



Community Impact: The Effects of Assisted Rental Housing in Delaware

Q & A



In October 2012, the Delaware Housing Coalition (DHC) released a new report examining the effects of assisted rental housing properties on property values in their surrounding communities. The objectives of this research were to provide public decision-makers and concerned citizens and civic groups with information on the beneficial effects of affordable housing and make a set of recommendations regarding the design and siting of multifamily housing for state housing planners and lenders.

What types of affordable housing did the study consider?

This research included publicly and privately-owned multifamily income-restricted or subsidized (“assisted”) rental properties – sites with public financing or rental assistance contracts making them affordable. The data on assisted multifamily rental sites was developed from the Delaware State Housing Authority’s inventory of assisted rental housing in the state, and included properties with financing from the Housing Development Fund (HDF), HOME, Section 202, USDA Rural Development, project-based Section 8, and the Low Income Housing Tax Credit.

What home sales data were used in the report?

Home sales data for the entire state of Delaware from 1970-2011 were purchased from CoreLogic to analyze home prices. This included over 210,000 arms-length transactions.

Does affordable housing indeed have a negative effect?

On average, assisted multifamily rental housing sites in Delaware were not found to have a negative effect on property values in their surrounding communities. The central findings of this report are that

1. the location of assisted multifamily rental housing is not typically associated with any subsequent changes in the values of neighboring properties, and
2. the perceived association with lower property values is generally due to the historic strategy of locating these properties in areas where property values are already relatively low and also relatively declining.

Are homes near affordable housing worth less than homes that are not?

Assisted rental housing has historically been disproportionately located in low-income neighborhoods, where the housing is relatively smaller, older, more depreciated—and hence, lower-valued—than homes elsewhere in Delaware. Comparing all homes near assisted rental housing properties to all homes that are not in Delaware, homes near a site are typically priced about 30 percent less than homes further away. However, these homes are older, smaller, in poorer condition, and on smaller lots than homes that are not near sites. Once those factors are properly accounted for, the difference in value shrinks to just 7.1 percent.

Additionally, neighborhood factors play a prominent role in the difference in home prices. When the study also controlled for

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other neighborhood factors, such as housing stock characteristics and median household income, the difference was deflated even further, to a difference of only 3.2 percent. The remaining difference is likely explained by omitted characteristics of the home that are not available in the data.

What are the neighborhood effects of affordable housing?

This research found no statistically significant impact on future home values or appreciation trends. In Delaware, the historical direction of causality appears to be that sites follow lower home prices rather than lower home prices following sites.

The study finds that there was no impact on home values either up or down, net of any movements in the overall housing market. When comparing homes near sites to comparable homes not near a site, there was no impact on future home values or appreciation. Homes near assisted properties tended to appreciate at a slightly lower rate than homes that are not (5.1 percent annually compared to 5.7 percent), but this is a trend that predates the construction or conversion of a new assisted site.

The geographic location of sites is associated with areas where house values previously had a premium but are now declining, and may even have been declining for some time. If the timing of the sites' occupancy is coincidental with when house prices in these neighborhoods go from being above average to comparable homes in non-sites neighborhoods to being below average, it can appear as though the opening of the assisted rental multifamily site may be the event that caused this undesirable event. The results are very clear that sites in Delaware have historically been following this trend, and not causing it or accelerating it. Assisted housing has simply been more likely to locate into areas where house values are already relatively low and are also relatively declining.

Does the relationship between the presence of a site and surrounding home prices vary from site to site?

There can be significant variation in the relationship between the location of assisted rental housing and differences in property values. For the sites in Delaware examined by this research, the presence of an assisted rental site had a roughly equal probability of being associated with a negative, neutral or positive difference

in nearby house values, even though the average effect—across all sites—was neutral. Thus, in two-thirds of the cases, the effect was either nonexistent or positive—providing significant evidence against the misperception that the presence of assisted housing in a community is likely to have adverse effects on property values in the community.

In addition, the average positive association is significantly larger than the average negative association. For those sites associated with higher nearby home values, the average difference was measured to be +\$96,898. For those sites associated with lower home values, the average difference was measured to be - \$48,934.

What can we do differently or better to ensure affordable housing does not have a negative effect on the surrounding community?

This research does suggest that site-specific characteristics matter, and can impact a property's effect on the community. The research also indicates that the factors which contribute to one of the three possible outcomes on nearby house values are identifiable. Site-specific characteristics related to the design, size, ownership/management and neighborhood context of assisted multifamily rental sites are associated with both positive and negative impacts. Older sites, public housing, sites with USDA or project-based Section 8 financing or assistance, sites owned by nonprofit organizations and family sites tend to have a negative association. Newer and larger sites, properties with Section 202 or LIHTC financing, sites that were converted from market rate, and sites that have recently undergone a renovation tend to have positive associations.

This research indicates that, while the average effect of sites' presence in Delaware is neutral, there is in fact a wide variety of variation from one site to another. This naturally begs the question of whether this variation is purely random, or is systematic, with certain factors determining whether a site's presence is negative, neutral or positive. A review of several case study sites suggests that some of these site-specific characteristics do indeed seem to relate to neighborhood home values. However, these findings are limited, and additional research into the effect of specific site characteristics could further inform best practices to avoid negative impacts.



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What are the benefits of affordable housing?

Certain kinds of assisted rental housing more easily lend themselves to positive impacts. These include newer and larger sites, properties with Section 202 or LIHTC financing, and sites that were converted from market rate.

One of the site-specific characteristics found in this research to have a notable positive effect is the rehabilitation of an existing assisted sites. An immediate 20 percent positive impact in neighborhood home prices was found to follow a site's rehabilitation.

These specific benefits are in addition to those accruing to communities from having well-maintained and managed affordable housing, a better range of housing to meet all incomes, and the presence of assisted rental homes near transportation, employment, and schools of choice.

How do the findings of this report compare to the national literature on this subject?

In general, the findings conform to the national literature. The peer-reviewed academic literature abounds with national examples of the relatively benign effect of developing affordable housing that is well-designed, well-financed and well-managed. There is no single, blanket unqualified answer to whether or not the presence of a particular assisted housing site has an adverse effect on nearby property values. Whether the effects are negative, positive or neutral is heavily dependent upon the design, scale and type of assisted housing, age and density of the surrounding housing, quality of the assisted housing's management, and the socioeconomic and demographic context of the neighborhood.

Who completed this research?

Kevin Gillen, Ph.D. and Econsult Corporation completed this study. Econsult Corporation, a group of academically distinguished consultants providing consulting services, ranging from economic impact analyses to geospatial analytics, to assist business and public policy decision-makers. Dr. Gillen is a Senior Research Consultant with the University of Pennsylvania's Fels Institute of Government. With a background in urban economics and real estate finance, Dr. Gillen's research focuses on the economic analysis of real estate developments and operation of real estate markets, including their economic, fiscal, and financial implications. His research in urban economics appears in numerous publications and is cited in various policy applications. He has also worked for the Federal Reserve Board of Governors and the Federal Housing Finance Agency.

How was this research funded?

The study was supported by grants from Citi Foundation and the Delaware State Housing Authority

Where can I find the full report?

The full report is available on DHC's website at <http://www.housingforall.org>.

Who can I contact for more information?

For more information or questions, contact:
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