Promoting Inclusive Communities: How Cities Can Utilize Local Housing Policy to Combat Economic Segregation

By Christopher Wheeler and Paul Jargowsky

Introduction

Significant attention has been paid in recent years to the alarming increase in household income inequality in the United States. However, neighborhood income inequality has been rising at an even faster rate.

Across the top 264 metro areas in the U.S., neighborhood income inequality, as measured using an indicator of inequality known as the Gini Coefficient, increased on average in cities by 21 percent between 1970 and 2010, as compared to 13 percent for household income inequality. Two conceptually different processes contributed to this worrisome trend. First, household income inequality increased nearly everywhere, mostly due to factors outside the control of local policymakers – globalization, wage stagnation and earnings returns to skills, and changes in the national economy. Second, in many metropolitan areas, the sorting of households into neighborhoods on the basis of income – known as economic segregation – also increased.

Increasing neighborhood income inequality is a driving force behind challenges facing low-income communities, including elevated rates of crime, failing schools, and poor health outcomes. These problems – whether real or perceived – frequently lead middle-class and affluent families to move out of central cities, further exacerbating neighborhood income disparities. The result is a pattern of economic segregation that plagues cities and isolates low-income residents, leaving them with limited access to the quality schools, safe streets, and other basic services that are preconditions to the economic stability and mobility commonplace in wealthier communities.

While local policymakers have limited ability to counter national and international trends that drive inequality, they do have a great deal of control over a primary driver of economic segregation – the development and distribution of housing. In cities across the country, local officials are leveraging housing resources to slow or reverse widening disparities.

This brief reviews the rapid rise of neighborhood income inequality in the U.S. and discusses some of the housing policies and programs that municipal leaders are using to combat it. We also discuss where, when, and how these programs have been financed and implemented, and research findings regarding their effectiveness. We find...
that, taken together, the most promising policies help to:

- Produce an adequate quantity of affordable housing to meet the needs of the metropolitan population

- Distribute affordable housing widely to avoid re-creating or exacerbating patterns of racial and economic segregation

- Ensure that households are able to effectively access housing in neighborhoods of choice and opportunity

While no single program or policy can accomplish all of these objectives, each contributes to the goal of reduced neighborhood income inequality. In examining these policies, we hope to assist local policymakers to identify the approach best suited to their respective communities.

The Rise of Neighborhood Income Inequality in U.S. Cities

Neighborhood income inequality is the confluence of two alarming trends. First there is the rise in household income inequality, which has increased virtually everywhere in the U.S. in recent decades, mostly due to factors outside the control of local policymakers, including globalization and the shift away from a manufacturing-based economy to one that relies primarily on services and information.

Second, there is the sorting of households into neighborhoods on the basis of income, which has also risen significantly in recent years. Suburbs have grown explosively since 1970 - in many areas much faster than the population - and frequently cater to higher-income households, expanding the income gap between the city center and its periphery. Exclusionary housing and zoning policies have compounded the problem by facilitating segregation by income, producing a built environment within which economic segregation can occur.

In most American cities, the rise of income inequality and the sorting of households by income have occurred simultaneously, leading to huge increases in neighborhood inequality. Across the top 264 metro areas in the United States, neighborhood income inequality has increased 21 percent between 1970 and 2010, as compared to 13 percent for household income inequality, as measured by the Gini Coefficient.

Low-income neighborhoods face numerous social and economic challenges as a result of neighborhood income inequality, including a lack of access to education, housing, and health care resources and, simultaneously, higher levels of crime, violence, and economic isolation. Reducing economic segregation would complement and could enhance public investments in education, health, housing, and public safety.

While increasing economic segregation is the trend in most of urban America, there are a handful of cities that have managed to buck the trend. For example, in both Denver and Minneapolis, the sorting of households into neighborhoods on the basis of income did not increase between 1970 and 2010, despite an increase in household income inequality. As a result, neighborhood inequality increased less than household inequality in Minneapolis and at about the same rate in Denver. In these communities, the rate of increasing income disparities between neighborhoods has been slower.
because of local development trends that have helped to contain economic segregation. To see the relationship between changes in household inequality and neighborhood inequality for each of the 264 metro areas, visit [http://www.21stcenturyneighborhoods.org/jargowskycharts/](http://www.21stcenturyneighborhoods.org/jargowskycharts/).

