



## Report to the Community JUNE 2005

### LITERATURE REVIEW:

## Impact of Affordable Housing on Individuals and Families

The Low Income Investment Fund (LIIF) is launching the Housing Impact Initiative—an innovative and long overdue investigation of the long-term benefits to families of living in privately owned assisted housing. The Initiative will examine the extent to which, and how, assisted housing promotes adult and child well being considering such fundamental outcomes as residential stability, mental and physical health, children’s school success, movement toward homeownership, and economic advancement, including asset-building.

This Report to the Community serves as a summary of current research on the topic of how affordable housing programs improve economic mobility for their recipients. It is intended to highlight what is currently known about the effects of subsidized rental and homeownership programs on increasing family well-being, defined to include employment and earnings, health outcomes, and other broad measures. The Report will also identify major gaps in understanding the ways in which housing programs advance these goals.



## Rental Housing Assistance and Self-Sufficiency

Historically, the principal purpose of rental housing assistance has been straightforward: to provide affordable, decent-quality housing to all American families. Over the last two decades, this focus has broadened to include a somewhat wider range of social and economic policy goals, most importantly, family self-sufficiency and economic mobility. In addition to providing housing benefits (that is, decent, affordable places to live), housing assistance also provides a form of income subsidy to reduce the amount of income paid for housing, thus freeing up more income to pay for other goods and services.

Housing policy research has not kept pace with the changing nature of housing assistance. Only recently has there been a substantial focus on understanding the relationship between housing subsidy programs and family efforts to leave poverty and become upwardly mobile. But how the lives of families who receive housing assistance differ from those of similarly situated unsubsidized families is not yet well understood.

### Structure of Housing Programs May Impact Self-Sufficiency Efforts

The form housing assistance takes may have an important effect on the self-sufficiency outcomes for residents. All federal housing programs ensure some level of affordability, since rents are based on a percentage of family income. However, the specific type of housing assistance may play a role in the delivery of services and residents' access to jobs. Project-based assistance—both federal public housing and project-based Section 8—links subsidies directly to physical units and thus limits residents to those specific locations. While the concentration of low income residents in project-based developments may make it easier to locate services within close proximity to residents (either on-site or nearby), the siting of these developments may limit access to jobs.

Alternatively, vouchers offer recipients residential mobility—recipients can rent units in the location of their choice (subject to market availability) and can move to meet the housing and other needs of their families. With greater geographic dispersal, the ability to target services to voucher holders becomes more difficult. On the other hand, the ability to move to neighborhoods that offer better schools or employment opportunities may provide greater opportunities for enhancing family outcomes for voucher holders.


More recently, much affordable housing is constructed using a combination of funding sources, including federal tax credits and various state subsidy mechanisms. Unlike project-based Section 8, these developments must provide housing to targeted income groups, but generally use fixed rather than income-based rents.

### Housing Programs Do Not Operate in a Vacuum

Identification of the role of housing assistance in contributing to family well-being, upward mobility and family self-sufficiency is a complex undertaking. At its most basic level, housing assistance offers families the security and stability of decent, affordable housing.

- **Affordability:** Families receiving housing subsidies are relieved of some of the economic hardship of paying extremely large percentages of income for rent, providing more disposable income for other basic needs.
- **Stability:** Families receiving housing assistance do not need to move as frequently as those without assistance, providing greater residential stability and greater ties to neighborhood.

Receipt of housing assistance is associated with increased employment and earnings.



But housing programs do not operate in a vacuum. Many families with housing assistance frequently access other programs that supplement family efforts to increase self-sufficiency. For example, families receiving housing subsidies may participate in Temporary Assistance for Needy Families (TANF) programs providing time-limited cash assistance and employment-related services. In some cases, employment and support services are provided directly to residents of public housing and project-based Section 8. Nearly 70,000 voucher holders now participate in the nationwide Department of Housing and Urban Development (HUD)-sponsored Family Self-Sufficiency (FSS) program, which provides case management and an income-based savings mechanism.

### **Emerging Research Suggests Positive Impact of Housing Subsidies in Promoting Work and Increasing Income**

A recent body of research, much of it conducted in carefully controlled random-assignment experiments, suggests that in combination with welfare-related employment services, housing programs can play a critical role in promoting increased employment and earnings. Recent findings of MDRC, a leading welfare reform research organization, indicate that receipt of housing assistance is associated with increased employment and earnings. Significantly, families in these experiments who received housing subsidies performed far better in income growth than families lacking housing assistance.

