

RESPONSE TO COMMENTARY

## Taking a Holistic View of Housing Policy

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Orfield, Stancil, Luce, and Myott (2015) has spurred significant discussion and commentary, as well as several critiques. Here, we respond to the preceding critique mounted by Schwartz, as well as the commentary provided by Dawkins (2015), which was published concurrently with the original article.

Schwartz and Dawkins have both raised questions about the focus of our earlier article, suggesting that it emphasizes particular housing programs too much, or too little.

In his response, Schwartz admits that whereas federal policy has contributed significantly to racial discrimination and segregation, the Low-Income Housing Tax Credit (LIHTC) “is not a significant part of this story” (Schwartz, [in this issue](#)). He argues that LIHTC units are less concentrated in high-minority tracts than other types of subsidized units are, and that LIHTC operates at too small a scale to have a significant effect on regional segregation. Dawkins also raises this point.

At the outset, we point out that our analysis, arguments, and policy recommendations were by no means focused solely on LIHTC. Most of the regional data summarized in Orfield et al., (2015, Tables 2–3) (Table 1). Include separate breakouts for all place-based subsidized units and LIHTC units. LIHTC units represent only about a fourth of the units included in these data.<sup>1</sup>

The cost analysis (reported in Orfield et al., 2015, Table 4) also included all units funded between 1999 and 2013 for which the Minnesota Housing Finance Agency (MHFA) was able to provide financial data—not just LIHTC units, or even just units receiving federal funding.

LIHTC units alone represent 5%–6% of the total rental market in the Twin Cities, and subsidized units in the aggregate represent 5% of the entire housing market—19% of the rental market at a minimum. These shares are clearly large enough to warrant the attention of policymakers, and are even greater if Housing Choice Vouchers are included.

But even if analysis is limited to LIHTC units alone, Schwartz is wrong to declare that their impact on segregation is insignificant. Although tax credits are distributed slightly less segregatively than other subsidies are, our data show very clearly that LIHTC units are dramatically overrepresented in high-minority tracts and school attendance areas. Fifty-two percent of LIHTC units allocated by MHFA between 2005 and 2011 were in census tracts with minority shares greater than 30%, compared with just 23% of all housing units and 40% of all rental units. Similarly, 83% of LIHTC units were in school attendance areas with minority shares greater than 30%, compared with just 46% of the student population in the Twin Cities.

As discussed in our original article, in the process of maintaining this segregative pattern, state housing authorities have turned down a substantial number of LIHTC funding proposals from more-affluent suburban areas. This represents a set of selection priorities and systems, laid out in the state’s Qualified Allocation Plan, that favor segregative development.

Schwartz also claims we overemphasize the importance of the link between LIHTC and education policy. For instance, Schwartz argues that “most households . . . do not have school-age children,” pointing out that only 29% of all Twin Cities households include children under 18 (Schwartz, [in this issue](#)).

But families with children are overrepresented among those receiving or benefiting from housing subsidies. MHFA occupancy data reveal that 49.7% of households in subsidized units include children. (Although precise figures are unavailable, these households almost certainly constitute a significant majority of the population of subsidized housing beneficiaries, because they naturally tend to be larger than households without children.)

Whereas some LIHTC units serve populations such as homeless individuals and the elderly, the majority of LIHTC units in both the central cities and suburbs—60% and 71%, respectively—are theoretically eligible for family occupancy. Moreover, whereas single-bedroom units do account for a substantial fraction of LIHTC units in the Twin Cities, unit sizes are not assigned by quota. Instead, unit size often appears to be a function of unit location. LIHTC units within the central cities tend to be smaller (49.5% are one-bedroom or studio units), whereas units in the suburbs are much more likely to be family appropriate (only 35.4% are one-bedroom or studio). In other words, a less central city-oriented housing policy would likely produce even more housing that could and would be plausibly occupied by families with children, further strengthening the link between housing and school integration.

The best that can be said of LIHTC in a fair housing context is that, at present, it mirrors patterns of segregation in the private market, rather than accentuating those patterns. This is what Horn and O'Regan (2011) determine in their evaluation of LIHTC and segregation, which compares the distribution of tax credit units across low-, middle-, and high-minority tracts with the distribution of lower income households, rather than with the distribution of all households. Far from vindicating LIHTC policy, this is instead a classic example of federal housing subsidies "perpetuating" existing segregation. Federal rules, discussed below, require that public entities ameliorate housing segregation. But simply as a matter of pragmatic policymaking, it is also hardly unreasonable to ask that federal subsidies not reflect discriminatory trends in the private market. (Horn and O'Regan themselves acknowledge this as a potential shortcoming of their work.)

