

“Don’t Put it Here!”

Does Affordable Housing Cause Nearby Property Values to Decline?

It’s a common scene at a community hearing: local residents lined up behind the microphone waiting to testify about a proposed affordable rental housing development. Some are voicing concerns that the development will decrease property values in their neighborhood. Their concerns are understandable – they want to protect their investment in their homes. On the other side, housing advocates and prospective residents argue with equal passion. They want to live in affordable homes with access to jobs, schools, and other amenities for themselves and their children. Affordable housing, they argue, will not affect the home values of residents already in the community.

Which side is right? This policy brief summarizes the conclusions of several reviews and critiques of the growing body of research on this topic. It also highlights some of the most recent work in this area carried out by researchers at the Furman Center of New York University and funded by the John D. and Catherine T. MacArthur Foundation.

Is There Consensus in the Research?

Numerous studies have been conducted to examine the impacts of affordable housing on property values in a wide variety of circumstances. Fortunately, several researchers have surveyed the landscape, inventorying and taking a critical look at the body of work that has accumulated over the past several decades. This policy brief distills the conclusions of four of these literature surveys: two produced by civic groups and two carried out by academics and published in peer-reviewed academic journals.

To “summarize the summaries” – the vast majority of studies have found that affordable housing does not depress neighboring property values, and may even raise them in some cases. Overall, the research suggests that neighbors should have little to fear from the type of attractive and modestly sized developments that constitute the bulk of newly produced affordable housing today. That said, the research shows that



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negative effects can occur in certain circumstances, and suggests ways to protect nearby property values.

The following are brief snapshots of the scope and findings of each literature review:

1 Jeff Leary's 1999 literature survey for the California Redevelopment Association examined 31 separate studies. Seven studies documented positive effects of affordable housing on surrounding property values while 19 found no effects. Negative effects were found in one study while three studies were inconclusive.

2 The North Carolina Coalition, a state civic group, compiled a catalog (circa 2002) of 36 studies, most dating from the mid-1990s to the early 2000s. The vast majority found no impact on surrounding property values. Several found positive effects and only one found possible negative effects.

3 George Galster, a professor of urban affairs at Wayne State University, describes in his 2002 literature review an emerging consensus among researchers that subsidized housing of various types does not have negative effects – and sometimes has positive effects – on property values, particularly in higher value neighborhoods. However, Galster also notes that affordable housing can have a negative effect on property values when highly concentrated, particularly when located in vulnerable neighborhoods that have high poverty rates and low home values.

4 Mai Thi Nguyen of San Francisco State University reviewed 17 studies produced over several decades. According to her 2005 analysis, 11 studies found that affordable housing had either a neutral or positive effect on property values, five found mixed effects, and one documented negative effects. However, Nguyen argues that this tally oversimplifies results, and that as data sets and analytical techniques have become more sophisticated, a more

nuanced set of conclusions is emerging. She suggests these techniques will allow us to learn more about the circumstances under which affordable housing developments may have negative effects.

How do researchers ascertain the effect of affordable housing on nearby property values?

The ideal measure of the impact of affordable housing on surrounding home prices would compare the actual changes in property values to the changes that would have occurred in the absence of the affordable development. Unfortunately, it is impossible to measure this directly. Nguyen describes two “waves” of housing studies that have taken different approaches to addressing this issue. The first wave of studies, conducted in the early 1990s, used a “matching” methodology that compares the performance of two otherwise comparable neighborhoods – one with affordable housing and one without. All of the studies using this methodology found either no difference in property values between the two areas or positive

effects on nearby property values in the areas with affordable housing.

A second wave of studies from the mid-1990s on evaluates the effects of nearby affordable housing development on property values using multivariate statistical analysis, which explains a home's price as a function of both structural characteristics (age, square footage, etc.) and neighborhood characteristics (poverty rate, distance to central business district, etc.). These studies also compare the prices of homes near affordable developments and homes farther away but, unlike previous research, control for the influence of structural and neighborhood variables. Most of these studies also show that affordable housing has no effect or positive effects on nearby property values. But, as detailed below, they also reveal circumstances in which negative effects are possible.

