A surprising way to increase property values: build affordable housing

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Despite the lawsuits, media spotlight and conventional wisdom, affordable housing developments built in poor, heavily black communities can lead to greater racial and income integration, according to new research by Stanford economists.

Such housing, funded by federal tax credits, also raises property values and lowers crime in surrounding neighborhoods as higher-income white residents move in, the researchers found.

"When a corporate developer comes in and builds nicer, new housing, it makes the neighborhood more desirable as a potential place to live," said Rebecca Diamond, a professor at Stanford's Graduate School of Business who authored the study with her colleague Tim McQuade.

The surprising findings, to be published in the Journal of Political Economy, are being widely circulated this week among academics following a New York Times story asserting that federal tax credits for affordable housing promotes racial segregation despite the program's intent.

While it's true that such housing is disproportionately located in minority communities, the federal program actually results in more racially desegregated neighborhoods over time, said the researchers who analyzed a decade's worth of relevant data around more than 7,000 developments built with federal tax credits in 15 states.

Building affordable housing in low-income, high-minority neighborhoods lowers the share of black residents in the surrounding community by about 3 percentage points, Diamond and McQuade found. It also improves racial integration in wealthier, high-minority communities.

"That's a pretty big effect just by developing one building," Diamond said.

Most of the impact occurs within half a mile of the housing development. The most intense effect is felt within less than a quarter mile, she said. In neighborhoods where median incomes fell below $26,000 a year, the researchers saw home values appreciate 6.5 percent within a tenth of a mile of the housing development.

But the benefits disappear when the affordable housing complexes are built in wealthier, white neighborhoods, the researchers found.

In such neighborhoods with median incomes above $54,000, property values dropped 2.5 percent within a tenth of a mile of the housing development, or about two city blocks. The affordable apartments also decrease diversity, but does not impact crime rates.

"People have a preference of who their neighbors are, and perhaps higher income people just don't want to live with lower-income residents," Diamond said.

Congress is trying to address the issue of wealthier neighborhoods rejecting the construction of affordable housing with bipartisan legislation that would prohibit states from considering local opposition as a factor in funding developments.

The bill, sponsored by Senator Maria Cantwell (D-Wash.) and Senate Finance Committee Chairman Orrin G. Hatch (R-Utah), would no longer require state agencies to notify local officials when siting a proposed housing development. The goal is to prevent "Not In My Backyard" opposition from interfering with housing credit allocation.

That could encourage more affordable housing in higher-income, whiter communities, says Daniel Hemel, who teaches tax law at the University of Chicago and wrote a blog post this week highlighting the role affordable-housing tax credits play in integrating neighborhoods.

Previous long-term research has shown that giving families living in public-housing projects vouchers to move into wealthier neighborhoods improves children's future earnings.

But the effect on individual families does not outweigh the community benefits of locating affordable housing developments in low-income neighborhoods, Diamond said.

"The neighborhood spillover effects for low-income communities are quite large — larger than the benefits of moving the lucky few into a high-income neighborhoods," Diamond said. "A building is investing in a neighborhood whereas a voucher is just a subsidy to one household."

Policymakers need to consider the benefits of doing both, economists say.

"We should not have affordable housing all going into low poverty neighborhoods or high poverty neighborhoods. It can't be all or nothing," said Katherine O'Regan, who served as the assistant secretary for policy development and research at the U.S. Department of Housing and Urban Development under former president Obama.

O'Regan's research also shows that the use of federal tax credits for affordable housing is linked to declines in racial segregation in cities. Her work with Keren Horn was the first paper to consider, at a national level, the changes in racial composition in the neighborhood surrounding these developments.

The federal government has a documented history of perpetuating racist housing policies, leading to segregated communities and the creation of white-only suburbs. But tax credits for affordable housing is not one of them.

The tax credit program for low-income housing, valued at more than $8 billion annually, began in 1987 and has become the country's key source of federal support for the creation of affordable rental housing. Developers apply to their states for the credits, then use them to leverage private capital to build units for low-income people.

The future of the tax credit program is in question given the uncertainty around President Trump's tax reform plan, economists say. Trump has proposed $6.2 billion in cuts to affordable housing programs at the Department for Housing and Urban Development, but the tax credits program is administered by the Internal Revenue Service.

"No one really knows what the tax code is going to look like," said Mark Zandi, chief economist of Moody's Analytics. "That means less construction until this uncertainty is resolved because people are unsure about the value of these tax credits."