Ultimately, however, the practical realities of subsidized housing development mean that focusing on a narrow subset of housing subsidies such as LIHTC is often inadvisable. Because most modern subsidized development is mixed finance and relies on more than one funding stream, it is frequently pointless to treat various financing programs as if they exist in isolation from each other. The necessity of acquiring more than one source of funding means that incentives and limitations placed on one funding stream can influence the use of other funding as well. For instance, if a project cannot fully fund itself without both LIHTC and a local grant, restrictions on the use of LIHTC effectively apply to the local grant as well, and vice versa. As LIHTC is the single largest source of affordable housing funding, trends in its geographic distribution are most likely to have an outsized impact in this manner and are therefore of particular importance.

Whereas Schwartz claims LIHTC is not as segregative as other programs, Dawkins (2015) argues that we have focused too much on place-based assistance and ignored the potentially integrative effects of rental assistance policies like the Housing Choice Voucher. Dawkins is correct to note that assistance programs have the potential to function as an important tool for housing mobility. Unfortunately, as he recognizes, there are many well-documented bureaucratic and economic constraints that limit the ability of these programs to create housing mobility—namely, exclusionary zoning, high suburban rents, and obstacles to voucher portability. In Minnesota, another, more severe constraint exists: the ability of landlords to legally refuse a tenant because the tenant wishes to use vouchers.<sup>2</sup> This is consistently cited by voucher holders as one of the primary obstacles to finding an affordable unit.<sup>3</sup>

In this vein, Dawkins critiques our piece for not discussing the mobility program resulting from the *Hollman v Cisneros* case settled in 1995. This is ironic, because there is perhaps no more potent illustration of the limitations of voucher-only strategies in the current legal and economic environment. The *Hollman v Cisneros* settlement provided low-income families special "mobility vouchers," in an attempt to facilitate housing choice and mobility. Subsequent studies showed that 71.9% of the voucher applicants were unable to locate a qualifying lease (Goetz, 2002). In other words, whatever the theoretical use of rental assistance programs, significant changes to regional housing policy will be needed if they are to truly improve housing choice for low-income tenants.

**Table 1.** School integration simulations.

	Elementary	Middle	High	Total
Number of minority students who would have to change schools to achieve racial balance <sup>a</sup> in 2012–2013				
100% replacement <sup>b</sup>	6,847	2,469	2,791	12,107
75% replacement <sup>c</sup>	8,056	3,528	3,284	14,868
50% replacement	9,782	3,987	3,987	17,756
Number of additional minority students who would already be in a racially integrated school if the racial makeup of subsidized housing were the same across the region and:				
LIHTC units were distributed across school attendance areas in proportion to school enrollments	2,028	355	541	2,924
Section 8 project-based units were distributed across attendance areas in proportion to school enrollments	837	178	259	1,274
Housing Choice Voucher usage were distributed across attendance areas in proportion to school enrollments	3,541	774	1,216	5,531
Total	6,406	1,307	2,016	9,729
Percentage of total moves needed for racially balanced schools (100% replacement)	94	53	72	80
(75% replacement)	80	37	61	65
(50% replacement)	65	33	51	55
Number of schools included in analysis	Elementary	Middle	High	Total
Predominantly White (0–20% non-White)	102	35	38	175
Diverse (20–60% non-White)	153	36	43	232
Predominantly White (60–100% non-White)	58	18	13	89
Total	313	89	94	496

Note: LIHTC = Low-Income Housing Tax Credit. Data from U.S. Bureau of the Census, Department of Commerce; Minnesota Department of Education; and Minnesota Housing Finance Agency.

<sup>a</sup>An outcome where the racial makeup of all schools in the region falls between 20 and 60% non-White.

<sup>b</sup>All non-White students leaving a predominantly non-White school are replaced by White students from predominantly White or racially diverse schools.

<sup>c</sup>All non-White students leaving a predominantly non-White school are replaced by White students from predominantly White or racially diverse schools.

The difficulty of relying solely upon vouchers to achieve integration is also reflected in census data: Housing Choice Voucher participants in the Twin Cities area are extremely concentrated, perhaps more than low-income households are generally. Only 21 of the region's 705 census tracts—all but one in Minneapolis or Saint Paul—have voucher use rates exceeding 10%, whereas the region's median census tract has a voucher usage rate of only 0.85%. Across the metropolitan area, 50% of voucher holders live in census tracts that contain only 15.9% of households; meanwhile, 37.4% of all households live in census tracts where there are five or fewer vouchers being used.

