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PENN IUR BRIEF

# Housing and Opportunity

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In the United States, people have moved from low-income to high-income regions of the country for over 100 years. This movement of people drawn to regions with better employment opportunities led to a long-term convergence of regional per capita incomes. Evidence suggests, however, that this period of convergence has recently come to an end (Ganong and Shoag 2015). Divergent opportunity across regions has replaced convergence<sup>1</sup>. Concurrently, regions with employment opportunities are experiencing rapid house-price and rent appreciation (Acolin and Wachter 2017). Unlike in the past, when convergence was accompanied by an increase in the supply of housing in growing regions, house price increases now appear to be limiting the movement of workers to these areas of opportunity (Moretti 2013). As shown in Figure 1, annual average mobility in the U.S. has declined from an average of 19.7 percent between 1948 and 1980 to 11.6 percent in 2015 (United States Census Bureau 2016).

New high-productivity jobs are concentrated in higher-housing-cost metropolitan areas with endogenous amenity growth that attracts higher-skill workers, while lower-skill workers are increasingly concentrated in lower-opportunity regions (Berry and Glaeser 2005; Moretti 2012; Diamond 2016). This new trend of divergence across metropolitan areas has important implications for economic mobility and social inclusion for the United States going forward.

Divergence within metropolitan areas is also growing, with increased geographic sorting of households on the basis of income (Kneebone, 2016; Jargowsky, 2016). In recent decades, central city neighborhoods have experienced rapid relative population income growth and rapid gains in college-educated populations (Baum-Snow and Hartley, 2015). In an endogenous process, revitalization and improved public and private amenities attract young knowledge workers whose presence can attract jobs (Edlund et al., 2015; Couture and Handbury, 2015). The accompanying increase in housing costs has led to concerns about displacement of current residents. At the same time some outlying neighborhoods are experiencing increases in poverty (Kneebone, 2016; Jargowsky, 2016).

### **I. Consequences of the inequality of opportunity**

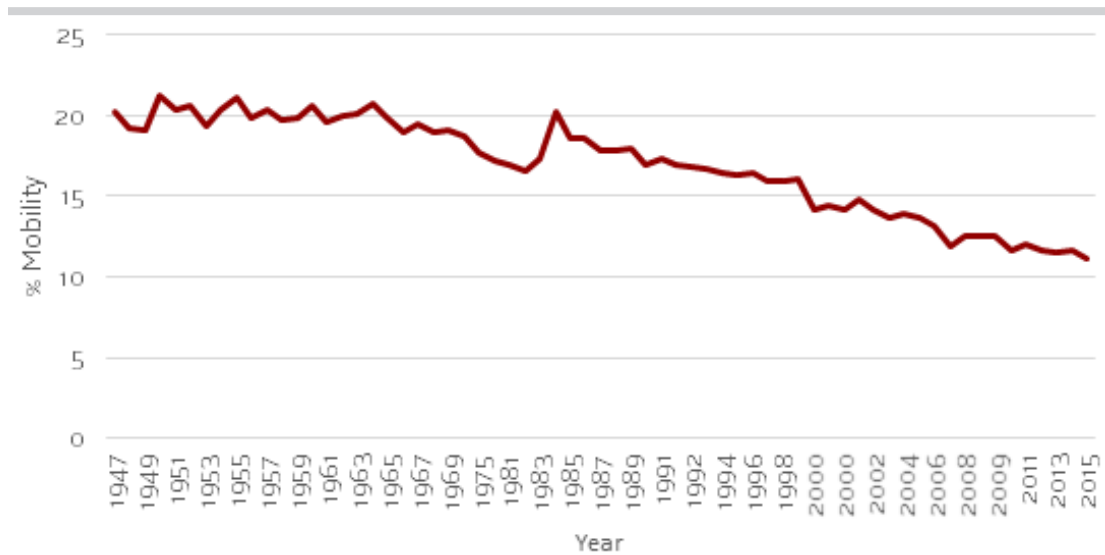
There is an emerging body of literature on the potential long run consequences of growth in spatial inequality, particularly for social mobility. Chetty (2014) describes intergenerational mobility as the ability of individuals to move beyond the socioeconomic status of their birth throughout their lifetime. Chetty et al. (2014) use administrative income data for children (family income from 2011-2012 for children born between 1980 and 1982) and their parents (average family income from 1996 to 2000) to analyze intergenerational income mobility by metropolitan area based on mobility measures and finds substantial differences across areas. They find that, while in Salt Lake City, San Jose, Boston, San Francisco, San Diego, New York, Washington, or Seattle, children born in the lowest quintiles of the income distribution have more than a 10 percent chance of reaching the highest quintile, children born in the lowest income quintile in Charlotte, Atlanta, or Milwaukee, among others, have less than a 5 percent chance of reaching the top income quintile.

Using the same data on intergenerational mobility, Acolin and Wachter (2017) estimate the correlation between levels of upward mobility and housing cost increase at the metropolitan level over the period 2000 to 2014. We find that areas with a higher level of intergenerational mobility have experienced higher growth in housing costs. This has the potential to limit future mobility to these regions.

