SPOTLIGHT ON UNDERSERVED MARKETS

Mixed-Income Housing in Areas of Concentrated Poverty

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An Overview of Demographic and Housing Characteristics

Over 61 million people in the United States live in an Area of Concentrated poverty (ACP), representing 19 percent of the nation's population. These are regions that are characterized by persistently high poverty levels, low economic opportunity, and high housing costs relative to income. Improving economic opportunity and housing for this large population is important.

In this paper, we examine one proposed method for helping to create economic opportunity and ultimately alleviate the concentration of poverty in these areas: the development of mixed-income housing in ACPs. We seek to develop a foundational understanding of the needs and opportunities for bringing new investment and neighborhood improvements without displacing or disrupting the communities in place today, as well as how to attract higher-income residents to these areas in an effort to deconcentrate poverty.

Our examination of housing markets in ACPs combines external research with our analysis of demographic, economic and housing data that documents the characteristics of this market. We highlight the basic characteristics of mixed-income housing on both a large and small scale, the subsidized and unsubsidized housing markets in ACPs, and ways in which large-scale economic integration affects residents in high poverty areas. Additionally, we explain why mixed-income housing in these areas can be difficult to achieve, and highlight some of the benefits and side effects of this type of housing.

Below are some of the key findings of our research:

- Roughly 19 percent of the nation's population lives in an ACP.
- ACPs contain nearly a third of the nation's racial minority population.
- In ACPs, income is significantly lower than elsewhere in the country, and one third of the population lives in poverty.
- The renter rate is high in ACPs, and subsidized housing through LIHTC, Project-Based Section 8, Public Housing, HOME rental units, and other programs comprises a disproportionately large share of rental units.
- Economic integration in ACPs can improve local schools and provide better employment opportunity, but there is risk of resident displacement.
- Mixed-income housing is a potential approach to fostering residential economic diversity in ACPs while preserving affordability for existing residents.

This paper is the first in a series of three that we will release on this topic over a three-year period. Our next two papers will consist of case studies examining the opportunity for, and challenges of, mixed-income housing in ACPs.

Areas of Concentrated Poverty – Definitions and Basic Characteristics

An ACP, as described in the Duty to Serve regulation, is a census tract designated by HUD that is either a Qualified Census Tract (QCT) or a Racially/Ethnically Concentrated Area of Poverty (R/ECAP).

A QCT is a census tract that satisfies at least one of the following two conditions:

1. The income of at least half of the households is at or below 60 percent of the area median income (AMI)
2. The poverty rate is at least 25 percent

A R/ECAP is a census tract that satisfies both of the following two conditions:[i]

1. The poverty rate is at least three times higher than the poverty rate in the CBSA[ii] in which the tract is located;
   OR
   The poverty rate is greater than 40 percent
2. The nonwhite population is 50 percent or greater[iii]

There is a very high degree of overlap between these two categories. Specifically, of the 4,164 tracts that make up R/ECAPs, only 479 of them do not overlap with QCTs, as seen in Exhibit 1. In total, more than 61 million people live in an ACP, which represents 19 percent of the U.S. population.[1]

Exhibit 1: Composition of Areas of Concentrated Poverty[iv]

	Number of Census Tracts	Population
QCT	15,394	59,284,225
Only QCT	11,709	46,766,663
R/ECAP	4,164	14,322,803
Only R/ECAP	479	1,805,241
ACP	15,873	61,089,466
Overlap of QCT and R/ECAP	3,685	12,517,562

Sources: Freddie Mac Tabulations of 2016 5-Year American Community Survey, Federal Housing Finance Agency (FHFA).

Both categories of the ACP classification are important from a policy perspective. Properties located in a QCT are eligible to receive 30 percent more tax credits under the LIHTC program.[2] LIHTC is a valuable method of providing affordable housing across the nation. This higher allocation of tax credits incentivizes development because it generates more cost-effective equity investment, which makes construction or rehabilitation more cost-effective for the developer, as there is a lower reliance on debt.

[i] In the Duty to Serve regulation, a R/ECAP is defined as a "geographic area with significant concentrations of poverty and minority populations". Duty to Serve chose to follow HUD's definition which currently defines R/ECAPs in the way listed in this section.
[ii] CBSA stands for core-based statistical area and comprises MSAs (metropolitan statistical areas) and µSAs (micropolitan statistical areas).
[iii] In areas outside of CBSAs, the threshold used is 20 percent.
[iv] In this table, and throughout the paper, all figures include Puerto Rico. Exceptions to this include the migration section and subsidized housing section due to lack of data.

Without LIHTC, it is often economically infeasible to develop housing with rents affordable to households making 60% or less of the AMI.