The concentration of rental assistance beneficiaries only highlights the importance of geographically distributed place-based assistance such as subsidized housing construction. Most projects receiving public subsidy are forced, as a condition of the subsidy, to accept voucher holders as tenants. Better integrated subsidized housing, then, is one of the few relatively foolproof ways to cut through layered cultural and economic impediments and open up otherwise inaccessible areas to low-income and minority families.

Finally, Dawkins also expresses concern that we do not explicitly discuss the Twin Cities' innovative fair share housing program. We find this an odd critique: our article does examine the geographic distribution of subsidized housing, and concludes that it is inadequate and at odds with federal fair housing law (Orfield et al., 2015, 577–584). The nominal existence of a fair share program cannot change this outcome; instead, the outcome reflects on the fair share program. Whereas the general thrust of our article should make clear that we strongly support fair share requirements such as the Twin Cities', our analysis should make it equally clear that the current program is not performing as hoped.

Elsewhere, we have indeed produced extensive commentary on the fair share program.<sup>4</sup> Whereas it is not necessary to reproduce that commentary in full here, we feel compelled to revisit two key points. First, the regional government has gradually relinquished its enforcement authority over the fair share requirements, allowing suburban municipalities to revert to their former exclusionary practices. Second, and worse still, the regional government has itself, over time, begun to allocate affordable housing in a concentrated fashion, with the highest goals (and largest decennial increases) invariably assigned to the central cities. We recommend a comprehensive revision of this policy, incorporating LIHTC, the Housing Choice Voucher, and all other forms of housing subsidy, as well as local land-use policy and other factors, in housing placement.

## Modeling the Impacts of a More Integrative Regional Housing Policy

To illustrate the potential effects of a broad-based, integrative regional fair housing policy that reaches all forms of housing subsidy, we have modeled a scenario in which existing subsidies have been distributed more evenly across the region.<sup>5</sup> This simulation found that if subsidized housing was distributed across the region in proportion with student populations and if the racial mix in subsidized housing was the same everywhere, it would take the region 50 to 80% of the way to eliminating both White- and non-White-segregated schools.

School integration is an essential component of housing policy. Beyond the many well-documented empirical benefits of school integration on student outcomes and generational poverty, integrated schools would also reduce private-market housing segregation. Segregated schools can induce White flight from central city and inner-ring suburban neighborhoods, intensifying housing segregation in a negative feedback loop. An integrative subsidized housing policy represents a major step toward reintegrated schools, which helps break the feedback loop and stabilize racially diverse neighborhoods.

At present, school segregation in the Twin Cities is rapidly increasing, which is both a cause and an effect of growing housing segregation. Between 1995 and 2010, the regional population in majority non-White, high-poverty census tracts increased by about 300%. Simultaneously, the number of schools made up of more than 90% non-White students increased from 11 to 83, and the number of non-White children in these highly segregated environments rose by more than 1,000% (from 2,000 to 25,400)—nearly one sixth of the metropolitan student population. For comparison, during the same time span, the numbers of equally segregated schools in Seattle, Washington, and Portland, Oregon, which have similar demographics to the Twin Cities, increased from 14 to 25 and zero to two, respectively.

For the purposes of the simulation, an integrated school was defined as one with non-White enrollment between 20 and 60%—a range consistent with most definitions. In 2012–2013, 230 of the roughly 500 schools with defined attendance boundaries<sup>6</sup> in the seven-county region had racial mixes in this range, 86 had non-White shares of greater than 60%, and 175 had non-White shares of less than 20%.

Fully integrating the region's schools using student reassignment alone is a tall order, requiring many thousands of student transfers. If integrating all schools was achieved simply by having students of appropriate races in the appropriate schools trade places, then roughly 12,100 non-White students in schools above the 60% ceiling would have to trade places with 12,100 White students in schools below the 20% floor.

