



An Opportunity Agenda for Renters

The Case for Simultaneous Investments in Residential
Mobility and Low-income Communities

By David Sanchez, Tracey Ross, and Julia Gordon

with Sarah Edelman, Michela Zonta, and Andrew Schwartz

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Introduction and summary

*Too often, where people live determines what opportunities they have in life. ...
In this country, of all countries, a person's zip code shouldn't decide their destiny.
We don't guarantee equal outcomes, but we do strive to guarantee an equal shot
at opportunity—in every neighborhood, for every American.*

— President Barack Obama¹

As the nation grapples with severe and worsening inequality, ensuring that opportunity is not limited by where a person lives is of utmost importance. A lack of available affordable housing and deeply rooted patterns of residential segregation have created a situation in which where people live depends in large part on their income, race, and ethnicity. For this reason, it is imperative to pursue policies that help all households find decent and affordable housing in neighborhoods that offer safety, stability, and opportunity.

To achieve this goal, we urge a two-pronged approach. Policies need to both promote residential mobility and a deconcentration of poverty while also supporting reinvestment in racially segregated and economically impoverished neighborhoods. Doing so will help transform these neighborhoods into healthy communities where residents have access to the basic building blocks of opportunity: high-quality housing, jobs, good schools, transportation, and health care.

This report provides an overview of the latest research that demonstrates how people's address affects their life outcomes. The report also outlines several policies to promote economic opportunity for America's low-income renters. Specifically, the following recommendations support affordable housing and economic opportunity:

- Use tax policy to increase the supply of affordable rental housing
- Eliminate restrictive and exclusionary zoning that keeps households out of high-opportunity neighborhoods
- Fund the federal housing voucher program in order to better equip it with tools to help households access high-opportunity neighborhoods

- Take a comprehensive approach to revitalizing high-poverty communities
- Preserve affordable rental housing more effectively
- Ensure that the secondary market continues to support affordable rental housing
- Maintain single-family rentals as a source of affordable housing

While the policy changes that are detailed in this report relate to housing, their effects reach far beyond physical buildings. Rather, by connecting more households with the supports and institutions that enable them to succeed, these policies will promote economic opportunity for millions of low-income households that rent.

Background: An unequal housing market

A strong housing market has the potential to help families build wealth, access good schools, and live in communities that are conducive to their overall success. However, the U.S. housing market continues to be plagued by discriminatory practices, and affordable housing is increasingly hard to come by.

Segregation and concentration of poverty remain significant problems

A long legacy of disinvestment, discrimination, and counter-productive public policy at all levels of government has created residential segregation and distressed, high-poverty communities across the country. For decades, the federal housing agencies blatantly redlined—meaning that they refused to lend in certain neighborhoods. At the same time, these agencies also subsidized suburban developments that were predicated on racial exclusion.² Cities across the country developed urban renewal plans with little regard for current residents, resulting in displacement and, frequently, greater segregation.³

Despite the Fair Housing Act of 1968 and other legislative efforts to dismantle segregation, America today remains deeply segregated, both by race and income. In fact, residential segregation by income has actually increased during the past three decades—with a decline in middle-income neighborhoods—and poor and rich families are each increasingly isolated from other families.⁴ The most privileged and disadvantaged neighborhoods are growing apart: The income, wealth, and educational attainment of the most privileged neighborhoods is increasing, while the most disadvantaged neighborhoods stagnate.⁵

Some of this segregation is due to discrimination. For example, African Americans who are looking to purchase a home are still shown fewer units than whites, and they are steered away from predominantly white neighborhoods.⁶ Affluent communities still adopt exclusionary zoning codes that keep less affluent households from living there.⁷

But many Americans live in high-poverty areas because those are the only neighborhoods where the rents are affordable. Due to strong demand for housing in higher-opportunity neighborhoods and limits on how much housing can be built, the private market does not routinely produce affordable housing in higher-opportunity neighborhoods without subsidy. While government programs help create and preserve some affordable housing in wealthy neighborhoods, these programs are largely unable to create sufficient housing there.⁸ Households that receive housing vouchers have better success than other poor families in obtaining housing in higher-opportunity neighborhoods—but at high costs. A shortage of landlords who are willing to rent to voucher recipients, combined with other barriers, limit low-income renters' ability to live in these neighborhoods.⁹ Low-income households—meaning those at or below 30 percent of area median income, or AMI—that are struggling to afford housing frequently have little choice but to live in neighborhoods that constrain their potential.

Consequently, 13.8 million Americans now live in high-poverty neighborhoods where more than 40 percent of residents are poor, nearly double the number than in the year 2000.¹⁰ Approximately one in six low-income children who are younger than age 6 lives in these high-poverty neighborhoods; these rates are significantly higher for African American children.¹¹ Communities of concentrated poverty often lack amenities such as high-quality schools, day care options, parks, and access to job markets.¹² Instead, these communities are often violent, stressful, and environmentally hazardous; additionally, children in these neighborhoods often lack positive peer influences.¹³

Segregated communities damage the health, limit the employment and earnings, and undermine the educational achievements of their residents.¹⁴ Children in high-poverty neighborhoods are also less successful in school, less likely to attend college, and more likely to drop out of high school.¹⁵ Moreover, research suggests that children have poorer health outcomes due simply to the stress of living in a violent neighborhood.¹⁶ New research by Harvard University economist Raj Chetty and others has shown that living in areas that are more segregated by race or income also reduces economic mobility, or the ability of less well-off households to improve their economic standing.¹⁷

Conversely, Chetty's research also found that people who live in less segregated, low-poverty neighborhoods experience a significantly higher quality of life and more economic opportunity, even when they have lower incomes. Children in these households perform much better academically than their peers in more segregated,

high-poverty neighborhoods.¹⁸ Moving a young child out of public housing in a high-poverty area to a low-poverty area greatly increases this child's access to opportunity, including increasing his or her average annual earnings as an adult by 31 percent.¹⁹ Similarly, the young children who move to low-poverty neighborhoods are significantly more likely to attend college and less likely to become single parents.²⁰ Relocating families from public housing to low-poverty areas also improves families' physical and mental health, especially for adults and girls.²¹

Likewise, revitalization efforts that seek to improve the lives of families in high-poverty neighborhoods can enable members of these households to live healthier lives and succeed in the labor market.²²

Unprecedented rent burdens harm all households

Today, America faces a rental affordability crisis: Half of all renters spend more than 30 percent of their income on housing—which is the commonly accepted definition of affordable—while 26 percent spend more than 50 percent of their income.²⁴ The portion of renters spending more than 30 percent of their income on housing increased 6 percent over the last decade; during that same period, the portion of renters spending more than 50 percent of their income on housing increased 4 percent.²⁵ And an analysis from Enterprise Community Partners and the Harvard University Joint Center for Housing Studies projects that the number of households spending 50 percent or more of their income on rent will increase at least 11 percent—or from 11.8 million to 13.1 million—by 2025.²⁶

The nation's lowest-income renters face the greatest challenge in finding an affordable place to live. Among extremely low-income renters nationwide, there are only 28 rental homes that are affordable and available for every 100 households—a shortage of affordable housing that has grown over the past decade. For very-low income households—which earn 50 percent of AMI—the situation is similar. Nationwide, there are 57 affordable and available units for every 100 of these households.²⁷

Recent developments that should help combat segregation

The U.S. Department of Housing and Urban Development, or HUD, recently finalized its rule implementing the Fair Housing Act's provision that the department affirmatively further fair housing.²³ This rule requires recipients of federal housing and community development funding to foster more inclusive communities, promote equal access to community assets, and combat segregation and concentrated poverty.

Under the rule, communities need to examine residential patterns and determine whether their laws, policies, and practices are barriers to affirmatively furthering fair housing. If a community determines that a law, policy, or practice is a barrier, it must then take steps to address it. This rule should bring renewed focus to ensuring that low-income renters can live in higher opportunity neighborhoods and to revitalizing distressed communities.

