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To | **HB 4079 Rulemaking Advisory Committee**
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From | **Bob Parker, Rebecca Lewis, Andrew Martin & Emily Brown**
SUBJECT | **MIXED-INCOME HOUSING: DEFINITIONS AND OUTCOMES**

The University of Oregon is conducting research to support the rulemaking process mandated by House Bill (HB) 4079. HB 4079 directs the Land Conservation and Development Commission to establish a pilot program in which local governments may site and develop affordable housing. Task 1 of our work program includes a document scan/literature review. This memorandum focuses on the provision of the bill related to mixed-income housing:

SECTION 5. (3) The Commission may adopt rules that authorize mixed income housing developments that include affordable housing on pilot project sites.

This memorandum presents findings from the literature on mixed-income housing and how this relates to HB 4079. Mixed-income development is perceived as a tool to achieve multiple goals, including the reduction of negative consequences associated with concentrated poverty as well as a catalyst for urban redevelopment. Key issues include how mixed-income housing is defined, approaches to implementing mixed-income housing, potential social and economic benefits, and ratios of market rate/affordable units that make projects financially viable.

The literature does not provide clear or easy answers to many of the questions raised regarding the ratio of each income type or the extent to which the potential benefits impact the lives of residents of these communities. Regardless, many in the affordable housing and development communities still see mixed-income development as a tool for urban change and addressing need for affordable housing.

DEFINITIONS OF MIXED-INCOME

There is no singular definition of mixed-income developments agreed upon by housing experts. The simplest definition is *any development or neighborhood that has units affordable to residents at different levels of income*. Affordability to residents with different incomes often takes the form of units rented or sold below market-rate to occupants who meet income thresholds, combined with unsubsidized units. One definition from the Department of Housing and Urban Development (HUD) reads:

"A mixed-income housing development can be defined as a development that is comprised of housing units with differing levels of affordability, typically with some

market-rate housing and some housing that is available to low-income occupants below market-rate.”¹

A key consideration in all definitions is that the mixing of income levels must be intentional and a core part of the operation of the development.

A key issue in defining and analyzing mixed-income developments is determination of geographic boundaries. Conceivably, mixed-income housing could occur in a single building, on a single site, in a neighborhood, or at the community level. The probability of mixed-income housing increases as geographic areas widen. Definitions in the literature often focus on a single development, though some scholars consider community-wide planning efforts. Considering mixed-income communities at the single development scale is appropriate in this context, given that the RAC must advise DLCD in drafting rules for choosing two individual pilot projects on sites up to 50 acres in size.

Mixed-income communities can be comprised of rental or ownership units or both. HUD programs exist for both types. Similarly, there are a variety of policy tools to create mixed-income developments. Some of the most popular include tax incentives and credits, density and other zoning related bonuses, and inclusionary zoning.² Mixed-income developments are either *voluntary*, usually incentivized, or *mandatory* through inclusionary zoning.

For the purposes of this memorandum, we focus on mixed-income housing as a single development that intentionally offers both subsidized, below market-rate units and market-rate units.

RATIONALE FOR MIXED-INCOME DEVELOPMENTS

Mixed-income developments are touted as providing numerous benefits to communities, residents, and developers. Many of these are associated with economic integration, counteracting the negative impacts of racial and economic segregation, and others have to do with the financial opportunities that mixed-income developments offer.

Social Benefits

Concentrations of poverty have been associated with a wide variety of negative social outcomes. In recognition of these negative results and the widespread deterioration of many public housing developments, federal policy shifted towards mixed-income development in the 1990's. Programs such as HOPE VI³ (no longer active), Choice Neighborhoods,⁴ Moving to Opportunity,⁵ and the Housing Choice Voucher Program⁶ attempt to integrate lower-income households into neighborhoods with higher-income households, often referred to as “opportunity areas.” These housing mobility programs are also often part of federal fair housing efforts that seek to address the detrimental effects of segregation caused by decades of discriminatory housing practices.