In reality, however, most integration programs are unlikely to achieve one-to-one White- non-White student swaps. If, instead, only 75% of the non-White students leaving predominantly non-White schools were replaced by White students, then about 14,850 non-White students would have to relocate to predominantly White and already integrated schools in order for all schools to be below the 60% ceiling. If 50% of moving non-White students were replaced by White students, then 17,750 non-White students would have to move.<sup>7</sup>

Distributing LIHTC and other subsidized housing can dramatically reduce the difficulty of creating integrated schools. Our model distributes LIHTC units, Section 8 project-based units, and Housing Choice Voucher beneficiaries across the region in proportions equal to the distribution of students in the region's schools.<sup>8</sup> Individual units and projects were also integrated evenly across the region, with

the racial mix of units and voucher holders adjusted to reflect the region-wide racial mix in subsidized housing. The children in each of the households in subsidized units were then assumed to attend the relevant neighborhood school.<sup>9</sup>

If Housing Choice Vouchers, LIHTC units and Section 8 project units had been originally distributed as described, a total of 9,729 non-White students currently in predominantly non-White schools would instead be attending a racially balanced school. This represents a very substantial share of the total number of moves needed to fully eliminate racially segregated schools in the region—including predominately White schools. With the generous assumption of a one-to-one replacement rate, fully 80% of the needed student moves would now be unnecessary—or 35% if the model is limited to LIHTC and Section 8 project-based units. But even if only 50% of non-White students leaving predominantly non-White schools were replaced by White students, 55% of the needed moves would be unnecessary—24% if counting only LIHTC and Section 8 project-based units.

Whereas these simulations are rough and surely leave many factors unaccounted for, the fundamental message is equally clear. Because housing subsidies are at present so segregative, a modest, fair share approach to subsidized housing—that is, one that distributes housing in a location- and race-neutral fashion—would nonetheless have had significant integrative impacts.

If housing subsidies had actually been used in a *proactively* integrative fashion, as required by law, their contribution toward a stably integrated regional school system would be even greater.

In addition, because of a lack of data availability, this model necessarily ignores many subsidized units, such as those funded through non-Section 8, non-LIHTC federal programs, or exclusively funded by state and local agencies. A regional fair share policy toward subsidized housing, however, would reach all of these units, bolstering integrative effects beyond those seen in the model. Likewise, if, as many housing experts advocate, subsidy programs are ever expanded to levels commensurate with demand, their potential to reduce racial segregation will also expand—but only if policymakers have previously ensured they are put to use fairly and integratively.

As a final note, we would like to emphasize that any successful metropolitan integration strategy to increase suburban residential choice for low-income minority households should be accompanied by a concerted plan for urban reintegration. Attempts to introduce White or affluent families into segregated central-city neighborhoods are sometimes unfairly characterized as gentrification, but in our view, gentrification occurs when incoming families wholly displace current residents, resulting in a neighborhood that still lacks economic or racial diversity. By contrast, urban reintegration is designed to create a diverse mix of races and incomes, to stave off White flight and disinvestment. Such a strategy might include, for instance, the creation of racially integrated magnet schools, which draw in White residents from the suburbs and improve the education of children who would otherwise attend low-performing segregated public schools. These schools have had been used effectively in several metropolitan areas (like Louisville, Kentucky, and Raleigh-Durham, North Carolina) (Orfield, 2015).

## Preserving Affordability

Schwartz also argues that we have overlooked the key role of LIHTC and other subsidies in preserving existing affordable housing. He suggests that creating and preserving affordability might even serve as a bulwark against resident displacement in the event of sudden neighborhood gentrification.

Although we agree that preservation of existing affordable units can be, at times, a valid use of housing subsidies, this is not a subject free from the fair housing concerns raised in our original piece. Selective preservation can create or reinforce segregative housing patterns. To illustrate this process, consider that whereas the Twin Cities do have a substantial number of affordable units located outside of Minneapolis and Saint Paul, these units appear to rarely receive preservation funding. Instead, evidence suggests the vast majority of money spent preserving affordability is put to use in the central cities. For example, in 2014, the state housing finance agency helped preserve 1,427 units of affordable housing. Of these, just 32—2.2%—were located outside of Minneapolis and Saint Paul.

Such imbalances are not particularly surprising. As Schwartz points out, preservation funding may go further in poor areas than rich areas. Likewise, housing managers in comparatively affluent areas face greater opportunity costs when they operate nonmarket-rate units, and likely would have little difficulty filling an unsubsidized unit. In depressed neighborhoods devoid of opportunity, a rental unit may not even be economically viable without subsidies to minimize rents and attract residents, giving managers a strong incentive to repeatedly seek new infusions of funding.

