



Community Impact: The Effects of Assisted Rental Housing in Delaware

SUMMARY



Context

Proposals for all types of affordable housing—ranging from emergency shelters to market-rate rental communities to moderately-priced homes within new subdivisions—are often met with concerns from community members and civic associations. These concerns often involve an unexamined assumption that the effect of such housing will automatically be socially and economically negative for the surrounding community.

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. But to date, no such studies have been done in Delaware, examining Delaware communities nor have there been any such studies comprehensively examining the different types of affordable housing, whether in Delaware or any other U.S. State.

Methodology

This report is a thorough quantification of the association between the presence of subsidized or income-restricted (“assisted”) housing in a community, and any subsequent changes in the property values in those communities. This study examines changes in the values of single-family homes as a proxy for how such community quality of life factors may or may not systematically co-vary with proximity to assisted rental sites.

Key Findings

The central findings of the report are that the location of assisted multifamily rental housing is typically not associated with any subsequent changes in the values of neighboring properties. 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.

Neighborhood Factors

At first glance, the local presence of rental-assisted and/or income-restricted multifamily properties does appear to be associated with lower property values. Examining Delaware home sales data from 1970-2011, single-family homes near assisted rental housing properties typically have a value that is 32 percent less than homes further away. However, most of this discount is attributable to factors that are intrinsic to these communities and their existing housing stock, rather than their proximity to assisted affordable housing.

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. Once those factors are properly accounted for, the difference in value shrinks from 32 percent to just 7.1 percent.

When the study also controlled for neighborhood factors like housing stock and 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.

No Property Value Impact

To more accurately distinguish between these relationships, an “Event Study” regression examined changes in house prices in those neighborhoods with assisted affordable housing both before and after that housing became assisted. 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 sites appreciated at a slightly lower rate than comparable homes not near sites, but

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this is a continuation of pre-existing trends in the neighborhood, not an impact of the multifamily property. The direction of causality appears to be that assisted rental sites follow lower home prices rather than lower home prices following sites.

Significant Variation in Property Value Impacts

While the overall net effects statewide are neutral, 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.

Site-Specific Characteristics Matter

The research also indicates that the factors which cause 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 rental multifamily sites are associated with both positive and negative spillover effects. One of the characteristics with the largest impact was whether a site had recently undergone a renovation. Following a renovation (and controlling for other factors), neighborhood house prices are estimated to rise by an average of 20 percent, which is nearly \$35,000 in 2011 dollars.

Policy Implications

This research identified a number of site-specific characteristics relating to the location, design, ownership/management and neighborhood context of assisted rental sites that are correlated with both positive and negative effects on nearby property values. Now that these characteristics have been identified, it is within the capacity of the site's designers and the programs' administrators to decide what characteristics a proposed future site should have. These characteristics should be taken into account when designing and planning a planning any future site, in order to reduce the possibility of any adverse effects on the site's neighborhood. We recommend further research into the varieties of factors and their particular impacts on a site's effects, in order to better inform this process.

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The data used was a combination of (1) home sales for the entire state of Delaware from 1970-2011 were purchased from CoreLogic to analyze home prices, which included over 210,000 arms-length transactions; and (2) information on assisted multifamily rental sites developed from the Delaware State Housing Authority's inventory of assisted rental housing in the state, which 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.

The Author, 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 includes applied work in the analysis of real estate developments and operation of real estate markets, including their fiscal, economic 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.

The Delaware Housing Coalition is a non-profit organization dedicated to making affordable housing available in every Delaware community and to all Delawareans, via education, research, policy development, and advocacy to increase the supply of affordable rental and for-sale homes and the public funding needed to produce and preserve them.

The full report is available on the Delaware Housing Coalition's website at <http://www.housingforall.org>.

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