The R/ECAP classification identifies residential segregation, and more specifically, poverty areas with a high level of racial and ethnic minorities. [3] This classification allows for policymakers to better understand opportunities for social improvement. For example, Salt Lake City extensively studied R/ECAPs to examine their own housing and population distribution, in accordance with HUD's Sustainable Communities Regional Planning Grant Program.[4] Under this same program, Minneapolis began allocating more funding to transportation projects that benefit residents in racially concentrated poverty areas.[5]

Mixed-Income Housing – Definitions and Basic Characteristics

Mixed-income housing does not have a consistent, programmatic definition across the industry and throughout history, and can vary by locality or program. For the purpose of Duty to Serve, a mixed-income property is one that satisfies both of the following two conditions:

1. At least 20 percent of the units must be affordable to households making 50 percent of the AMI;
   OR
   At least 40 percent of the units must be affordable to households making 60 percent of the AMI[v]
2. At least 20 percent of the units must be unaffordable to households making less than 80 percent of the AMI

Under Duty to Serve, mixed-income housing in ACPs is one component of the theme of residential economic diversity (RED), which contains two parts: affordable housing in areas of high opportunity and mixed-income housing in ACPs. The former is the current focus of many federal programs, such as HUD's Section 8 Housing Choice Voucher program (HCV), which allows for lower-income households to seek affordable housing options with a high level of geographic flexibility. The importance of housing location on economic opportunity has prompted new incentives for development of affordable housing in high opportunity areas through the Low-Income Housing Tax Credit (LIHTC) program.

The goal behind affordable housing in high opportunity areas is to enable those of lower-income to move to, and live in, areas that already provide opportunities for economic mobility, which can be understood in simple terms as the ability of an individual of family to materially improve their income during their lifetime. However, there is a clear supply shortage of affordable housing in such areas, as well as issues of "not in my backyard," or NIMBYism, along with high land and construction costs, among other factors, creating challenges for new development. In addition, not all of the people living in poverty are in a position to readily move to other areas, nor do they necessarily want to leave their

[v] These are the same income and allocation requirements that are used in the LIHTC program.

communities. An alternative method of improving economic opportunity for those living in poverty is providing mixed-income housing in ACPs.

Developing properties with strict income requirements that target both lower- and upper-income tenants is still a relatively new concept. Deliberate attempts to diversify income at the neighborhood level, however, have been around for at least several decades. Some communities in the 1960s, such as Reston, Virginia, were planned with income mixing in mind. Similarly, the state of Massachusetts started promoting mixed-income housing in 1965 to combat the overconcentration of poverty in public housing projects.[6] This was in response to a Legislative Commission report that examined housing issues for low-income families and seniors across the state and demonstrated an unmet need for affordable housing to serve this population. The report recommended the development of mixed-income housing to deconcentrate poverty and expand financing options.

At the national level, the Fair Housing Act was passed in 1968 and prohibited the use of race, disability, gender and several other protected classes as a basis for discrimination in housing. Although the intent was not specifically to create housing projects for people of differing income levels, mixed-income development has increasingly been used as a means of racial desegregation.[7]

In the early 1990s, the HOPE VI program was established to convert distressed public housing into mixed-income properties.[8] Research into this program demonstrates mixed results, with some commenting that it actually worsened the housing situation for some lower-income families. Researchers who hold this view have two primary concerns: 1) what happened to the existing residents of the redeveloped public housing; and 2) how HOPE VI contributed to the net loss of housing that is affordable to the lowest income households.[vi,9,10] Other researchers have praised HOPE VI for its success in transforming economically blighted neighborhoods into areas of greater opportunity for its residents.[11]

In an effort to learn from HOPE VI, HUD created the Choice Neighborhoods Initiative (CNI) in Fiscal Year (FY) 2010. This competitive grant program provided funding to housing providers for large implementation grants as well as smaller planning grants. Unlike HOPE VI, CNI requires grantees to: 1) provide one-for-one replacement of all public and private HUD-assisted units, 2) maintain a right of return for all prior households, 3) track existing residents during relocation, 4) maintain continuous resident involvement in the redevelopment efforts, and 5) develop a more comprehensive plan that takes into account other aspects of neighborhood distress including violent crime, failing schools, and capital disinvestment. Research is still yet to be completed on the outcomes of CNI.