But this finding is not conclusive; other housing experiments and significant welfare reform research shows little impact on the employment of those with housing assistance. A thorough review of the research on the impact of housing assistance on self-sufficiency concluded that receipt of housing assistance had no short-term impact on employment and earnings (Shroder 2002). Shroder's review found a number of studies with some positive effects on earnings and employment and several with no significant effects.

Before reviewing the quantitative research on this topic, it is important to note the contribution of ethnographic research. In *Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work* (Edin and Lein 1997), the authors summarized interviews with approximately 300 single mothers focusing their decision on whether or not to work outside the home. This study found that housing assistance plays a critical role in this decision. Those with housing assistance had enough extra money to be able to provide basic needs like food, clothing and shelter for their families. Those without housing assistance had to either forego critical basic needs or push their families into debt. Moreover, housing assistance reduces the stress associated with managing high housing-cost burdens along with all other family expenses for families that have too little to live comfortably.

### **Positive Findings from Random-Assignment Welfare-to-Work Experiments**

The most encouraging findings on the impact of housing assistance in increasing the success of welfare reform efforts to move families from welfare to work come from two random-assignment experiments. These experiments took place in Minnesota and Connecticut, and were evaluated by MDRC. In both of these experiments, welfare policies included carrots, supports and sticks: employment services, participation mandates, financial incentives to work, financial sanctions for failure to comply with program requirements and/or welfare time limits. And in both experiments, the impact of welfare reform programs was substantially greater for housing-assistance recipients than for those with no assistance.

- Minnesota: Minnesota Family Investment Program (MFIP) participants with housing assistance accounted for the overwhelming proportion of all income gains in MFIP. Over the three-year follow-up period, MFIP participants with housing assistance increased their incomes a total of \$5,473 over controls, versus only \$603 for those without housing assistance. Earning increases in MFIP in general, and for housing-assistance recipients in particular, were as large as any effects that MDRC has found in any welfare-to-work evaluation. MFIP services increased the employment rate of those with assistance by 18 percent, more than twice the gain for those without assistance. The MFIP experiment design did include participation requirements but did not include time limits.
- Connecticut: Under the Connecticut “Jobs First” program, which did include work requirements and time limits, the \$3,965 impact on cumulative four-year earnings for those with housing assistance was more than double the impact for those without housing assistance.

In both Minnesota and Connecticut, researchers controlled for and concluded that the differences in impact by housing status were not explained by differences in the types of people who do or do not receive housing assistance.

Some earlier welfare-to-work experiments in Atlanta and Columbus, which did not include time limits, produced similarly positive results about the role of housing assistance. In Atlanta, public housing residents who were threatened with sanctions for opting out of education or job-training activities had a higher probability of being employed over three years and, on average, had higher earnings. Those who did not receive housing assistance saw no change in likelihood of employment or significant increase in earnings when faced with the same potential penalty. In the Columbus study, public housing residents saw an increase of \$2,800 after three years, versus \$140 for the unassisted group.

In summary, MDRC found that in eight of the ten studies they conducted at six different sites, welfare reform outcomes were enhanced for those who were also receiving housing assistance. All of these studies were primarily undertaken to evaluate the role of welfare policy changes—varying combinations of employment services, work incentives, participation requirements and time limits—on welfare populations. Only as a secondary research priority did MDRC examine the differential impacts for those with and without housing assistance.

Beyond the MDRC work, several studies of welfare-leavers found that receipt of housing assistance contributed to leaving welfare. A national study of welfare-leavers found that families who left welfare but received housing assistance were more likely than those without housing assistance to be working. More than two-thirds of welfare-leavers with housing assistance were working (68 percent), compared to 58 percent of those welfare-leavers without housing assistance (Zedlewski 2002).

Another study examined welfare-leavers in three cities. Despite living in very distressed neighborhoods in Boston, Chicago and San Antonio, those with Section 8 subsidies (both project-based and vouchers) were substantially more likely to leave TANF than those living in public housing, who were in turn somewhat more likely to leave TANF than those with no assistance (Quane, et al. 2001).

### **Jobs-Plus Suggests Housing Assistance Can be Key to Employment Gains**

The potential economic benefits of housing assistance are bolstered by the findings from the HUD-sponsored Jobs-Plus public housing demonstration, a quasi-experimental design with a rigorous research component performed by MDRC.