As a result of these dynamics, if preservation is not undertaken with care, even the disproportionately few subsidized units built in integrated areas can eventually revert to market rates. Meanwhile, subsidized units in segregated neighborhoods risk becoming, for all intents and purposes, permanently subsidized. This in turn can lock in income restrictions for many decades, excluding the middle-class families who might otherwise lift a neighborhood's economic fortunes. Perversely, because market rents in distressed neighborhoods may not be substantially higher than subsidized rents, preservation and the accompanying rent restrictions may be more effective at keeping out new wealth than at ameliorating rents for low-income families.

As for Schwartz's concerns about gentrification, they seem to have been informed by his own studies in New York City. He cites the South Bronx, Williamsburg, and Harlem as examples of places where a neighborhood's meteoric economic ascent has displaced residents.

But New York City is a poor model for most of the nation. New York is a massive metropolitan area and economic engine that is simply not comparable to mid-sized regions, such as the Twin Cities. Demand for housing in New York is vastly greater than in most other regions, and space comes at a much higher premium. Population density in the boroughs cited by Schwartz ranges from about 32,000 per square mile to about 70,000 per square mile, whereas the population densities of Minneapolis and Saint Paul are about 7,500 per square mile and 5,700 per square mile, respectively.

Outside of a few tightly packed, economically unique regions—namely, New York and San Francisco—gentrification involving displacement of residents is exceedingly rare. Of the many poor, segregated neighborhoods receiving disproportionate shares of housing funding, only a tiny handful will ever gentrify. Data produced for one recent study conducted by several of our authors showed only 6% of majority non-White census tracts in 1980 transitioning into racial diversity in the following quarter-century, and less than 0.3% becoming predominately White. Investing in affordable housing in these places *just in case* they become the next Williamsburg is wasteful at best and actively detrimental at worst (Orfield and Luce, 2013).

### **Subsidized Housing, Revitalization, and the Franklin-Portland Project**

Schwartz criticizes our earlier article for not citing several studies that find positive impacts of concerted community development efforts on neighborhoods. But these studies are, on the whole, too broad to be of much use for our purposes. Our article never sought to measure or discuss the broad impact of community economic development, and, indeed, we strongly favor increasing investment and development *apart from low-income housing* in distressed urban neighborhoods. Our critique of community development extends to housing alone: we are skeptical of the beneficial effect of additional affordable housing, all else being equal, on the economic fortunes of these neighborhoods. Although policymakers and scholars sometimes treat economic development and subsidized housing development as virtually synonymous, we would argue that they are in fact distinct and, indeed, can work at odds with each other. Economic development seeks to draw investment into a neighborhood, whereas subsidized housing can reinforce segregated neighborhood demographics, perpetuating and strengthening patterns of disinvestment.

Unfortunately, isolating the impacts of LIHTC and other subsidized housing on nearby housing and neighborhood economies can be very difficult. To effectively isolate the effects of housing programs requires a model and data that control for all other contributors to the neighborhood economy—factors that vary in complicated ways between metropolitan areas, and sometimes between individual neighborhoods within a metropolitan area.

This difficulty is reflected in the range of results in studies of the impacts of subsidized housing. Some reviews of the literature suggest, for instance, that positive spillover effects are more likely in high-income, high-opportunity areas than they are in low-income areas (Housing Research Synthesis Project, 2008). Others conclude the converse (Baum-Snow & Marion, 2009).

The other studies cited by Schwartz have complications that limit their applicability. Galster, Levy, Sawyer, Tempkin, and Walker (2005) look at a commercially oriented community development corporation (CDC) strategy in neighborhoods that were either already gentrifying or racially stable—but this approach has little in common with housing-oriented development that focuses on very low-income neighborhoods. Galster's Richmond study (Galster, Tatian, & Accordino, 2006) also did not focus on housing alone. (Indeed, Galster has noted elsewhere that, in very poor neighborhoods, the concentration of low income housing by itself has very negative effects; Galster, 2004). The other "studies" Schwartz mentions—a newspaper article in *The Guardian* and a housing industry promotional publication—are neither rigorous nor persuasive.

We could as easily argue that Schwartz should have cited Khadduri's (2013) conclusions about this literature:

Most of the time, however, the LIHTC housing has, at most, a small positive impact on property values beyond the footprint of the LIHTC development [Baum-Snow & Marion, 2009; Funderburg & MacDonald, 2010]. . . . [T]he author has found no research showing that distressed neighborhoods with LIHTC investments improve as measured by other quality measures such as well-performing schools, responsive public services, or safety (p. 2).