¹ US Department of Housing and Urban Development (2003). *Mixed-Income Housing and the HOME Program*. Retrieved from http://portal.hud.gov/hudportal/documents/huddoc?id=19749_200315.pdf

² Inclusionary zoning refers to statutes requiring developments, often those over a certain number of units, to provide a percentage of those units at below market-rate.

³ http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/hope6

⁴ http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/cn

⁵ <http://portal.hud.gov/hudportal/HUD?src=/programdescription/mta>

⁶ http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/about

The social benefits of economic integration can be significant. One survey of studies categorizes the social arguments for mixed-income development into four groups:

- Social network arguments – interaction between residents will provide lower-income residents connections to higher-income residents that increase their social capital.
- Social control arguments – higher-income residents will demand greater adherence to rules and a greater sense of order, both through social pressures and greater insistence on rule enforcement.
- Behavioral arguments – lower-income residents will model the behavior of higher-income residents.
- Political economy of place arguments – higher-income residents will attract other development and better amenities, which will also benefit the lower-income residents.⁷

HUD promotes several other benefits:

- Evidence suggests school performance for low-income children is improved with no negative impact on the higher-income students.
- The quality of mixed-income developments can be higher than unsubsidized affordable units due to demand for higher quality in the market-rate units.
- Inclusionary zoning can help to provide moderate-income groups, particularly municipal employees, police, and firefighters with housing options in especially high cost communities.⁸

The evidence of these outcomes is mixed. Research has found some of these benefits accrue in some instances, leading to a consensus that if the benefits are to take place, they are dependent upon many and complicated factors. Much of the literature acknowledged the need for further study on the validity of these arguments and how to optimize observed effects.

Mixed-Income and Affirmatively Furthering Fair Housing

Mixed-income housing reduces income segregation and decreases the incidence of concentrations of poverty. This is important to note because of recent national discussion regarding fair housing. In 2015, HUD released an updated rule with the intention of furthering the influence of the Fair Housing Act. Currently, all communities that receive federal grants must ensure not only that they are not violating the Fair Housing Act, but that they are proactively Affirmatively Further Fair Housing (AFFH).⁹ This rule provides communities with the tools and data to effectively ensure throughout the planning process that they are:

“taking meaningful actions that, taken together, address significant disparities in housing needs and in access to opportunity, replacing segregated living patterns with truly integrated and balanced living patterns, transforming racially and ethnically

⁷ Joseph, M. L., Chaskin, R. J. & Webber, H. S. (2007). The Theoretical Basis for Addressing Poverty Through Mixed-Income Development. *Urban Affairs Review*, 42(3), 373.

⁸ US Department of Housing and Urban Development (2003). *Mixed-Income Housing and the HOME Program*. Retrieved from http://portal.hud.gov/hudportal/documents/huddoc?id=19749_200315.pdf

⁹ <https://www.hudexchange.info/programs/affh/>

concentrated areas of poverty into areas of opportunity, and fostering and maintaining compliance with civil rights and fair housing laws.”¹⁰

Mixed-income developments can play an important role in a community’s duty to affirmatively further fair housing by reducing the likelihood of contributing to racially- or ethnically-concentrated areas of poverty (R/ECAPs). By ensuring that units in new housing developments are affordable to people from a variety of income levels and backgrounds, cities can take important steps toward creating inclusive communities and overcoming patterns of segregation.

Financial Benefits

Mixed-income housing can increase the financial and social feasibility of building housing for low- and moderate-income households. HUD has noted that developments that target a mix of income levels face less political opposition than those that only target low-income households.¹¹

Supporters of mixed-income housing also note that it can be a tool that makes building below-market-rate housing financially feasible without public subsidy. In a development that combines market-rate, or even luxury housing, with housing targeted at moderate or low-income households, revenue from the market rate units can cross-subsidize the discounted units. Conversely, the financial benefits, including tax credits, that developers often receive in exchange for including affordable units can increase the overall viability of their development.¹² This can result in market rate housing that is more affordable than it would have been otherwise.