Relatedly, in *Texas Department of Housing and Community Affairs v. The Inclusive Communities Project, Inc.*, the U.S. Supreme Court held that policies and practices that result in racially disparate outcomes may violate the Fair Housing Act, whether or not they were adopted with the intent to discriminate. In its ruling, the Court upheld a critical tool to combat housing discrimination, policies that promote segregation, and other barriers to fair housing.

While it is well known that some large metropolitan areas feature record-high rents, data show that renters across the country struggle with high housing costs relative to their income.²⁸ Also, rent burdens have risen across the income spectrum and increasingly affect the middle class.²⁹

Economic and demographic trends suggest that rents will continue to rise in the coming years. Due to tight mortgage credit, a lingering foreclosure crisis, and rising home prices, the homeownership rate continues to decline. Forecasters expect both the proportion of the population that rents and the number of renter households to grow significantly over the next 15 years.³⁰ Additionally, while builders have stepped up construction of apartment buildings, barely one-third of new rental units are affordable to the median renter.³¹ Rental vacancy rates continue to decline, suggesting that demand for rental housing is growing faster than supply.³²

High rent burdens reduce opportunity for families in both high- and low-opportunity communities. After paying for housing, the average severely cost burdened low-income renter household has barely more than \$15 each day to meet all their other basic needs—including food, transportation, health care, and investments for the future.³³ A low-income renter household that lives in affordable housing is able to spend two-thirds more on food, double the amount on health care, and nearly triple the amount on transportation as its severely rent-burdened counterpart.³⁴

Among low-income families, a lack of affordable housing in their area corresponds with worse performance in school across all age groups; for older children, it also leads to more behavior problems.³⁵ Households that pay an affordable portion of income toward rent have more resources to invest in child enrichment and are less likely to move involuntarily, which impacts a child's success in school and later in life.³⁶ Studies also suggest that stable, affordable housing positively affects health—both by promoting residential stability and by freeing resources for food and health care expenses.³⁷

For the most vulnerable members of society, the positive effects of access to affordable housing are even more life-changing. New research shows that homeless families who live in emergency shelters and who receive vouchers experience wide-ranging benefits—from less economic stress and food insecurity to more family stability and reduced rates of domestic violence.³⁸ This builds on existing research that shows that vouchers are an effective way of preventing homelessness among families, a problem that is caused primarily by the shortage of affordable housing.³⁹

The spatial mismatch between affordable housing and opportunity

As mentioned above, households that receive housing vouchers have better access to higher-opportunity neighborhoods than other low-income households. However, several barriers limit their ability to live in such neighborhoods, including high costs and a shortage of affordable rental housing and landlords willing to rent to voucher recipients.⁴⁰ As a result, there is a great divide between where low-income people can afford to live and where opportunities exist. To illustrate this divide, the maps below show the distribution of for-rent vacant affordable units—which would require renters to put no more than 30 percent of their income toward housing—by ZIP code for households that are at 80 percent of area median income in the Cleveland, Los Angeles, and Houston metropolitan areas. The distribution of these units is compared with the distribution of an opportunity index that is based on the combination of the following indicators:

- High-wage jobs
- Short commuting times
- Access to supermarkets, fresh vegetable grocery stores, and financial institutions
- Low high-school drop-out rates
- Low poverty and unemployment rates
- Low neighborhood transition rates

As the maps show, a spatial mismatch exists between where low-income people can afford to rent and where high-opportunity communities are located.

Cleveland metropolitan area

A decade ago, Cleveland was deemed the poorest big city in America. Since that time, not much has changed, as roughly one in three of its residents lives below the poverty line, including nearly 60 percent of the city's children.⁴¹ Less than half the population owns a home, and more than half of the population lives in food deserts;

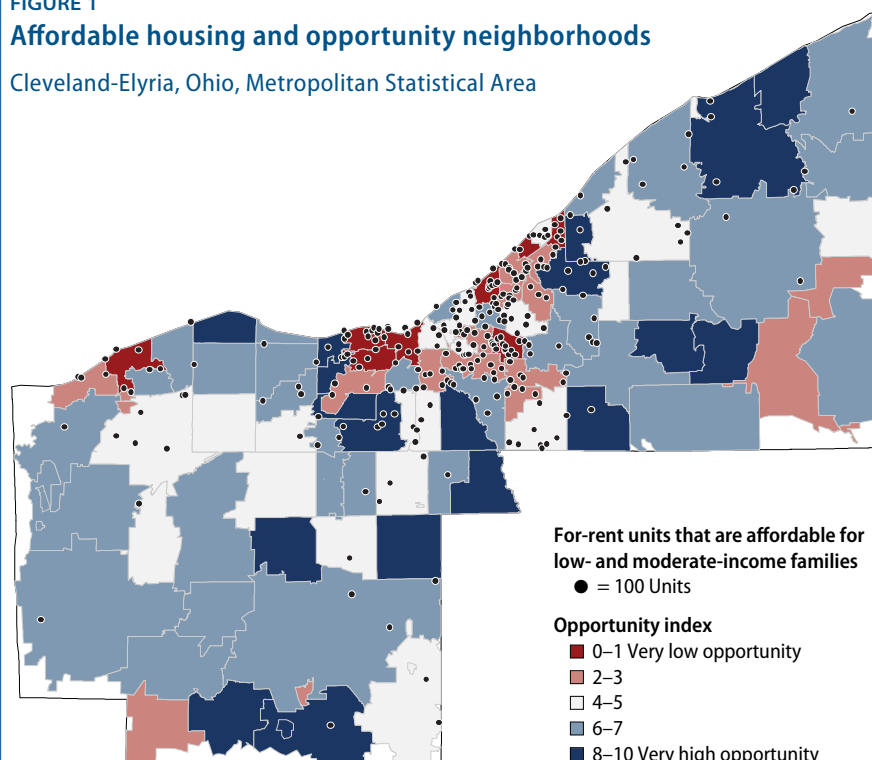
high school dropout rates are as high as 25 percent in some of the city's schools.⁴² In addition to high poverty rates, Cleveland's population tends to be highly segregated. As a result of being cut off from more prosperous communities, 42 percent of black residents in Cleveland live in poverty, compared to 28 percent of whites.⁴³ On top of all of this, almost half of all jobs are 10 miles to 35 miles away from the central business district.⁴⁴ As the map shows, affordable housing tends to be clustered in low-opportunity areas.

By contrast, very few affordable housing units exist in more prosperous areas, such as neighboring Avon Lake, on the top, left half of the map. The town is 98 percent white; it has 80 percent homeownership rates and a 4.6 percent poverty rate—which is far below the national average. This is not surprising as the Cleveland metropolitan area overall was the eighth most segregated region in the nation out of the 50 metropolitan areas with large black populations.⁴⁵

FIGURE 1

Affordable housing and opportunity neighborhoods

Cleveland-Elyria, Ohio, Metropolitan Statistical Area



Sources: CAP analysis of Bureau of the Census, "LEHD Origin-Destination Employment Statistics (LODES)," available at <http://lehd.ces.census.gov/data/#lodes> (last accessed October 2015); Bureau of the Census, "2009–2013 American Community Survey," available at http://www2.census.gov/programs-surveys/acs/summary_file/2013/data/ (last accessed October 2015); Bureau of the Census, "County Business Patterns: 2013," available at <http://www.census.gov/econ/cbp/download/> (last accessed October 2015); Federal Deposit Insurance Corporation, "SOD Download," available at <https://www5.fdic.gov/sod/dynaDownload.asp?barItem=6> (last accessed October 2015).