Local jurisdictions have numerous tools they can use to address rising neighborhood inequality. For the purposes of this brief, we have organized them into three overarching strategies:

1. **Affordable housing development requirements**
2. **Enforcement of fair housing policies**
3. **Alternative ownership models**

The table on page 4 summarizes the strategies and their corresponding policy tools.

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**Strategy #1: Ensure access to affordable housing across all neighborhoods**

One antidote to economic segregation is economic integration. A precondition to mixed-income neighborhoods is the availability of safe, decent, affordable housing across all of a city’s communities. In this section we discuss policies that can be used to promote affordable housing across zip codes.

**Eliminate exclusionary zoning regulations**

A first step cities can take to fight economic segregation is to review and eliminate policies, regulations, and ordinances that promote it. High on this list are exclusionary land use regulations that effectively prohibit the development of affordable housing units in more income-diverse areas of higher opportunity. For example, exclusionary zoning policies can prevent the development of higher density multifamily housing, impose large minimum lot sizes that effectively prohibit construction of less expensive homes on smaller lots, and ban mobile home parks or manufactured housing communities, which have historically housed primarily low-income populations. Collectively, these measures have the effect of “pricing out” lower-income households from wealthier communities, constraining their housing choices to more moderate or lower-income communities.

**Implement inclusionary zoning regulations**

One way to reverse exclusionary land use regulation is to enact inclusionary zoning ordinances that require new developments include at least some provision for affordable housing, such as a number of units that must be set aside for low- and moderate-income households or an impact fee that produces revenue to fund the development of affordable housing. Inclusionary zoning ordinances have been adopted by 886 jurisdictions across 25 states and the District of Columbia. Localities in New Jersey, Massachusetts, and California are the most frequent adopters of these ordinances.

Research into the effectiveness of these ordinances produces inconclusive results. For example, a recent study of inclusionary zoning in metro Washington, D.C., Boston, and San Francisco found that thousands of affordable units were produced by these programs in each area (Been, Meltzer, and Schuetz, 2007). However, there was no evidence of an impact on single-family home prices or production in San Francisco, and negative impacts on single-family prices and production in suburban Boston.

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<th>STRATEGY</th>
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<th>PROGRAM/POLICY DESCRIPTION</th>
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<td>#1: ENSURE ACCESS TO AFFORDABLE HOUSING ACROSS ZIP CODES</td>
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<td>Review and prohibit land use regulations that keep affordable housing out of income-diverse areas</td>
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<td>Adopt inclusionary zoning regulations</td>
<td>Require new developments to include provisions for affordable housing</td>
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<td>Build affordable housing in gentrifying areas</td>
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<td>Set maximum allowable rent so LMI populations not “priced out” of area</td>
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<td>Housing voucher program funded and managed at local level</td>
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<td>Localities enact laws prohibiting landlords from refusing to rent to voucher holders</td>
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<td>Create housing cooperatives</td>
<td>Incorporated entities that control ownership of housing and can restrict it for LMI populations</td>
<td>New York City</td>
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Another study that focused on Los Angeles and Orange Counties found that inclusionary zoning had no adverse effect on the local housing supply (Mukhija et al., 2010). Of course, the effects in any given community will depend on the number of units produced and their spatial distribution.

**Develop affordable housing in gentrifying areas**

Some cities have actively promoted the development of affordable housing in gentrifying areas. For example, faced with rapidly increasing property values and a shrinking affordable housing supply, Atlanta embarked on an aggressive effort to expand the city’s supply of affordable housing. From 2006 to 2012, the city developed 6,778 affordable units through a combination of federal resources from the U.S. Housing and Urban Development’s Home Investment Partnership Program, developer funds, and monies administered by the city’s economic development agency from various bonds and trust fund programs.

**Implement Rent Controls**

Rent controls set a maximum on the allowable rent that a landlord can charge a tenant and can ensure that low-income renters are not priced out of their homes. Such policies have been widely adopted in San Francisco Bay Area cities, including San Francisco, Oakland, Berkeley, and San Jose, to protect residents from skyrocketing rents in rapidly gentrifying areas. However, critics have noted that this policy has a much-abused loophole, as it does not stop landlords from selling their rental properties for conversion to condominiums or other forms of owner-occupied housing aimed at high-income households. A recent study by Stanford University economists found that in San Francisco, rent controls actually promoted gentrification, reducing the supply of rental housing and increasing rents citywide (Diamond, McQuade, and Qian, 2018). Such findings are consistent with that of most rent control literature, which generally concludes that rent control policies often produce distortions in the price of rental housing (Marks, 1984), maintenance deferrals (Moorhouse, 1972), and a misallocation of rental units (Glaeser and Luttmer, 2003), among other undesired effects.