These research methods are not without their problems. Some problems are definitional – most importantly, what constitutes a neighborhood, and how close is “nearby?” For example, a 1998 study by the Innovative Housing Institute of homes in Montgomery County, Maryland defined housing within 500 feet

Why Do Property Values Matter?

Generally, rising property values indicate positive trends for a neighborhood. They signal that a neighborhood has become a desirable place to live and to locate a business, and influence developers' decisions to make long-term investments in its future. For individual homeowners, who depend on home equity to provide resources for retirement or finance a child's education, home values are extremely important. Property values also may be a proxy for quality of life factors that can be hard to measure and often reflect access to good schools, jobs, shops, parks, and other amenities.

In distressed neighborhoods, rising property values are a sign of hope that the stage is being set for economic renewal. Measurable rises in home prices and rents as well as a general increase in real estate activity represent important benchmarks for successful neighborhood revitalization. In this sense, affordable housing that stabilizes or increases nearby property values may also contribute more broadly to stronger neighborhoods.

Generally, price increases are a positive development, but when rising rapidly, teachers, nurses, firefighters, and other working families can be priced out of their neighborhoods. Certain strategies may need to be put in place to ensure the long-term affordability of a portion of the housing stock.

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of subsidized housing as “near,” meaning that a home 501 feet away from subsidized housing would not be considered near. Another problem, noted by Galster in his literature review, is that many studies are susceptible to the criticism that they fail to indicate whether home prices were rising or falling before the analyses were conducted. It is possible that these studies may just be measuring pre-existing trends in home prices rather than the effects of affordable housing – an issue Galster seeks to overcome in his own research. Finally, since most of the studies were conducted at the local level, findings in one neighborhood may or may not apply elsewhere.

Does the type of affordable housing matter?

Just as there is no single definition of affordable housing, the types of affordable housing examined in the property values research reflect great diversity. Studies have covered the impact of public housing in Portland, Oregon and Memphis, Tennessee; non-profit housing developments in New York and Minneapolis; Low Income Housing Tax Credit projects in Cleveland and Seattle; affordable homeownership programs in San Mateo, California and Philadelphia; and Section 8 voucher programs in Baltimore – just to name a few.

Much of the research suggests that the type of affordable housing matters less than the quality of the properties' design, management, and maintenance. Nguyen cites a 1996 study by Edward Goetz and his colleagues at the University of Minnesota in which a comparison of subsidized units in Minneapolis – some public housing, some privately owned subsidized units and some developed by a local nonprofit – found that

the quality of management influenced whether or not a development had negative effects on nearby property values. Similarly, a 1993 study by Paul Cummings and John Landis at Berkeley, found no negative impact on property values of affordable homeownership condo developments in San Francisco and San Mateo County in California. The authors attribute this finding to the care taken by the developers to deliver



Courtesy of Trinity Housing

designs that suited the scale and character of the surrounding neighborhood.

In some circumstances, however, the type of housing does appear to matter. In a series of studies conducted by Ingrid Ellen and her colleagues at the Furman Center of NYU on the impact of affordable housing on property values in New York City, developments financed through the Low Income Housing Tax Credit (which serve a low- to moderate-income population) were somewhat more likely than developments financed through other federal programs to increase surrounding home prices. By contrast, they found that public housing (which serves the lowest income population) was somewhat more likely to produce negative effects than developments funded through other federal programs.

Do impacts differ by neighborhood type?

Some evidence suggests that affordable housing is more likely to have either no impact or a positive impact on surrounding home prices when located in strong neighborhoods – that is, higher value, lower poverty neighborhoods. For example, in some of his own research, Galster studied scattered-site public housing units in 2001 in Denver and the residences of families assisted through Section 8 housing vouchers in the late 1990s in Baltimore. He found that the impact on nearby property values tended to be positive when these subsidized households were located in wealthier neighborhoods that were generally appreciating in value. By contrast, subsidized households and developments located in more vulnerable neighborhoods where lower priced homes were already depreciating were more likely to result in continued negative effects on property values.

