Commentary: A Federal Perspective on Gentrification

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Introduction

During the past 4 months, as part of the U.S. Department of Housing and Urban Development's (HUD's) "Prosperity Playbook" initiative, Secretary Julián 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 up side of renewed attraction to and investments in low-income and urban neighborhoods while minimizing the possible down sides, such as displacement, increased housing cost burdens, and the potential for long-term resegregation.

At times, these conversations have been fraught. They surfaced policy tensions and broader housing market issues that are an important backdrop for the symposium articles in this *Cityscape* issue 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 symposium articles in this issue 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.

Key Gentrification Trends and the Broader Housing Affordability Context

Although gentrification has been written about for decades, some important trends in the current wave of neighborhood change are worth highlighting and placing in the broader context of housing market conditions and supply response.

Gentrification Trends

In their article in this Symposium, Jackelyn Hwang and Jeffrey Lin note that the 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 in their guest editors' introduction to this symposium, gentrification in this most recent period differs from in previous decades in at least two important ways: (1) unlike neighborhoods in the 1980s and 1990s, low-income city neighborhoods are now *also* experiencing much larger socioeconomic changes, namely in race and educational attainment, and (2) 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. Although researchers to date generally have not found evidence of displacement from gentrification, that finding may be because most researchers proxy displacement by turnover rates, which capture all types of moves—including households that 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 after they move. They found that vulnerable households in gentrifying neighborhoods are more likely to make "downward neighborhood" moves—or moves to lower-income neighborhoods—than those in nongentrifying areas. They also found that such moves are more likely when neighborhood housing cost increases are larger. Ellen and Torrats-Espinosa (2016) similarly found that rent increases are associated with a greater probability that housing choice voucher (HCV) residents will move and increase the concentration of HCV holders in certain neighborhoods. Voucher households that do not move also experience higher rent burdens, paying more than 30 percent of their income toward rent. This collective 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 symposium is the increased demand for centralized neighborhoods among younger, more educated, and White households, generating greater demographic change than in previous periods (Hwang and Lin, 2016). In terms of rent increases, it is worth considering another related factor: the overall affordability crisis and supply responsiveness.

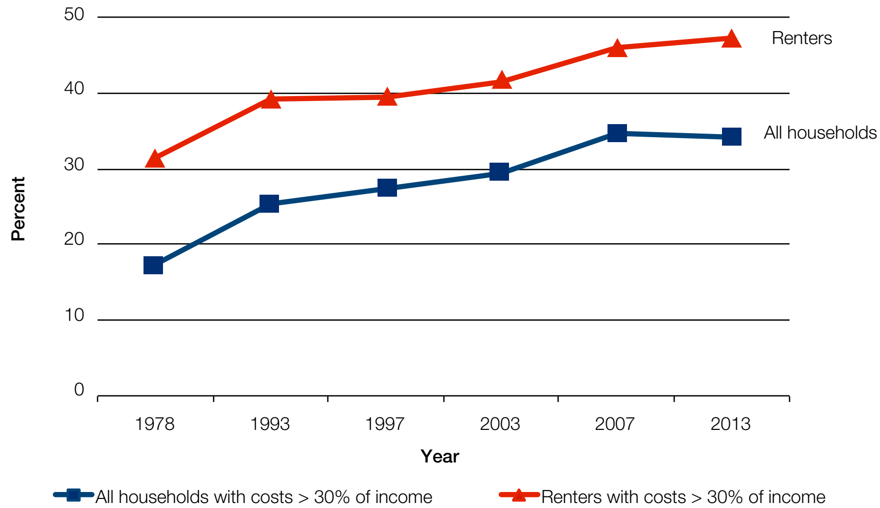
Affordability Crisis

Although considerable attention has been paid recently to the overall affordability crisis, particularly among renters, the crisis has been a long time in the making. As exhibit 1 depicts, housing costs in the United States have been increasing since the late 1970s.