**Leverage HOPE VI and Choice Neighborhoods programs to promote mixed-income communities**

Cities have also sought to counteract segregation by creating more income diversity in distressed neighborhoods. Cincinnati used $100 million in federal funds and $750 million in other investment to redevelop a distressed neighborhood called Over-the-Rhine into a mixed-income community. The city created a public-private partnership called the Cincinnati Center Development Corporation (the Corporation) to purchase hundreds of vacant buildings and lots and renovate them into housing.

The Corporation built 1,100 new housing units, including 320 shelter beds for the homeless population. Cincinnati has also actively sought to transform public housing projects in the low-income areas known as the West End into mixed-income communities. To that end, the city’s Metropolitan Housing Authority spearheaded a $73 million initiative to redevelop public housing into the mixed-use City West development, using HOPE VI funds to create 700 units of subsidized and market-rate housing while leaving room for development of new retail, community, and open spaces.

Cities utilizing these federal funds should be careful to ensure that they
do not reduce the amount of subsidized affordable housing when expanding their supply of market-rate housing. They should also be intentional about giving an opportunity for existing residents to remain within their community. Also, notably, critics argue that HOPE VI projects often do not create enough replacement units for the public housing they demolish, unwillingly forcing some longtime residents out of their neighborhoods. (Note: HOPE VI was gradually converted into the Choice Neighborhoods initiative beginning in 2010 with the goal of building stronger neighborhoods not only through new housing but also through improvements in schools, transit, and access to jobs.)

**Leverage Low-Income Housing Tax Credits and Project-based Section 8 to promote mixed-income communities**

Beyond HOPE VI and Choice Neighborhoods, cities can use federal Low Income Housing Tax Credits (LIHTC) to fund the construction of new affordable housing and renovation projects. Historically, LIHTC-funded housing has been heavily concentrated in high-poverty neighborhoods, reinforcing economic segregation. However, when deployed strategically in low-poverty areas, LIHTC can promote the development of economically integrated, mixed-income communities.

Similarly, housing authorities can create affordable housing in high-income or gentrifying neighborhoods via the project-based Housing Choice Vouchers program (commonly known as Section 8). Administered by the U.S. Department of Housing and Urban Development (HUD), this program allows housing authorities to contract with landlords to create a dedicated supply of units for Section 8 voucher holders for a period of 15 to 20 years, potentially creating an opportunity to lock in a supply of affordable housing in places that may otherwise be unavailable to low- and moderate-income families.

**Strategy #2: Enforce Fair Housing Policies**

A second set of strategies to reduce neighborhood income inequality centers on attentiveness to and enforcement of the fair housing policies that protect people from discrimination when renting, buying, or securing financing for housing.

**Adopt a regional affordable housing plan**

One reason for economic segregation is the presence of multiple political jurisdictions with vastly different housing and land use regulations, due to a lack of cooperation between neighboring communities. The result is a patchwork of different land use and housing regulations that foments spatial differences by income in the housing mix and ultimately, economic segregation. In response, some municipalities are adopting regional approaches that address fair housing across a broader geography of jurisdictions within a metro area.

For example, Boulder County’s Regional Housing Partnership formed as a partnership between cities and towns in Boulder County, Colorado, with a goal of producing 800 affordable homes per year for 15 years. The partnership devised a strategy for preserving existing affordable housing while encouraging participating communities to review their housing regulations to ensure a diversity of housing types and households.
Alternatively, Chicago’s southern suburbs recently banded together to tackle regional housing through the Chicago Southland Housing and Community Development Collaborative. The Collaborative adopted a common redevelopment strategy centered on leveraging transit infrastructure and creating mixed-use, mixed-income communities. The Collaborative created a single housing policy plan for the region, securing over $20 million in funding from local, state, and federal agencies.

