

MILLENNIAL HOUSING COMMISSION

PRESERVATION AND PRODUCTION TASK FORCES

CONCEPT PAPER: MIXED INCOME RENTAL HOUSING

OVERVIEW

The purpose of this paper is to outline what mixed income housing is, why it is being pursued, what has been learned about how to successfully produce and sustain it, and what those lessons imply for mixed income housing policy going forward.

As noted in more detail below, mixed income properties are more likely to be located in low poverty neighborhoods and are more likely to engage market discipline, by comparison to properties serving a 100% very low-income clientele. In addition, mixed income properties are generally expected to generate sociological benefits.

It should be noted, however, that the primary affordable housing problem in America (in some communities, the only affordable housing problem) is an extreme shortage of housing of acceptable quality and with rents affordable to extremely-low-income households (below 30% of area median income). This paper is not an attempt to ignore that problem or to undermine other efforts to address it. For example, the conversion of an existing concentrated-poverty community into a mixed-income community should be combined with other housing initiatives so that there is not an overall reduction in affordability to ELI households.

POTENTIAL ADVANTAGES OF MIXED INCOME HOUSING

Market Discipline. Properties at which some residents pay market (or near-market) rents are presumed to be more likely to be successful, because the forces of market discipline are engaged. In particular, households who can – and will – “vote with their feet” provide a powerful incentive in favor of responsive management, fair rents, and good housing quality. This is a sound and credible argument.

Viability. If most residents’ incomes can be expected to grow at least as rapidly as operating costs, the property is more likely to be viable over time. By contrast, many affordable housing professionals worry about the ability of very low-income households to afford the rent increases that likely will be necessary to support the ongoing viability of properties.

Avoids Concentration of Poverty¹. By comparison to properties serving only the extremely poor, mixed income housing is considered much less likely to become a dysfunctional community. The following sociological benefits are cited by mixed income housing advocates:

- **Improved Conduct of Residents.** If non-working adults and their children, when living in a setting dominated by working families, are less likely to engage in anti-social conduct

¹ For an in-depth discussion of the problems associated with concentrations of extreme poverty, see William Julius Wilson, *The Truly Disadvantaged*.

than when living in a concentrated-poverty setting, then the mixed income community will create sociological benefits *whether or not* there is social interaction between working and non-working families.

- **Strengthening Abutter Properties.** When a concentrated-poverty property fails sociologically, neighboring properties suffer as well. If the mixed income approach reduces the risk of adverse sociological consequences, risks would be reduced for the entire neighborhood.

These claims resonate with the practical experience of most affordable housing professionals, reflecting a growing consensus that mixed-income is the preferred approach for serving extremely low-income families. By contrast, there is much disagreement among affordable housing professionals on the question of whether 100% extremely low-income-family properties should continue to be developed. There is some evidence that such properties can succeed when coupled with capable and intensive management, plus appropriate non-housing services. Conversely, such properties have been especially prone to failure, with some of the failures being particularly damaging to all concerned.

Role-Modeling Benefits. Additional sociological benefits are possible, at least in theory:

- **Role Modeling for Children.** Mixed income communities could allow children to grow up in a culture of work in which they have working adults as role models. There is some evidence that if children are not exposed to working-adult role models early in life, it is much less likely that – as adults – they will be able to get and hold regular jobs. Conversely, there is some evidence that active role-modeling intervention with at-risk teens can achieve considerable success².
- **Job Networking for Adults.** Mixed income communities could give non-working adults access to informal networks of working neighbors -- networks through which jobs could be found.

However, these latter two benefits are likely to depend on a relatively high level of social interaction between the non-working and working households. Although (as noted later in this paper) there are some mixed income developments at which this level of social interaction actually occurs, such developments are greatly outnumbered by those at which there is very little social interaction. As against that, it should be noted that high levels of social interaction are not the norm in pure market rate apartment communities, 60%+ of whose residents will move within a year. Accordingly, it may be unrealistic to expect high levels of social interaction in mixed income communities. Also, a low-income parent who wants to instill work-related values in his or her children is probably better able to do so when the family lives in a community in which most adults work, even if the children do not have regular social contact with those adults.

