

Thinking about Policy Responses to Neighborhood Change: Framing a Discussion

Todd Swanstrom

**E. Desmond Lee Endowed Professor in Community Collaboration and Public Policy
University of Missouri-St Louis**

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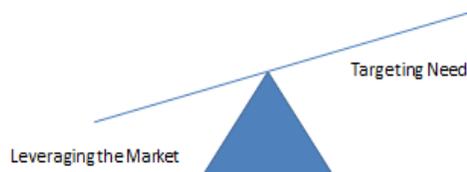
This is an interesting time for neighborhoods in older industrial cities. As Alan Mallach observes in his framing paper, neighborhood decline in the 1960s and 1970s was directly linked to the general “urban crisis.” Cities are more variegated today. Even the worst off legacy cities have neighborhoods that are thriving as millennials seek out exciting, pedestrian friendly urban environments. At the same time, the urban crisis continues, with more neighborhoods transitioning from low poverty to high poverty than vice versa (Cortright and Mahmoudi 2014). Cities are being pulled apart; neighborhoods are moving in different directions.

How can the tremendous variation across time and space be taken into account by housing and community development practitioners? For example, how does location in a weak market metro, such as St. Louis, make a difference in how we approach housing and community development compared to a strong market metro, like New York or Boston? When thinking about how to address a particular neighborhood, can we take into account its trajectory as well as its current condition? What about its geographical location within a system of neighborhoods? In addition to economic realities, how can we incorporate the social and institutional/political strengths and weaknesses of neighborhoods?

For the purposes of this paper, I assume that the goal of housing and community development policy is to help *both* people and places succeed. Some might argue that the purpose of community development is to provide individuals with platforms so that they can succeed in life. I assume that the goal is successful individuals *and* successful communities. Neighborhoods are real. They are not simply the result of individual decisions. Neighborhoods have identities and integral processes that persist over time and influence life outcomes. In a liberal democracy, no one should be told where to live, but the goal is to develop community commitments that go beyond individual self-interest. In short, community development aims to reconcile the tension between individualism and community in American life.

The challenge in housing and community development policy is how to build strong individuals and communities in a way that is both equitable and efficient. Policy deliberations are often haunted by what Arthur Okun called “the big tradeoff”: equality versus efficiency (Okun 1975). In housing and community development this means we can either focus on the neediest individuals or neighborhoods (but leverage little private investment) or we can leverage more investment (but at the cost of subsidizing people and places with the fewest needs) (Figure 1). I argue that by mixing and matching place-based with people-based policies, taking into account neighborhood trends, and understanding places within a broader regional context, community development practitioners can diminish, if not eliminate, the equality-efficiency trade-off.

FIGURE 1: THE TRADE OFF OF LEVERAGING AND TARGETING



I begin by developing a typology of housing market strength, showing how it is rooted in social, as well as economic, processes. I then go on to recommend policy approaches that optimize efficiency and equity in three types of neighborhood housing markets -- weak, middle, and strong -- using examples from St. Louis to illustrate my argument. Failing to sufficiently take into account market realities, I argue, pushes us to invest scarce resources in people and place that have few prospects of succeeding for the foreseeable future. We can identify policies that pursue equity and efficiency at the same time, but we still face tough trade-offs; there will always be winners and losers.

A Typology of Housing Markets

According to free market economics, supply and demand are in dynamic equilibrium. If demand exceeds supply, prices will rise, reducing the number of customers and attracting more investors into supplying the product, thus, bringing supply and demand back into balance. If supply exceeds demand, the opposite will happen. At the simplest level, strong and weak housing markets are markets with an imbalance of supply and demand: a strong market is one in which demand outstrips supply, and a weak market is one in which demand lags behind supply. I argue, however, that strong and weak housing markets involve something more than this. Markets can reach a tipping point where social contagion sets in motion reinforcing loops of cumulative causation that, short circuiting the normal processes of market equilibrium.

Housing market strength can be measured at different geographical scales -- from the neighborhood to the city to the region. The St. Louis region has a relatively weak housing market. One indicator of market strength is the ratio of the median home price to

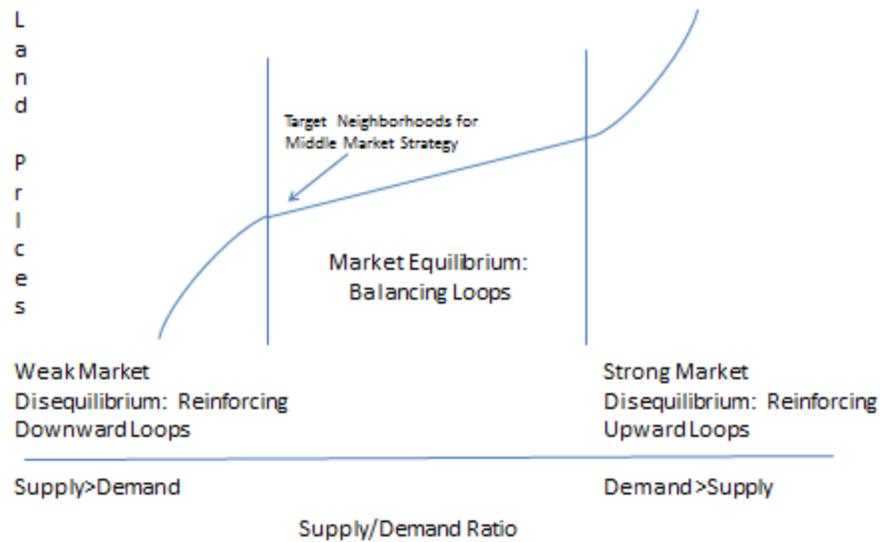
median income. In 2014 St. Louis had a ratio of 2.85, ranking it 20th out of the 25 largest metros. With a ratio of 7.82, Los Angeles ranked #1.¹ The strength or weakness of regional housing markets can also be evaluated by examining the relationship between wages and rents. The “housing wage,” defined as the full-time hourly wage needed to afford a typical two-bedroom apartment, was \$15.69 an hour in 2014 in the St. Louis metropolitan area, well below the national average (\$19.35 an hour) and almost half the Los Angeles housing wage (\$27.38) (National Low Income Housing Coalition 2015).²