The Home Investment Partnerships Program (commonly known as the HOME program) provides block grants to states for developing and preserving affordable housing projects. This grant is designed to be flexible so that localities can best allocate the funds based on their community's needs.[12] Mixed-income housing has been a popular outlet for these funds, and HOME has enabled many communities around

[vi] A report by HUD's Policy Development and Research (PD&R) cites that "Between 1993 and 2010, the HOPE VI program demolished 98,592 public housing units and produced a total of 97,389 mixed-income units. Of the 97,389 total mixed-income units, most (55,318 units, or 57%) were replacement public housing units, and affordable and market-rate units made up 30 percent and 13 percent of the remaining units, respectively"

the nation, including in South Dakota and Prince George's County in Maryland, [13,14] to implement mixed-housing initiatives.[15] Per South Dakota's Home Allocation Plan, projects that consist of restricted low-income units and unrestricted market rate units will be eligible for up to 30 points, with more points being awarded to projects with a high percentage of mixed-income units. For comparison, the amount of points for extending affordability restrictions for another 10 years is also 30 points, demonstrating the importance of mixed-income in South Dakota's allocation process. Prince George's County has listed the creation of new mixed-income quality affordable and workforce housing as a priority in their 2018 allocation of HOME funds.

Because property-level mixed-income is still a relatively new concept — particularly in the manner described in the Duty to Serve regulation — there is neither a clear consensus on best practices nor sufficient research on the causal relationship between this type of housing and economic opportunity. In addition, little data exists on the prevalence and success of such housing on a property level, especially for housing that is not supported by any government program. As such, the bulk of our analysis will focus on macro-level characteristics of mixed-income in ACPs. Studying these areas provides a general knowledge base from which property-level characteristics can be informed.

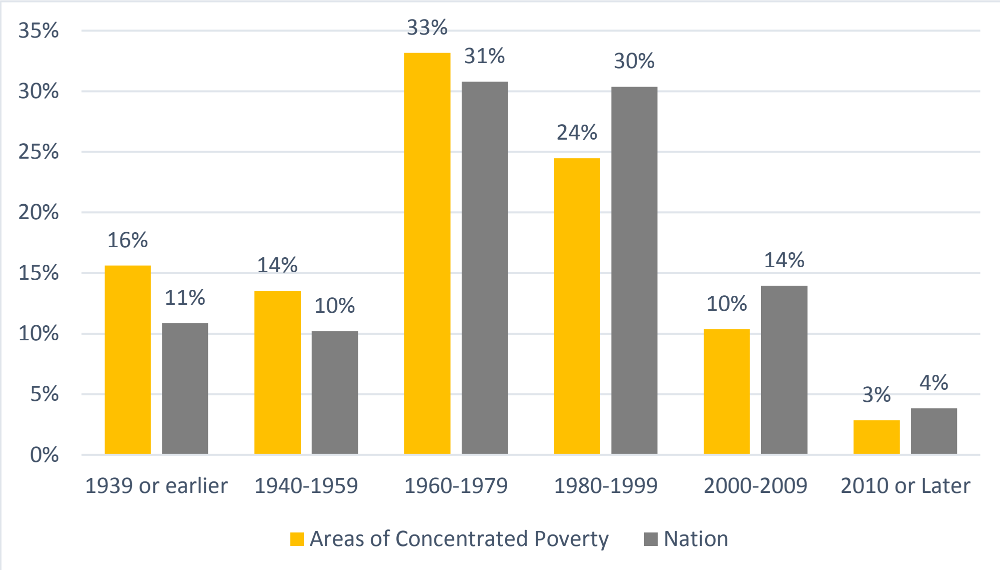
Subsidized and Unsubsidized Housing in Areas of Concentrated Poverty

General Characteristics of Housing in ACPs

Housing in ACPs is generally of lesser quality than in non-ACPs. Quality of housing is an important factor in someone's life, especially for children, since it has direct causal relationships with education attainment, overall health, and future income.[16]

ACPs tend to have older multifamily rental units, with 15.6 percent of units having been built prior to 1940, compared with 10.9 percent for the nation[1], as seen in Exhibit 2. In addition, nearly half of the nation's multifamily rental housing stock was built in 1980 or later while only 37.7 percent of units in ACPs was built during this time period. The high concentration of rental units built before 1980 in ACPs is significant, especially given that paint containing lead was banned in 1978 and these units may expose young children to lead poisoning.[16]

Exhibit 2: Multifamily Units by Year Built



Source: Freddie Mac Tabulations of 2016 5-Year American Community Survey

The homeownership rate in ACPs is substantially lower than the rest of the country. In 2016, only 40.1 percent of households in these areas owned homes, compared with 63.6 percent for the nation, and 60.6 percent for non-rural areas generally. The rate is even lower for R/ECAP areas where only 36.5 percent of housing units were owner-occupied.[1] These findings demonstrate that, while single-family homeownership drives the housing market in most regions in the country, ACPs depend more on rental housing.