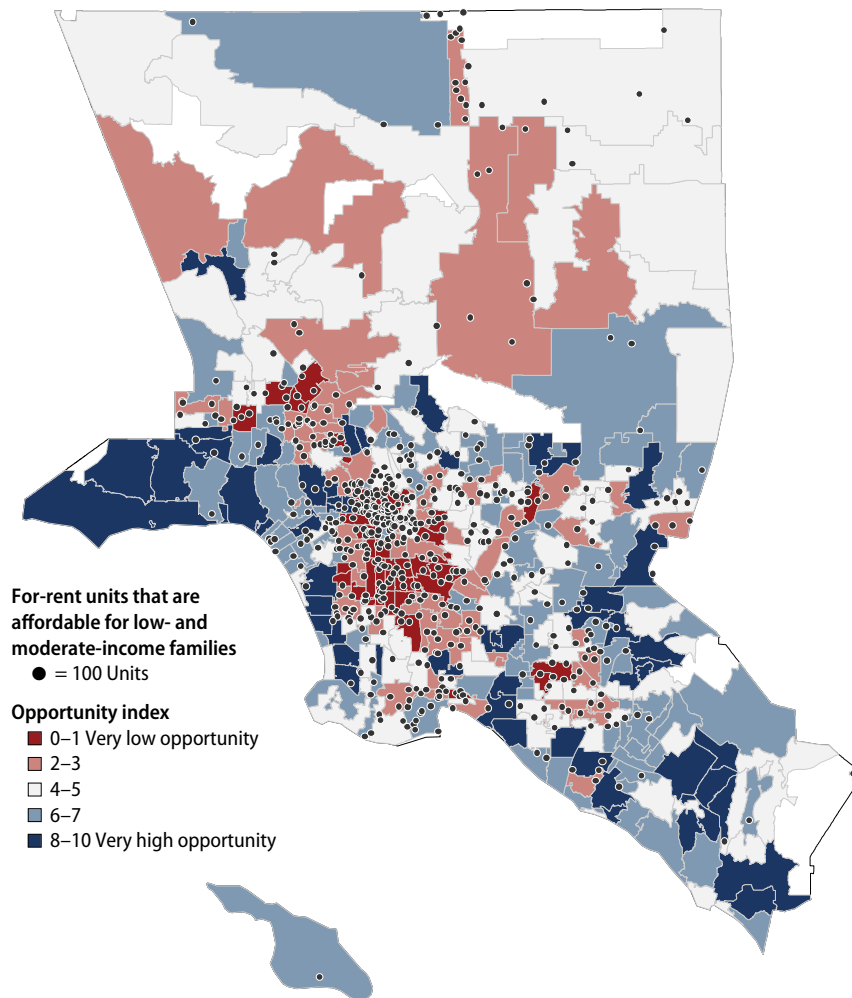
Los Angeles metropolitan area

The Los Angeles metropolitan area is known for having some of the wealthiest ZIP codes in the country, but also some of the most notoriously poor and crime-ridden neighborhoods. While Beverly Hills and Bel Air may be considered outliers of great wealth, communities like Santa Monica and Torrance in the western part of the metropolitan area are good representations of what characterizes high opportunity areas—mostly white, low-poverty communities that have good schools, low crime, and access to healthy food.

FIGURE 2

Affordable housing and opportunity neighborhoods

Los Angeles-Long Beach-Santa Ana, California, Metropolitan Statistical Area



Sources: CAP analysis of Bureau of the Census, "LEHD Origin-Destination Employment Statistics (LODES)," available at <http://lehd.ces.census.gov/data/#lodes> (last accessed October 2015); Bureau of the Census, "2009–2013 American Community Survey" available at http://www2.census.gov/programs-surveys/acs/summary_file/2013/data/ (last accessed October 2015); Bureau of the Census, "County Business Patterns: 2013," available at <http://www.census.gov/econ/cbp/download/> (last accessed October 2015); Federal Deposit Insurance Corporation, "SOD Download," available at <https://www5.fdic.gov/sod/dynaDownload.asp?barItem=6> (last accessed October 2015).

Despite this wealth, the metro area also has one of the highest poverty rates in the state. Los Angeles is home to one of the Obama administration's first Promise Zones, high-poverty communities that receive a federal designation for priority access to funding based on their plans for expanding opportunity to residents in the zone.⁴⁶ The Los Angeles Promise Zone—which includes portions of Hollywood, East Hollywood, Koreatown, Pico Union, and Westlake—has a poverty rate of 35 percent.⁴⁷ In certain census block groups, the Promise Zone has a youth poverty rate of 100 percent.⁴⁸ Furthermore, the zone's violent crime rate is more than double the rate of the city as a whole.⁴⁹

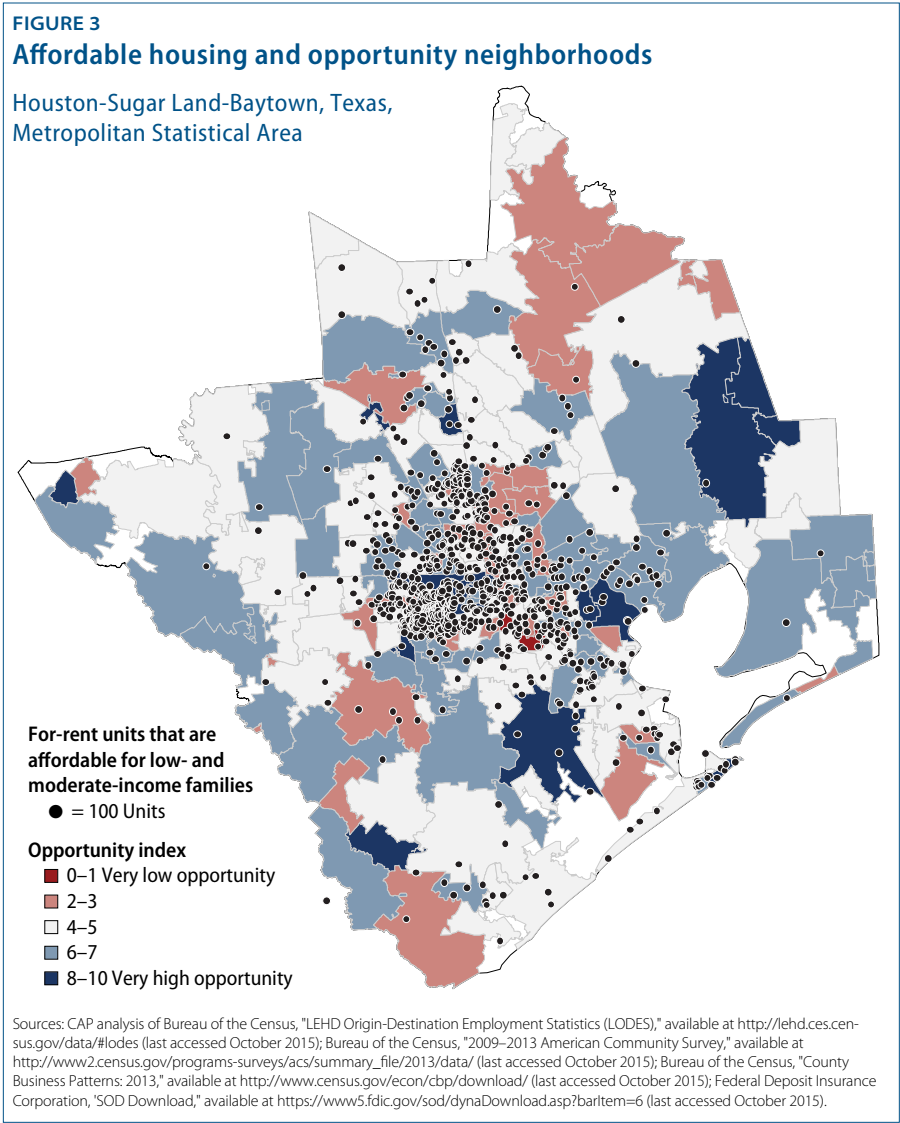
Overall, housing prices in Los Angeles have grown four times faster than incomes since 2000, and half of all households in the region face rent burdens.⁵⁰ It is not surprising then that affordable housing tends to be clustered around the very low opportunity areas on the map, while areas on the coast like Santa Monica and Torrance, on the bottom, left half of the map, have few affordable housing units.⁵¹

Houston metropolitan area

The Houston metro area is attracting more new residents annually than any other metro area in the United States. The population has grown from 4.5 million to 6 million since 2000 and is expected to grow to 10 million by 2040, with communities of color driving the region's population growth.⁵² While residential segregation is declining overall, segregation of Latino and white households has increased—as has isolation for Latinos and Asian Americans in the area.⁵³ It is not surprising then that, despite economic growth in the region, wide racial gaps in income, health, and opportunity persist.