Housing market strength varies more *within* metropolitan areas than across them and this is the scale I will focus on here. Every metropolitan area has relatively hot and cold housing submarkets. The old adage -- the three most important characteristics of real estate are location, location, location -- is a testament to the varying strength of local real estate markets. The contrasts in St. Louis housing submarkets are sharp and dramatic. In large swaths of North St. Louis the housing market has collapsed, with many owners walking away from their property. Only a few miles away in the suburbs of Ladue and Frontenac, according to Zillow, many homes sell for over a million dollars and nice homes are being torn down to make way for fancier ones.³

Weak housing submarkets are not just characterized by low demand and prices; they suffer from social contagions and systematic market failures that prevent the market from recovering without outside intervention. In theory, markets are supposed to operate like a thermostat, bringing supply and demand into dynamic equilibrium and insuring that the markets clear (everything property for sale finds a willing buyer). When buyers and sellers make decisions independently of each other, the equilibrating process should work. Housing markets, however, are notoriously social in nature: we care who purchases the property near us -- we care about their income, their race, and even their lifestyle. As land values decline in a neighborhood, a tipping point can be reached where reinforcing causal loops drive prices down further until the market can no longer correct itself. Figure 1 depicts three types of neighborhoods. What I will call “middle market” neighborhoods have a balance of supply and demand and are relatively stable. I reserve the term “weak” and “strong” housing submarkets to those areas that are characterized by reinforcing causal loops that either prices either down or up. In Max Weber’s terminology, these are “ideal types” (Weber 1947, p. 89); no neighborhood is characterized purely by reinforcing or balancing loops; every neighborhood is a mixture. Broadly speaking, however, neighborhoods fit into one of these three types and the typology helps us to think about places in time and space -- dynamically and contextually.

Weak markets can be identified using a wide array of empirical indicators.⁴ Weak markets lack enough willing buyers to replace those who move out in the normal turnover of a neighborhood. As a result, vacancy rates soar to dangerously high levels (20 percent or more) and vacant homes further blight the community. In weak markets housing prices fall below replacement value (the price required to pay for the cost of replacing the structure). With prices below replacement value, developers cannot make a profit building new housing. At a certain point, landlords are not able to charge enough rent to

FIGURE 2: A TYPOLOGY OF MARKET STRENGTH



make a profit and they may walk away from their property. Homeowners will not be able to recoup the costs of repairs upon sale so they defer maintenance. In weak markets, homeowners, who are more involved in the community, are replaced by absentee owners and speculators, who rent to households at the bottom of the rental market. Low income renters tend to be transient and less involved in community life. These factors can form reinforcing causal loops that weaken the market further, as when declining community cohesion causes crime to rise, which further weakens housing demand, further eroding home prices. The most important characteristic of a weak market is low market confidence -- or the belief by both residents and outsiders that the area is trending downward and is not a safe place to invest in (Buki and Schilling 2010b).

Strong markets are the reverse of these conditions. In strong markets whenever a rental vacancy occurs or a house is put on the market, it is snapped up by an ample supply of eager buyers. Attracted by rising prices, strong markets have a stable base of homeowners and responsible landlords who continually invest in maintaining and improving the housing stock. Strong markets are perceived as having a bright future. Like weak markets, strong markets are also characterized by market failures and positive feedback loops – but in this case reinforcing causal loops that drive prices up, not down. When demand keeps rising but supply does not keep pace, perhaps because of government regulations, prices soar. Soaring prices can set in motion a speculative fever that causes investors to flood a hot neighborhood, creating geographically confined housing bubbles that can displace longtime residents and undermine community cohesion. The name usually given to out-of-control hot housing submarkets is gentrification.

Strategies for Weak Market Neighborhoods

From the viewpoint of equity, it makes sense to concentrate housing subsidies in the neediest neighborhoods, but a hard look at the facts shows why this approach is flawed.