Finally, mixed-income developments can provide low-income residents with more on-site amenities, and more nearby resources, than would otherwise be financially feasible in a development with only below-market-rate units.

Limitations of Mixed-Income Housing

Critics of mixed-income developments allege that it often leads to gentrification and displacement, largely because redevelopment often occurs in lower-income areas. Wealthier occupants of the mixed-income developments (as redevelopment projects) may replace previously low-income occupants. Additionally, some federal programs have replaced public housing developments targeting only low-income households with mixed-income developments, decreasing the overall number of units affordable to low-income households.¹³ Even the new Rental Assistance Demonstration (RAD) program, which requires one-for-one replacement of assisted units, allows for a five percent decrease in the number of assisted units.¹⁴

These conclusions could implicate a relationship between mixed-income housing developments and gentrification. None of the case studies in the literature we reviewed addressed gentrification as an outcome of mixed-income developments.

We question how applicable the case studies the UO Research Team identified are to many Oregon communities. Of the literature surveyed, the majority of developments were in large urbanized areas. These areas include Boston; San Francisco; Emeryville, CA; New Haven, CT; Montgomery County, MD;

¹⁰ Ibid.

¹¹ Ibid.

¹² http://www.shelterforce.org/article/4442/making_mixed-income_developments_work/

¹³ <https://www.nhlp.org/files/FalseHOPE.pdf>

¹⁴ http://nlihc.org/sites/default/files/2016AG_Chapter_4-5.pdf

and Kansas City, MO. Most Oregon communities are smaller and less urbanized than these communities. The lessons learned in these markets are perhaps applicable, however, they should be scrutinized before being applied to other contexts. The literature we reviewed lacked information about smaller cities.

MIXED-INCOME HOUSING IN OREGON

Because of Oregon's previous ban on inclusionary zoning, any mixed-income housing developments in the state have occurred voluntarily. This means that the inclusion of affordable units would only likely occur in developments where renting units at below-market-rate would either not impact or would increase the project's financial feasibility, or that the development included government-subsidized housing. As noted previously, in some instances the inclusion of affordable units can actually increase a project's feasibility due to financial benefits (tax credits for example) associated with these units. The Low-Income Housing Tax Credit program, for example, allows mixed-income housing, however, the credits must be used on multi-unit, or multi-family, properties. Developers must set aside a percentage of units in the development affordable to renters at various thresholds below the area median income to qualify for the tax credit.

As an example, the HUD Low-Income Housing Tax Credit (LIHTC) property database identifies hundreds of projects that have received the LIHTC in Oregon since the 1980s. Few, however, have included any units that were not targeted at low-income households.¹⁵ Of the projects that include market rate units, few are outside of the Portland Metro region. Mixed-income developments that use the LIHTC program outside the Portland area are found in cities including Redmond, Salem, Sweet Home, Hood River, Molalla, and Tillamook. Though most the units in these cities were solely in low-income developments, mixed-income developments were possible: Tillamook has one development that produced a 27-unit development with 10 low-income units; Redmond produced a development with 10 out of 50-units at market rates; Salem has three mixed-income developments with various ratios of low-income and market rate units. Despite evidence of successes, the vast majority of developments utilizing LIHTC in Oregon are not mixed-income. Even among mixed-income developments, the number of market rate units is small compared to the number of low-income restricted units.

Most LIHTC projects in cities outside of the Portland area only contain one to three units not reserved for low income households, while the majority of developments with more non-low-income units are in the Portland area. One exception is Tillamook, which has a development with 17 out of 27 units not targeted at low-income households.

Many of the housing experts interviewed by the UO Research Team have been involved with mixed-income housing in some capacity, whether through research or development. For the interviews, mixed-income housing was defined as multi-unit developments with units reserved for households at different income levels. Most interviewees knew of several mixed-income housing projects, but mentioned that they knew of few mixed-income housing developments outside of the Portland area.