Multifamily rental units comprise 27.3 percent of all housing in ACPs, compared with 15.4 percent for the nation. The composition of multifamily rental stock, as a percentage of all rental stock in ACPs, is similar to the nation (45.5 percent and 42.5 percent for ACPs and the nation, respectively).[1]

Renters in ACPs pay a relatively high percentage of their income on housing, which is especially problematic since income levels are already low in these areas. Nearly a third (32.7 percent) of renters pay at least 50 percent of their income on rent, meaning that they are considered severely rent burdened. This compares with 26 percent for the nation.[1]

Nationwide, low-income families often struggle to make rent payments, and spending a high percentage of income on rent is a trend that has steadily worsened over time. Since 2000, the rent burden of the lowest quintile of renters has risen by 10 percentage points. The lack of discretionary income available after rent payments makes these households vulnerable to eviction.[17]

Prevalence of Subsidized Multifamily Rental Housing

Approximately 5.9 million multifamily rental units exist in ACPs, of which roughly 2.5 million (43.5 percent) are documented as being supported by a federal or state[vii] subsidy or loan guarantee program.[18] This rate is substantially higher than the rest of the nation, where only 19.3 percent of the multifamily housing stock is subsidized. High poverty rates explain the abundance of subsidized properties in these areas since housing policies to alleviate poverty have historically targeted these areas, and without subsidy, it is difficult to build and operate safe and decent affordable housing. However, the concentration of these properties perpetuates low incomes in these areas since development incentives apply primarily to housing for low-income households.

In total, subsidized housing in ACPs makes up 51.4 percent of the national subsidized stock, despite ACPs only comprising 18.1 percent of the housing stock and 29.8 percent of the rental stock. Subsidized properties in ACPs tend to be larger than the nation as a whole; the average property in an ACP has 83 units while areas outside of ACPs average only 56 units. The three most prominent programs serving ACPs are LIHTC, Projected-Based Section 8, and Public Housing, which together comprise 94.4 percent of the subsidized housing market in these areas.

Exhibit 3: Subsidy Programs in ACPs

	Properties	Assisted Units	Average Number of Units	Percent of Units in Program	Percent of ACP Subsidized Properties	Percent of ACP Subsidized Units
LIHTC	15,849	1,278,398	80.7	48.2%	51.4%	50.2%
Section 8	8,958	705,316	78.7	51.5%	29.1%	27.7%
HOME	5,186	110,370	21.3	49.5%	16.8%	4.3%
Public Housing	3,582	704,677	196.7	68.7%	11.6%	27.7%
All Subsidized Housing - in ACPs	**30,814**	**2,548,408**	**82.7**	**51.4%**		
All Subsidized Housing - Outside of ACPs	**43,242**	**2,410,759**	**55.8**	**48.6%**		

Source: Freddie Mac Tabulations of the National Housing Preservation Database. Note that the percentages in the last two columns exceed 100 percent. The reason for this is duplicate subsidies. If a property has more than one subsidy, it will count in the total once but in the component twice. In addition, this table only includes multifamily structures.

The vast majority of subsidized units in ACPs are in urban and suburban areas. Exhibit 4 shows that only 13.5 percent of subsidized units are in rural areas, which is largely consistent with population figures – 17.4 percent of ACP inhabitants live in rural areas (compared with the national rate of 23.0 percent). The rate of subsidized housing in rural areas is a little bit higher when properties are considered instead of

[vii] State-level subsidized housing for all states is not readily available data. Because of this, this is an underestimate of the total subsidized market.

units, with 22.1 percent of subsidized ACP properties in rural areas. However, this is still less than half of the corresponding rate for areas outside of ACPs (44.8 percent).

Exhibit 4: Subsidies Programs in ACPs by Region Type

Program	Properties			Units		
	Rural	Nonrural	Percentage Rural	Rural	Nonrural	Percentage Rural
LIHTC	3,020	12,829	19.1%	133,609	1,144,789	10.5%
Section 8	1,841	7,117	20.6%	88,213	617,103	12.5%
HOME	655	4,531	12.6%	12,161	98,209	11.0%
Public Housing	733	2,849	20.5%	94,401	610,276	13.4%
All Subsidized Housing - in ACPs	**6,819**	**23,995**	**22.1%**	**343,215**	**2,205,193**	**13.5%**
All Subsidized Housing - Outside of ACPs	**19,364**	**23,878**	**44.8%**	**690,323**	**1,720,436**	**28.6%**

Source: Freddie Mac Tabulations of the National Housing Preservation Database

A community with a high concentration of low-income earners may struggle to provide services such as education, infrastructure upkeep, and other public works programs if it does not generate substantial tax revenue. This can increase the reliance on subsidies to meet quality housing needs, which given that federal, state, and local subsidies are not keeping pace with actual housing need across the country, subsequently may further concentrate poverty in these areas. Furthermore, communities that have historically suffered from underinvestment tend to have higher crime rates, poor education attainment, and more health issues. One of the greatest obstacles that those living in poverty face is the limited access to jobs and quality schools.[15] When combined, these factors can lead to decreased economic mobility and a long-term cycle of continued poverty — a cycle that affects a sizable percentage of the country.