Jobs-Plus was a demonstration project in large urban public housing developments that tests whether a combination of financial incentives, saturation-level employment services and community support for work (neighbor-to-neighbor outreach) could substantially increase the employment levels of adults in public



Several studies of welfare-leavers found that receipt of housing assistance contributed to leaving welfare.



housing. While the Jobs-Plus design did not include mandatory participation requirements or sanctions for failing to participate, those types of penalties were part of the welfare reform programs for participants receiving welfare assistance.

Evaluation results indicate that Jobs-Plus increased participant earnings across all six participating sites, but produced particularly strong earnings gains in the three sites that implemented well-developed programs. In each site, program gains were measured against similar public housing developments without Jobs-Plus program interventions. Across all sites, Jobs-Plus participants increased annual earnings by 6.2 percent more than residents in comparable developments without Jobs-Plus services. In the three stronger implementation sites, Jobs-Plus increased annual earnings by 14 percent. By the fifth year, annual earnings differences in the three strong sites were 20 percent (\$1,450) higher than non-Jobs-Plus developments. Where well implemented, earnings gains in Jobs-Plus were as large as the most successful interventions from welfare-to-work programs that have been rigorously evaluated (Bloom, et al. 2005).

Jobs-Plus researchers indicate that rent incentives—that is, a reduction in the so-called HUD tax, which requires HUD-assisted tenants to pay 30 percent of every dollar of income for rent—appeared to be an important component of their program, particularly for attracting participation in the program and for enhancing retention among those who found jobs. Results also show that the sharp increases in earnings relative to the comparison sites only began when rent incentives were fully implemented. This suggests that HUD's fixed 30-percent-of-income rent rule may have a significant negative effect on the work efforts of residents.

### **Other Welfare Reform Research Finds Less Positive Employment Effects**

The studies noted previously reflect the most recent research, which emanates largely from either random-assignment experiments or quasi-experimental designs. They clearly seem to indicate that housing assistance can advance the success of welfare-reform initiatives in improving earnings and employment outcomes. At the same time, welfare reform has generated a substantial body of experimental



design research to examine the role of housing assistance in the absence of experimental designs. The results of this research are much more varied and less clear in their implications.

For example, after carefully controlling for personal and neighborhood characteristics, a recent study covering 17,000 welfare-leavers in Cuyahoga County, Ohio, found positive employment impacts for residents of public housing, but no impacts for other forms of subsidized housing (Banias et al. 2003).

Surprisingly, study authors found that those welfare leavers with vouchers are associated with negative earnings effects, and that the association between public housing and earnings varied depending on the analytic specifications. However, this study did find that among those who left welfare for work, those with housing vouchers were significantly less likely than those with other forms of housing assistance to return to welfare. This latter finding suggests that housing assistance could be an important ingredient in allowing those who find work to maintain their employment.

A study of welfare recipients in New York City found that housing assistance did not have a notable impact on employment or earnings outcomes (Van Ryzin et al. 2003). A study of four California counties (Ong 1998) found that receipt of vouchers had a substantial positive impact on the number of hours welfare recipients worked, thus leading to increased earnings by these families. This study found no employment effects associated with those living in public housing.

#### **Welfare-to-Work Voucher Program Shows No Early Employment Effects**

The welfare-to-work voucher program randomly assigned welfare families to receive Section 8 vouchers or no assistance to test whether housing assistance could help to increase earnings and employment, in cooperation with local welfare-to-work programs. While this demonstration was originally

intended to combine vouchers with carefully integrated welfare services, implementation suggests that little program integration actually occurred. Conducted at six sites, the demonstration's published results are not yet available. Researchers familiar with the data indicate that while households receiving Section 8 assistance did move to better neighborhoods, there were no significant short-term employment or earnings impacts compared to those who did not receive Section 8 vouchers.<sup>1</sup>


#### **Moving to Opportunity Shows No Positive Employment Effects After Five Years**

A final important piece of the research puzzle on the employment and income effects of receiving housing vouchers comes from the HUD-sponsored Moving to Opportunity (MTO) demonstration, a random-assignment demonstration project testing the effects of requiring and helping families move to low-poverty neighborhoods.<sup>2</sup> MTO did not provide additional employment or supportive services to any recipients. If participants were TANF recipients, they were required to comply with and benefit from whatever program requirements and benefits were in place in their particular states or locales.