When asked about the benefits of mixed-income housing in Oregon, responses confirmed what we found in the literature. Several interviewees stated that mixed-income housing is good for everyone because it increases the diversity of a neighborhood, and results in a holistic community where people are exposed to an economically diverse community. It can also lead to better life outcomes for low-income individuals, providing increased access to employment and educational opportunities and

¹⁵ <http://lihtc.huduser.gov/>

potentially improving public health. Housing experts in Oregon also noted that another benefit of mixed-income housing is that it allows developers to provide amenities to low-income households that might not be financially feasible without the subsidy provided by market rate units. In addition to market rate units subsidizing affordable units, interviewees mentioned that tax credits, density bonuses, and other incentives earned from the inclusion of affordable units can also subsidize the market rate units, resulted in cheaper units all around.

When asked what makes mixed-income housing more likely to pencil out, interviewees stated that voluntary mixed-income developments were more likely to pencil out in tight housing markets.

POLICY CONSIDERATIONS

Much of the evaluation in the literature is based around case studies of successful and unsuccessful mixed-income developments. These case studies illuminated several considerations for mixed-income housing policy.

Voluntary or Mandatory?

Many mixed-income housing developments offer affordable units voluntarily due to the financial benefits that this can provide. Communities can also incentivize the voluntary inclusion of affordable units through tools like density bonuses, inclusionary “upzoning,”¹⁶ direct subsidy, or property tax exemptions.¹⁷ In communities where the development of mixed-income housing is mandatory, the inclusion of affordable units is often required as a condition of the approval and permitting of development. Whether voluntary or mandatory inclusionary housing programs are more effective likely depends on local political and social context, the specific details of the policy, and the market conditions in that community.

Voluntary programs can be effective if the incentivizes that the local government offers provide enough financial benefit to offset the lost-revenue associated with selling or leasing units at below market rate.¹⁸ Many experts believe that mandatory inclusionary zoning policies result in the highest number of affordable units. However, requiring developers to include affordable units in their development can mean that marginal projects lose financial feasibility, resulting in incomplete projects and a potential decline in development.¹⁹

Both mandatory and voluntary inclusionary housing efforts will be more effective at creating units in markets where development is already occurring. In these situations, the added cost of a small percentage of below market-rate units will not drastically affect the overall financial feasibility of the project.

Ratio of Units by Price Point and Size of Development

The largest question in both the literature and for HB 4079 rulemaking concerns the ratio of units at various price points. Unfortunately, there is no clear guidance on the optimal ratio. The case studies reviewed in the literature utilized widely-varied ratios. One study found that financial success was only

¹⁶ http://media.wix.com/ugd/19cfbe_4c2a9adc5ccd4ca181f8b434b2a5b8f6.pdf

¹⁷ http://furmancenter.org/files/NYUFurmanCenter_InclusionaryZoningNYC_March2015.pdf

¹⁸ Ibid.

¹⁹ Ibid.

partially determined by the number of units at any given price point.²⁰ In these case studies, the ratio of units affordable at greater than 100% of AMI (i.e., market rate units) ranged from 3% to 43%. The study broke down the remainder of units by affordability to less than 30% of AMI, 30-50% of AMI, and 50-80% of AMI. The mixture of these price points was equally variable. The authors found that the ratio of units was important, but other factors including strong, effective property management and local market conditions were also contributors of success or failure. Some developments used subsidies for below market-rate units to ensure financial success. Other developments leveraged strong market-rate prices to build more low-income units. With respect to ratios and financial feasibility, their conclusion was ultimately that “research is needed to determine the correlation between market strength and unit mix.”²¹