Many community development practitioners assume that the “task at hand is to make the market more affordable to low-income families” and the way to do this is increase the supply of affordable housing (Buki and Schilling 2010). In weak markets, however, the main reason housing is unaffordable is not because of an inadequate supply (rents) but because of inadequate demand (incomes). Many households lack adequate incomes to afford decent housing. Rent and income trends in St. Louis metropolitan area provide evidence for this assessment of the problem. From 1990 to 2014 median rent in the St. Louis metropolitan area increased by only 10.9 percent in constant dollars, rising to only \$632 a month by 2014. During this same period median income fell by 3.0 percent.⁵

Data for the region as a whole do not do justice to the problem of low housing demand in weak submarkets. A major cause of weak market neighborhoods is growing concentrated poverty (Jargowsky 2015). In ST. Louis in 2010, 98,953 people lived in census tracts that had transitioned from low poverty (less than 15 percent) to high poverty (30 percent plus) (Swanstrom, Webber and Metzger forthcoming). It is not just that poor people can afford to pay less for housing but that concentrated poverty has negative contextual effects, even after controlling for individual-level poverty and other factors, that negatively affect the entire neighborhood.⁶ Concentrated poverty weakens housing demand through a number of pathways, including increased crime, but probably the most direct link is through low-performing schools.

Not only is demand weak in many older neighborhoods but the region consistently produces a surplus of housing on the suburban fringe, siphoning off housing demand from the older parts of the region. For many decades the production of new housing units in the St. Louis region has consistently outpaced the growth of new households. Between 1990 and 2014, the St. Louis metropolitan area built 277,493 units of housing at a time when the number of new households increased by only 136,262. During this period, *the region overproduced housing by 141,231 units.*⁷

With massive overproduction of housing, the question for the St. Louis metropolitan area is not *whether* there will be vacant housing but *where* that vacant housing will be located. Despite the demolition of tens of thousands of homes by the City of St. Louis, vacancy rates have soared to dangerously high levels, over 20 percent in most neighborhoods of north St. Louis City, in pockets on the south side, and even across the city border in the suburbs of north St. Louis County. Vacant housing is not just an *effect* of weak housing demand; it is also a *cause* of weak markets. Vacant housing has been associated with higher crime and risk of fires and negatively affects the image of a neighborhood (Research for Democracy 2001). Once abandonment begins, it can be difficult to stop, as vacancies cause more vacancies in process of contagious abandonment (Dear 1975, p. 67). A study of blight in Philadelphia found that homes within 150 feet of a vacant property experienced a loss of sales value, after controlling for other factors, averaging

\$7,627. The negative spillover effects of vacancies fell to \$3,542 from 300 to 449 feet out; beyond that distance the effect was not statistically significant (Research for Democracy 2001).

When housing prices fall below a certain level they become unsustainable. Jason Hackworth estimates a replacement value in 2010 of roughly \$122,565 (Hackworth 2014, p. 25).⁸ Replacement value will vary depend on construction costs in the area, the type of housing, and other factors but Hackworth's estimate is a good starting point. In many distressed urban neighborhoods in North St. Louis, homes sell for less than \$50,000. Given the replacement cost estimate, each new unit of housing would require over \$70,000 in subsidy in order to find a willing buyer. One could argue that it makes sense to build subsidized housing in weak market neighborhoods because the low land prices mean that the cost per unit will be low. It makes no sense, however, to incentivize families to move into neighborhoods with few job opportunities and many burdens, including high crime and low-performing schools.

The final nail in the coffin of a supply-side approach to weak market neighborhoods is that it can actually weaken the market further. Weak market areas already suffer from a housing surplus. Building new units in will only further widen the gap between supply and demand and likely lead to more vacancies nearby. In isolation, subsidized housing in weak housing market neighborhoods benefits neither the people involved nor the places. Even though a supply-side approach makes little sense for weak market neighborhoods, we often pursue it anyway.⁹

One final factor causing weak housing markets cannot be overlooked: race. The weakest markets in the St. Louis region are predominantly African American. Indeed, a recent study of neighborhood change in the St. Louis region found that not a single census tract that was predominantly African American in 1970, and was surrounded by other predominantly African American census tracts, rebounded from urban decline (Swanstrom, Webber and Metzger forthcoming). It appears that the neighborhoods north of the infamous "Delmar Divide" in St. Louis are stigmatized by race.¹⁰ If you add race to the mix of powerful regional and local forces weakening housing demand, bringing weak market neighborhoods back into market equilibrium is extremely challenging.

Instead of expanding supply, the strategy for weak market places must be based on expanding demand. In the weakest areas the market has failed; in the absence of sufficient comparable sales it is almost impossible to establish fair market prices. The first job of policy, therefore, must be to build demand for housing in the area so that the market can function again. Only then should new housing be built.

Housing demand in weak market neighborhoods could be boosted using various approaches, most of which are politically and/or economically unrealistic. Portland has an urban growth boundary that has pushed housing demand back toward the center, but this is highly unlikely in St. Louis, especially at this late stage of suburban sprawl. Increasing the incomes of residents of weak market neighborhoods should be a high priority, but is not easily accomplished by local governments and nonprofits. Housing

policy, by itself, is rarely an effective instrument for boosting housing demand in weak market neighborhoods. Demand-side subsidies, such as housing choice vouchers, can boost effective demand in a submarket but subsidized housing, by itself, is almost never powerful enough to turn around a weak neighborhood market. Indeed, if the voucher holders saturate a weak market community, their presence can stigmatize the area as a dumping ground for subsidized housing, weakening its attractiveness for working and middle-class homeowners.¹¹