According to an analysis by PolicyLink and the University of Southern California's Program for Environmental and Regional Equity, one in four of the region's unemployed residents lives in neighborhoods where nearly all residents are people of color. Furthermore, these neighborhoods have an average poverty rate that is nearly double the regional average. These areas also have low access to a supermarket or large grocery store, and many of these neighborhoods' residents have the longest commutes to work in the region. On top of this, nearly half of all Houston metro-area renters face housing burdens.⁵⁴

According to the map, Houston has fewer communities that are deemed very low opportunity compared to other metro areas, which may be due to the increased economic activity that the region is experiencing. However, affordable housing tends to be clustered in low-opportunity areas, which likely contributes to the disparities that researchers have noted in commute times and access to jobs and grocery stores.



Policy proposals

Use tax policy to increase the supply of affordable rental housing

Federal programs that are designed to help low-income households access decent, stable, and affordable housing are woefully insufficient. Due to funding limitations, only one in four households that are eligible for federal rental assistance actually receives it.⁵⁵ Waiting lists for vouchers or public housing across the country are notoriously long, and many municipalities have closed these lists because the vast majority of those on them cannot expect to secure rental assistance.⁵⁶ The approximately 110,000 affordable units that are created or preserved each year by the Low-Income Housing Tax Credit, or LIHTC, are critical to increasing the supply of affordable housing, but this program is not positioned to address the current shortage of 4.5 million units that are affordable to extremely low-income households.⁵⁷

Below, are suggested tax policy changes that could help make housing more affordable for millions of renters. These changes will expand the supply of affordable housing and arm low-income renters with the resources they need to afford rent.

Expand and better target the Low-Income Housing Tax Credit

Any solution to the affordable rental crisis must expand the supply of affordable rental units. The most practical way to do this is to significantly expand the Low-Income Housing Tax Credit, the nation's primary source of new affordable housing. Over the past 30 years, the LIHTC program has created or preserved more than 2.7 million affordable units and leveraged more than \$100 billion in private capital.⁵⁹

Supporting other resources that create and preserve affordable housing for the lowest-income renters

Two critical resources that expand the supply of affordable housing for the lowest-income households are the National Housing Trust Fund, which assists states in meeting the housing needs of these renters, and the Capital Magnet Fund, which helps community development financial institutions provide such housing. These funds—which were created by Congress in 2008 but only recently began to receive regular funding—are currently supported by a small assessment of each dollar of the unpaid principal balance of total new business purchases of Fannie Mae and Freddie Mac, equaling 4.2 basis points.⁵⁸ This level of funding falls far short of need. Going forward, expanding funding for both funds must be a critical priority.

The LIHTC program attracts private capital for the construction, acquisition, or rehabilitation of affordable rental housing. In exchange for credits that reduce their tax burden, LIHTC project participants agree to keep the units affordable to very low-income tenants for a period of at least 30 years. States receive an allocation of tax credits each year based on their population and apportion the credits to projects based on their own priorities. One reason that the credit receives strong support is because the private owners of LIHTC properties have strong incentives to make the projects successful, and they bear the cost if they fail. Similarly, because LIHTCs for new construction and substantial rehabilitation are allocated by states through a competitive process, the program tends to support high-quality and well-planned developments.⁶⁰

Given its success, a wide range of parties has called to expand the LIHTC program. The Bipartisan Policy Center's Housing Commission, for example, has proposed a 50 percent expansion in LIHTC allocations and supporting funding, which would preserve or create an additional 350,000 to 400,000 affordable units over a 10-year period.⁶¹ The Affordable Rental Housing A.C.T.I.O.N. coalition—which consists of more than 1,000 national, state, and local, organizations that focus on affordable housing—has similarly endorsed an expansion.⁶² And the Obama administration's recent budget requests have proposed allowing states to convert some of their private activity bonds into allocable LIHTCs, which would increase the amount of credits available to states.⁶³

Additional LIHTC resources should be targeted toward areas where the private market does not provide enough affordable housing for very low-income households. Currently, LIHTCs are allocated to states based on their population. But the need for additional LIHTC resources is not the same nationwide. For households at or below 50 percent of area median income, which are the households that are targeted by LIHTC, the shortage of affordable and available units varies widely among states, from 30 affordable and available units per 100 households in California to 103 in Wyoming—the only state with a surplus.⁶⁴ Concurrently, analysts have also questioned the utility of LIHTC in certain low-cost areas where the program may not produce units that cost less than those produced by the private market.⁶⁵

As a result, any additional LIHTCs generated through an expansion should be allocated proportionally to states based on their demonstrated shortage of affordable and available units for very low-income households.⁶⁶

Beyond its expansion, the LIHTC program should be targeted so that it better serves low-income households, enables more households to live in high-opportunity neighborhoods, and supports the revitalization of distressed communities.

The LIHTC program can further be improved by increasing its ability to serve the nation's lowest-income renters. Currently, LIHTC does not produce significant amounts of affordable housing for extremely low-income households—which face the greatest shortage of quality affordable housing—without additional subsidies, such as housing vouchers.⁶⁷ The LIHTC program would better serve these renters if property owners could employ income averaging. Under this option, landlords would use income from rents that are charged to higher-income tenants to offset the cost of providing rents that are affordable to lower-income renters.⁶⁸

Similarly, if Congress made permanent the minimum subsidy that LIHTC provides—known as the rate floors—it would greatly improve the program's efficiency.⁶⁹ Currently, the amount of subsidy that LIHTC provides to a development varies based on market conditions, which reduces its effectiveness in supporting affordable rental housing.

Despite the LIHTC program's promise to create affordable rental housing where it is most needed, the program too frequently fails to target communities where the shortage of affordable units is the greatest. Overall, the program places units into neighborhoods that already have a surplus of affordable units, rather than into neighborhoods with little or no affordable housing.⁷⁰ Similarly, the LIHTC program does not do enough to enable low-income households to live in low-poverty neighborhoods with good schools—the sort of neighborhoods that will enable them to get ahead.⁷¹

There are many reasons for LIHTC's inability to penetrate high-opportunity neighborhoods or those that lack affordable housing, such as the cost of building in expensive areas and neighborhood opposition, which lie beyond the program's design. But the program can better encourage construction in high-opportunity neighborhoods that are likely to have a shortage of affordable housing. A number of states have begun to prioritize projects in high-opportunity neighborhoods in their allocations, which a recent Department of Housing and Urban Development study suggests made it more likely that units will be built in these neighborhoods.⁷² Because high-opportunity neighborhoods are typically more expensive places to build housing, states should also use their existing authority to boost the LIHTC subsidy for projects in high-opportunity neighborhoods.⁷³

LIHTC investments also can help support comprehensive revitalization of distressed neighborhoods. Currently, more than 45 states give priority to rehabilitation and preservation of existing housing in their allocation plans.⁷⁴ States are also required to give preference to both new construction and substantial rehabilitation

projects in high-poverty neighborhoods with a concerted community revitalization plan.⁷⁵ Many states, however, simply prioritize projects in high-poverty communities with no mention of revitalization plans, and the other states do not generally define eligible revitalization plans in detail.⁷⁶ By establishing clearer criteria for what constitutes a concerted revitalization plan and better coordination with the entities that are implementing revitalization efforts, states can ensure that LIHTCs are allocated where they will make the most difference in improving high-poverty communities.

