

A Review of Existing Research on the Effect of Federally Assisted Housing Programs on Neighboring Residential Property Values

Summary:

The report finds that federally assisted housing has an insignificant – or even a positive – effect on property values. Findings show that studies have over-estimated the negative impact subsidized housing has on property values, and uses a new methodology that measures property values both before and after affordable housing is constructed (not just after construction, like most studies) to determine whether such housing affected property values, or whether property values the neighborhood may have been already declining before the housing was built. The author finds that assisted housing had insignificant or positive effects on property values in higher-value, less vulnerable neighborhoods. It was more likely to improve property values in lower-value, more vulnerable neighborhoods. Any negative impacts were directly related to the size and scale of the subsidized housing.

The old and new valuation methodologies are described in detail below, as are the findings of various studies utilizing each methodology.

The old model of valuing properties:

- Decomposes the observed selling price of a single-family home into the unobserved, implicit prices paid for the home's attributes – rooms, yard size, fireplaces, maintenance levels, year of construction – as well as attributes associated with the home's surroundings – quality of public schools, condition of nearby properties, proximity to shopping, socioeconomic and racial characteristics of neighbors, proximity of assisted housing.
- Home's sale price can be predicted by measuring the amt. of each attribute present and multiplying that amt. by its implicit price.
- Provides results that tell us: "Within X feet of assisted housing sites property values are \$Y different, though we can't be sure what other factors within X feet may also be affecting values or whether these differences were already present before the assisted housing was present."

Results of studies employing the old property valuation methodology:

- Studies conducted from the 1960s to the 1980s found that there was no sizable or statistically significant negative impact on property values. Two studies concluded that there was a positive impact.
- **Norse (1963):** Home prices rose faster in St. Louis neighborhoods surrounding newly built housing than in neighborhoods w/o assisted housing.
- **De Salvo (1974):** Developing Mitchell-Lama apartment complexes led to much faster rates of appreciation in the low-moderate quality submarkets in which they were located compared to control areas.
- **Warren, Aduddell, and Tatlovich (1983):** Positive externalities associated with privately owned, federally subsidized apartment complexes resulted in higher median property values in the Chicago census tracts where they were located

(opposite was found to be true for concentrations of public housing located in minority neighborhoods).

- **Guy, Hysom, and Ruth (1985):** New Fairfax County townhouse clusters' prices were directly related to distance from two privately owned, mixed-income apartment complexes subsidized by the federal Below-Market-Interest Rate (BMIR) program.
- Since 1990, studies have come to diametrically opposed conclusions about how a particular federally assisted housing program effects nearby property values. Examples of these studies:
 - Conventional Public Housing: Positive Impacts: Lyons & Loverage (1993: St. Paul); Negative Impacts: Lee, Culhane, & Wachter (1999: Philadelphia)
 - Scattered-Site Public Housing: Negative Impacts: Lee, Culhane, & Wachter (1999: St. Paul); No Impacts: Briggs, Darden, & Aidala (1999: Yonkers, NY)
- **Cummings and Landis (1993):** Found inconsistent effects of the same program: Study of 6 affordable housing developments built by BRIDGE (San Fran Bay-area non-profit) found no local property value impacts from three developments and positive impacts from two; one was found to lower sales prices w/in a ½ mile by \$49,519 per home.
- **Goetz, Lam, & Heitlinger (1996):** Minneapolis - Found that each 100 feet closer proximity to a private, non-profit owner's subsidized rental development raised home sales prices by \$86/dwelling, but each 100 feet closer to a subsidized rental development run by a private, for-profit owner (such as site-based Section 8) reduced sales prices by \$82/dwelling.
- **Lyons & Loverage (1993):** Investigated impacts on home assessed values of 120 locations where federally assisted tenants resided in St. Paul, MN.
 - Findings: Each subsidized tenant residing w/in ¼ mile of a single-family home reduced the assessed value of that home by a statistically significant \$21 each; each such tenant w/in two miles reduced it by \$5.
 - Adding an addition proximate site where one or more subsidized tenants lived reduced assessed property values \$1,585 if they were located w/in ¼ mile; \$609 if the sites were w/in two miles.
 - Effects across housing program types: Within ¼ mile, each additional Section 8 site-based assisted unit reduced assessed values by \$50/dwelling; comparable reduction for Section 202 elderly units was \$200.
 - Within ½ mile, each Section 221d(3) unit raised assessed values by \$603/dwelling; public housing units did so by \$19.
- **Lee, Culhane & Wachter (Philadelphia: 1999):** Controlling for neighborhood conditions, sales of single family homes w/in one-eighth of a mile of any conventional public housing site were 9.4% lower; each addition scattered-site public housing unit were 0.8% lower; each addition FHA-assisted unit were 0.2% higher; each additional new/rehabilitated section 8 site-assisted unit were 0.1%