Rebuilding weak markets requires a comprehensive and targeted approach that is powerful enough to stop or reverse the reinforcing causal loops that undermine market confidence. Comprehensive community initiatives need to be cross silo (jobs, schools, crime, transportation, etc.) and cross sector (public, private, nonprofit). The track record of comprehensive community initiatives is not encouraging. An evaluation of 48 comprehensive community initiatives over a twenty-year period came to the conclusion that individuals who participated in the programs benefited, but “those programs did not produce population-level changes,” such as reductions in poverty rates or increased homeownership (Kubisch, et al, 2010, p. vii). Some weak market communities have been turned around but that is largely a result of “place luck”. The South Bronx is a good example. In that case, the City of New York invested billions of dollars and the community had ready access via public transit to the booming Manhattan job market. Comprehensive community initiatives are the right approach to weak market communities. However, they are very expensive and require high capacity organizations on the ground to implement them. The Obama Administration has implemented comprehensive community revitalization programs, such as the Promise and Choice neighborhoods grants, but essentially these are pilot programs with nowhere near the funding that would be required to address most weak market communities.¹²

The fact that it is very difficult to turn around weak markets does not mean we should abandon them. Indeed, it would be irresponsible to pull out of neighborhoods because their markets are weak. In a 1976 speech Roger Starr, Housing Commissioner of New York City, called for closing subway stations, firehouses, and schools in the weakest market areas of the South Bronx. This call for “planned shrinkage” set off a firestorm of protest. Cities cannot pull out of weak market neighborhoods the way doctors on the battlefield withdraw care from patients with no chance to live. It makes sense not to invest scarce medical resources in patients who have no chance to live, and invest instead in saving those you can. The analogy between medical triage and planned shrinkage breaks down, however, because neighborhoods do not “die.” Even the weakest neighborhoods have people living in them who have few other choices on where to live. Politicians, especially in ward-based systems of representation, are under constant pressure not to abandon the neediest neighborhoods.

We lack the political will, fiscal resources, and institutional capacity to rebuild weak market neighborhoods. Given the moral and political imperatives to invest in weak market neighborhoods, how then should we proceed? It is wildly unrealistic to expect all weak market neighborhoods to come back. Between 1950 and 2010, the population of the City of St. Louis fell by 62.7 percent or 537,502 people. This population is not

coming back. For good reasons, many policy analysts have recommended “right-sizing,” or facing up to the fact that housing demand has permanently shrunken and therefore it is necessary to concentrate that demand and target resources on a much smaller footprint in order to have a chance to create functioning markets again. Under this strategy, city services would be maintained in weak market neighborhoods and social services might even be enhanced, but scarce housing and community development dollars would be reserved for relatively small clusters of strength within weak market communities. Realistically, this means connecting these nodes of strength in weak market neighborhoods to middle and strong markets.

In sum, the cards are stacked against weak market neighborhoods in legacy cities. Housing overproduction constantly siphons off demand, rising economic inequality and population sorting leaves areas economically depleted, and the cumulative causation built up by reinforcing cycles of decline is very difficult to reverse. Weak markets can only be rebuilt by well-funded, comprehensive initiatives that are targeted on nodes of strength and connect weak market communities to stronger markets and regional job clusters. Federal funding is lacking for weak market initiatives and only the strongest market regions and cities can self-fund such initiatives. Legacy cities not only lack market power but they generally lack the necessary political will to target resources.¹³ What substitutes now in many cities for a weak market strategy – scattered construction of subsidized housing and piecemeal projects – is a waste of the taxpayer’s money.¹⁴ A better strategy would be to help households trapped in weak market communities move to stronger communities.

Strategies for Middle Market Neighborhoods

As just discussed, subsidizing housing in weak market areas will generally not jumpstart the market and in fact could weaken it. On the other hand, investments in the strongest market areas will leverage little additional investment; they may end up only gilding the lily, or simply boosting profits for developments that would have occurred anyway. If the goal is to leverage the market, middle market neighborhoods should receive the greatest attention. The sweet spot for leveraging lies in the middle.

The key to maximizing market leverage is to identify underleveraged assets. Other things being equal, housing subsidies should target neighborhoods that are “undervalued”, i.e., where the underlying assets and amenities of the area are not fully capitalized in land values. Examples of such assets are historic housing stock, parks, and pedestrian friendly mixed-use districts, including cafes, coffee shops, museums, high-performing schools, and quality public transit, especially light rail. Identifying undervalued neighborhoods is difficult because markets generally are “efficient”, meaning local amenities are capitalized in land prices. Distorted perceptions, however, can interfere with market efficiency, including racial bias, an exaggerated fear of crime, and perceptions of disorder, prompted by graffiti or broken windows.

Investing in middle market neighborhoods is like taking a public health approach to community development. Instead of trying to turn around neighborhoods that are already

blighted, the strategy is to invest in basically healthy neighborhoods which could tip down into mutually reinforcing processes of contagious abandonment and decline.¹⁵ Neighborhoods best-suited to a middle market strategy are neighborhoods that are “on the edge” – both temporally and spatially. In Figure 2, the target for a middle market strategy is neighborhoods whose prices have fallen to the point where the neighborhood could fall over the tipping point into reinforcing cycles of decline. Geographically, middle market neighborhoods are those located between areas of strength and weakness. Market value analysis as performed by The Reinvestment Fund in a number of cities around the nation has been used to identify middle market neighborhoods (Goldstein 2014). Even with sophisticated quantitative techniques it is difficult to identify the perfect candidates for a middle market strategy. After all, it is impossible to identify the counterfactual – that is, if we had not intervened in neighborhood X, it would have fallen into contagious abandonment and decline. Nevertheless, the concept is clear: the best candidates are those that, while still healthy today, could tumble down in the near future – and they are neighborhoods that still have substantial strengths by may border on areas with weakness.