An expansion of LIHTC would also play a critical role in preserving affordable housing, as discussed below.

Consider creating a federal renters' tax credit

Homeowners currently derive considerable tax benefits from the Mortgage Interest Deduction and other provisions that subsidize homeownership. (see text box “Current tax policy overwhelmingly supports homeowners”) Given rent burdens and the increasing percentage of households that rent, it is time to ensure that the tax code benefits renters as well as homeowners.

The creation of a new renters' tax credit would ensure that households pay an affordable amount for their housing. While there have been a number of proposals for a renter's tax credit—and some states already offer tax refunds or deductions to certain renters—the Center on Budget and Policy Priorities has put forth a detailed proposal for a federal credit program.⁷⁷ Under this proposal, states would help very low- and extremely low-income households pay an affordable share of their income for rent by providing tax credits to landlords who lease to low-income renters, charging them no more than 30 percent of their income for housing.

States would receive a capped amount of credits based on their share of the national population, with a minimum allocation for small states. States would then provide credits directly to tenants—who would use them to rent housing—or provide them to landlords—who would offer specific units at affordable rents. Landlords could claim the credit either through the normal tax filing process or by working with their lender to use the credit to reduce mortgage payments. States could select tenants and landlords based on their priorities, which could range from serving the lowest-income tenants to supporting privately owned affordable properties at risk of loss to coordinating housing assistance with other social services.

According to the Center on Budget and Policy Priorities, a \$5 billion annual credit would assist 1.2 million of the lowest-income households.⁷⁸

Current tax policy overwhelmingly supports homeowners

Currently, more than 75 percent of federal housing expenditures support homeownership. More than half of these expenditures benefit high-income households that earn more than \$100,000 per year and have little difficulty affording housing.⁷⁹

The government subsidizes homeownership through several tax provisions. The largest is the Mortgage Interest Deduction, or MID—the nation’s largest housing subsidy and one of its most expensive tax expenditures, costing \$70 billion per year.⁸⁰ Subsidies that support homeownership also include the deduction for property taxes and exclusion of capital gains on sales of principal residences, which together cost about \$65 billion per year.⁸¹

The MID is poorly designed to support the households that need it most. Because it’s a deduction rather than a credit, the MID dispro-

portionately benefits the households that need it least. It is more valuable for households with higher earnings; for households that do not itemize taxes, it provides no benefits at all. Rather than encouraging families on the margins of homeownership to buy homes, the MID primarily encourages households who would already be homeowners to buy bigger homes.⁸²

Converting the MID to a tax credit rather than a deduction would benefit more households overall, including a considerable number of middle- and lower-middle class households, and its value to households would be independent of their tax bracket. Depending on how the credit was set, it could also save a great deal of money. For example, a 15 percent nonrefundable credit would save \$257 billion over 10 years, while a 20 percent credit would save about \$26 billion over 10 years.⁸³

Eliminate restrictive and exclusionary zoning that keeps low-income households out of high-opportunity neighborhoods

Zoning and land use policies—ranging from density limits and minimum lot size requirements to community vetoes of new construction—greatly influence what, where, and how much housing is built in a given community. As a result, zoning is a powerful factor that affects housing affordability and the ability of various populations to access different neighborhoods. Although the bulk of this report focuses on federal policies, these local policies are critical.

An extensive body of research suggests that restrictions on supply through restrictive zoning and land use policies drive up the cost of housing.⁸⁴ Zoning affects the cost of housing because the amount of available land constrains the supply of housing if developers cannot build as densely as necessary to meet demand.

Economists have estimated that restrictions on supply increased the cost of housing about 20 percent in Boston and Washington, D.C., about 33 percent in Los Angeles, and about 50 percent in the San Francisco Bay Area.⁸⁵

Unfortunately, restrictive zoning codes are quite common. About 38 percent of local governments in the nation's 50 largest metropolitan areas have zoning codes that are low density-only, restricting density to less than 8 dwellings per acre. Many of these areas' zoning codes would also prohibit the construction of a typical apartment complex.⁸⁶

Confronting restrictive zoning would lower the cost of housing, meaning that rental housing would become more affordable for households of all incomes. It is important to note, however, that the economics of operating rental housing suggest that this change alone will not create housing affordable to extremely low-income households, although it could reduce the amount of subsidy that is needed to serve these households.

Beyond driving up the cost of housing overall, zoning plays a role in creating segregated regions and limiting the ability of groups to live in communities of opportunity. Jurisdictions with more restrictive zoning have fewer minority residents and experience a slower growth in minority populations over time.⁸⁷ Anti-density zoning increases black residential segregation in metropolitan areas, primarily by reducing the quantity of affordable housing in majority-white areas.⁸⁸ Other research has found that anti-density zoning is also associated with a higher concentration of blacks living in the central city of a metropolitan area.⁸⁹

Restrictive zoning also affects whether lower-income communities can access high-opportunity areas, even if these rules appear neutral at face value. Metro areas with more exclusionary zoning have larger gaps between the cost of housing near high-scoring and low-scoring public schools than those with less restrictive zoning.⁹⁰ In metropolitan areas with high levels of both segregation and sprawl, the counties that enable economic mobility are much more expensive.⁹¹ This fact, however, is not true in the nation as a whole.⁹²

Zoning has traditionally been the province of localities, and there are few forces in these localities that are pushing toward less restrictive and exclusionary zoning codes. Yet the new Affirmatively Furthering Fair Housing, or AFFH, rule could provide this type of needed pressure. (see text box "Recent developments that should help combat segregation") In the rule, the Department of Housing and

Urban Development notes that zoning is an example of a type of policy that could limit fair housing choice in a municipality or region and could therefore need to be changed. Given the research suggesting the role that exclusionary zoning plays in furthering residential segregation, local officials should make these policies a prime target for elimination as they conduct their AFFH process.

Similarly, local officials have the ability to reform the process by which local residents can block or delay the construction of new or affordable housing. Local opposition to these developments—typically referred to as NIMBYism, or not in my backyard—remains a significant barrier to the construction of housing in certain areas. In many places, local or county commissioners or managers play a large role in deciding whether housing will be built, even when no changes to a zoning code are required.⁹³ Reforming this process or creating opportunities for housing developers to appeal when their developments are blocked can play an important role in enabling housing to be built in a wide variety of communities.

Fortunately, research demonstrates that areas can address segregation by changing their policies. Areas with higher allowable densities desegregated more rapidly between 1980 and 2000.⁹⁴ The effects of eliminating exclusionary zoning will create more economic opportunity for low-income households, as doing so would help close the test score gap between low-income and affluent students in a metro area.⁹⁵

Increase federal housing voucher program funding and equip it with tools to help households access high-opportunity neighborhoods

Our federal Housing Choice Voucher program plays a critical role in helping low-income families afford quality, safe housing. A range of research demonstrates that vouchers sharply reduce hardships for their recipients and that stable, affordable housing can significantly improve children's long-term life chances.⁹⁶ Unfortunately, while the share of households that are spending unsustainable portions of income on rent has grown, the number of households that are receiving rental assistance has remained flat.⁹⁷ Today only one-quarter of households that are eligible for rental assistance actually receives it.⁹⁸

In recent years, tight budget caps and sequestration have further depressed funding for a wide range of economic investments that lawmakers should be making to strengthen and expand the middle-class and improve the lives of low-income households.⁹⁹ Housing and community investments have been no exception,

including the voucher program. Experts estimate that more than 100,000 housing choice vouchers were cut as a result of sequestration. Congress took an important first step by lifting budget caps for the 2016 and 2017 budgets and now needs to follow through to expand funding for the housing voucher program.¹⁰⁰ It is urgent that policymakers reverse this trend by eliminating the misguided budget caps and instead expand funding for the housing voucher program.