The same complexities that limit studies of housing development elsewhere are present in our discussion of the Franklin-Portland project, which Schwartz criticizes for not being broad enough. Conducting a complex econometric analysis of the project, as Schwartz would prefer, would be a major endeavor and would require substantially more data than are available. However, we do find it telling that this particular project—at the time, the largest new construction project in our data set—did not appear to even move the needle, so to speak, on local economic indicators.

Notably, Schwartz essentially endorses our conclusion that the project has had little effect on the surrounding area. He argues that this is because the project includes only 120 units. We would counter that it is perfectly reasonable to expect a \$66 million project to completely rebuild several city blocks, which is directly responsible for the production of 12% of a low-income neighborhood's housing stock, to have a neighborhood impact which is quantitatively discernible without reliance upon a specially built econometric model. And, whereas Schwartz argues that the project is not completed, it constitutes a decade-long endeavor, large portions of which were online as early as 2004 and others completed by 2008.

In the end, the Portland Gateway project was discussed because the local community development movement has repeatedly cited it as an example of a game-changing housing project. In scale and ambition, it is hardly average or typical—it supposedly represents community development at the peak of its transformative power. And yet it seems to have done little to change the trajectory of the surrounding neighborhood. We believe that the mediocre outcomes produced by this flagship project bode poorly for the thousands of other subsidized units saturating poor neighborhoods in Minneapolis and Saint Paul. And, indeed, studies consistently show these neighborhoods and their residents are worse off now than they were 30 years ago when these organizations began their work. School performance is down, there is less private credit, there are fewer jobs, the pathway to prison for young men is shorter, health outcomes are worse, and the region exhibits some of the widest racial gaps in the country in income, poverty, unemployment, and education outcomes.

## The Legal Obligation to Integrate

Even if there were some evidence that subsidized housing alone could spur economic development in poor neighborhoods, or head off gentrification, it would need to be weighed against the Fair Housing Act's prohibition on the perpetuation of segregation, and the obligation of recipients of federal housing aid to affirmatively further fair housing. Since our article's publication, these obligations have

been reinforced and reaffirmed by the Supreme Court's decision in *Texas Department of Housing and Community Affairs v. Inclusive Communities Project*, and the U.S. Department of Housing and Urban Development (HUD)'s release of its final Affirmatively Furthering Fair Housing rule.

These obligations are frequently misunderstood. For instance, Schwartz speculates that we are “suggest[ing] that the Fair Housing Act requires that all LIHTC and other subsidized housing be situated outside low-income and predominantly minority neighborhoods of the central cities and inner suburbs” (Schwartz, [in this issue](#)). But we are saying no such thing. Instead, we are asserting that subsidized housing policy be, on balance, integrative in effect, compared with current living patterns. Areas with greater segregation should receive fewer housing subsidies, not more.

In a very similar fashion, Schwartz cites the Affirmative Furthering rule as “recogniz[ing] the role of place-based strategies” (Schwartz, [in this issue](#)). But he omits the essential qualifier that appears in the very next paragraph:

There could be issues, however, with strategies that rely solely on investment in areas with high racial or ethnic concentrations of low-income residents to the exclusion of providing access to affordable housing outside of those areas. For example, in areas with a history of segregation, if a program participant has the ability to create opportunities outside the segregated, low-income areas but declines to do so in favor of place-based strategies, there could be a legitimate claim that HUD and its program participants were . . . failing to affirmatively further fair housing as required by the Fair Housing Act. (U.S. Department of Housing & Urban Development, 2015, 42,279)

In other words, the law does not forbid building low-income housing in poor and minority neighborhoods, but it does forbid a recipient of federal funds from failing to increase racial integration in its housing siting decisions. It is illegal for a state to deny funding for integrative housing projects in predominantly White areas to further concentrate subsidized housing in high-poverty, segregated areas, as has occurred in Minnesota.

### **The Role of CDC in Subsidized Housing**

Schwartz claims that our previous article's focus on the nonprofit affordable housing sector is inappropriate, in part because “nonprofit organizations account for 20% of all LIHTC housing developed since 1987” (Schwartz, [in this issue](#)). Schwartz attempts to support this contention with data from HUD's database of LIHTC units.

The HUD data do not support Schwartz's claim, however. The HUD data only indicate nonprofit involvement through one narrow lens: a single nonprofit sponsor variable. But LIHTC projects only allow one sponsor per project, even though many developments incorporate a network of for-profit and nonprofit entities. In a number of cases, projects with heavy nonprofit involvement appear to have been recorded as for profit for HUD purposes. In other words, the HUD data provide a poor window on whether nonprofits account for any particular housing development.