At the same time, several researchers have found evidence of positive effects on property values in vulnerable neighborhoods related to the rehabilitation of abandoned or distressed properties as affordable housing. Researcher Ingrid Ellen and her colleagues at NYU carried out one of the most recent, detailed examinations of the impacts on neighboring property values of city-supported rehabilitation of rental housing. The redevelopment projects included in the study were undertaken by both nonprofit and for-profit developers, and researchers used data on New York City from the 1980s through 1990s. The results, published in 2006, found significant, positive spillover effects on neighboring property values stemming from this rehabilitation, although these positive effects were slightly lower in the more distressed and disadvantaged areas where nonprofits tended to work, particularly for smaller-scale projects.

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In 2005, the John D. and Catherine T. MacArthur Foundation provided support to Ingrid Ellen, Co-Director of the Furman Center and Associate Professor of Public Policy and Urban Planning at the Wagner School of New York University (NYU), along with her colleagues Ioan Voicu and Amy Ellen Schwartz, also of NYU, and Michael Schill of UCLA's School of Law, to continue their research on the impact of New York City's investments in affordable housing. Center for Housing Policy staff spoke with Professor Ellen about the team's research.

What would you say was innovative about the MacArthur-funded work?

New York City has built 70,000 units [of affordable housing] and renovated another 120,000 during our study period – far more than any other city. Although many of these are concentrated in low-income areas, they are, in fact, located all over the city. Our data were quite extensive, including 30 years of data on housing prices. That gave us the statistical power of a research design that had not been used before. Most of the existing research uses cross-sectional data comparing an area with subsidized housing to an area without subsidized housing. This is limited because you are comparing different neighborhoods with many different factors at work. There [are] a few [other] longitudinal studies but usually just for a few selected developments, a few neighborhoods, or one program.

So we had a unique opportunity. [Our] study was more precise, and looked at differences in impacts [of] rehab units vs. new construction, one area vs. another, owner-occupied vs. renter-occupied and non-profit developer vs. for-profit developer, as well as several different housing programs, federal vs. city subsidized. We were able to look at all these comparisons over a period of 15 years.

What does your most recent research show?

In one study, we compared sales prices of New York City homes located near federally subsidized rental housing to sales prices of similar homes located in the same neighborhood, but farther from subsidized housing. We found that on average, subsidized housing is associated with a small increase in neighboring property values. Benefits are larger for average-sized or larger developments in more distressed neighborhoods.

The other study looked at how city-supported rental housing rehabilitation projects undertaken by nonprofit and for-profit developers affected nearby property values and whether these effects differed between the two sectors. We found that rehabilitation of rental housing by both for-profit and nonprofit organizations raises surrounding property values. The “spillover” benefits of nonprofit housing last

longer than those of for-profit housing. Furthermore, the magnitude of the benefits does not differ between sectors for large projects, although in the case of smaller projects, the for-profit developers generated greater benefits.

A typical critique of your work is that it's for New York City – so the findings have limited application elsewhere. How do you respond?

We look at units located in all five boroughs, including Staten Island, Queens, for example. So we were able to look at the impacts in low-density neighborhoods with single-family homes as well as high-density areas in Manhattan. Our studies cover a diversity of neighborhoods. We think our results should provide reassurance to community residents about the neighborhood effects of federally subsidized housing.

What would you say is the “bottom line” for practitioners on the impacts of affordable housing on surrounding property values?

We can say generally that there is very little evidence – no evidence – of the significant reductions in property values that communities fear. What almost all the research is showing is that there is a range from no impact to a positive impact.

Aren't there some exceptions? Doesn't it also depend upon the concentration of units and attractive design, as Galster and others have shown?