The design of this experiment is critical to understanding and interpreting the findings. Unlike the other welfare-to-work evaluations mentioned previously, MTO did not measure the outcomes for those receiving housing assistance against those who do not. Instead, MTO measured the effectiveness of using Section 8 vouchers to help families move to low-poverty neighborhoods, versus two other assisted groups—those with regular Section 8 vouchers and those who stay in project-based assistance. It was intended to replicate the findings of the successful Gautreaux housing program, a quasi-experimental design that moved volunteer African-American families from assisted-housing projects to more racially integrated suburban neighborhoods

1. Conversation with Gregory Mills, Principal Investigator, Abt Associates, March 16, 2004.

2. The MTO demonstration ran in five large cities: Baltimore, Boston, Chicago, Los Angeles and New York between September 1994 and August 1998. A total of 4,608 families enrolled in the demonstration.



in Chicago. The Gautreaux program produced significant improvements in earnings and educational outcomes for children who moved to the suburbs as compared to those who moved to city neighborhoods (Rosenbaum 1991). The mid-term evaluation of MTO (four to seven years after placement) found no effects on employment or earnings of participants as compared to the control group in project-based assistance.

### **Studies Find Mixed Results**

We start from the hypothesis that housing assistance provides a stable financial and residential platform from which low income families can address other issues in their lives, particularly with respect to getting and keeping jobs and making human capital investments. Evidence of the impact of housing assistance on efforts to lift the employment and earnings of low income people is frustratingly mixed.

On the one hand, the most positive and encouraging results arise from the carefully designed, rigorously researched random-assignment experiments. Though these experiments are not primarily focused on housing impacts, they have produced very strong indications that housing assistance is a key ingredient in allowing families to succeed in making the transition from welfare to work and in allowing these families to stay in jobs. In the most rigorous and robust welfare-to-work experiments (Connecticut and Minnesota, as well as Atlanta), those with housing assistance realized substantially larger income gains compared to those who did not have housing assistance.

Similarly significant improvements are evident in the Jobs-Plus public housing demonstration, which added to standard welfare program interventions with additional rent incentives, access to employment services and a community supportive of work.

Several factors may contribute to these findings, including:

- **Policy interventions:** Unlike some of the other research focusing on welfare-reform interventions, these experiments were designed to test unique combinations of financial incentives to make work pay, mandatory program participation requirements, penalties for failure to meet participation requirements and/or time limits. In some cases, the experimental policy intervention may be more innovative and far reaching than evaluations of mainstream welfare reform programs.
- **Sophisticated research design:** MDRC makes significant efforts to formulate research models to control for differences in populations, particularly with respect to characteristics of occupants of different types of housing assistance. These controls are important to present a clear and accurate picture of program-induced gains.

On the other hand, several other rigorously designed studies of non-demonstration welfare-to-work programs show little or no significant employment effects for those with housing subsidies. Similarly, other more housing-focused random-assignment experiments, including the welfare to work voucher demonstration and the MTO demonstration, have also found no employment or earnings effects in early evaluations.

It is also important to keep in mind that most of the studies mentioned above address the employment and earnings effects of program interventions on the “welfare poor,” rather than the working poor. The welfare poor account for the largest proportion of families residing in public housing and/or receiving Section 8 vouchers or project-based assistance. However, those subsidized by the Low Income Housing Tax Credit or other non-Section 8 subsidies are more likely to be working-poor families with somewhat higher incomes (in the 30 to 60 percent of area-median-income range). We found little research to assess the employment effects of housing assistance for these families.



Children of families on a waiting list for housing assistance were much more likely to suffer from stunted growth than children of families who receive housing subsidies.

### Other Social Indicators Linked to Housing

The foregoing discussion focuses narrowly on the employment and earnings effects on those who receive housing assistance. However, housing assistance could also have a direct impact on a family's access to quality education, its exposure to crime, the behavior of children, and its health and nutrition. These issues are explored in turn.

### Educational Outcomes

Housing subsidies may help improve children's educational prospects. There is a strong body of research that documents the negative impact of frequent moves on a child's school achievement. By enabling poor families to find and keep affordable housing, housing subsidies may help children in these families maintain attendance rates and remain in a stable school setting, thereby improving their educational prospects.<sup>3</sup> In addition, there is some evidence to suggest that school performance correlates to certain neighborhood characteristics, such as poverty concentration. By enabling families to move to neighborhoods with better educational opportunities, tenant-based housing vouchers and project-based developments located in lower-poverty neighborhoods may help families secure better educational outcomes for their children.

