As housing costs rise and middle- and mixed-class neighborhoods erode, more cities and towns are grappling with what to do about affordable housing. New York City Mayor Bill de Blasio came into office with a plan to build 200,000 units of affordable housing over a decade. Ed Lee, San Francisco’s mayor, outlined his own initiative to create 30,000 units in the span of six years to preserve the city as “a place where people from every background can call home.”

Subsidized housing policies often focus on easing the rents and mortgages of low-income families and giving them a shot at living in neighborhoods they could otherwise not afford. But construction of subsidized housing is a place-based policy. It not only influences a family's choice about where to live, it also affects a developer’s decision about where to build and what types of families choose to live nearby. Those factors have an impact on the existing homes and residents, creating the challenge of determining how to best designate where affordable housing should go.

In a paper I wrote with my Stanford colleague Tim McQuade, we quantify the costs and benefits of affordable housing construction to surrounding neighborhood residents and how they vary across demographically different neighborhoods.

We found there is indeed an impact on neighborhoods when affordable housing moves in next door. But the effect depends on the neighborhood's initial income levels.

Who wants affordable housing in their backyard?

Our paper, “Who Wants Affordable Housing in their Backyard? An Equilibrium Analysis of Low-Income Property Development,” examines the neighborhood impacts of multifamily housing developments funded through the Low Income Housing Tax Credit (LIHTC). The program started in 1986 and is now integral to federal housing policy.

With an annual tax credit valued at more than $8 billion, the program paid for 21 percent of all multifamily developments between 1987 and 2008. To qualify for the federal tax credit proposed projects must rent to tenants who earn no more than 60 percent of the metropolitan area's median gross income.

Additionally, developers must restrict rents in low-income units to 30 percent of the income limit for a minimum affordability period of 30 years. As one of the largest and longest-running affordable housing programs, LIHTC developments are ideal for studying affordable housing's impact on local neighborhoods and the community.

We combine data on the location and funding dates for all LIHTC-funded projects, housing transaction data from 129 counties, and homebuyer race and income data to estimate the effects of LIHTC construction on the surrounding neighborhood. We quantify the impacts of LIHTC development by analyzing extremely local changes in the surrounding neighborhood before and after.
construction of an LIHTC building versus trends in neighborhoods that are slightly farther away. This allows us to zoom in on the neighborhood changes caused by the LIHTC development.

For richer or poorer

Our estimates show that the impact of affordable housing construction has dramatically different effects on surrounding property values based on whether the affordable housing was built in relatively richer or poorer neighborhoods.

Figure 1 plots our estimated impacts of LIHTC development on house prices as a function of miles from the LIHTC development and years since the LIHTC development was built. These figures are stratified by the neighborhoods’ median income level, as measured in the 1990 Census, before the LIHTC development.

Figure 1.A shows that LIHTC construction in neighborhoods with a median income below $26,000 increases local property values by about 6.5 percent within one-tenth of a mile of the development site. LIHTC developments in middle-income neighborhoods have essentially no impact on house prices, as seen in Figure 1.B.

In contrast, LIHTC construction in neighborhoods with median incomes above $38,000 leads to housing price declines of roughly 3 percent within that one-tenth of a mile radius. All of these effects decline as you move farther from the affordable housing sites, and they totally disappear three-quarters of a mile away.

Since LIHTC causes house prices to appreciate in low-income areas, this shows the investment of new housing is a positive boost to the quality of the local neighborhood. But in wealthier areas, low-income housing appears to deflate local house prices.

McQuade and I wanted to explore how LIHTC development leads to house price changes through its impacts on local neighborhood amenities. We dug into additional data to look at how LIHTC impacted a number of neighborhood characteristics. We found that the construction of an LIHTC development in a low-income area attracts more higher-income homebuyers to the neighborhood, compared with those who were buying houses in the area before the affordable housing was built. That’s probably because the neighborhood improved and became more desirable thanks to lower crime rates, more retail shops, and an overall increase in the things that make for a better quality of life.

Conversely, affordable housing development leads to more lower-income families moving to wealthier areas where housing prices have fallen and become more affordable.

We also found that affordable housing developments decrease racial segregation and reduce violent crime and vandalism within low-income areas. And they do not make crime increase in high-income neighborhoods.

These results suggest real, concrete improvements in neighborhood quality in low-income communities. And in wealthier neighborhoods, we are unable to detect a concrete impact on a neighborhood other than creating a more economically diverse community.

We combine the house price estimates with a model of neighborhood and housing choice to calculate the local values of having affordable housing in a particular type of neighborhood.