Political Benefits. Additional advantages of mixed income properties include:

- **Relative Ease of Approval.** Developers consistently report that mixed-income properties

² The Cambridge MA Housing Authority created such a program, called Workforce, aimed at 13-18 year old housing authority residents. 80% of the graduates of the program go to college each year.

are less difficult to develop. In particular, local approvals (such as for zoning) are more likely to be obtained. Mixed income developments are less likely to give rise to NIMBY reactions.

- **Political Constituency.** Many advocates believe that the public in general, and legislators in particular, are more likely to support housing when a significant number of its residents are people “who work hard and play by the rules.”
- **Political Visibility.** Many affordable housing professionals believe that mixed-income communities are more likely to be successful in advocating for improved municipal services.

Misleading Claims of Cost Effectiveness. Some argue that mixed income housing is more cost effective because higher income households are less expensive to serve. This is a misleading argument that is not relevant to the central question – whether it is better to serve very low-income households in a mixed income setting or in a concentrated-poverty setting. Said differently, the appropriate comparison is between the governmental subsidy required to produce and sustain (a) a 40 unit property for very low-income families; and (b) a 200 unit property, housing 40 very low income families plus 160 households at (or near) market rent.

Potential for Cross-Subsidy. Some argue that rents from market-rate units can be used to create an internal cross-subsidy that supports below-market rents for the affordable units. There is ample evidence that this can occur over time in properties whose market rents escalate rapidly (market rents are escalated along with the market, generating excess cash flow from which the cross-subsidy can be funded³). It is unlikely, however, that this approach will be viable at the time of development⁴ for any substantial number of properties.

Doing Nothing Is Too Risky. Some argue that, because of the severity of the adverse consequences of concentrated-poverty properties, it is good public policy to pursue mixed income approaches even if it cannot be convincingly demonstrated that mixed income approaches are superior. A variant of this argument is that mixed income approaches must be pursued vigorously even though we may not know exactly how to make them work well consistently, because the chance that we will not discover how to make mixed income approaches work is outweighed by the near certainty of failure if we continue to pursue concentrated-poverty approaches.

A Word of Caution. As against these advantages, it must be said that mixed income housing runs contrary to the very prevalent – though not universal – tendency of Americans to segregate

³ This has occurred in several market-rate properties developed and owned by the Montgomery County MD Housing Opportunities Commission. One such property was originally targeted for 20% low-income occupancy but now can afford to support 40% of the units at below market rents because of the rapid increase in rents for the market rate units.

⁴ Traditional real estate economics teaches that market rents do not exceed the rents necessary to justify new construction, except for rare and fleeting moments (or in markets with powerful barriers to entry). Thus, new market rate properties almost always struggle in their early years. Similarly, not even the best market rate developers make money on every development. A corollary is that affordability that is to be created at the time of development requires subsidies of some sort, to buy down the development costs to a level that can be supported by the below-market rents.

themselves by income. It is therefore not surprising that mixed income housing requires care in design and operation, in order to succeed.

MIXED INCOME HOUSING DEFINED

From among the various competing definitions, this paper will use the following definition of mixed income housing:

Mixed income housing is rental housing that combines (1) a significant number of families that include children and that are dependent upon public assistance, and (2) a significant number of working families with incomes above the poverty level⁵.

Rental Housing. We concentrate on rental housing, because that is the focus of the Subsidized Rental Housing Committee.

Low-Income Families With Children. We specify families with children, because a major purported benefit of mixed income housing is role modeling for children by working adults⁶.