Several studies support this theory. One study showed that children in public housing are 11 percent less likely to repeat a grade than they would have been otherwise (Currie and Yelowitz 2000). Another study shows that poor children who spent some of their pre-teen or teen years in public housing had greater educational outcomes than children in families who did not receive housing assistance (Newman and Harkness 2000).

Unlike the Gautreaux findings, which showed positive educational achievement benefits for families who moved to the suburbs, mid-term


evidence from the MTO evaluation shows no significant impact on educational achievement. There were some early encouraging findings from Baltimore, which showed significant increases in reading and math test scores for participants in the experimental Section 8 and more modest gains in reading for the Section 8 control group. However, the mid-term evaluation showed no significant impact on educational achievements for either the experimental or the regular Section 8 group as compared to those who remained in project-based housing. There were, however, significant but small improvements in the quality of schools that MTO children in the experimental group attended.

### Behavior and Crime

Limited research has been conducted on the relationship between housing assistance and youth behavior. Recent results from the MTO experiment shed some helpful light on the subject. Behavioral effects are split clearly on gender lines. In short, girls experienced benefits from moves to low-poverty neighborhoods, while boys experienced more behavioral problems. Specifically:

- Positive impacts for girls: Girls moving to low-poverty neighborhoods experienced improvements in education and mental health, and were found to be less likely to engage in risky behaviors. Girls in the regular Section 8 control group also experienced improved mental health.
- Negative impacts for boys: Boys, in both types of Section 8 treatments, were more likely to experience physical health problems and to engage in risky behaviors than were boys who remained in project-based assistance. Boys in the treatments also reported an increase in problem behaviors and property crimes compared to boys in the control group.

3. See, e.g., March 1998 "A Report from the Kids' Mobility Project," available from the Hennepin County Office of Planning & Development, Government Center A-2308, 300 S. Sixth St., Minneapolis, MN 55487-0238, (612) 348-4466, and US General Accounting Office, *Elementary school children: Many change schools frequently, harming their education*. Washington DC: US Government Printing Office/HEHS-94-45.



MTO improves adult perceptions of safety. Adults reported a substantial increase in their perception of safety in and around their homes and large reductions in the likelihood of observing or being victims of crime. These changes were largest among those moving to low-poverty neighborhoods, but also applied to regular Section 8 movers (Orr et al. 2003).

### **Health and Nutrition**

Studies by doctors in Boston suggest that receipt of housing subsidies may lead to improvements in child health. One study found that children of families on a waiting list for housing assistance were much more likely to suffer from stunted growth than children of families who receive housing subsidies (Meyers et al. 1995). The most likely explanation for these results is the increased ability of families with housing subsidies to afford nutritious food. Two more recent studies of welfare-leavers in Los Angeles County and in Massachusetts do not confirm these findings. In Los Angeles, HUD-assisted welfare-leavers were more likely than unassisted leavers to experience food insecurity. In Massachusetts, there was no significant difference in food security between those with and those without housing assistance (Verma and Hendra 2003; Nagle 2003).

There is some evidence to suggest that the use of tenant-based subsidies to help families move to low-poverty neighborhoods may help improve child health and child safety. A study of participants in the MTO demonstration program in Boston found that the children of families who received assistance in moving to low-poverty neighborhoods were less likely to experience serious asthma attacks or be victims of violent crime than the children of families who remained in higher-poverty neighborhoods (Katz et al. 2001).

However, a more recent assessment of the MTO findings showed only one significant impact on physical health for adults or children. For both MTO experimental and regular Section 8 participants, there were large reductions in the incidence of obesity.

MTO did produce some mental health benefits for both adults and children. Adults in the experimental program experienced a reduction in psychological distress and some reduction in depression. Among youth, only girls experienced mental health improvements—a moderately large reduction in psychological distress for girls in the experimental group, a substantial decrease in depression for girls in the regular Section 8 group and very large reductions in generalized anxiety disorder among girls in both treatment groups (Duncan et al. 2004).

In a more qualitative survey of Gautreaux program participants, findings suggest a link between housing assistance and increased real safety and perceived control by family heads (Rosenbaum et al. 2002). Giving poor black families the opportunity to live in environments no longer isolated by racial and socio-economic barriers can produce improved efficacy among program participants. Suburban living can create access to higher-paying jobs, more racially integrated neighborhoods and exposure to middle-class habits.