Yet another way to implement a regional affordable housing plan is to administer Section 8 vouchers through a regional housing authority or regional voucher program. Examples of this approach include Las Vegas (Southern Nevada Regional Housing Authority), Boston (Metro Housing Boston), and the Baltimore area’s Regional Project-Based Voucher Program, run by a consortium of the area’s housing authorities. Such programs make sense when housing authorities in the region have a history of cooperation and collaboration and can consolidate or coordinate their voucher programs through economies of scale.

**Use “mobility” programs to expand housing opportunities for recipients of housing vouchers**

An alternative to creating or allowing the development of more affordable housing is to expand the housing choices of low- and moderate-income households through housing “mobility” programs that assist low-income individuals to move into low-poverty, high-opportunity neighborhoods. Baltimore, as a result of a housing desegregation lawsuit settlement, created the Baltimore Mobility Housing Program. The program, run by the Baltimore Regional Housing Partnership, offers special counseling and assistance to the city’s Section 8 voucher holders to help them move into more integrated, high-opportunity, low-poverty neighborhoods, often but not exclusively in the suburbs. To date, the program has helped over 3,000 families move to areas of higher opportunity. Similarly, Cincinnati and its surrounding Hamilton County have begun to actively recruit landlords in suburban areas to market their properties to Section 8 voucher holders. However, it is important to note that while mobility programs offer families the chance to move into an opportunity-rich area, they do not address the needs of families that want better housing options in their existing neighborhoods.

**Raise standards in suburban areas for Section 8 voucher payments**

Section 8 voucher payments are based on fair market rents for a defined geographic area. When the geography is defined very broadly, Section 8 voucher holders are frequently “priced-out” of higher rent portions of the defined area, typically suburban portions. Raising Section 8 voucher payment standards in suburban areas can be a useful way of ensuring that voucher holders can access rental housing in high-income, high-rent areas.

A recent HUD rule attempted to do so by requiring zip-code based Small Area Fair Market Rents (SAFMR) in 23 metropolitan areas. A recent HUD evaluation study of the program in Chattanooga, TN; Cook County, IL; Dallas, TX; Laredo, TX; Long Beach, CA; Plano, TX; and Mamaroneck, NY, found that following implementation of SAFMR, voucher holders had an increased likelihood of moving to a high-opportunity area (Finkel et al., 2017). Researchers also found that voucher holders who moved to a new zip code were more likely to move to areas with
greater racial diversity and more college graduates. However, researchers also found that the program was not equally effective in every city. Under the zip code based methodology, for high-rent areas, a voucher is worth more than it had been previously. However, in low-rent areas, the voucher is worth less under the new methodology because the average no longer accounts for high-rent areas in the broader geography. So, for example, in Long Beach, voucher holders could afford far fewer units in low-income neighborhoods than previously, which had the effect of offsetting any gains from apartments that could now be accessed using vouchers in high- and moderate-rent neighborhoods. Therefore, while housing options improved for Long Beach voucher holders, they had fewer overall options as a result of the new methodology.

Create new, local housing subsidies

In an effort to expand housing options for low-income residents, some cities have created their own housing subsidy programs. In the face of rapidly escalating housing costs (over 30 percent in just five years), Denver established the Lower Income Voucher Equity Program (LIVE Denver), a new program aimed at expanding housing access for low- and moderate-income households. The two-year pilot offers low- and moderate-income households with at least one full-time worker rent subsidies for vacant market-rate units. Participants pay 35 percent of their income toward housing, with the balance covered by the city, private employers, and foundations.

Provide education and legal assistance to consumers

Reducing economic segregation can also be achieved by combatting housing discrimination against low-income renters. For example, Philadelphia recently launched a new $500,000 program to provide free legal assistance to tenants at risk of eviction. The program offers on-call assistance, a full-service tenant help center, a new website with answers to common questions, and a revamped tenant aid hotline.

An additional strategy is to toughen fair housing enforcement in wealthier areas where low-income households are underrepresented. This can entail aggressive responses to discrimination complaints, efforts to educate landlords on tenant rights and fair housing obligations, and surveillance and tests of housing discrimination. For example, Kansas City, Missouri, created a Civil Rights Division to enforce the city’s fair housing ordinance. The Division receives housing discrimination complaints, conducts investigations, and negotiates settlements for complainants. It also manages a robust marketing and outreach campaign to inform citizens of their rights under fair housing laws.