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

Exhibit 1

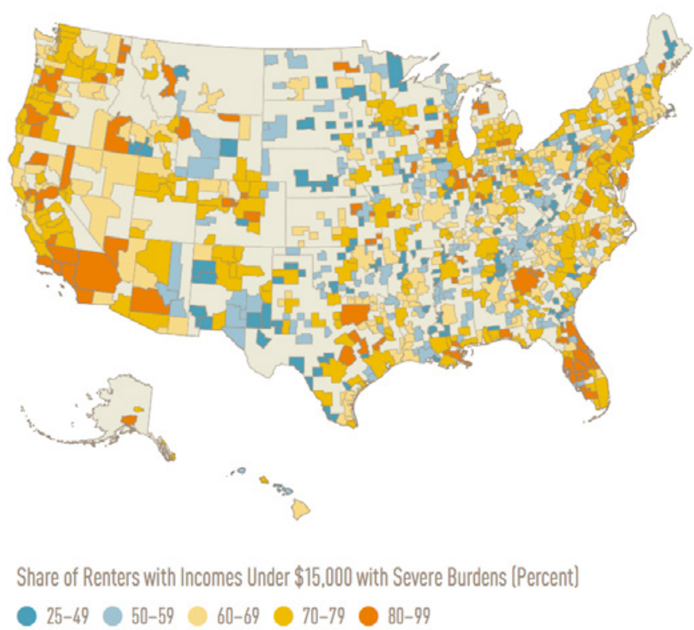
Prevalence of Housing Cost Burdens, by Severity and Housing Tenure, 1978–2013



Source: American Housing Survey

Exhibit 2

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



Notes: Severely cost-burdened households pay more than 50 percent of income for housing. Data are for Core Based Statistical Areas.
Source: Reproduced from JCHS (2016)

Cost burdens also are now reaching beyond just the lowest-income renters. Between 2010 and 2014, rent burdens among moderate-income renters increased across the board; in 2014, that increase was particularly true in the 10 metropolitan areas with the highest median housing costs (where three-fourths of renter households earning between $30,000 and $44,999 and one-half of those earning between $45,000 and $74,999 were cost burdened) (JCHS, 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.

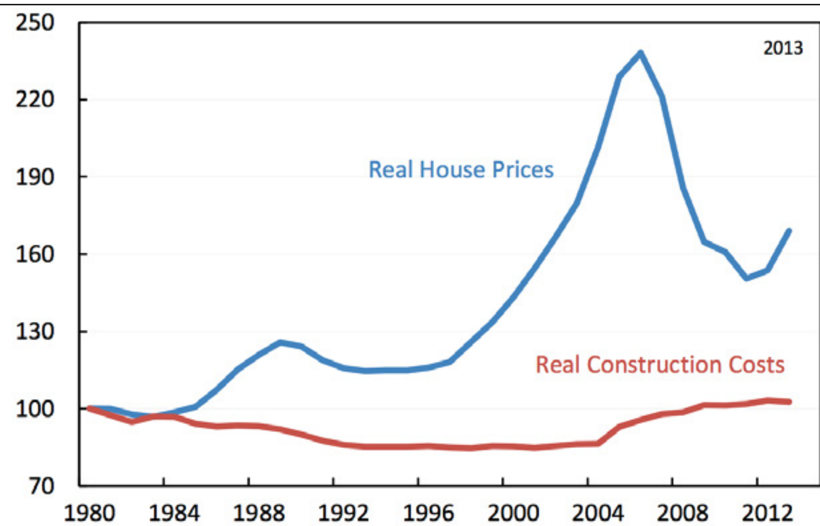
Supply Response

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

For example, Gyourko and Molloy (2015) indirectly examined the role of regulations by assessing the relationship between real construction costs and the price of housing (exhibit 3). Until the early 1980s, the two were closely connected, but, since then, a large and increasing gap has emerged. 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.[1] In related work, Glaeser, Gyourko, and Saks (2005a) found that, until the 1970s, housing

Exhibit 3

Real Construction Costs and House Prices Over Time



Note: Index: 1980 = 100.
Source: Reproduced from Gyourko and Molloy (2015)

[1] See Jason Furman's discussion of these issues (Furman, 2015).

price increases were driven by rising quality of both housing and construction. Since the 1970s, however, the authors concluded that price increases instead have reflected the difficulty in obtaining regulatory approval for new home construction.[2] 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, 2005b).

A collection of work is 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 1-acre increase in a Boston-area town's minimum lot size was associated with a drop of about 40 percent in housing permits, and Gyourko, Mayer, and Sinai (2013) demonstrated 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 multifamily housing units and incentivize expensive housing development over moderately priced housing (Quigley and Raphael, 2005). This greater restriction creates additional challenges to accommodating the increased demand for downtown living and the need for affordable rental units.