“This freedom from danger and worry contributed to a greater sense of efficacy for Ms. P., Mr. K. and many others. Freedom from fear gave them a more positive outlook on the situations they must face daily” (Rosenbaum et al. 2002).

### **Conclusions**

Taken as a whole, there is some modest and hopeful evidence that subsidized rental housing programs can contribute to family well-being in a number of critical ways. While evidence is mixed, there is some reason to believe that housing assistance, in combination with welfare programs that provide employment services, financial incentives, and program participation requirements and sanctions can have relatively large effects on increasing employment and lifting earnings. However, even these robust earnings increases are not sufficient to lift most of the affected families out of poverty in the short- to medium-term.

In the areas of education, health and nutrition, youth behavior, and perceptions of crime, there is limited but mostly positive evidence about housing assistance contributing to family well-being. Mid-term results from the MTO demonstration project—one of the most far-reaching evaluation efforts of the use of vouchers both generally and restricted to low poverty neighborhoods—show substantial improvements in adult perception of neighborhood safety and victimization and in adult mental health. There seem to be divergent impacts of the MTO program for girls and boys in terms of education, problem behavior and general mental health. It should be remembered, however, that MTO compares recipients of three different types of housing assistance rather than comparing those with assistance to those without it.

income homeowners and renters. Using Panel Study of Income Dynamics (PSID) data, they tracked seven outcomes and, with robust control measures, found that homeownership increases educational attainment, raises earnings and reduces future welfare use, as compared to children of low income renters.

Using less strict methodological controls, they also found that, on average, children of homeowners tended to have incomes \$2,500, or 24 percent, higher; a 20 percent higher likelihood of high-school graduation; a 62 percent higher likelihood of attending college; 33 percent less likelihood of teenage pregnancy; and 40 percent less likelihood of idleness at age 20 (Newman and Harkness 2002).

These findings confirm earlier work by Boehm and Schlottmann (2002), who developed a methodology to understand wealth generated by housing and non-housing sources and compare wealth accumulation of low income and high income owners to renters. The authors found that children in low income home-owning families not only have a higher propensity to be future homeowners themselves, but ownership happens earlier than for children from families who rent.

Haurin, Parcel and Haurin (2002) found that homeownership reduces behavioral problems, increases cognitive abilities and increases the quality of home environments. Other studies also found improved educational outcomes for children of low income homeowners. Previous research further supports the notion that homeownership has a positive association with the probability of high school graduation and increased cognitive performance.<sup>4</sup>

### Low Income Homeownership Programs and Self-Sufficiency

For low income families, rental assistance is not the only means of subsidized housing. A variety of programs exist to encourage homeownership among individuals and families with modest means. These various programs use several mechanisms to make homeownership affordable. One such example is reducing the amount of money necessary for a down payment. Research as to the benefits of these programs has shown mixed results.

### Enhanced Earnings and Wealth, Improved Educational Outcomes and Reduced Behavioral Problems for Children of Homeowners

For poor children, homeownership is associated with larger increased educational attainment, earnings and welfare independence than for children in higher-income families. In the most sophisticated research model to date, Newman and Harkness (2002) examined children ages 11 to 15 of both lower-and higher-



Homeownership reduces behavioral problems, increases cognitive abilities and increases the quality of home environments.

4. This unpublished study examines the effect of mobility in general on education rather than stability for low income homeowners specifically. The authors asked that this work not be cited.



### **Homeownership Improves Self-Efficacy**

People who own homes may differ from renters in a variety of ways. Homeownership requires a certain level of discipline to save money for a down payment and diligence in making mortgage payments for an extended period of time. Recent literature tries to illustrate the social costs and benefits of homeownership to families, but few address low income households specifically, or the issue of selection bias—that those low income households who become homeowners may be different in immeasurable ways from those who do not—and control for these underlying characteristics as Newman and Harkness (2002) attempt to do.

With these caveats in mind, the available research has found positive associations between homeownership and a variety of factors associated with self-efficacy, or the feeling of control over one's life outcomes. Homeownership can lead to higher levels of self-esteem due to the social status ascribed to owners versus renters (Rohe et al. 2002). There are two main reasons for this. First, self-esteem is a function of how one sees himself in relation to others, especially his peers.

Our society tends to internalize the value of homeownership as part of the “American Dream.” Therefore, for low income families who live among renters, owning their own home can provide added status and improved self-esteem (Rohe et al. 2002). Second, self-esteem is influenced by an assessment of past performance. As homeownership is a goal for many Americans, having set and achieved this goal may contribute to higher self-esteem (Fannie Mae 1999).