The optimal ratio to generate social benefits is equally elusive to researchers. The Brophy and Smith (1997) study found that greater income disparities could create greater tension between residents.²² This presumably lessened the expected social benefits of lower-income residents mixing with higher-income residents. Similar conclusions were drawn in a study by Joseph, Chaskin, and Webber (2007) who point out the inherent tensions in attracting enough market-rate tenants to solicit the casual interaction necessary for many of the benefits, while also providing as many units as possible to lower-income households. Chaskin and Webber also found that social interaction was greater between more similar income groups (e.g. low and moderate-income rather than very low and above median-income).²³

A third study (Graves 2011) found that some of the four potential social and behavioral changes did occur to various extents, but a major contributor to the success of these social changes was the management structure. In the same development, they found that the management structure also inhibited opportunities for social interaction. This author believes that social benefits are only partially due to the income mix in the development, which was 80% subsidized units and 20% market-rate.²⁴

In sum, the optimal ratio is highly dependent upon the goals of the project and local conditions. Financially, projects can succeed in subsidizing the lower-income units with market-rate units if sufficient demand exists. Case studies of downtown, large, urban areas showed this to be possible. In less competitive housing markets, the tax credits and development incentives proved to be the source of revenue necessary to make the project work. If social benefits are the objective of the project, consideration should center on whether it is important to provide more units affordable at lower incomes or if attracting market-rate tenants is an objective. Social benefits may most likely accrue if developers plan for a balanced range of incomes, rather than a dichotomy between market-rate and subsidized units.

The size of developments may also be a factor to consider in addition to the ratio of units. Developments in the literature were variable in scale. They ranged in size from 107 units to 1,283 units in one study. In another article, a development of 396 units was studied. The developments may be generally larger in scale due to geographic context or because of some necessity to make the financial

²⁰ Brophy, P. C. & Smith, R. N. (1997). Mixed-Income Housing: Factors for Success. *Cityscape: A Journal of Policy Development and Research*, 3(2), 7-23.

²¹ Ibid, 26.

²² Ibid, 27.

²³ Joseph, M. L., Chaskin, R. J. & Webber, H. S. (2007). The Theoretical Basis for Addressing Poverty Through Mixed-Income Development. *Urban Affairs Review*, 42(3), 399.

²⁴ Graves, E. M. (2011). Mixed Outcome Developments. *Journal of the American Planning Association*, 77(2), 143-153.

return on the development feasible. Regardless, the size of the developments may play a role in the success of promoting social benefits. While not a finding in the literature, it is not difficult to imagine that larger developments provide more opportunity for residents to interact with more diverse groups, leading to a greater chance of the social benefits mixed-income housing is supposed to provide.

Fair Market Rents

HUD Fair Market Rents also become a consideration when discussing ratios. HUD determines the amount of Housing Choice Voucher subsidy by calculating the median rent for a metropolitan statistical area or nonmetropolitan county area. HUD then provides 40% of this amount to voucher recipients. This may determine the majority of the revenues for the project if most of the units come from low-income and below occupants. Many of the case studies examined in the literature also differentiated between occupants that made between 80% and 100% of AMI and those over 100% AMI. Occupants in the first category naturally cannot pay as much rent, but also do not receive subsidies from HUD. The proportion of these units will also be a determinant in the projected revenues. Should areas with a lower median income, and correspondingly lower median rents, attempt to build a mixed-income development, the resulting revenue streams may necessitate lower quality units than may be built in other areas with higher rents and higher incomes.

TAKEAWAYS

- Mixed-income housing can be beneficial to communities, developers and residents of all income levels.
- Communities can promote mixed-income housing through either voluntary or mandatory inclusionary housing policies.
- The success of each mixed-income project is contingent upon the unique social, economic and political context of each community. Mixed-income housing can include different ratios of units reserved for households at different income levels, ranging from luxury units to subsidized units. The exact mix of units that is appropriate for a particular community, and that will result in the highest levels of social and financial feasibility, is different for each community. The specification of a successful project will vary by location.
- The literature does not suggest an optimal ratio of market-rate to subsidized units that ensures successful financial and social outcomes. Not surprisingly, the literature suggests optimal ratios are highly dependent upon the goals of the project and local conditions.