Given the critical role that the voucher program plays in keeping vulnerable households stably housed, many organizations have called for considerable expansions of the program, especially for the lowest-income households. The Bipartisan Policy Center's Housing Commission, for example, proposed providing vouchers to all currently unassisted, cost-burdened, extremely low-income renters. Such an expansion would serve nearly 3 million of the country's lowest-income households at a cost of about \$22 billion per year.¹⁰¹ The Children's Defense Fund has proposed providing vouchers to all severely cost-burdened, currently unassisted families with children below 150 percent of the poverty line, which would serve 2.6 million more households at a cost of about \$23.5 billion.¹⁰² While such expansions would require considerable investment, their costs pale in comparison to the approximately \$70 billion spent each year on the Mortgage Interest Deduction.¹⁰³

Vouchers already play an important role in enabling households to live in communities of opportunity. But the program can do better at achieving this critical goal.¹⁰⁴

The challenges that voucher recipients face in trying to move to low-poverty neighborhoods include the difficulty in finding an affordable unit or an owner who is willing to rent to voucher holders; lack of knowledge about higher-opportunity areas or their benefits; and administrative hurdles. Compounding these challenges, low-income households often move suddenly, most new voucher holders have only 60 days to use their voucher, and poor households tend to select a better quality unit in a higher-poverty neighborhood over a smaller unit in a higher-opportunity neighborhood.¹⁰⁵

These challenges have hampered previous efforts designed to encourage voucher recipients to relocate to lower-poverty neighborhoods. For example, in a large-scale Department of Housing and Urban Development demonstration studying the effects of families who moved to these neighborhoods, less than 50 percent of the households that received extensive counseling ultimately moved to a low-poverty neighborhood.¹⁰⁶ And four to seven years later, only 27 percent still lived in low-poverty neighborhoods.¹⁰⁷

Arguably, the most effective tool in enabling voucher holders to live in higher-opportunity neighborhoods would be establishing a federal law that states that apartment owners cannot refuse to accept a tenant because they are paying with a housing voucher. A variety of studies suggest that discrimination against voucher holders is widespread.¹⁰⁸ Research also shows that these laws, when enacted by states and localities, help voucher holders move to higher-opportunity neighborhoods.¹⁰⁹

But even without that kind of legal requirement, HUD is taking other promising steps that will help voucher recipients live in higher-opportunity neighborhoods.¹¹⁰ For example, HUD has recently proposed basing the value of a voucher on the ZIP code in which a tenant rents, rather than on a uniform standard that is set across an entire metropolitan area; this variable valuation would help voucher holders afford units in more expensive neighborhoods. A demonstration in Dallas showed that this change helps voucher holders move to safer and low-poverty neighborhoods.¹¹¹

Additionally, HUD recently simplified the so-called portability procedure for using a voucher outside of the original jurisdiction that issued it.¹¹² The entities that administer the voucher program—Public Housing Authorities, or PHAs—will also be subject to the new Affirmatively Furthering Fair Housing regulation.

However, more should be done. One step would be for HUD to consider the success rate of voucher holders in moving to higher-opportunity neighborhoods in performance evaluations for PHAs. HUD has indicated it is considering this policy but has not yet implemented it.¹¹³

Another promising policy to promote voucher mobility would be to pay PHAs additional administrative fees when they help families move to high-opportunity neighborhoods. HUD already has begun to work on overhauling its compensation to PHAs. Currently, the formula is not tied to PHA success in promoting the mobility of voucher holders.¹¹⁴ By tying the formula to PHA success, this will help keep PHAs accountable to ensuring they guide families to better neighborhoods.

HUD should require PHAs to identify available units in lower-poverty communities and, when necessary, extend the search period for families that are seeking to make such moves. Past experience shows that this is very helpful in enabling mobility, but it is expensive and time-consuming.¹¹⁵ A new study shows that Congress has not adequately funded the PHA voucher program in recent years—and this is without adding new responsibilities that could make a difference for voucher holders who are looking to move to higher opportunity neighborhoods.¹¹⁶ Congress should support HUD's efforts to modernize PHA compensation, including by funding PHAs to identify units.

Other steps include:

- Fund mobility counseling for households that want to move to a higher-opportunity neighborhood. One study found that participants in Chicago who received mobility counseling were at least 50 percent more likely to move to a high-opportunity neighborhood.¹¹⁷
- Provide supports for households to successfully transition to higher-opportunity neighborhoods, including mobility counseling following moves. Intensive and longer-term counseling like this may be especially effective in enabling households to move to and remain in high-opportunity neighborhoods.¹¹⁸ However, most mobility counseling programs implement post-move and subsequent-move support only in an ad hoc way, if at all.¹¹⁹ HUD and partners throughout the Chicago region have created a demonstration project to assess these and other strategies for promoting mobility; early results are encouraging, but there will be much to learn from the final results.¹²⁰
- Continue to pressure PHAs to simplify programs to encourage landlords to accept vouchers.
- Enforce the existing legal requirement that owners of LIHTC properties may not discriminate against voucher holders.

Take a comprehensive approach to revitalizing high-poverty communities

Investments in housing play an important role in revitalizing distressed communities, but affordable housing alone does not create access to opportunity for a community's residents. Revitalizing distressed communities requires a comprehensive set of strategies that helps residents live in communities that enable them to access better life opportunities. When introducing new housing into a community, officials should consider whether the housing is connected to a comprehensive neighborhood revitalization plan, and if it is not, how to make connections between new developments and the activities of community-based organizations in the area, such as job training, health services, etc.

A good revitalization plan recognizes the interdependent nature of the many barriers that residents of high-poverty communities experience, including limited access to quality housing and transportation, high rates of crime, barriers to securing employment, poor schools, and limited economic activity, among others.

You can't move everybody from Harlem to the Bronx and expect to get the same types of outcomes. So, you also ultimately need to think about policies that can improve existing neighborhoods.

—Raj Chetty¹²¹

To address the unique challenges faced by these communities and their residents, leaders from across sectors should work together to establish shared goals and a joint plan of action that builds on the strengths of each stakeholder. Since 2009, the Obama administration has launched a number of initiatives to support such comprehensive approaches, including the most recent Promise Zones initiative that is designed to promote comprehensive, evidence-based strategies while helping local leaders navigate federal funding.

Integrating new and even existing social services into revitalization plans can help ensure that residents truly can access opportunity. One important component is programs that encourage and support employment, such as the Department of Housing and Urban Development's Jobs-Plus program, which was launched in the mid-1990s. This pilot targeted public housing developments where unemployment was particularly high, delivering a three-part intervention: high-quality job training and placement services; rent incentives to reward work; and community-level support and encouragement for residents to find and keep jobs. As a result, employment and earnings rose significantly for residents, and the gains were sustained over time.¹²²

HOPE SF

One noteworthy initiative that connects housing renovation and comprehensive community revitalization is San Francisco's HOPE SF initiative. Its aim is to renovate four extremely distressed public housing sites while at the same time transforming these communities and improving the lives of their residents. Through this project, HOPE SF aims to do the following:

- Prevent displacement by staggering construction and replacing all existing public housing units.
- Create mixed-income, vibrant communities by attracting retail and building additional affordable and market-rate housing.
- Connect residents to employment opportunities and job training.

- Offer onsite health services.
- Involve residents in planning decisions.
- Confront other challenges that are facing these communities, including improving transportation, working to build community, and confronting school absenteeism.
- Invest in research on whether its programs are effective.

HOPE SF represents an unprecedented collaboration across government, philanthropic, and community partners, including housing and community development groups such as Enterprise Community Partners and BRIDGE Housing.

Another critical way to support access to employment opportunities is by helping residents balance work and family responsibilities.¹²³ Lower-income families would benefit from convenient access to affordable and high-quality child care, which would enable them to work and provide added flexibility to address other challenges.¹²⁴ Likewise, home visit programs that provide family support and coaching should be coordinated with revitalization.¹²⁵

Revitalization programs should also protect households from displacement due to increasing rents and property taxes. One critical step is to consciously preserve the affordable housing that already exists in areas that are beginning to gentrify. The following policies on preserving affordable housing will help to accomplish this.