### **Does Homeownership Makes Sense for All Low Income Families?**

Though homeownership is a wise choice for some low income families, it may not be the best decision for all. Although little national research has thoroughly examined this question as it relates to low income families specifically, a few studies have looked at the drawbacks of homeownership in certain cities.

In studies using information available from the Home Mortgage Disclosure Act, researchers found that foreclosures in Atlanta and Boston were not consistent across income levels.



Owning a home may limit the ability of low income families to move out of less desirable neighborhoods.

Examining data from 1994 to 1998, they found that foreclosures with subprime lending had increased across all income levels, but the largest share of foreclosures by subprime lenders was among low income neighborhoods in Atlanta (Gruenstein and Herbert 2000). In a separate study using Boston foreclosure data, the researchers found that the absolute growth in subprime foreclosures was highest in low income areas (Gruenstein and Herbert 2000). However, it may be premature to extrapolate from Atlanta and Boston to the nation as a whole in drawing conclusions.

#### **As an Investment, Home Equity May Cause Overexposure**

For low income homeowners, equity in their house is often the largest part of their portfolio. When comparing the highest-value house quartile to the lowest-value quartile, the authors found the following disparity: For the highest house-value quartile, housing equity is roughly half the wealth accumulation from nonhousing sources (\$57,000 in house equity versus \$118,000 in nonhousing wealth). For the lowest house-value quartile, housing equity is twice the amount of nonhousing equity accumulation (\$10,000 versus \$5,000, respectively) (Boehm and Schlottmann 2002).

However, research has yet to investigate whether low income renters accumulate wealth at lower rates than low income homeowners (Boehm and Schlottmann 2002). Intuitively, it would seem that two households with similar housing costs as a percent of income would face different rates of wealth accumulation if the homeowners convert the cash spent on housing into equity. However, empirical studies into this question have not been published. Moreover, the above-mentioned study looks at house value to distinguish high and low income groups. While low income families are unlikely to purchase high-value homes, high-income families could buy low-value homes, therefore skewing the results.

#### **Residential Stability Due to Ownership May Be Detrimental**

While much research has pointed to the neighborhood stability created by high rates of homeownership, several studies have found that owning a home may limit the ability of low income families to move out of less desirable neighborhoods. Using PSID, South and Crowder (1998) found that poor minority homeowners in depressed neighborhoods tend not to move to an area of better quality. Rather, they tend to stay or move to a neighborhood of similar or worse quality.

For single, black, female-headed households, age and homeownership hindered families' move from poor neighborhoods to non-poor neighborhoods (South and Crowder 1998). Since job opportunities tend to cluster in non-poor areas, employment in a poor area is unlikely. This inability to find a good-paying job nearby and eventually move out of a depressed neighborhood may also limit the economic mobility of families.

#### **Neighborhood Outcomes**

Due to their equity investment, homeowners tend to behave differently toward property they own versus property they rent. In general, an owner is more apt to invest not only in the physical structure, but also in the immediate environs, as these factors may have an impact on a home's resale value. Examples of environmental improvements range from physical changes, such as planting trees or cleaning up vacant lots, to intangible improvements, such as forming a block association or coaching a sports team.

Two programs in New York City that had the aim of increasing homeownership in blighted communities were the Nehemiah Plan and the New Homes Program.<sup>5</sup> Ellen, Schill, Susin and Schwartz (2001) use data from these two programs and city sales data from 230,000 transactions to test the hypothesis that homeownership and housing redevelopment are

5. The Nehemiah Plan built roughly 3,000 homes in Brooklyn and the South Bronx on large tracts of city-owned, donated land. The New Homes Program was managed by the NYC Housing Partnership, a nonprofit intermediary working with for-profit developers. This program built roughly 12,600 new homes in Brooklyn and the Bronx.



positively associated with increased property values in surrounding areas. Controlling for size, type and housing market conditions, they found that these homeownership developments had positive impacts on the surrounding neighborhoods.

On average, per-unit sales prices in 1980 in buildings located within 500 feet of the future locations of Nehemiah or New Homes projects were 43 percent lower than all other prices from the surrounding community. By 1999, the average value of properties sold within 500 feet of a Nehemiah or New Homes site was only 24 percent below the average price in the sample area.