Neighborhood decline would be a smooth and slow process if housing demand was autonomous and each household made decisions independently of the others. But housing markets are notoriously social: households are always looking at what other households are doing. Neighborhoods can decline very rapidly once processes of social contagion are set in motion. Racial transition can lead to panic selling by some households, reducing prices for homes that encourage others to sell. As the neighborhood shifts from homeowners to renters, the social fabric is frayed and rising crime weakens the market further. Once set in motion, these processes are difficult to reverse.

The goal of a middle market strategy is to inoculate neighborhoods against contagious decline. The healthy neighborhoods approach has a number of components:

- Lift up and promote the amenities of the area;
- Concentrate on appearances through neighborhood clean ups and small but visible capital improvements;
- Focus not on affordable housing for those with the lowest incomes but on homeownership for stable families.
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Many federal housing programs cannot be used in a middle market strategy because they have individual income cut-offs or are limited to low- and moderate-income census tracts. Baltimore’s Healthy Neighborhoods program was able access funds without those constraints. Participating banks, which in some cases do get CRA credit, offer mortgages at favorable interest rates at 110 percent of value, with the extra funds being used for visible repairs to the exterior of the home.

The goal of a middle market strategy is to boost market confidence. Confidence is social in nature. A homeowner will be much more likely to invest if his or her neighbors are also investing. In choosing neighborhoods for a middle-market strategy, the social

capital and civic strength needs to be taken into account. A neighborhood with a strong community development corporation and strong social capital will be more effective in implementing a middle market strategy. The research on stable integrated communities shows that strong social capital is associated with neighborhood stability (Temkin and Rohe 1998) and “active community-based organizations and social institutions” promote stable integrated neighborhoods (Nyden, Maly and Lukehart 1997, p. 508; see also Ferman, Singleton and DeMarco 1998)).

Middle market strategies can be controversial because they do not focus resources on the neighborhoods and families that need help the most. Proposals to target subsidies based on market strengths have been attacked as exemplifying the worst excesses of neo-liberalism, letting the market dictate policy in a kind of neo-social Darwinism.¹⁶ Like the attacks on rationing end of life medical care, critics imply it is immoral to play god and decide which neighborhoods will be helped to revitalize and which will be allowed to languish. In fact, it is irresponsible not to make the tough decisions to focus resources on areas where policy interventions can make a difference because if policy makers do not, they may, in effect, be consigning every neighborhood to decline.

Done correctly, middle market strategies can promote equity. One of the founding documents of “equity planning,” the 1975 Cleveland Policy Planning Report, recommended against building subsidized housing in the most deteriorated areas and gave highest priority for reinvestment in middle neighborhoods (Cleveland City Planning Commission 1975).¹⁷ The recommendations were justified on equity and efficiency grounds (Cooper-McCann 2013, p. 36). Equity is best served by encouraging poor families to move out of the most deteriorated neighborhoods into high opportunity areas and it is a more efficient use of scarce public funds to invest in neighborhoods on the brink of decline rather than embarking on the usually futile task of trying to revitalize severely distressed communities. Intervening in middle market neighborhoods that are “on the edge” both temporally and geographically can be a highly efficient use of scarce housing and community development funds. Once neighborhoods regain market confidence, homeowners, even those with modest incomes, will invest in housing (Buki and Schilling 2010b). Public investments will leverage private investment, in the long run benefiting not just the owners but everyone in the area.

Middle market strategies are controversial much the same way racial integration maintenance programs are (Keating 1994). In effect, middle market strategies are economic integration maintenance programs. Subsidizing homeownership in middle market neighborhoods is similar to subsidizing whites to buy homes in communities threatened by a racial tipping point. From the viewpoint of individual equality, neither approach makes sense. Programs to maintain a racial balance have been successfully sued on the ground that individual black households are discriminated against in violation of the 1968 Fair Housing Act.¹⁸ From the viewpoint of spatial equity and community, however, such programs are defensible. Moreover, economic class is not a “suspect classification” and therefore economic integration programs would surely survive judicial challenge. Suburbs have been discriminating on economic grounds for decades. If preserving viable mixed-income (and mixed race) communities is a goal of public policy,

then focusing scarce resources on more prosperous households is defensible if it helps to stabilize communities that would otherwise tumble into urban decline. The payoff for relatively modest investments can be large.

Strategies in Strong Market Neighborhoods

Policy makers need to take into account the dynamic relationship between people-based and place-based policies in order to develop smart policies toward strong markets. Strong markets can be viewed in many ways as the mirror image of weak markets: in this case reinforcing cycles boost housing demand rapidly inflating prices and, for various reasons, supply does not keep up with demand. Unlike weak markets, where the problem is inadequate demand, the problem in strong markets is inadequate supply. Affordable housing advocates have decried the forces of re-urbanization, or gentrification, as young professionals move into select older neighborhoods, leading to the displacement of long-time low income and minority residents. However, with sufficient political will, and when viewed dynamically in regional context and from the viewpoint of people as well as places, strong markets can be as much an opportunity as a threat to stable, integrated communities.