Demographic, Economic and Housing Trends in Areas of Concentrated Poverty

Population

An estimated 61 million people live in an ACP, representing 19 percent of the nation's population. The population living in an ACP grew by 2.1 percent over the past five years, which is about half the rate of the rest of the United States.[viii] The median age of a person living in an ACP is 33, while the median for areas outside of ACPs is 40. Children and young adults live in ACP's at a higher rate than areas that are not ACP's; 29% of residents in ACP's are aged 19 or younger, while in the rest of country 25.1% of inhabitants are under the age of 20.

Areas of concentrated poverty are located all across the country, but some states have higher concentrations than others. Puerto Rico has, by far, the highest concentration of ACPs with 65.7 percent of the population living in an ACP. The District of Columbia (39.6 percent), Louisiana (22.3 percent), New York (22.1 percent), and Rhode Island (21.6 percent) round out the top five. New Hampshire has the lowest rate at 6.8 percent, followed by Alaska and Delaware, which each have 7.7 percent of their population in an ACP.

As highlighted in Exhibit 5 below, approximately 26.8 percent of people living in ACPs are African American, which is high considering that this racial group makes up only 12.6 percent of the U.S. population. American Indian and Alaska Natives (AIAN) make up only 1.5 percent of the ACP population, but a significant portion (35.8 percent) of Americans of AIAN descent live in ACPs.

Exhibit 5: Racial Composition of Areas of Concentrated Poverty

	Percent Living in an ACP	Percent of Total ACP Population
Caucasian	13.8%	53.5%
African American	40.3%	26.8%
American Indian and Alaska Native	35.8%	1.5%
Asian	15.3%	4.2%
Native Hawaiian or Pacific Islander	26.7%	0.2%
Two or More Races	21.5%	3.5%
Other	40.1%	10.2%

Source: Freddie Mac Tabulations of 2016 5-Year American Community Survey. The left column refers to the percentage of each racial group living in an area of concentrated poverty (e.g. 13.8 percent of Caucasians live in an ACP). The second column refers to the composition of areas of concentrated poverty, (e.g. of all people living in ACPs, 53.5 percent are Caucasian).

[viii] The classification of ACPs change slightly during this time. This rate compares the growth in these specific census tracts over a five-year period (i.e., tracts that are currently classified as ACPs).

Changes in the Classification of Areas of Concentrated Poverty

The boundaries of QCTs and R/ECAPs have changed substantially in recent history. Both QCTs and R/ECAPs have generally grown to comprise a higher percentage of the U.S. population.

Per the 2018 boundaries (2016 population figures), 17.2 percent of the population lived in a QCT while only 11.6 percent of the population lived in a QCT based on the 2008 boundaries (2009 population figures).[ix] Of the 50 states, D.C., and Puerto Rico, only New Jersey and D.C. experienced a decline in the percentage of their population living in a QCT during this period. The percentage composition of QCTs increased by at least 10 percentage points over this period in five states: North Carolina (11.0 percentage points, Oregon (10.5 percentage points), Nevada (10.5 percentage points), Tennessee (10.3 percentage points), and Hawaii (10.2 percentage points). If we compare the population currently in QCTs to the population in these same boundaries from the classification ten years prior, we see that the increase is only about 1.5%.[x]

R/ECAPs have changed materially since they were first classified using 1990 census data. For the 1990 Census, tracts were not defined for all counties,[19] so a straight comparison of this time period is not possible. However, comparing the current population in 2010 tracts for the current classification of R/ECAPs to the 1990 definition suggests that roughly 4.4 percent of the U.S. population lives in modern R/ECAPs, compared with 1.6 percent in these same areas in 1990.

Economics of Areas of Concentrated Poverty

Income in ACPs is considerably lower than the national average. The median household in an ACP earns only 47.6 percent of the median household income outside of an ACP. While relative income is somewhat higher when comparing renters in ACPs versus renters outside of ACPs (56.4%), the income differential is still material.[xi] Nearly two-thirds of all households in the U.S. that earn under $40,000 a year live in an ACP.[1]

As expected, a very high percentage of ACP populations live in poverty. The national poverty rate is 15.4 percent — when ACPs are removed, this rate drops to 11.3 percent. ACPs alone have a poverty rate of 33.3 percent. The R/ECAP segment of this region has a poverty rate of 45 percent — nearly three times higher than the national rate.[xii]

While ACPs are, by definition, areas of concentrated poverty, that does not mean that they are completely without higher earners. These census tracts do contain residents at various income levels, which suggests that there is potential for mixed-income housing over time. For a community to support mixed-income housing, it must have households that can afford to pay higher rents, since half of the

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[ix] The years 2008 and 2018 correspond to HUD's classification of QCTs. The population for 2018 comes from 2016 data and the population for 2008 comes from 2009 data. 2009 is the first year for which data in this series is available.