To generate a more accurate picture, we have conducted a modified version of Schwartz's analysis. Using the same HUD data as a starting point, each project reported in the metropolitan area was examined for evidence of major nonprofit involvement (i.e., as a developer or owner), using a varied collection of data sources.<sup>10</sup>

This task was complicated by LIHTC's tendency to obscure the full set of participants in a project. Syndication of tax credits often requires the formation of a single-purpose limited partnership; that partnership is sometimes listed as owner in both HUD data and other sources of data, such as MHFA records. It is frequently difficult or impossible to determine a partnership's membership using public data alone. News reports sometimes discuss project backers, but many projects are never reported on. (Information about a project's provenance, it should be noted, is particularly difficult to come by in the case of suburban developments.) To ensure that our figures were appropriately conservative, any development without strong evidence of nonprofit involvement was considered a for-profit project. As a result, our determination of nonprofit participation rates should be considered a floor, not a ceiling.

Our analysis showed that approximately 31.7% of regional LIHTC units monitored by HUD included significant nonprofit involvement. But within the central cities of Minneapolis and Saint Paul, nonprofits



were involved in the creation of approximately 44.4% of LIHTC units. Moreover, nonprofit participation appears to be increasing over time—when only the most recent decade of data is included, the regional share of nonprofit LIHTC units rises to 39%. Of all units with a nonprofit connection, 60% were located in Minneapolis or Saint Paul—compared with 35.4% of other units. This distribution seems to comport with the national figures generated by Horn and O'Regan (2011) in their analysis of LIHTC, which show that nonprofits are more likely than for-profits to focus their development efforts in areas of high minority concentration. (And, of course, nonprofit developers also produce non-LIHTC affordable housing, which is more concentrated than LIHTC housing is, although fewer data are available on these units.)

But even these figures downplay the actual influence of nonprofit community developers over affordable housing policy and outcomes, especially in the central cities. Our original article identifies eight CDC, which account for 62% of CDC expenditures in the Twin Cities; of these, six participate in LIHTC development.<sup>11</sup> Within the central cities, those six organizations are together involved in the development of 28% of all LIHTC units and 65% of nonprofit LIHTC activity.

HUD data also reveal that several large for-profit LIHTC producers and managers operate in the region, including Dominion, Sherman Associates, Sand Companies, Shelter Corporation, and Northstar Residential. But of these entities, only Sherman Associates appears to have conducted significant LIHTC development in the central cities, comparable to the major CDC. Most for-profit LIHTC activity in the cities is conducted by much smaller developers, each contributing a few dozen units every decade or so. The central cities contain a majority of the region's subsidized housing, and control a disproportionate amount of housing resources as LIHTC suballocators with large, well-funded community development departments. It is surely relevant, then, that the most stable, experienced stakeholders in affordable housing in the central cities are nonprofits.

What's more, the role of these organizations in housing policy can extend beyond the formal production of housing. Particularly in the central cities where infill development is the norm, for-profit developers are forced to engage with the political system and community organizations in order to compete for housing funding. Often, this includes taking on smaller CDC as community partners or in informal advisory roles, or working with neighborhood-oriented CDC to coordinate activities. In the field of central-city affordable housing, CDC are treated as local experts, or valid representatives of low-income communities. They are thus able to exert influence on development activity out of proportion with their size.

The dense network of CDC in a confined geographic area can help produce what Goetz and Sidney (1997, p. 490) termed a "local policy subsystem." They described the growth of this system and its success in interweaving itself into the urban housing policy apparatus, including the creation of "the Consortium of Nonprofit Housing Developers [which] was created to provide a coalitional body to represent the interests of CDCs" (p. 497). As a result of such activity, "[Minneapolis] began to restructure its housing subsidies to match the type of housing CDCs wanted to do" (p. 497). Despite the substantial number of affordable subsidized units developed by for-profit entities in 1997, Goetz and Sidney recognize that CDC, in effect, led the charge driving affordable units back to the central city: "Although traditional private-sector-development actors (including lenders and developers) had withdrawn and widely disinvested from inner-city neighborhoods in the 1970s, these actors were eventually drawn back into the subsystem by the success of CDCs in generating development activity. . ." (p. 498).