From the viewpoint of equity and efficiency it makes no sense to invest in strong market communities. They are already doing well and do not need help. Subsidizing strong markets will generally not leverage much additional investment because with high demand and rising prices, owners and developers already have strong incentives to invest. Indeed, housing subsidies in strong markets may only widen inequalities by benefiting high-income homeowners and lining the pockets of developers.

On the other hand, if we shift our equity perspective from places to people, a strong case can be made for using housing subsidies to build and maintain affordable housing in strong market communities. Housing is more than a physical container; it is a bundle of housing services. Strong market communities generally have low crime, good schools, and good access to job opportunities, as well as valuable amenities such, as parks and public transit. Locating affordable housing in strong market communities will improve the life chances of low-income families.

Using conventional housing subsidies, however, strong markets confront policy makers with steep trade-offs between equity and efficiency: while people-based subsidies in strong markets advance equity, because of high land prices, the price per unit is higher than in weaker markets. Policy tools often discourage building affordable housing in strong market communities.¹⁹ The steep trade-off between equality and efficiency in strong markets, however, is not written in stone. With sufficient political will cities can leverage market strength to create affordable housing at little cost to the taxpayers. Just as exclusionary zoning can bottle up the benefits of strong markets for the affluent, inclusionary zoning can spread the benefits of strong markets to low- and moderate-income households. Simply allowing higher densities can help to bring supply closer in to balance with demand and reduce the burden that high land prices place on affordable

housing.²⁰ Cities can go further, however. In neighborhoods that are well up the slope of strong markets (Figure 2) and, I might add, are surrounded by other strong neighborhoods, demand far ahead of supply. Governments can require developers to develop affordable housing in these neighborhoods with little fear of killing the market. Inclusionary zoning has been used by hundreds of strong market cities and counties. In exchange for density bonuses, local governments require developers to set aside a certain percentage of the units for affordable housing. New York's Mayor DeBlasio has proposed mandatory inclusionary zoning that will generate an estimated 80,000 units of affordable housing at little or no cost to taxpayers. In exchange for selective rezoning that loosens rules on density, height, and parking, developers will be required to set aside up to 30 percent of all units for permanently affordable housing.

Instead of being a *bete noire*, strong urban markets should be embraced by progressives concerned about economic inequality. At the most general level, strong markets create centripetal economic forces that enable local governments to use their taxing powers for redistributive purposes. Of course, this requires political will. The quintessential strong market city, New York, spent 830 percent more per capita on housing than the average for 32 other large cities with populations over 250,000 (cited in Schwartz 2016). Between 1987 and 2013 the City spent billions of dollars, much of it out of general fund revenues, constructing, rehabilitating, and preserving 318,000 units of affordable housing (Schwartz 2016). There is little evidence that New York City's inclusionary zoning or its taxes, among the highest in the nation, have damaged the real estate market.

The strategy toward strong submarkets in weaker market metropolitan areas like St. Louis must be more nuanced but even here the market can be leveraged to promote equity and inclusion. First, regulatory barriers to affordable housing in strong submarkets should be removed. Unfortunately, the over 300 general-purpose governments in the St. Louis metropolitan area have few incentives to build affordable housing. Homeowners in strong market suburbs have little incentive to permit, let alone require, the construction of housing for households that will consume more in public and educational services than they contribute back in taxes. Fiscal zoning is rampant in St. Louis (Gordon 2008). The political constituencies that would want to live in these suburbs do not have voting rights within them. Without action by the Missouri Legislature or the courts (e.g., Mount Laurel in New Jersey), it is difficult to imagine any significant progress in opening up the suburbs to significant amounts of affordable housing.

Fortunately, St. Louis does have some emerging strong submarkets in the City of St. Louis. A study of neighborhood change in St. Louis classified 16 percent of the census tracts in the older parts of the region as "rebound" tracts, showing significant improvement in incomes, rents, and housing prices (Swanstrom, Webber & Metzger 2015). Almost all of them are located in City's Central Corridor. The borders of the City of St. Louis encompass these emerging strong markets thus including voting blocs supportive of affordable housing. With sufficient political will, policies can be implemented to tap strong submarkets for affordable housing.

First, subsidized housing should be concentrated in strong market neighborhoods. Rebound neighborhoods in St. Louis are the most economically and racially diverse neighborhoods in the region. The large number of LIHTC and Section 8 units in rebound neighborhoods has contributed to this diversity (Swanstrom, Webber and Metzger forthcoming). These subsidies have time limits, however, and they are expensive. The key to insuring long-term affordability is control over land costs. The market is probably not strong enough yet in St. Louis rebound neighborhoods to support inclusionary zoning. Indeed, it is only in recent years that any new housing without subsidies has been built. Policy approaches in weak market metros like St. Louis need to take into account not just current conditions but neighborhood trajectories. Rents are still relatively affordable in the rebound neighborhoods of St. Louis; in 2010, the average median monthly rent in rebound tracts was only \$563. However, rents are going up, with rebound tracts experiencing a hefty 20.4 percent increase between 2000 and 2010 (Swanstrom, Webber & Metzger 2015, p. 14). Rising rents are primarily due to rising land costs. Nonprofit-owned housing or community land trusts should be given high priority in order to insure long-term affordability. Weak market cities like St. Louis can learn from hot market cities on the two coasts. If land can be purchased well before prices have peaked, alternative forms of ownership can lock in affordable housing, achieving a bigger bang for scarce public bucks.