We measure this dollar amount as how much extra households would be willing to pay for their home to have the opportunity to live near an LIHTC development. We infer these estimates by looking at the types of households that choose to move close to the new LIHTC sites. Our house price effect showed that houses close to the LIHTC site in a low-income area sell for a premium, while houses close to an LIHTC site in a high-income area sell at a discount. We infer households’ value of LIHTC proximity by measuring who chooses to live near these LIHTC sites and is willing to either pay more or less for a home in exchange for being closer to or farther away from an affordable housing development.

We examine the benefits for homeowners, renters, and absentee landlords.
Figure 1: Price Impact of LIHTC by Neighborhood Median Income

(a) Q1 Income Neighborhoods

(b) Q2 Income Neighborhoods

(c) Q3 Income Neighborhoods

(d) Q4 Income Neighborhoods

Note: Household median income quartile cutoffs are $26017, $38177, and $54642 in 2012 dollars, as reported in the 1990 Census block group of the LIHTC site.
What it’s worth

Our analysis reveals large possible societal gains from building affordable housing in low-income areas. Within the low-income neighborhoods, the average homeowner is willing to pay a one-time cost of $23,403 for the development of an LIHTC in his/her neighborhood. The average renter would be willing to pay a one-time cost of $6,502 and the average landlord would be willing to pay $6,011.

Within the higher-income areas, the average homeowner would be willing to pay $3,972 to deter LIHTC development and the average landlord would be willing to pay $2,416 to avoid development. Average renters, however, would be willing to pay $67 more to have affordable housing in their neighborhood because they find the rental discount they would receive for living close to the development more than offsets any drawbacks that might come from fewer neighborhood amenities.

Adding these costs and benefits across all the households in these local neighborhoods, we find that the aggregate benefit to local homeowners from the typical LIHTC development in a low-income area is $57.9 million. The aggregate benefit to renters is $29.2 million and the benefit to landlords is $29.0 million. In total, the value of the neighborhood improvements caused by the construction of a single LIHTC site in a low-income area is equivalent to transferring those households $116.2 million.

This is substantially more than the cost of development, which ranges from $15 million to $25 million. These aggregate impacts to society are driven by the improvements or declines in the neighborhood amenities caused by the introduction of an LIHTC site. But building affordable housing in a high-income area leads to an aggregate loss of $12.1 million, with most of these losses being born by homeowners and landlords whose housing prices and rental markets fall. These place-based spillovers due to subsidized housing likely have large economic impacts across the United States, as federal, state, and local governments spend more than $97 billion dollars a year on different forms of housing assistance.

The heterogeneity of LIHTC impacts across neighborhoods with differing incomes has policy implications when construction of affordable housing is viewed as a place-based policy. Moving LIHTC properties from higher-income to lower-income neighborhoods benefits the residents of each of those communities.

Policy impact

Of course, the neighborhood benefits of affordable housing must also be weighed against the cost and benefits of the neighborhood to the development’s tenants. Chetty et al. (2015) find that moving young children from poor public housing to areas with less poverty increases these children’s future earnings by a present discounted value of $100,000.

If we use this number to benchmark the potential gains to LIHTC tenants living in a high-income area versus a low-income neighborhood, and assume each apartment has two children in it, the average LIHTC development would improve the lifetime earnings potential of these children by $26.7 million. This is an underestimate of the total welfare benefits to these households, as it values only the increased earnings and not other benefits that have been documented, such as better measures of mental health and lower obesity rates (Kling et al. 2007).

The benefits to these low-income housing tenants more than offsets the losses to local residents in these high-income areas, making development in these higher-income areas look desirable.

However, if placing such a property in a high-income area means that one less property must be allocated to a low-income area, then there is an opportunity cost of $116 million, which is more than four times the welfare benefits documented by Chetty et al. (2016).

This makes development of affordable housing in low-income areas appear to be a very effective policy in improving the economic welfare of many low-income
households, even when taking into account the current evidence on the benefits of moving low-income families to higher-income areas.

We must add an additional caveat to these estimates due to the fact that there may likely be diminishing marginal returns to new housing in poor areas if these policies were scaled substantially; however, this is likely also true of the benefits estimated by Chetty et al. (2016).

Our results show that affordable housing development has large welfare impacts as a place-based policy, which more than offset the welfare impacts to tenants living in affordable housing. Given that the goals of many affordable housing policies aim to decrease income and racial segregation in housing markets, these goals might be better achieved by investing in affordable housing in low-income, high-minority areas, which will then lead to a more economically and racially diverse neighborhood.
Citations