[x] The boundaries of census tracts changed from the 2008 to the 2018 classification. Therefore, a direct comparison is not possible. For this calculation, we tried to keep the boundaries as consistent as possible by only examining tracts that existed in both periods. This method is prone to some error, but it is not likely to be large. This is a topic that may be worth exploring more in the future.

[xi] However, it is important to note that renters generally earn less than owner households and that ACPs have a higher concentration of renters than the national average.

[xii] This extremely high poverty rate is to be expected given the criteria needed to be classified as a R/ECAP.

mixed-income equation in the Duty to Serve definition concerns rents that are unaffordable to low-income households. Therefore, it is important to consider income distribution in ACPs when gauging long-term feasibility of this type of housing.

A common measure of income inequality is the Gini coefficient, which examines how the cumulative share of income compares with the cumulative share of population. A Gini coefficient of zero implies complete income equality (everyone has the exact same income), whereas a value of one implies complete income inequality (one person has all of the income).

In 2016, the Gini coefficient in ACPs was 0.525[xiii], which compares with 0.480 for the nation as a whole and 0.471 for all areas outside of ACPs—a substantial difference. Essentially, and somewhat counterintuitively, this means that ACPs actually have greater income inequality than the nation as a whole. In theory, this makes them more suitable candidates for mixed-income housing as within these census tracts, there is a mix of incomes. Indeed, of the 100 census tracts with the highest Gini coefficient in the nation, 84 are in ACPs.[1]

Despite the relatively high income inequality in ACPs, compared with the rest of the nation, ACPs have roughly 70 percent fewer rental units *unaffordable* to those making 80 percent AMI (the requirement for higher-income rental units in the mixed-income housing definition per Duty to Serve).[xiv] Similarly, ACPs have roughly 70 percent more units affordable to those making 60 percent AMI. Notwithstanding this disparity, most ACPs still have households that appear to be able to support the 80 percent and greater AMI segment of the mixed-income requirement based on income levels alone. At least 20 percent of households make above 80 percent AMI in 79.6 percent of ACP tracts. However, this number is low when compared with the rate of 98.2 percent observed in non-ACPs.[xv] In any case, there are many considerations for housing costs which cannot be captured from a pure AMI perspective. That is, although a certain income level implies that a household can afford to pay a specified rent level, there are more considerations to housing costs than just income.

Still, it is not the policy objective of mixed-income housing, as described in Duty to Serve, to redistribute the residents within a census tract to live in mixed-income properties. The more likely intention is to support the in-migration of higher-income households (and the wealth and local investment that comes with them), but to do so in such a way that preserves housing for the current lower-income residents. Therefore, we must look at migration patterns in addition to income distribution within ACPs.

[xiii] Because ACPs are not a standard census geography, this is simply a weighted average of Ginis in ACPs, normalized to standard Census output.
[xiv] As measured by the percentage of each housing stock that is unaffordable at this level. That is, 26.3 percent of the non-ACP rental housing stock and 45.0 percent of ACP rental housing is unaffordable at 80 percent AMI – a percentage difference of 71.0 percent.
[xv] The figures of 79.6 percent and 98.2 percent include both renters and owners. Because mixed-income housing in this context refers only to renters, both of these are almost certainly overestimations. We cannot break out renters and owners in this analysis, so this is a data limitation.

Migration

Communities are not necessarily constrained by their current population composition when planning and supporting mixed-income developments. Migration plays an integral role in housing distribution in all communities, and ACPs are no exception.

People in ACPs change their place of residence at a relatively high rate, although they tend to stay within the same county when they move. From the years 2012 to 2016, 86.9 percent of people living outside of an ACP had not moved within the previous 12 months, while 82.0 percent of people living in an ACP did not move. However, the percentage of people who stayed in the same county, regardless of whether or not it was the same place, inside and outside of ACPs was 94.5 percent and 94.3 percent, respectively. When comparing 2016 data with 2011 data, a higher percentage of ACP residents have stayed in their place of residence from the previous year, especially those living in poverty, although the intercounty migration stayed about the same.[xvi]

Counties[xvii] with a high percentage of their population living in ACPs do not exhibit significantly different migration patterns, but certain population segments do show some correlation with ACP composition. In the nation as a whole, roughly 86 percent of the population does not move in a given year. This rate stays relatively constant regardless of ACP concentration in a county. That is, counties with a high percentage of population living in an ACP and those with a low percentage have roughly the same rate of people who do not move.