In addition to expanding the supply of affordable housing within strong market neighborhoods, policies need to be crafted to spread the wealth of the Central Corridor into weak market neighborhoods, especially to the overwhelmingly black neighborhoods north of the infamous Delmar Divide. Special taxing districts or tax increment financing (TIF) districts can span strong and weak markets along major north-south thoroughfares, with the funds generated in the more prosperous parts being used to improve the infrastructure to help jumpstart the market in weaker areas. More importantly, ways need to be found to link residents of North St. Louis to the expanding job base in the Central Corridor (Mallach 2016).

Conclusion: The Advantages (and Limits) of Rationing

The American health care system often avoids tough choices under the illusion that everyone should receive the best medical care possible -- even if that means spending hundreds of thousands of dollars to keep someone alive for a few weeks.²¹ To ration health care on the basis of cost effectiveness, many believe, would be irresponsible; government “death panels” should not be able to “pull the plug on grandma.” Of course, we do ration health care; we just do it unintentionally. Those with health insurance generally receive whatever health services risk-averse doctors recommend; those without health insurance often cannot afford even basic services. We spend billions on end-of-life care but lack funding for preventive medicine and public health measures which research shows would result in many more life years saved per dollar spent. Based on market principles and fee-for-service insurance, our health care system obscures the trade-off we have implicitly made: huge investments in end-of-life care at the expense of primary care and disease prevention, especially for those at the bottom of the socio-economic ladder.

Similarly, housing and community development policies avoid tough choices in ways that ultimately harm the neediest households. Ironically, the neediest households are harmed by policies that give highest priority to producing affordable housing for the neediest households. The nub of the problem is that we do not take sufficiently into account market conditions when allocating scarce resources. Market strength varies tremendously within and across metropolitan areas. Our model of housing and community development policies, however, is based on one type of metropolitan area -- strong market metros on the two coasts. This model, designed to maximize the production of affordable housing for the neediest households, makes sense in tight housing markets, but when applied to weak market regions and neighborhoods it can actually worsen the problem. Like our medical system, we have a housing policy paradigm that directs resources to the most distressed neighborhoods -- with little chance of market recovery in the near term. At the same time, we under-invest in healthy neighborhoods that are threatened by blight and contagious abandonment.

Figure 3 sums up the main lessons of what I call market-savvy housing and community development policies. The two empty cells mark where, other things being equal, scarce housing and community development dollars should *not* be invested. We should not provide housing subsidies to low-income families to live in weak market settings; we should not provide place-based investments for strong market neighborhoods. Highest priority should be given to neighborhoods on the edge -- both temporally and spatially. Investing in neighborhoods located between strong and weak areas that still have functioning housing markets but could tip over into reinforcing cycles of decline will produce the greatest payoff in promoting equity and efficiency.

FIGURE 3: MARKET SAVVY HOUSING AND COMMUNITY DEVELOPMENT

	Weak Market	Middle Market	Strong Market
Invest in People		Stable Homeowners	Permanently Affordable Housing
Invest in Places	Comprehensive & Targeted Community Initiatives	Leverage Assets, Build Market Confidence	

After making the case that market strength needs to be taken into account in policy interventions, it must be acknowledged that communities have other strengths that can be leveraged to promote efficient and equitable outcomes. Strong civic institutions in a neighborhood can compensate, at least in part, for market weaknesses. Strong “social capital” has been correlated with neighborhood stability (Temkin & Rohe 1998). Collective efficacy, or the willingness of neighbors to intervene to achieve social order in their neighborhood, is correlated with lower crime, independent of the socioeconomic position of the community (Sampson 2012). In Cleveland, Neighborhood Progress, Inc.

has targeted nine communities that are not classic middle market neighborhoods but that have strong CDCs and civic assets giving them a greater likelihood of succeeding.

The argument that we should build on strengths – economic, social, and institutional -- is compelling, but a profound injustice still hangs over policy deliberations. As Colin Gordon and Richard Rothstein have amply documented, public policies in St. Louis and other metropolitan areas forcibly consigned African Americans to weak market communities. As a result of stagnant housing values, they have not been able to accumulate significant household assets and for this reason, even in the absence of racially exclusionary policies, African Americans remain locked out of high-opportunity parts of the region.²² The model for allocating housing and community development dollars does not address this injustice. Relatively few predominantly African American neighborhoods are well-suited for a middle market strategy. They are not “on the edge.” Their weak market status goes back a half century or more. Instead of a checkerboard pattern of racial segregation, the weak market neighborhoods in North St. Louis form one continuous racial enclave stretching from Delmar Boulevard to the suburbs of St. Louis County.²³ Many whites in the St. Louis region would never think of going there. In short, the build-on-strength approach recommended here has a built-in racial bias. In the absence of a massive affirmative action program for places like North St. Louis, policymakers confront a daunting dilemma: we can have smart housing and community development policies or we can have just ones – but it is difficult to have both.

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ENDNOTES

¹ A ratio of 3.0 has been identified as the cut-off between weak and strong housing markets (Buki and Schilling 2010a).

² The typical apartment is defined as the HUD-estimated Fair Market Rent (FMR), with affordability defined as spending no more than 30 percent of household income on housing and utilities. The FMR is set at the 40th percentile of rents in the area.

³ Weak housing submarkets are well known in older industrial cities like St. Louis and Detroit. Less well known is that even in hot market cities, like San Francisco, where the average price of a home now exceeds \$ 1 million, many neighborhoods are plagued by weak markets and falling home prices (Florida and Bendix 2015).