Preserve affordable rental housing more effectively

In addition to building more affordable rental housing, preserving and improving the affordable rental housing that currently exists is also critical.

Fund existing programs designed to preserve affordable housing

The nation's unsubsidized affordable stock is threatened by disrepair, lack of access to capital, and, in some markets, rising rents and conversion to owner-occupied housing. The subsidized affordable stock, similarly, is threatened by expiring restrictions on affordability as well as disinvestment and disrepair.¹²⁶ Between 1999 and 2008, nearly 3 of 10 units renting for less than \$400 were lost from the nation's affordable housing stock.¹²⁷ Similarly, more than 200,000 units have been lost from the nation's stock of public housing since the mid-1990s.¹²⁸ There are 2.2 million units of subsidized affordable housing whose restrictions expire in the next 10 years. Moreover, half of privately owned units with expiring project-based subsidies these units—totaling more than 260,000 units—are in high-rent neighborhoods where owners earn below-market rents, meaning that they are likely to be lost from the affordable stock absent a robust effort to preserve them as affordable.*¹²⁹

Given these challenges, our country must remain vigilant in preserving affordable housing if we are to confront the rental affordability crisis. Failing to preserve existing affordable housing is not only a waste of already invested federal resources, but also bad economics: Over the long-term, constructing a new affordable unit costs 25 percent to 45 percent more than acquiring and preserving an affordable unit.¹³⁰

Congress has consistently underfunded the programs that preserve affordable rental housing. For example, the backlog of needed repairs in the nation's public housing—which houses about one-quarter of households that are assisted by federal rental assistance—totals more than \$26 billion dollars, yet the Public Housing Capital Fund, which provides funding for upgrades and repairs, remains woefully underfunded.¹³¹ Similarly, in recent years, Congress has repeatedly cut the HOME Investment Partnership program, which gives states and localities flexible funds with which to create and preserve affordable housing, as well as support other low-income housing needs.¹³² An expansion of Low-Income Housing Tax Credit would be a critical resource in meeting these preservation needs, but LIHTC-funded projects typically require additional funds from programs like HOME to be viable. Going forward, Congress needs to adequately fund all resources that meet preservation needs.

Give tenants, local agencies, and nonprofits stronger tools to preserve affordable dwellings

The federal government has invested a tremendous amount of resources in creating or rehabilitating affordable housing that is owned by private landlords. The owners who receive subsidies for these so-called project-based units agree to keep them affordable for a given amount of time; once they reach set time limits, however, landlords are able to raise rents, sometimes precipitously in neighborhoods where rents have risen markedly. While the federal government has had some success in convincing private owners to maintain this housing as affordable by offering new subsidies, many owners ultimately decide to raise rents, which places residents of these units at risk of losing their housing.

In response, states and cities across the country have taken a novel approach: They have passed laws that give tenants, local agencies, or nonprofits strong tools with which to purchase and preserve subsidized housing that is at risk of becoming unaffordable.¹³³ Given the potential these policies have to maintain the affordability of subsidized units, such policies should be expanded across the country.

While the details vary considerably, these laws generally enable one of these entities to purchase government-subsidized housing at fair market value if the owner attempts to sell it or takes an action that threatens its affordable nature. Often more than one of the eligible entities work together on a preservation transaction; for example, a nonprofit can assist tenants in assembling financing to purchase the property or agree to own and operate the property as affordable for the long-term.

Massachusetts state law 40T typifies the approach of enabling nonprofits to purchase and preserve at-risk affordable housing. Under the law, the state Department of Housing and Community Development, or DCHD, works with high-capacity nonprofits to preserve subsidized affordable units when their owners are seeking to sell them. When subsidized units are offered for sale, DCHD or a nonprofit that it has selected may make an offer to purchase the property. The current owner is under no obligation to accept the offer, but after a period of time DCHD or the nonprofit is granted the right of first refusal—that is, the right to purchase the property on identical terms to those that another purchaser has indicated it is willing to pay. In this way, the law provides a strong incentive to owners of affordable housing who want to sell their properties to preservation-minded purchasers, and the law has been effective at preserving such housing when offered for sale.¹³⁴

Beyond its success in preserving affordable housing, Massachusetts' law is also noteworthy in its explicit empowerment of nonprofits with demonstrated ability and commitment to preserving and operating long-term affordable housing. Many of these nonprofits are similarly committed to neighborhood revitalization or providing social services for their residents.¹³⁵ As a result, the law—and similar owner preferences in other states—creates opportunities to link affordable housing preservation with wraparound efforts to improve the neighborhood or other resources that benefit residents.

Many other states and localities have focused on empowering tenants to purchase housing at risk of becoming unaffordable.¹³⁶ One example is Illinois' Federally Assisted Housing Preservation Act, which gives tenant associations and their chosen nonprofit or for-profit partners the right to purchase at fair market value any subsidized development that is terminating its affordability.¹³⁷ Critically, the Illinois act goes beyond the Massachusetts' law because it gives tenants the opportunity to purchase under any circumstance when the property will become unaffordable, not only when it is offered for sale.

Opportunity-to-purchase laws are the most useful in areas with strong infrastructure to support preservation transactions, such as strong local housing agencies, legal aid clinics that advise tenants, and mission-oriented nonprofits that specialize in preservation transactions. Building this infrastructure across the country should be a priority of federal and state policymakers and the philanthropic community. Ultimately, federal lawmakers should explore giving all tenants, local agencies, and nonprofits the opportunity to purchase affordable housing that is at risk of becoming unaffordable.

Encouraging renters to save

As more households rent, they also should have opportunities to save. While homeowners typically build equity each time they make a mortgage payment, renters do not build wealth when they write their monthly rent checks. The median net worth—or the total value of what a household owns, minus what it owes—of renter households in the United States is about \$5,400.¹³⁸ By contrast, households that own homes have a median net worth of more than \$195,000.¹³⁹ Even renters with incomes that are comparable to their homeowner counterparts make fewer financial investments and have significantly less wealth.¹⁴⁰

There are programs underway that are sponsored by the federal government and some nonprofits in order to encourage renters to build a regular savings habit. One successful example is the Department of Housing and Urban Development's Family Self Sufficiency Program, which automatically saves for assisted renters any additional rent that they would owe as their incomes rise. There is also a robust body of research indicating that savings programs that include automatic savings, simple design, and matching or other financial incentives are more likely to yield positive results.¹⁴¹ Going forward, policymakers need more research in order to bring well-designed savings tools to scale so that renting households can more easily build a more secure financial future.

Ensure the secondary market continues to support affordable rental housing

The secondary mortgage market buys mortgages, packages them into securities, and sells them to investors. This market plays a critical role in ensuring that affordable rental properties have access to the credit they need. Whether the secondary market is willing to purchase a particular loan product, as well as their policies surrounding underwriting, pricing, and other factors in mortgage lending, can either encourage or discourage lenders from financing affordable rental properties. Both Fannie Mae and Freddie Mac, as well as the Department of Housing and Urban Development, have active business lines that purchase mortgages on affordable multifamily properties and otherwise supporting affordable housing lenders.¹⁴²

But the secondary market can still do better. Mortgage giants Fannie Mae and Freddie Mac should be subjected to strong and meaningful affordability benchmarks for their rental finance programs. Additionally, the Federal Housing Finance Agency, or FHFA, which regulates Fannie and Freddie, should implement the as-yet-unimplemented statutory requirement that Fannie Mae and Freddie Mac support affordable housing preservation.¹⁴³ In the past, Fannie and Freddie supported affordable rental housing through a range of targeted and innovative efforts, including offering flexible products and partnering with affordable housing lenders and developers. FHFA, Fannie Mae, and Freddie Mac should redouble their efforts to support affordable housing through these activities.