- higher; each additional section 8 certificate/voucher household were 0.5% lower; and each additional low-income tax credit unit were 0.1% lower.
- When proximity was measured at a quarter-mile distance, the magnitude of the foregoing coefficients consistently dropped by roughly half.
 - **Briggs, Darden, and Aidala (1999):** Scattered-site public housing, which housed black and Latino tenants and were located in white middle-class neighborhoods, were found to have no impact on the levels of single-family home prices near the developments before and after they opened.

Problems with previous studies using the old methodology:

- Inability to distinguish causation – do assisted housing sites decrease neighborhood residential property values or are these homes systematically developed in existing low income areas?
- Failure to control for characteristics of neighborhoods that may affect property values independently
- Do not systematically consider potential variations in impact on property values according to neighborhood context, concentration of assisted housing, and assisted facility scale.

New approach to assessing property values:

- Measure the *level and trend* in home sale values in two sorts of neighborhoods during two periods: in neighborhoods surrounding assisted housing both before and after it was developed, and in neighborhoods where no assisted housing was developed, for the same years.
- Compares property values after assisted housing was developed to what they *would have been had pre-development trends in the neighborhood persisted*, adjusting for any metro-wide changes in trends occurring during the post-development period.
- Provides results that tell us: “Within X feet of assisted housing sites property values are \$Y different from what they would have been had the assisted housing not been developed.”

Results of studies employing the new property valuation methodology:

- **Galster et al. (1999):** Used the new valuation method (that they developed) to study the impacts of scattered-site public housing in Denver, CO and the Section 8 tenant rental subsidy program in Baltimore County, MD. The public housing and Section 8 housing were both developed in areas of Denver and Baltimore that were systematically lower-valued than the norm.
- Findings: Neither type of assisted housing further lowered single-family home values in the average neighborhood in which they were developed.
- In many cases, *such proximity even resulted in higher home values, likely due to the rehabilitation and subsequent higher maintenance standards that participation in these two programs involved.*
- Caveat: The magnitude and direction of impacts were contingent on neighborhood context and spatial concentration and facility scale of the assisted housing.

- There was a pattern of *threshold effects*, whereby home value impacts became negative when more than a critical mass of assisted housing sites or units were located in a neighborhood, *especially where homeowners perceived a vulnerability to their quality of life*.
- Baltimore County: in some circumstances, any additional Section 8 households would have harmful impacts on property values. In even the most favorable, high-valued neighborhood contexts, it was estimated that less than literally a handful of assisted housing sites or units could be concentrated w/in 2,000 ft. before negative impacts ensued.
- **Johnson & Bednarz (2002):** Multi-city impact study of Low Income Housing Tax Credit (LIHTC) developments. (Cleveland, Portland, and Seattle)
 - Findings: In all cities, LIHTC projects were located in neighborhoods that were already below the city average in single-family home values.
 - Property value impacts w/in 300 meters of LIHTC projects in all three cities were found to be positive, often commencing when the development was announced. In Cleveland, however, this impact weakened progressively as larger-scale projects were built, and would become negative if it were to exceed a certain threshold.
 - W/in 301-600 meters of LIHTC projects – no property value impact in the modestly valued, less-vulnerable neighborhoods or Portland and Seattle, unless (in Portland) the project exceeded a threshold of 0.2% of all units.
 - In the lower-valued, more vulnerable neighborhoods into which LIHTC sites were placed in Cleveland, however, a clear negative impact ensued regardless of the scale of the facility.

Summary:

- Assisted housing of various types:
 - Had positive or insignificant effects on residential property values nearby in higher-value, less vulnerable neighborhoods, unless it exceeded thresholds of spatial concentration of facility scale;
 - Showed more modest prospects for positive property value impacts in lower-value, more vulnerable neighborhoods, and strength of frequently negative impacts was directly related to the concentration of sites and scale of the facilities.

IMPORTANT NOTE ABOUT THESE RESULTS: This new system of property valuation is in its infancy and needs to be replicated for many more types of assisted housing in many more cities before the conclusions advanced above can be made w/ complete assurance.