

## Gentrification Commentary: A Federal Perspective

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*Forthcoming in Cityscape*

### I. Introduction

Over the past four months, as part of the Department of Housing and Urban Development's (HUD) "Prosperity Playbook" initiative, Secretary Castro has joined local leaders in a series of convenings around the country, in cities and regions trying to address housing affordability in a way that also supports inclusive and equitable growth.

The issue of "gentrification" or community change has been core to those conversations. What we are hearing on the ground is a widespread need for policies and tools to help areas manage the change, to harness the potential upside of renewed attraction to and investments in low-income and urban neighborhoods while minimizing the possible downsides, such as displacement, increased housing cost burdens, and the potential for long-term re-segregation.

At times, these conversations have been fraught. They surfaced policy tensions and broader housing market issues that are an important backdrop for the papers in this *Cityscape* volume and for policy discourse. To set that policy context, I begin by highlighting some key trends and issues noted in those conversations and by the papers in this volume and connect them to the broader affordability crisis. I then draw three main policy points relevant for any policy discussion focused on gentrification. I end by describing the Federal policy levers that, in combination, may be most useful for improving community outcomes in the face of affordability stressors and community change.

### II. Key Gentrification Trends and the Broader Housing Affordability Context

#### *Gentrification trends*

Revival of downtown neighborhoods has been increasing since the 1980s, but it has accelerated since 2000, affecting a much larger share of urban areas (Hwang and Lin, 2016). As documented by Ellen and Ding's introduction, gentrification in this most recent period differs from previous decades in at least two important ways. Unlike the 1980s and 1990s, low-income city neighborhoods experiencing large gains in relative income are now *also* experiencing much larger socioeconomic changes, namely in race and educational attainment; they are also experiencing much greater increases in rents (Ellen and Ding, 2016). Both factors, and especially the large increases in rents, are important components of local policy discussion.

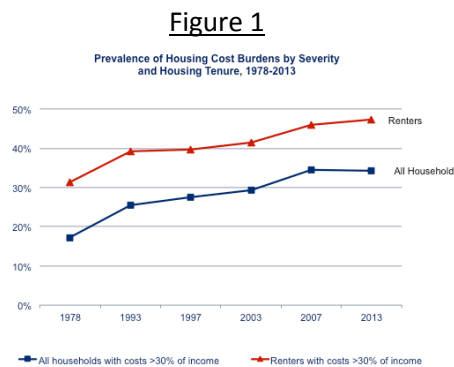
Some of the biggest concerns about gentrification – potential displacement and increased rent burdens – are driven by rent (or housing cost) increases. While researchers to date have generally not found evidence of displacement from gentrification, that may be because most researchers proxy displacement by turnover rates, which capture all types of moves - including households who move to live in better neighborhoods. We might expect those types of moves to actually *decrease* in gentrifying neighborhoods, even as moves related to displacement pressures increase.

Recent work from Ding, Hwang and Divringi (2015) offers a new look, distinguishing moves by where people live post-move. They find that vulnerable households in gentrifying neighborhoods are more likely to make ‘downward neighborhood’ moves – or moves to lower income neighborhoods, than those in non-gentrifying areas. They also find that such moves are more likely when neighborhood housing costs increases are larger. Similarly, Ellen and Torrats-Espinosa (2016) find that rent increases are associated with a greater probability of Housing Choice Voucher (HCV) residents moving and increasing the concentration of HCV holders in certain neighborhoods. Voucher households that don’t move also experience higher rent burdens, paying above 30 percent of their income towards rent. Collectively, this research suggests that regardless of the level of displacement gentrification may have caused in the past, today we are likely experiencing greater displacement of the most vulnerable.

It is worth asking why we are seeing these patterns now. One important reason raised in this volume is the increased demand for centralized neighborhoods among younger, more educated and white households, generating greater demographic change than previous periods (Hwang and Lin, 2016). In terms of rent increases, it is worth considering another related factor, which is the overall affordability crisis and supply responsiveness.

### **Affordability Crisis**

While there has been considerable attention recently to the overall affordability crisis, particularly among renters, the crisis has been a long time in the making. As Figure 1 depicts, housing costs in the U.S. have been increasing since the late 1970s.