In the future, regardless of the ultimate fate of Fannie and Freddie, it is important to maintain governmental support for financing for affordable rental properties. Purely private sources of financing cannot provide enough credit in rural areas and smaller cities or produce the long-term, fixed-rate mortgages that attract diverse investors to produce affordable properties.¹⁴⁴ Similarly, private sources of capital withdraw during times of economic stress, leaving feasible and important projects without funds.

Maintain single-family rentals as a source of affordable housing

Single-family housing is an increasingly critical source of affordable rental housing across America. More than one-third of renters live in single-unit detached homes; between 2004 and 2013, these homes accounted for half of the growth in rental units.¹⁴⁵ Today, nearly 15 million households live in these single-family rental homes, and this housing is a large source of unsubsidized affordable rental housing.¹⁴⁶ Single-family properties—which are defined as structures with one to four units—house close to half of all urban households whose incomes are below the poverty line.¹⁴⁷ If we are to make progress in ensuring that more households have an affordable place to live, it is critical not to ignore the single-family market.

The recent growth in single-family rental has coincided with the emergence of a new industry of single-family-rental firms. These firms took advantage of rock-bottom prices to buy more than 500,000 single-family homes across the country, which they now operate as rental properties.¹⁴⁸ The Center for American Progress has called for the largest of these firms to operate in a manner that demonstrates a commitment to managing homes responsibly, treating tenants well, and contributing to the economic and social well-being of the neighborhoods where they own homes.¹⁴⁹ Components of this approach include accepting housing vouchers; charging transparent, fair, and reasonable fees; offering longer leases; and maintaining affordable rents. CAP has also called on firms to evaluate prospective tenants based on a variety of factors and not to deny an application based on one metric, such as a credit score.¹⁵⁰

Many of these single-family houses are located in higher-opportunity neighborhoods, and there is evidence that the conversion of these properties to rentals has enabled voucher holders to move to these neighborhoods.¹⁵¹ However, it is not clear that all of the larger firms encourage or accept housing choice vouchers.

Another opportunity to promote affordable single-family housing is through the federal government's sale of distressed mortgage assets. Since 2012, the Federal Housing Administration, Fannie Mae, and Freddie Mac have auctioned nearly 150,000 delinquent mortgages under the theory that these sales would save money for taxpayers and improve outcomes for struggling borrowers.¹⁵² While these agencies have taken some important steps to ensure that the sales benefit homeowners and stabilize neighborhoods, more needs to be done, especially to encourage loan purchasers to offer these properties as affordable rentals if they are not owner-occupied. Specifically, the federal government should prioritize sales to nonprofit entities and place more requirements on loan buyers that push them to convert these units to affordable rentals when appropriate.¹⁵³

Another particular point of focus should be two- to four-unit properties, which are both a large source of affordable units and an underappreciated segment of the housing market. At financing, these properties are typically treated as single-family units, even though these properties almost always contain rental units. The underwriting methods that make sense for a family that is seeking to buy a single-unit home often make sense for these properties, but this is not always clear to buyers. It is hard to collect data on the rents of these properties. Further, the owners' business models can be difficult to understand since these are single-family properties, and they are underwritten based on the owners' income and credit characteristics. It is difficult to envision what underwriting based on cash flow would look like for these properties. Separately, many affordable two- to four-unit properties face considerable challenges in operating profitably.¹⁵⁴ Ensuring that two- to four-unit properties continue to offer affordable options to low-income households will require new policies, including ensuring that these properties can access affordable and flexible financing, both for purchase and for renovation.

Conclusion

Creating opportunity for low-income renters requires policies that help all households access decent and affordable housing in neighborhoods that offer the supports and institutions that enable them to succeed. In pursuing this goal, policymakers cannot choose between promoting residential mobility and reinvesting in distressed neighborhoods. Instead, they must enable more households to access affordable housing in high-opportunity communities and transform high-poverty communities into communities of opportunity. As this report demonstrates, the nation can achieve these two goals by increasing and improving the resources that support affordable rental housing. Ultimately, the policies outlined here will help millions of low-income households improve their standing and move up the economic ladder.

** **Correction, January 5, 2016:** This report has been corrected to accurately state the number of subsidized affordable housing units whose restrictions expire in the next 10 years, as well as the number of privately owned units with expiring project-based subsidies located in high-rent areas.*

Methodology

This section describes the criteria and data used for the computation and Geographic Information Systems, or GIS, analysis of the neighborhood opportunity index and the availability of affordable rental units in the Cleveland, Los Angeles, and Houston metropolitan areas.

TABLE 1
Criteria used for the computation of the Opportunity Index

	Indicator	Measure	Sign	Value
Assets	Access to high-wage jobs	The location quotient of jobs that earn more than \$3,333 per month. A location quotient greater than 1 indicates that there is a larger representation of these jobs in a ZIP code area relative to the metropolitan area as a whole.	+	2
	Short commuting time	The percentage of workers who travel 10 minutes or less to work in a ZIP code area	+	1
	Access to grocery stores	The rate of supermarkets, grocery stores, and produce stands per 10,000 residents in a ZIP code area	+	1
	Access to financial institutions	The number of depository institutions per 10,000 residents in a ZIP code area	+	1
Constraints	Youth academic and economic inclusion	The percentage of population that is 16 to 19 years of age and is not in school and is not working in a ZIP code area	–	2
	Unemployment	The percentage of unemployed civilian labor force in a ZIP code area	–	1
	Poverty	The percentage of the population that lives below the federal poverty line in a ZIP code area	–	1
	Neighborhood residential turnover	The percentage of renter-occupied units in a ZIP code area	–	1

Source: See Methodology section of the report for more information on these data.

The neighborhood opportunity index was calculated based on indicators denoting either assets or constraints at the ZIP code-level. (see Table 1) The measures by which the indicators were computed were standardized through the calculation of z-scores. After a GIS analysis of the distribution of each standardized measure across the study areas, a neighborhood opportunity index with values

ranging from 0—representing no opportunity—to 10—representing high opportunity—was computed by adding the values assigned to each measure depending on its sign. For example, for positive values of access to high-wage jobs, a value of 2 was assigned to the index. For negative values of poverty, a value of 1 was assigned to the index. Conversely, for positive values of poverty, a value of 0 was assigned to the index.

The availability of affordable rental units was measured in three steps:

1. After obtaining the median household income of each metropolitan area, the authors calculated the income limit for each metropolitan area's low- and moderate-income households—that is, households with incomes at or below 80 percent of the area's median income.
2. Based on the assumption that a housing unit can be considered affordable if the household does not spend more than 30 percent of its income on housing costs, the authors identified the dollar amount over which a low- and moderate-income household would experience a housing cost burden in each metropolitan area—30 percent of the low-to-moderate income, or LMI, income limits.
3. Finally, the authors used the American Community Survey's "rent asked" variable to compute the number of vacant-for-rent and rented-not-occupied housing units for which the rent asked is at or below the dollar amount identified in step 2 for each metropolitan area's ZIP codes.

Data on high-wage jobs come from the U.S. Census Bureau Longitudinal Employer-Household Dynamics, or LEHD, Origin-Destination Employment Statistics, or LODES, for 2013.¹⁵⁵ High-wage jobs are defined as those with earnings greater than \$3,333 per month. Data were aggregated by workplace ZIP code.

The data on total population civilian unemployment, poverty, renter-occupied housing units, rent asked, household income, commute time, and young people not in school and not working come from the 2009-2013 American Community Survey, Summary File Data.¹⁵⁶

Information on grocery stores and vendors come from the U.S. Census Bureau, 2013 Zip Code Business Patterns.¹⁵⁷ Data include the number of supermarkets, grocery stores, and produce stands, which can be found under North American Industry Classification System, or NAICS, codes 445110 and 445230.

Data on financial institutions come from the most current Federal Deposit Insurance Corporation Summary of Deposits annual data, released on June 30, 2015.¹⁵⁸ The data provide the addresses and geographic coordinates of all offices of commercial and savings banks operating in the nation. The authors performed a GIS analysis to calculate the number of offices in each ZIP code of the study areas.

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