In short, the data support what practical experience suggests and other academic studies have described: the central cities contain a constellation of longstanding nonprofit developers, with many opportunities to form close connections to each other, to specific urban neighborhoods, and to political leaders and policymakers. The leading lights of the nonprofit sector are based out of and oriented toward the central cities, whereas the major for-profit players in affordable housing exhibit a decided emphasis on the suburbs. With this in mind, and given the important fair housing consequences of the place-based development that many nonprofit organizations advocate, it is important to analyze and discuss the role these entities play in capturing and redirecting scarce resources.

But it is also important to recognize that the distinction between for-profit and nonprofit developers can be overstated. If the foregoing analysis demonstrates anything, it is that the line between

a nonprofit project and a for-profit affordable housing project is fuzzy indeed. A great many projects have participants from both sides of the fence, with governmental entities playing a role as well. In HUD's LIHTC data for the Twin Cities, a large number of projects with for-profit managers are recorded as having had nonprofit sponsors, and vice versa.

This, in fact, was a central point of the discussion of CDC in our earlier work. Nonprofit developers work shoulder to shoulder with for-profit developers. As complex entities with a financial, professional, and ideological stake in housing development, they are not immune to the laws of economic and organizational self-interest. In the aggregate, they work to pull money, resources, and political capital toward their areas of focus, which, as it turns out, are frequently lower income central city neighborhoods.

Nonetheless, Schwartz lambasts our inclusion of CDC salaries as "scurrilous" (Schwartz, [in this issue](#)). But, as we emphasized in our earlier response to Professor Goetz, the salaries of housing nonprofit executives were included in our previous article not to imply that these developers are somehow undeserving of their generous compensation, but to draw attention to how closely this sector mimics the for-profit sector. As in any industry, some people earning high salaries at housing nonprofits are probably overpaid, whereas others might well be underpaid. But we make no attempt to answer the question of individual deservedness, only asking that the housing industry be discussed *as an industry*, with personal and organizational economic incentives.

Without a major restructuring of how public agencies fund and support subsidized housing development, CDC and related organizations will continue to play an important role in how and where low-income families live. Their impact on fair housing and housing policy deserves critical evaluation.

## Notes

1. These data do not include Housing Choice Vouchers, unless, of course, a voucher holder is occupying an otherwise subsidized unit. However, as Schwartz notes, Housing Choice Vouchers are distributed even more segregatively than LIHTC.
2. *Edwards v Hopkins Plaza Unilimited Partnership* (2010).
3. For instance, this problem is frequently cited by voucher holders in surveys of housing discrimination. See, for example, Fair Housing Implementation Council (2015), p. 109.
4. See for example the Institute on Metropolitan Opportunity report, *Why Are the Twin Cities So Segregated?* (2015).
5. The analysis included LIHTC, Section 8 projects and Housing Choice Vouchers. Only family units were included. The total number of units involved was 22,878. The MHFA data used for the analysis were unit-level data that included whether there was a child in the unit and the race of the head of household.
6. This definition excludes charter, magnet, and special purpose schools without clearly defined attendance boundaries.
7. Although these numbers are substantial, it should be noted that they represent just 7, 9, and 11% of total non-White student enrollment in the seven-county metropolitan area.
8. Race data were available for LIHTC, Section 8 vouchers and most (roughly two thirds of) Section 8 project-based units. Race distributions for Section 8 project-based units with no race data were estimated using the racial make-up of the Section 8 project-based sites closest to each unit missing data.
9. The number of children per subsidized unit was estimated using household data from the Bureau of the Census for households with income below the poverty line. The number and age distribution of children per unit were allowed to vary by race. Children in subsidized units were then assigned to the neighborhood elementary, middle, and high schools based on the estimated age distribution for all subsidized units assigned to specific school attendance boundaries.
10. These included: HUD data; MHFA data recording LIHTC awards; other MHFA records with specific project information; public data made available by city community development departments; and the archives of the *Minneapolis Star Tribune*, *Saint Paul Pioneer Press*, and *Finance & Commerce*, a local real-estate newspaper.
11. These are Eon, Artspace, CHDC, Common Bond Communities, Project for Pride in Living, and RS Eden.

## Acknowledgments

The authors would like to thank a number of people who commented on drafts of our original article on this topic, including Douglas Massey, Paul Jargowsky, Robert G. Schwemm, Florence Wagman Roisman, Elizabeth Julian, and Todd Swanstrom. All opinions and remaining errors in the original article or this follow-up, of course, are the responsibility of

the authors alone. Finally we want to thank the Ford Foundation, the Kresge Foundation, and the McKnight Foundation for their ongoing support of our work.

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