Working Families Above The Poverty Line. We specify working families above the poverty line (roughly 30% of area median income) because the role model benefit is not likely to be dependent on the level of income – rather, it stands to reason that the role model benefit occurs because the adults work and can support themselves and their families⁷. This definition would encompass market-rate properties that include a significant number of voucher holders, as well as more traditional “affordable” properties at which all residents enjoy below market rents and that have income limits applicable to all resident households.

Significant Mix of Incomes. We specify a significant number of assistance-dependent households because, all else equal, the more such households served the better. We specify a significant number of working families because the number of such families must be sufficient to achieve the desired role-modeling effect, to achieve the desired social-networking effect with respect to non-working adults, and to achieve the desired deconcentration of poverty and market discipline. Particular threshold percentages of non-working and working households are discussed later in this paper.

Working Families With or Without Children? The definition above does not address whether the working families include children. If children of the working families attend the same school as children of the non-working families, arguably social interaction would be increased, and the “culture of work” benefits might be achieved. As noted later in this paper, however, in general the higher income households in mixed income housing are relatively less likely to include children. Similarly, a mixed income development in an area considered to have poor public

⁵ An argument can be made for a higher income threshold, at a level sufficient to support the family without subsidy of any sort. Similarly, an argument can be made that a small concentrated-poverty property within a viable low-poverty neighborhood could achieve mixed-income benefits.

⁶ Moreover, the problem of poverty in America is significantly concentrated in families with children.

⁷ An argument can be made for an income threshold that exceeds the poverty line – on the theory that poverty-line income is not likely to be sufficient to support the family in the absence of subsidies.

schools is unlikely to be able to attract and retain significant numbers of higher-income families whose children attend the public school. Nonetheless, some mixed-income properties are successful in attracting and retaining these families – a worthy subject for future research.

APPROACHES FOR CREATING MIXED INCOME HOUSING

Subsidized rental housing could meet this mixed-income housing definition through any of the following means:

- **Partial Project Based Deep Subsidy.** Some units could house extremely low-income families with project-based §8 assistance (or RHS Rental Assistance). The remaining units would have rents affordable to working households⁸.
- **100% §8 But With A Broad Range of Incomes.** Despite having full (or nearly full) deep subsidy coverage, properties could nonetheless achieve a range of incomes encompassing a significant number of working families, for example through a working-family admission preference. Khadduri and Martin suggest a definition under which at least 20% of the residents have incomes above \$20,000 and at least 20% have incomes under \$10,000⁹.
- **100% §8 And Low Income But With A Working Family Profile.** Despite having full (or nearly full) deep subsidy coverage and having few families with above-poverty-level incomes, most families work. Khadduri and Martin suggest a definition under which 70% of the households have wages as their primary source of income.
- **Scattered Sites.** By developing small subsidized properties in otherwise low-poverty neighborhoods, sponsors can achieve income mixing. There is a strong track record of success in rural areas in particular, with scattered duplexes and single-family rentals. The desired role-modeling benefits would be achieved if there were sufficient social interaction. The desired market discipline benefits would be achieved if the property contained some units at working-household rents. This approach has the disadvantage of higher operating costs -- the small number of units is less cost effective, and the scattered locations require more management oversight
- **Tenant Based Assistance.** Vouchers could be used in properties otherwise available only to working families¹⁰. This could include both market-rate and lightly-subsidized properties (e.g., LIHTC properties).

⁸ If the non-deep-subsidy units are regulated (e.g., RHS §515, HUD §236, LIHTC), it will be important to ensure that the regulatory requirements support the mixed-income objective. Some existing requirements, for example a preference toward lower income households in RHS §515, may be counterproductive in this regard.

⁹ “Mixed Income in the HUD Multifamily Stock”, Jill Khadduri and Marge Martin, Cityscape, Volume 3, Number 2, 1997, U. S. Department of Housing and Urban Development, Office of Policy Development and Research, page 42. Khadduri and Martin originally proposed 10% to 15% thresholds but decided to use 20% after talking with managers of the less-mixed developments, which the managers often considered to be socially troubled.