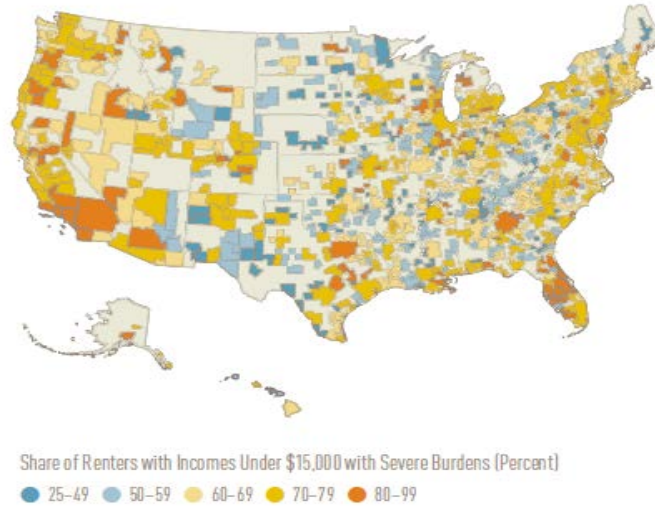


Source: American Housing Survey

Figure 2 shows the crisis has also expanded far beyond coastal and ‘hot market’ cities. Geographically, the Joint Center reports that in all but a small share of markets across the country, at least half of lowest-income renters have severe housing cost burdens (Joint Center for Housing Studies, 2016).

Figure 2

**In Most of the Country, a Large Majority of Lowest-Income Renters Are Severely Cost Burdened**



Notes: Severely cost-burdened households pay more than 50% of income for housing. Data are for core based statistical areas (CBSAs).  
Source: JCHS tabulations US Census Bureau, 2014 American Community Survey 1-Year Estimates.

Source: Joint Center for Housing Studies 2016

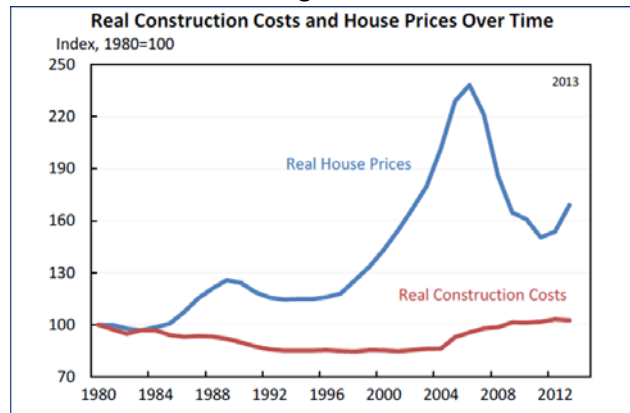
Cost burdens are now also reaching beyond just the lowest-income renters. Between 2010-2014, rent burdens among moderate-income renters increased across the board; in 2014, that was particularly true in the 10 metros with the highest median housing costs (where three-quarters of renter households earning \$30,000–44,999 and half of those earning \$45,000–74,999 were cost burdened) (Joint Center for Housing Studies, 2016).

The overall increase in housing costs demonstrated here means that concerns about housing cost burdens and possible displacement should focus much more broadly than on neighborhoods technically undergoing gentrification. Those pressures are now far more pervasive, and the need for effective policy interventions far more urgent.

**Supply Response**

Why haven't we seen supply responses over the decades to meet the demand for housing? A growing group of researchers have focused on the role of increasingly restrictive local regulation of land: zoning practices that inhibit construction and increase the cost of housing.

Figure 3



Source: Gyourko and Molloy (2015)

For example, Gyourko and Molloy (2015) indirectly examine the role of regulations by assessing the relationship between real construction costs and the price of housing (Figure 3). Until the early 1980's, the two were closely connected, but since then, there is a large and increasing gap. With competition in housing and construction markets, we expect any remaining gap to reflect the cost of land; that cost increases with tighter land use control, which they posit is driving the gap.<sup>1</sup> In related work, Glaeser, Gyourko, and Saks (2005) find that until the 1970s, housing price increases were driven by rising quality of both housing and construction. But since the 1970s, the authors conclude that price increases instead reflect the difficulty in obtaining regulatory approval for new home construction.<sup>2</sup> In areas with increased demand, such as Manhattan, land use regulations are credited with constraining the supply of housing and leading to an increase in prices (Glaeser, Gyourko, and Saks, 2005).