Context for Policy Responses

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

The first point is that 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 farther from their places of employment and facing longer commutes (State of California LAO, 2015).

The overall lack of affordability and inadequate response of housing supply may also be key reasons 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. Whereas 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, which may not match the current stock in some neighborhoods or the preferences of current residents. This mismatch poses policy and political challenges for locally elected officials. The policy prescription that the

[2] Glaeser and Gyourko (2002) drew similar conclusions during an earlier period.

larger problem calls for (that is, more housing) flies in the face of residents' desire to maintain their neighborhoods as they are. In addition, many residents perceive those policies 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 policy challenge 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* article 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 at HUD agree.

HUD Policy Responses

Given that context, the federal government needs to focus on three complementary goals: (1) increase the supply of affordable rental housing; (2) preserve affordable housing; and (3) encourage localities to employ a range of tools, proactively and broadly.

Increase the Supply of Affordable Rental Housing

We need to increase the overall supply of affordable rental housing. Beyond the Obama administration's efforts to expand HUD's core programs for subsidized, affordable housing (HOME, project-based Section 8 rental assistance, public housing, and so forth), HUD has been looking for additional ways to encourage increased supply with existing levers and resources.

One good example of this approach is the **Federal Housing Administration's (FHA's) cut in multifamily mortgage insurance rates** implemented April 1, 2016, to stimulate the production and rehabilitation of affordable, mixed-income, and energy-efficient housing. The FHA estimates that rate reductions will spur the rehabilitation 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 lowered the annual insurance rates for affordable housing of two types.

1. Affordable housing in which at least 90 percent of the units are under Section 8 contracts or covered by Low-Income Housing Tax Credit (LIHTC) affordability requirements (annual insurance rates lowered to 25 basis points, a reduction of 20 or 25 basis points from current rates).

2. Mixed-income properties that have units set aside based on affordability through LIHTC, Section 8, inclusionary zoning, or other local requirements (annual insurance rates lowered 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 policy is an example of using existing federal levers to incentivize and support nonfederal 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.

Preserve Affordable Housing

The United States loses more than 400,000 affordable-housing units each year (Schwartz et al., 2016), including 10,000 public housing units (JCHS, 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—that is, through annual appropriations—is inadequate to address these needs.

In response, HUD created the **Rental Assistance Demonstration (RAD)** in 2013 (HUD, 2016a). 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—to reinvest in the public housing stock. They can obtain long-term mortgages to finance capital improvements and qualify for 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 percent of their income toward 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 more remains 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. In their article, Samuel Dastrup and Ingrid Gould Ellen 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 (Dastrup and Ellen, 2016). 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, other legacy programs also covered by RAD, such as rent supplement, rental assistance payment, and Section 8 moderate rehabilitation, may exist in cities that can be preserved and improved. The Obama administration has proposed some additional expansions for such legacy-type programs in the 2017 budget.

Encourage Localities To Employ a Range of Tools, Proactively and Broadly

As well documented by Jeffrey Lubell's (2016) article, 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 fiscal year 2017 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 focus on a policy change that is already being implemented—HUD's final rule on **Affirmatively Furthering Fair Housing (AFFH)**, issued this past summer (HUD, 2016b).

Beyond requiring that HUD and other federal agencies simply not discriminate, the 1968 Fair Housing Act requires them 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, identifying fair housing issues.

- The assessment is completed using a standardized assessment tool and associated data and maps to help assess patterns of segregation, including what patterns may mean for access to important neighborhood services, for example. Practitioners and researchers, including Karen Chapple and Miriam Zuk in this issue, identify these tools 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 Community Development Block Grant 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 up side (increased investments) while minimizing its down side.

Much of the AFFH discussion focuses on two strategies: (1) increasing access to higher-opportunity/lower-poverty areas for protected classes, particularly for minority households, and (2) investing in existing minority communities so that they too have the neighborhood conditions that support a 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 are 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 to 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 to garner the political will to make some hard policy and investment choices.

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 interrelated "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 (a role exists for regional and federal actors).

I close by touching on the large demographic and socioeconomic shifts occurring in low-income communities documented in this symposium. 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 challenge "activating the mix," and their work on mixed-income developments reveals how difficult this activation can be if it is not done with intention. If this issue is not 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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