Renters and people in poverty normally are more likely to move, but this trend strongly diminishes in counties with a high ACP population. In 2016, renters nationwide stayed in the same unit from the previous year 75.1 percent of the time; the rate for renters in counties with an ACP population of at least 40 percent was 83.1 percent.

For people living in poverty anywhere in the United States, 78.1 percent remained in the same place of residence. This rate changes to 83.8 percent for counties with 40 percent or more of the population living in an ACP, indicating that people living in poverty in neighborhoods with high poverty move less often than people in poverty elsewhere in the United States. Generally, the households with limited resources are unable to move due to the high cost.[20]

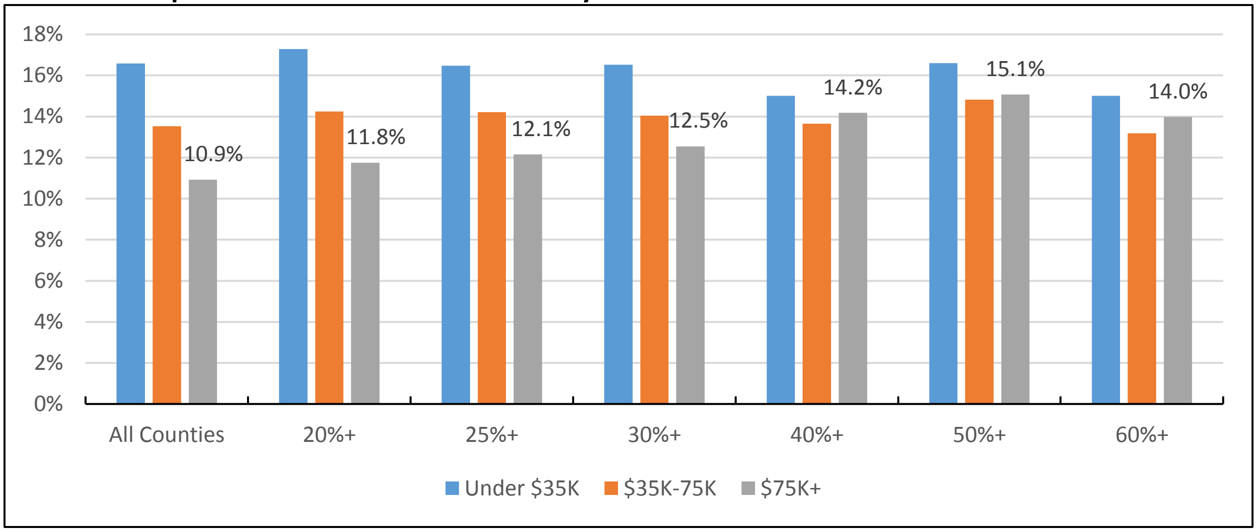
While renters in ACP may be less likely to move then renters elsewhere, higher-income households in ACPs move more frequently than higher earners elsewhere, Exhibit 6 shows that counties with a higher percentage of ACPs (moving from left to right on the graph) tend to have a higher percentage of high-income households change residence. The reason for this unclear. It may suggest that higher earners tend to move out of ACPs at a relatively high rate, or it may be a byproduct of the higher concentration of renters in ACPs, and those with higher incomes having the capacity to move. More research is needed

[xvi] While the disparity in these percentages may appear to be insignificant, the differences are substantial when considering the size of the population being examined. For ACPs, a 1 percent change represents more than 500,000 people, while a 1 percent change in areas outside of ACPs represents about 2.5 million people.

[xvii] Data that is granular enough to accurately capture the migration patterns of ACPs is not very timely, and for this analysis we are focused on the most recent migration patterns areas currently classified as ACPs. Insight can be gained by examining ACP concentration in counties, although only counties with a population of at least 65,000 are included.

in this area to determine the cause and whether the high rate of movement is confined to ACPs or if it is a broader trend in these counties.

Exhibit 6: People who Moved in the Past Year by Income Level and ACP Concentration



Source: Freddie Mac Tabulations of 2016 5-Year American Community Survey. Note that this analysis only includes households with income data. Because of this, the findings here will not corroborate the findings on poverty and migration.

Effects of Economic Integration

Economic integration can have both positive and negative effects for a community. The mixing of income levels can raise concerns about the influx of new, higher income residents resulting in the displacement of lower-income households and increasing costs of living and housing. However, if displacement and rising housing costs can be avoided, there can be many positive benefits for low-income areas that result from the arrival of higher-income individuals. [xviii]

Avoiding the negative effects of higher-income households moving into lower-income areas is difficult. In general, an influx of residents increases demand for housing, and a majority of the new construction caters to households that can afford higher housing costs. This upper end development subsequently can drive out households that are no longer able to afford rent payments. The Duty to Serve initiative attempts to address this challenge by prioritizing mixed-income housing, thus necessitating that lower-income households are served while still deconcentrating poverty and making these historically impoverished areas more likely to thrive economically.