There is a collection of work drawing more direct connections between local zoning restrictions and the cost of housing for specific cities, and the correlation between local restrictions and overall affordability. For example, Glaeser, Schuetz and Ward (2006) found a one-acre increase in a Boston-area town's minimum lot size was associated with about a 40 percent drop in housing permits, and Gyourko et al. (2013) demonstrate that the widening of real home price distributions is correlated with variation in adoption of land use restrictions by communities.

None of these patterns – the decades of increased housing costs and restrictions on supply --- suggest a temporary problem, or that we are waiting for the market to catch up. In fact, regulations are particularly restrictive for multi-family housing units and incentivize expensive housing development over moderately priced housing, (Quigley and Raphael, 2005). This creates additional challenges to accommodating the increased demand for downtown living and need for affordable rental units.

### III. Context for Policy Responses

<sup>1</sup> See Jason Furman's discussion of these issues (Furman, 2015.)

<sup>2</sup> Glaeser and Gyourko (2002) draw similar conclusions over an earlier time period.

Given these trends, I want to make three main points that shape how we need to think about policy responses.

First, we need to be mindful of the interconnection between the larger affordability crisis and gentrification. The broad rental affordability crisis itself may drive or contribute to gentrification. As downtowns have become more desirable, the (now) high cost of many middle and upper income neighborhoods may push demand to low-income neighborhoods. On a broader scale, California has experienced ‘spillover’ demand from its coastal communities to cheaper inland neighborhoods, resulting in workers living further from their places of employment and facing longer commutes (LAO, 2015).

The overall lack of affordability and inadequate response of housing supply may also be a key reason why neighborhoods that are gentrifying during recent years are experiencing much greater rent increases than in the past. The interconnection between affordability pressures at the neighborhood level and overall affordability highlights the need for increased supply and supply responsiveness. While increased supply is particularly needed in and around specific neighborhoods, it is also needed beyond areas that are gentrifying.

The second point is the policy challenge of local politics. Given the increased demand in centralized locations, increasing supply may well require higher density housing, and this may not match the current stock in some neighborhoods or the preference of current residents. This poses policy and political challenges for locally-elected officials. The policy prescription that the larger problem calls for (i.e., more housing) flies in the face of residents’ desire to maintain their neighborhoods as is. In addition, those policies are perceived by many residents as *increasing* the risk of displacement. Proposed policy solutions that ignore the views and interests of current residents will likely fail to be adopted. It may be more popular locally to adopt approaches to prevent wholesale gentrification from coming to a *particular* neighborhood, such as stopping new construction, yet those policies will only further constrain supply and fuel the general affordability crisis.

This leads to the third point, the importance of considering neighborhoods within their broader housing markets, and the overall web of connected places. Given the interconnections – between neighborhoods, and between proximate jurisdictions - we need to be looking at the entire picture when thinking about policy. We need to think of each neighborhood as being part of an ‘ecosystem’ of neighborhoods and communities.

Looking at policy options and issues one neighborhood at a time misses these interconnections and the full implications of policy choices. In a recent New York Times piece on segregation and neighborhood residency preferences, Xavier de Souza Briggs of the Ford Foundation made a similar point: “We need to be willing to look at the big picture and not at a neighborhood at a time” (Navarro, 2016). Margery Turner of the Urban Institute has also made this point, in the context of mobility and reinvestment debates, arguing for a ‘portfolio approach’ that moves away from considering one neighborhood and one project at a time (Turner, 2014).

The most forward-looking of the Prosperity Playbook stakeholders HUD has engaged with also make this point. They argue for a regional approach, recognizing that the neighborhoods to which their former city residents move are far flung, and the policy players they need to engage with to increase affordable housing go beyond jurisdiction lines. We here at HUD agree.