⁴ Ways of gauging market strength are drawn from Mallach 2012 and Hackworth 2014.

⁵ Author's calculations based on U.S. Census Bureau; American Community Survey, various years, American Community Survey 5-year estimates, accessed from AmericanFactFinder.

⁶ The 20 percent tipping point for the negative effects of concentrated poverty is supported in Galster (2010). For a synthesis of the research on the negative contextual effects of concentrated poverty, see Dreier, Mollenkopf, and Swanstrom 2014, ch. 3.

⁷ Author's calculations based on *U.S. Census Bureau; "Building Permits: Permits by County or Place,"* generated by Daniel Hutti; using Censtats Database; <http://www.census.gov/construction/bps/>; (8 February 2016); U.S. Census Bureau; "1990 Census of Population and Housing: Table 30 Population and Housing Units;"; https://www.census.gov/history/www/reference/publications/demographic_programs_1.html; (8 February 2016); U.S. Census Bureau; American Community Survey, 2014 American Community Survey 5-Year Estimates, Table DP04; generated by Daniel Hutti; using AmericanFactFinder; <<http://factfinder2.census.gov>>; (8 February 2016); U.S. Census Bureau; Decennial Census 2000, Table QT-H1; generated by Daniel Hutti; using AmericanFactFinder; <<http://factfinder2.census.gov>>; (8 February 2016); U.S. Census Bureau; Decennial Census 2010, Table QT-H1; generated by Daniel Hutti; using AmericanFactFinder; <<http://factfinder2.census.gov>>; (8 February 2016). St. Louis is not alone in overproducing housing (see Bier and Post 2003).

⁸ Hackworth's estimate draws on Glaeser and Gyourko (2005).

⁹ For an analysis of why LIHTC projects often end up in weak market communities, see Orfield 2015, 594-599. For an analysis of the same bias for housing vouchers, see McClure, Schwartz and Taghavi 2015; and Metzger 2015.

¹⁰ "The Delmar Divide" was made infamous by a BBC documentary by that name.

¹¹ Scholarly reviews of the research on the effects of subsidized housing on surrounding property values conclude that it often has no effect and may, in fact, increase surrounding values. However, studies also confirm that if subsidized housing is concentrated in a weak market community, it can have negative effects on surrounding property values. For a succinct synthesis of four literature reviews, see Center for Housing Policy n.d.

¹² For a critique of limits of the Obama Administration's comprehensive community revitalization programs, see Swanstrom forthcoming.

¹³ In 1975, planners in St. Louis recommended a right-sizing strategy called Team Four. It was immediately attacked, inaccurately, as "planned shrinkage", or an effort to starve the black

communities in North St. Louis of public services. Because the North Side has continued to languish, politicians have argued that Team Four has been in fact the policy of the city – even though there is little evidence for this (Cooper-McCann 2013). Over than thirty years after Team Four was written, a Congressional Field Hearing was held in St. Louis to air grievances against Team Four (Subcommittee on Housing and Community Opportunity 2008).

¹⁴ Even in weak market areas that have little immediate prospect for repopulation, opportunities exist to leverage the market. The most valuable asset in weak market areas is land (Mallach 2012, pp. 103-106). Urban agriculture serving niche markets can be profitable and sewer utilities are often willing to pay communities to convert vacant land for storm water retention.

¹⁵ My discussion of middle market strategy draws heavily on the work of Charles Buki and David Boehlke, especially the Healthy Neighborhoods approach that has been developed in Baltimore and other cities.

¹⁶ For a critique of using market value analysis (MVA) to target subsidies to middle-market neighborhoods in Baltimore, see Davidoff, (2015).

¹⁷ At the same time, the equity planners in Cleveland were clear that those parts of the city that do not receive concentrated housing and community development assistance still need help. In contrast to the idea of “planned shrinkage,” Krumholz recommended maintaining basic city services in the weakest market areas (Cooper-McCann 2013).

¹⁸ For the constitutional arguments against racial integration maintenance programs, see Smolla 1981. The federal government successfully sued a federally subsidized private housing development from implementing racial quotas in an effort to maintain racial integration in *U. S. v. Starrett City Associates*, U. S. Court of Appeals, 2nd Circuit, 840 F.2d 1096 (1988).

¹⁹ Under Section 8 vouchers, for example, the “fair market rent” (FMR) is based on the entire metropolitan area. Few apartments in strong submarkets qualify for the program. HUD has established a pilot program to use small area rents to calculate the FMR and thus give voucher holders access to higher opportunity areas. At present it is only applicable to Dallas and public housing authorities participating in the Small Area FMR Demonstration Program. See <https://www.huduser.gov/portal/datasets/fmr/smallarea/index.html>.

²⁰ For this reason, Rick Jacobus (2016) argues that efforts by progressives to “block new luxury development neighborhood by neighborhood is a losing strategy.”

²¹ The case for rationing health care services is made by Leonhardt 2009; Singer 2009; and Porter 2012.

²² To correct this injustice, Rothstein suggests the federal government purchase homes in strong market suburbs and sell them back to blacks at the same price their grandparents would have paid (controlling for inflation), if they had been permitted to buy there many decades ago.

²³ Massey and Denton (1993, 74) identify this as one of the five characteristics of “hyper-segregation.”