Yes, you can't completely generalize. For example, it's hard to compare a greenfields development with an infill development. Often in existing communities, the [affordable] housing replaces abandoned buildings or vacant lots or they are renovating buildings, which brings stability to the neighborhood. Overall, though, the evidence clearly fails to support the notion that subsidized rental housing, as a general matter, will depress neighborhood property values or otherwise undermine communities.

Do impacts vary with the size of the affordable housing development or number of households?

Yes. Several researchers found that larger, more concentrated affordable housing developments were more likely than smaller developments to have a negative impact on nearby property values. For example, a 1993 study by Robert Lyons and Scott Loveridge of subsidized housing in Ramsey County, Minnesota, found substantial reductions in property values when the housing was clustered, as opposed to negligible effects when subsidized units were scattered throughout a neighborhood. In a 2007 study, Ingrid Ellen and her colleagues found that federally subsidized rental housing in New York City did not generally lead to reductions in nearby property values. They did, however, suggest that larger more concentrated developments may be an exception, decreasing nearby property values within the first three years of completion.

Galster, in his literature review, suggests there is a widespread pattern of threshold effects whereby the effects on surrounding property values are neutral or positive when

affordable housing is relatively dispersed, but become negative once a critical mass of assisted housing sites or units are located in a neighborhood. The effects are most acute in lower value neighborhoods, he maintains, but even in higher value neighborhoods, the concentration of sites or units can lead to negative effects on property values.

In distressed areas, however, larger-scale affordable projects may in fact be desirable when they result in an upgrading of the housing stock at a scale sufficient to change the neighborhood trajectory. In the same 2007 analysis noted above that looked at the large-scale rehabilitation of dilapidated homes to create affordable housing opportunities in New York City, Ingrid Ellen and colleagues found that this activity led to significant increases in neighboring property values. By contrast, a 2001 study by Jean Cummings and colleagues looked at smaller-scale efforts to boost neighborhood homeownership in Philadelphia and found no impact on neighboring property values. These studies suggest that deliberate attempts to revitalize a neighborhood by rehabilitating or otherwise upgrading the housing stock through affordable housing activity may have positive impacts, if done at sufficient scale and as part of a broader community revitalization strategy.

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Accentuate the Positive, Minimize the Negative — Lessons for Practitioners

Many Americans, even those who support the development of affordable housing, may nonetheless object when such a development is proposed in their own neighborhood. Fears about property values are often — although not always — misplaced. Taken together, the body of research on this subject suggests concrete ways to minimize both the negative effects and neighborhood opposition to such developments:

- **Design** — Affordable housing that is attractively designed and blends with the surrounding neighborhood may be more likely to have no effect or even a positive effect on nearby property values. An attractive design also may be helpful in allaying community concerns about the aesthetics of a proposed development.
- **Management** — Not surprisingly, poorly maintained housing — whether privately owned or subsidized — has been shown to depress nearby property values. Affordable housing that is well-managed and well-maintained is more likely to have a neutral or even positive effect on surrounding properties.
- **Revitalization** — Rehabilitation of distressed properties for affordable housing has proven beneficial to neighboring home values. Neighbors are likely to view quality, affordable housing as preferable to vacant lots or dilapidated buildings.
- **Strong Neighborhoods** — As long as it is not overly concentrated, locating affordable housing developments in strong neighborhoods with high home values and low poverty rates is unlikely to have adverse effects on nearby property values. These findings provide support for the emerging trend toward mixed-income housing and communities.
- **Concentration** — Research suggests that distressed areas may benefit from new affordable housing developments that are large enough to overcome surrounding blight. In other neighborhoods, large concentrations of affordable units are best avoided in favor of more moderately sized developments that may limit the negative effects associated with concentrations of poverty. What exactly constitutes a large concentration of affordable housing? Unfortunately the answer so far seems to be “it depends.” This, researchers agree, is an important outstanding question.

Clearly, more work needs to be done. However, a greater understanding and appreciation of the evidence to-date could prove helpful in increasing community support for affordable homes.