Perhaps the most cited benefit of economic integration for lower-income communities is improved local education quality. Children generally attend schools in the same community in which they live, which means that the quality of their education is closely tied to their community's ability to support local schools. In 2017, 44.6 percent of funding for elementary and secondary schools nationwide came from

[xviii] There have been more specific definitions of gentrification that have policy implications, as discussed by Enterprise Community Partners in "Gentrification: Framing our Perceptions". For the purposes of this paper, we are speaking in general terms.

local tax revenue.[21] Schools in economically depressed areas, such as ACPs, receive less financial support because these communities produce less tax revenue.[xix,22]

Researchers have found that academic performance and the life opportunities of students from lower-income families improve when they attend the same schools as students from higher incomes.[15] Most research on this topic has focused on the effect of lower-income families moving to higher-income areas. The Moving to Opportunity for Fair Housing (MTO) study was a 10-year project that involved moving low-income families to areas of better economic opportunity. Recent research on the project has estimated that low-income students who moved to a higher-income area earned 31 percent more in their mid-twenties when compared with the low-income students who do did not move, and the children who grew up in a higher-income area were 16 percent more likely to attend college.[23] In addition, recent research suggests, schools that are racially and economically diverse provide benefits to students of all income levels, suggesting it would not just be the low-income residents in ACPs would benefit from residential economic diversity.[24]

Increasing the concentration of high-income earners improves job accessibility. People who live in areas with poor access to employment are more likely to be unemployed and may be at higher risk of job loss. In addition, poorer households generally spend a greater percentage of their income on commuting expenses.[25] Part of the goal of mixed-income housing is to foster economic prosperity in areas that have historically struggled with high rates of poverty. Some of the employment-related issues that low-income households in ACPs face may be alleviated to some extent if they have the same employment opportunities as those higher on the income ladder.

The housing stock in mixed-income neighborhoods tends to be of higher quality. This is true for both market rate units and subsidized units.[15] Housing quality is very important in ACPs since renters are more likely to live in inadequate and older units.

Although economic integration generally improves the job market for low-income earners in ACPs, it alone is not a panacea. High employment and lower rates of poverty have historically been linked, but the correlation has weakened in the past few decades.[26] In addition, research on the aforementioned MTO study found no significant relationship on earnings and employment rates among the low-income adults who moved to more affluent areas, suggesting that those who stand to benefit the most from economic integration are likely to be the rising generation rather than current adults.[23] As such, the effects of furthering residential economic diversity through mixed-income housing in ACPs — even if the real life impacts on residents can be felt in the short term — are likely to require considerable time to reveal themselves in data.

[xix] Even though income inequality is high in these areas as mentioned earlier, the overall income level is very low and there are still relatively few very high-income households.

Conclusion

Residential economic diversity includes mixed-income in ACPs and affordable housing projects in high opportunity areas. Our market overview of mixed-income housing in ACPs aims to provide a basis for future work on this topic. Through our research, we have found that ACPs are in great need of affordable housing based on rent and income measures, but the programs that attempt to provide only affordable housing might not be the optimal solution on their own since they can concentrate poverty and hinder intergenerational economic mobility. Property-level mixed-income is still a relatively new concept, especially in the context of Duty to Serve's specific definition, but may be part of a solution to turn ACPs into areas of opportunity for their current and future residents. However, mixed-income housing alone is not likely to be able to meet all of the needs of residents in ACPs. Federal programs, such as LIHTC and project-based Section 8, play a vital role in providing safe, decent affordable housing in these areas, and would continue to be necessary, particularly in ACPs that experience greater economic integration, to ensure that enough affordable housing remains available to current and future residents.

Further research is necessary in this space to determine the appropriate extent to which this style of housing is feasible, particularly in ACPs where market rate rents may not meet the higher rent-level criteria described in the Duty to Serve regulation. However, housing strategies alone are only part of the equation. Transit, schools, access to healthcare, and other location-based factors all influence a person's economic opportunity and a community's ability to achieve economic diversity and prosperity. To that end, Freddie Mac plans to conduct a series of case studies in the next two years to better understand this market and promote the future development of mixed-income housing in areas of concentrated poverty. While our research will not address all open questions of the prevalence, consequences, and best practices of mixed-income housing in ACPs, we will continue to provide foundational knowledge on which we and others in the industry can build.

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