Ban source-of-income discrimination

Source-of-income discrimination is a practice where landlords refuse to rent to voucher holders; the voucher being the prospective renter’s source of income. Banning source-of-income discrimination eliminates the ability of landlords in high-income neighborhoods to keep out Section 8 voucher holders who would otherwise be able to rent in the neighborhood based on the value of their voucher.

A 2005 Poverty and Race Research Action Council study found that 13 states and 36 cities and counties had enacted some form of a source-of-income discrimination ban (Tegeler, Cunningham, and Turner, 2005). Since that study was released, the city of Pittsburgh and the state of Washington have also enacted bans. A study by
Freeman and Yi (2014) found that source-of-income discrimination bans have modest impacts on locational outcomes for voucher holders, including sizable reductions in neighborhood poverty rates. However, they appear to produce only small reductions in minority concentrations.

**Strategy #3: Alternative Ownership Models**

In addition to developing new affordable housing and enforcing fair housing policies, local leaders can also consider “alternative ownership models,” by which we mean housing options that do not adhere to traditional market-based ownership approaches. Examples include community land trusts and housing cooperatives, as detailed below.

**Establish Community Land Trusts to protect naturally occurring affordable housing, especially in tight housing markets and gentrifying areas**

Many cities are grappling with tight housing markets where the cost of housing is unaffordable to low- and moderate-income families. Cities such as Austin, TX, have responded by establishing community land trusts, a program that allows homebuyers to purchase an affordable home while leasing the land underneath the home from a community nonprofit. Because the land has been placed in a trust, once the homeowner decides to sell the property, the homeowner is required to sell it to individuals who meet low- and moderate-income thresholds.

Community land trusts not only reduce the cost of the home by removing the cost of the land, but also ensure a permanent supply of affordable housing. Yet this option only works when there are community-based nonprofit organizations capable of administering such trusts. In some cases, a share of resale profits is retained to fund the administrative costs.

**Create Housing Cooperatives to protect naturally occurring affordable housing, especially in tight housing markets and gentrifying areas**

Housing cooperatives are incorporated entities that control the ownership and transfer of properties within a development. The development’s residents – also known as cooperative members – own shares in the cooperative and jointly cover the development’s operating expenses. Under corporation bylaws, ownership can be limited to low- or moderate-income households, and members must obtain permission from the cooperative before selling their units, ensuring that the development always remains affordable. Such cooperatives are widely implemented in New York City. Although these cooperatives have many benefits, they can be difficult and costly to set up. They are not a strategy that can be quickly implemented in response to rapid neighborhood changes.

**Conclusion**

Cities have adopted varying approaches to reducing economic segregation within their borders and across their metropolitan regions. The approaches that we have discussed here are designed to solve particular segregation problems and take advantage of emerging opportunities to confront them and will work better in some communities than others. To help determine which tools are most appropriate for a given area, we suggest several useful resources. For example,
PolicyLink's Affordable Housing Equity Tools provide resources that cities can use to expand and retain affordable housing. The Obama administration released a Housing Development Toolkit in 2016 that offers local governments a menu of actions and strategies to promote healthy, affordable, and high-opportunity housing markets.

When deciding on the proper tools and strategies to address economic segregation, cities might consider the following questions:

- Are existing housing policies and ordinances excluding low- and moderate-income households? If so, how can these effects be mitigated?
- Do low- and moderate-income residents have access to housing opportunities throughout my entire jurisdiction? If not, how can barriers be removed?
- Are current strategies to mitigate income segregation effective? If not, how can they be improved?
- Is fair housing enforcement adequate? Could it be strengthened?
- Are there any viable, emerging opportunities for regional cooperation on affordable housing and mixed-income community development?

Neighborhood income inequality is a major problem in most American cities, driven by both rising household inequality and increasing economic segregation. But unlike household inequality, economic segregation can be meaningfully addressed at the local and regional level. We hope that through this policy brief, local leaders are better equipped to leverage their resources to lessen the economic divide in their communities.

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Economic Segregation in US Metropolitan Areas 1970-2010

This policy brief is based on academic research performed by the authors on trends in metro area neighborhood inequality published last year as a research white paper by 21CC. This paper can be downloaded at 21cc.jhu.edu.

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Sources


The 21st Century Cities Initiative advances cross-disciplinary, applied research that examines urban policy and informs the future possibilities of cities as dynamic hubs of opportunity, inclusion and innovation.

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