The implications for intergenerational mobility of the work by Chetty et al. (2014) on regions are mirrored by local poverty concentration within metropolitan areas. Using census tract data, Jargowsky (2016) reports that the number of people living in neighborhoods with poverty rates of 40 percent or more increased by 72 percent between 2000 and 2010.

<sup>1</sup> This divergence is taking place in the context of an overall stagnation in income since 1999, with median income in 2015 still below 1999 levels (Porter et al. 2016).

## ANNUAL GEOGRAPHICAL MOBILITY RATES



Source: United States Census Bureau, *Annual Geographical Mobility Rates, By Type of Movement: 1948-2016*

The long-term consequences for children in low-income neighborhoods are documented in the outcomes of Moving to Opportunity (MTO), a 1990's experiment funded by the Department of Housing and Urban Development. The MTO program offered housing vouchers to randomly selected volunteer families living in high-poverty public housing projects. The vouchers could be used to move to lower-poverty neighborhoods. Chetty, Hendren, and Katz (2016) analyze the outcomes of these families' children relative to a control group that did not receive a voucher and find that, for children under 13, having moved to a lower-poverty neighborhood when young had positive and substantial impact on college attendance and earnings and a negative effect on single parenthood. The magnitude of these effects declines with the age at which the child moved, showing the impact of the duration of the exposure to the better environment.

## II. What can be done?

Within metropolitan areas, a number of housing programs have addressed the persistence of low-income families living in neighborhoods with concentrated poverty, particularly minority low-income families and those with children. These programs enable families to move to neighborhoods with better educational and employment opportunities. Section 8 housing choice vouchers provided rent subsidies for 2.2 million low-income families in 2015 (Collinson and Ganong, 2016). The program typically limits the share of income paid by a family for housing to 30 percent; the government pays the difference on rents up to the 40th percentile of a metropolitan area.

Examining the location choices of families with children who receive a housing voucher, Ellen, Horn, and Schwartz (2016) find that housing voucher holders are more likely to move to areas with better schools as their children enter kindergarten and that they are particularly more likely to do so if there is a high share of affordable rental units available near high-performing schools in their region. These findings suggest that housing vouchers have the potential to improve low-income families' access to better schools for their children if the vouchers enable them to afford units close to quality schools.

Currently, vouchers levels are set at the metropolitan level, which can limit households' access to the most desirable neighborhoods within a region. Collinson and Ganong (2016) examine the results of an experiment conducted in Dallas that varies the maximum rent affordable with a voucher by ZIP code rather than by

metropolis. They find that, with these new ZIP-code-based ceilings, voucher recipients move to higher-quality neighborhoods (as defined by an index based on violent crime rate, test scores, poverty rate, unemployment rate, and the share of children living with single mothers). This suggests that addressing the affordability barriers that constrain low-income households' location choices can potentially improve their ability to locate in neighborhoods with better opportunity.

Another initiative, the Moving to Work Demonstration, created in 1996, provides Public Housing Authorities (PHAs) more flexibility to design and test new strategies to increase choices for recipients of housing subsidies. The experiments aim to identify and test the effectiveness of new methods to help voucher recipients access opportunities such as simplifying the information about the program, providing counseling, or prohibiting discrimination against voucher holders (Galvez 2016).

Freeman and Schuetz (2016) identify a number of local and state government-developed initiatives to preserve and create affordable housing in affordability-constrained areas. These programs include mandatory and incentivized Inclusionary Zoning, Tax Increment Financing (TIF), tax credit and abatement programs, as well as support for shared equity programs. Implemented at the local and state level, they aim to leverage and supplement federal housing programs (LIHTC, HOME, Section 8 vouchers) that have seen their funding reduced over time. While many localities resist affordable housing (Freeman and Schuetz, 2016), others are recognizing the importance of workforce housing to their economies (Voith and Wachter, 2012). This includes some of the most affordability-challenged places (such as Park City, Utah) and cities that are on the brink of widespread increases in housing costs (such as Philadelphia). While State and local governments have a critical role to play, going to scale may require coalitions that go beyond local actors to include federal incentives and private funding (Acolin, Bernstein and Wachter 2017).

There is also the need to bring opportunity to places left behind. The pervasiveness of affordability challenges points to the need for multi-pronged initiatives to increase access to bring opportunity, through economic and community development, to places left behind. These include initiatives to promote job formation by state and regional actors (Rodriguez-Pose and Wilkie, 2016), to improve access to education (Quinn and Steinberg, 2016), and to provide improved skill training (Holzer 2016). These initiatives pursue more inclusive growth by acting on the labor markets and by finding ways to increase educational attainments for a broader range of children. Skill-building programs and primary education reforms have the potential to increase access to opportunity for all households, enabling individuals born in low-income families to experience upward economic and social mobility. However, as community and economic development increasingly brings opportunity to places left behind, attention to preserving and increasing affordable housing will be necessary.

The regime shift that appears to be limiting housing affordability in places with job growth and public amenities, such as access to good education, has consequences for intergenerational mobility. Areas with higher income and housing cost growth in which fewer lower-skill workers are living are also those with a higher level of upward economic mobility for children born in lower-income families. A long term affordability-driven increase in divergence in location by skill and income level would have implications for social inclusion. Identifying and implementing policies to increase access to affordable housing as well as to increase opportunity where affordable housing is available will be a critical challenge going forward.

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