#### IV. HUD Policy Responses

Given that context, the federal government needs to focus on three complementary goals:

**(1) Increase the supply of affordable rental housing.**

We need to increase the overall supply of affordable rental housing. Beyond the Administration's efforts to expand HUD's core programs for subsidized, affordable housing (HOME, Project based Section 8 Rental Assistance, Public Housing, etc.), HUD has been looking for additional ways to encourage increased supply with existing levers and resources.

One good example of this is the **Federal Housing Administration's (FHA) cut in multifamily mortgage insurance rates** implemented April 1, 2016 to stimulate the production and rehab of affordable, mixed-income, and energy-efficient housing. The FHA estimates that rate reductions will spur the rehab of an additional 12,000 units of affordable housing annually, create new units, and improve energy efficiency to help reduce utility costs for residents (Sullivan, 2016).

In brief, the FHA has lowered the annual insurance rates for affordable housing of two types:

- affordable housing where at least 90% of the units are under Section 8 contracts or covered by low-income housing tax credit affordability requirements (to 25 basis points, a reduction of 20 or 25 basis points from current rates),
- and for mixed-income properties, which have units set aside based on affordability through the Low Income Housing Tax Credit (LIHTC), Section 8, inclusionary zoning, or other local requirements (to 35 basis points, a reduction of 10 to 35 basis points from current rates).

An important component of the rate cut is that *it applies to local efforts to increase affordable housing -- inclusionary zoning or other local affordability requirements*. This is an example of using existing Federal levers to incentivize and support non-Federal policies that align with a Federal priority: increasing the supply of affordable housing. The existence of Federal resources that can be tapped by such local efforts can also be used by state and local actors to garner political support for local action – in essence adding an argument and some resources to the local arsenal for increasing affordable housing.

**(2) Preserve affordable housing.**

The U.S. loses more than 300,000 affordable-housing units each year (Sullivan, 2016), including 10,000 public housing units (Joint Center, 2013). For public housing, the primary reason is a nearly \$26 billion backlog in unmet capital needs. The current structure and level for funding public housing – i.e., through annual appropriations - is inadequate to address these needs.

In response, HUD created the **Rental Assistance Demonstration (RAD)** in 2013 (Department of Housing and Urban Development, 2016). RAD's main goal is to give public housing agencies (PHAs) a powerful tool to preserve and improve public housing properties. The core component of RAD is moving the housing to a more stable financing platform.

Developments are *removed* from the public housing program and receive a long-term project-based Section 8 contract that, by law, must be renewed, to ensure that the units remain permanently affordable to low-income households.

RAD allows PHAs to leverage public and private debt and equity— something they could not do in the public housing program- in order to reinvest in the public housing stock. They can obtain long-term mortgages to finance capital improvements, and qualify for the LIHTC, for example. Of particular note:

- To date, more than \$2 billion of private funding has been invested in about 30,000 units. HUD estimates more than \$6 billion will be leveraged for the 185,000 units already awarded RAD status, which is the current cap on RAD set by Congress.
- Residents continue to pay 30% of their income towards the rent and maintain the same basic rights they possessed in the public housing program.
- The RAD program is cost-neutral and does not increase HUD's budget.

While there is more to be done to improve the RAD process, it is fair to say that RAD is a true innovation at HUD: a novel mechanism to stop the flood of lost units and begin leveraging private capital for badly-needed improvements.

RAD links quite directly to gentrification. Given the central location of the oldest public housing stock in the country, and the movement inward of higher income households, the existing public housing stock may be an important tool for anchoring long-term affordable housing in and near gentrifying neighborhoods. Dastrup and Ellen (2016) document this phenomenon in New York City, where nearly two thirds of public housing block groups were surrounded by block groups that had average incomes above the city median in 2010. As other forces bring investments to these neighborhoods, we need to ensure that the existing stock of public housing is maintained – and RAD is a financing source that can preserve and improve those units.

In addition, there may be other legacy programs in cities, such as Rent Supplement, Rental Assistance Payment, and Section 8 Moderate Rehabilitation, also covered by RAD that can be preserved and improved. The Administration has proposed some additional expansions for such legacy-type programs in the 2017 budget.

***(3) Encourage localities to employ a range of tools, proactively and broadly.***

As well documented by Jeffrey Lubell (2016), many if not most relevant policy levers are at the state and local level, including a variety of policies that affect the supply of housing, and potential policies to forestall displacement. What can a federal agency do to encourage or push local action?