Neighborhood impacts can be physical or financial, as in the example above, or they can be intangible/social as in the following case. Homeowners have a vested interest in maintaining or improving the areas around their homes. Since home equity is influenced by nearby environmental factors, homeowners tend to join volunteer or political organizations to influence local policy (Baum and Kingston 1984). An additional reason for involvement has to do with the expense of moving (Cox 1982). A neighborhood that deteriorates will burden the homeowner with substantial transaction costs. Therefore, owners can minimize the potential decline in the social and physical conditions of their neighborhoods by working with others to maintain or improve the community (Rohe et al. 2002). A third reason for added community involvement of homeowners over renters is that owners tend to stay in a neighborhood for longer periods and may develop stronger attachments to their homes (Baum and Kingston 1984).

Several studies have provided empirical evidence that supports the idea of greater neighborhood participation among homeowners in general, but one study further narrows the focus to low income homeowners in particular. According to a longitudinal study comparing low income homebuyers to renters, researchers found purchasers more likely to participate in block associations, but not other types of community organizations (Rohe and Stegman 1994).

## Major Research Gaps

The previously cited literature elaborates on various studies examining how people behave when given housing subsidies.

However, little or no research has examined what affordable housing participants do with the effective increase in disposable income that accrues as a result of housing subsidies. As noted earlier, ethnographic studies (such as Edin and Lein 1997) suggest that housing subsidies play a critical role in allowing low income families to maintain basic needs, provide a modest level of financial support for their families, and relieve much of the stress associated with meeting day-to-day financial needs.

A more rigorous examination of how housing subsidies affect family budgets is sorely needed. How do families with housing subsidies allocate the additional disposable income that results from not having to pay such large proportions of their income for housing? Do they spend more for food, health care, investments in human capital for themselves or their children, or discretionary consumption?

Other potential research topics that emerge from this review include:

- Outcomes in market-rate affordable housing vs. assisted housing: Another research gap is documentation of key-indicator data on employment and other social indicators for families who live in affordable unsubsidized housing. Do outcomes vary for families who get housing assistance to achieve affordability compared to those who find affordable market-rate housing?
- Role of mobility in educational achievement: To what extent does affordable housing mitigate the frequency of moves? If one controls the number of moves and other personal characteristics, what happens to educational attainment?



Finally, a range of questions relating to low income homeownership arise:

- Does homeownership increase labor earnings for adults, or lead to greater wealth accumulation for adults?
- What effect does homeownership have on a low income family's costs?
- What effect does homeownership have on housing quality?
- How do houses purchased by low income homeowners appreciate compared to those of non-low income homeowners?
- How do investments in homeownership compare to alternative investment opportunities that might be available? That is, how does the appreciation of homes bought by low income homeowners compare with other investments that might be available to them? Empirically, what are the downsides to homeownership?

attainment. It will be the first longitudinal study to rigorously measure such a broad range of potential benefits. In an attempt to address the questions from funders, investors and practitioners alike regarding the ultimate contributions of assisted housing, the Initiative aims to answer the question, "Other things equal, does living in assisted housing improve the life chances of low income families?"

## Implications for LIIF

LIIF launched the Housing Impact Initiative in January 2004 to address some of the significant gaps in knowledge about how assisted housing affects the lives of low-and moderate-income families. As evidenced throughout this Report, remarkably little is known about how, when or even whether living in assisted housing contributes to a family's economic and personal well being. In particular, the idea that subsidized housing not only provides families with more disposable income but also improves their lives and situations has not been systematically examined. Solid research on this subject is long overdue.

The Housing Impact Initiative will investigate the ways families living in assisted rental housing make use of housing assistance and other programs and services delivered in conjunction with it, both at specific points in time and over an 11-year research period. It will consider how assisted housing may tangibly contribute to adult and child economic and social well being such as employment and earnings, health, savings, and educational

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### Production

**LIIF President & CEO:** Nancy O. Andrews

**Authors:** Stephen Jacob, Paul A. Leonard

**Design:** Lisa Edson Design

**Editors:** Lindsay LaSalle, Abigail McBride,  
Liza Ward

**Photography:** Anna Leithauser, Nadia Ferrigno,  
Maggie Hallahan

**Proofreader:** Susan Tasaki

### Low Income Investment Fund

100 Pine Street, Suite 1800

San Francisco, CA 94111

Tel 415.772.9094

Fax 415.772.9095

[www.liifund.org](http://www.liifund.org)