up the flame slowly, the frog gets used to the heat and stays there until it dies. As some of the earlier papers mentioned, how we frame this dialogue is critical, and the pace at which we implement or expand MTO programs is equally critical.

²² Comments based on speech given November 5, 2003 at Loyola University Chicago.



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The fourth question is what additional research can inform this discussion. Interestingly, the MPC recently convened the second in a series of roundtables for developers who are involved in these mixed income deals. MPC has researched the informed choice issue and when talking to several the developers about what they needed; time and time again they stated that they needed to talk to each other more. Consequently the roundtables were formed to explore topics of common concern. The topic of this discussion was how to promote community within mixed income deals. The second topic asked to explore was how you promote community around parks, schools, and so forth.

The research on mixed income housing is not fully developed, but will likely not find a single answer for these questions. For example, people talked about how services on site could promote a successful mixed-income community. Others suggested having services off site in the neighborhood – it is not clear which is better. It is doubtful there will ever be an answer on which is better, but there is a lot more that can be written to describe models that work. Research on successful models is lacking.

Measuring the outcomes of the MTO type programs in the future is needed once there has been greater longevity. However, the affordable housing community has success stories to tell now; while ten years later there will statistics about job placement, family stability, etc., research hasn't been tied as well to the current public housing discussion as it could be. Similarly, the CHA itself has a new Service Connector program, which hasn't gotten a lot of credit in October, the new contracts were sealed for 15 months, with funding of more than twice the previous program. They reduced caseloads from 1 service connector for 139 households to 1 for every 55, and they are looking more towards outcomes such as family stability, employment, income and community engagement to measure success. These are more important indicators than previous measures such as how many calls and referral were made.

The academic community could help the CHA and the developers in their new assignment by learning from practices of supportive housing and some of the early mixed income deals – that would be helpful. Property managers, community developers, and service providers are among the most overlooked group of professionals in the world. The unique skills at leadership they bring to these mobility program, the unique skills of good property managers is something that can be studied to educate each other.



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