The Obama Administration's FY2017 budget contains several policy proposals meant to incentivize local action, including a \$300 million Local Housing Policy Grant program at HUD, to incentivize state and local policies aimed at increasing housing supply responsiveness. Here I want to focus on a policy change that is already being implemented, HUD's final rule on **Affirmatively Furthering Fair Housing (AFFH)**, issued last summer (Department of Housing and Urban Development, 2016).

Beyond simply not discriminating, the 1968 Fair Housing Act requires that HUD and other Federal agencies to "affirmatively further" fair housing in the administration of housing programs. This obligation applies to those receiving HUD funds, and the final rule sets forth the requirements and process for those grantees.

I see a promising connection between this rule and local actions in the face of gentrification. To provide a bit more context, here are the most relevant parts of the final rule:

- At the center of the rule is the requirement that jurisdictions receiving HUD funding complete an Assessment of Fair Housing (AFH), identifying fair housing issues.
- This is done with a standardized assessment tool and associated data and maps to help in assessing patterns of segregation, including what this may mean for access to important neighborhood services, for example. These are tools that practitioners and researchers identify as important in targeting policy responses to gentrification (Chapple and Zuk, 2016).
- Grantees then set forth their priority goals for addressing those issues, and incorporate this analysis into their follow on planning processes – such as the Con Plan for CDBG grantees, and the PHA plans for public housing agencies—which includes strategies and steps to be taken.

On the process side, grantees are required to have meaningful community participation, as part of identifying issues and setting goals, and HUD is strongly encouraging joint or regional submissions so that multiple jurisdictions and entities would work together on the assessments and goals.

This obligation and planning process will be the backdrop for broader conversations on community change and gentrification, and I see the potential for it to support efforts of capturing gentrification's upside (increased investments) while minimizing its downside.

Much of the AFFH discussion focuses on two strategies: increasing access to higher opportunity/lower poverty areas for protected classes, particularly minority households, *and* investing in existing minority communities such that they too have the neighborhood conditions that support high quality of life and upward mobility. We need to pursue both. Of course, each has its own challenges: *gaining – and sustaining* –access to higher opportunity areas for minority households; and adopting *successful* strategies for revitalizing areas of minority and poverty concentration.

Neighborhoods that are currently undergoing gentrification, or likely to in the very near future, could pose an opportunity for a third, highly impactful, strategy. These areas frequently already contain minority households and are already experiencing increased investments such that neighborhood services and conditions are improving. Employing strategies here to minimize displacement, and secure affordable housing, have the potential for securing longer-term affordability *and* diversity.

AFFH might provide the type of 'enabling environment' for localities and regions to address the pressures of gentrification from a more holistic perspective, and garner the political will to make some hard policy and investment choices.

#### **V. Parting Thought: Making diverse communities work, and work for all.**

As urban areas around the county grapple with pressures of gentrification, it is important to recognize the broader context: the overall affordability crisis, the inter-related 'ecosystem' of communities affected by what happens in one place, and the constraints and goals of policy actors at different levels. The recent large increases in housing costs in urban low-income neighborhoods are of particular concern for communities, and for HUD. I have argued, however, that the policy discussion needs to be broader to truly address the problem – in terms of policy substance (more than just affordable housing in a specific neighborhood) and in terms of policy actors (there is a role for regional and federal actors).



I want to close by touching on the large demographic and socioeconomic shifts occurring in low-income communities documented in this volume. Those large changes pose challenges, for existing residents who may not see themselves in the new services in the neighborhood or in the faces of their new neighbors, and for entire communities as change ripples through sequential neighborhoods. Meaningful integration will require more than just housing; it will require thoughtful and proactive action. Chaskin and Joseph (2015) call this 'activating the mix' and their work on mixed-income developments reveals how difficult this can be if not done with intention. If this isn't addressed, if communities are not intentionally working to ensure that the increased mixing currently occurring in cities is 'real,' the integration may not be that meaningful or sustainable. Without attention to making the mix 'work,' there may be less likelihood that diversity –if achieved - will remain.

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