¹⁰ Owners and managers advise that significant reforms to the voucher program would likely be necessary in order to make this approach succeed. Problems most frequently mentioned include the payment standard, the ‘reasonable rent’ determination, lease terms, timeliness of inspections, and timeliness and accuracy of payments. The Commission is addressing these issues through its Tenant Based Assistance Committee.

- **Mixed Buildings.** It is possible that low-income buildings within an otherwise higher-income property could produce the desired sociological mixed-income benefits, depending on socialization patterns such as school attendance and participation in other community activities. However, owners and manager advise caution, based on experience with this property type. Often, the low-income building and its occupants become stigmatized. By contrast, owners and managers report that properties with the same income mix but with low-income units scattered throughout the buildings are much less likely to incur this problem. Also, a low-income-building strategy is risky in that it more or less commits the property to a particular income mix that might not be sustainable over the long term.

An Important Distinction. Some mixed-income properties will have the higher-income units at market rents or slightly below market rents; an example would be a market-rate property that included among its residents a number of voucher holders. Other mixed-income properties will have the higher-income units at rents that are significantly below market levels; for example, a LIHTC property whose LIHTC rents are \$200 below market and that includes a partial project-based §8 contract. These are different approaches that will require different levels of subsidy and – quite likely -- different policy frameworks.

Affordability Commitment In Exchange for Shallow Subsidy. The Commission is considering various approaches for production of rental housing that is affordable to working families. Examples include making tax-exempt bond financing more available. When shallow subsidies of this sort are made available to developers, an appropriate mixed-income commitment – to serve a small number of very low-income households as well – is a reasonable *quid pro quo*. Such a commitment could take a variety of forms, for example a commitment to accept voucher holders for up to a stated percentage of the units, or a commitment that a stated percentage of the units will actually be occupied by voucher holders.

LESSONS LEARNED

Location Is Very Important. Khadduri and Martin suggest that HUD-assisted mixed income housing is usually found in low-poverty neighborhoods. When it occurs in high-poverty neighborhoods, usually there are unusual market conditions present, such as immigrants who are willing to live in assisted housing in a poor neighborhood. Khadduri and Martin found a higher proportion of mixed income properties in tight housing markets¹¹. They also found that location in one of the eight leading immigrant gateway cities¹² made a property more likely to be mixed income¹³. Brophy and Smith¹⁴ report that the benefits of good locations (with good schools, low crime rates, and access to jobs) are likely to include the desired sociological outcomes, and

¹¹ A property located in the Pacific Census Region, on average, will contain six times as many households at \$20,000 income or above, as a property located in the West North Central region. The factor for New England is 4.5 and for Mid-Atlantic is 4. *Ibid*, page 56.

¹² Los Angeles, Anaheim, San Francisco, New York, Washington, Miami, Chicago, and Houston.

¹³ A property located in an immigrant gateway city, on average, had twice as many households at \$20,000 income or above. *Ibid*, page 56.

¹⁴ “Mixed Income Housing: Factors for Success”, Paul C. Brophy and Rhonda N. Smith, *Cityscape*, Volume 3, Number 2, 1997, U. S. Department of Housing and Urban Development, Office of Policy Development and Research, page 6.

conversely that the question remains open whether the environment within the development can overcome a poor location. With respect to several of the seven development studied, Brophy and Smith report that a critical factor in the property's success was an extremely favorable location.

The Mix Matters, Part 1: Amount of Income Difference. Brophy and Smith report social tensions – including vandalism of cars by low-income teenagers – in properties with relatively greater disparities between the incomes of the non-working families and the incomes of the working households. Conversely, for properties that have a significant moderate-income component, social tensions appear to be low or minimal, even if some higher income households reside at the property. There seems to be a point at which the income gap becomes a source of envy and resentment and tension, rather than a stimulus for self-advancement.

The Mix Matters, Part 2: Percentage of Low-Income Households. At Harbor Point, Brophy and Smith report that a particular section of the property started with a relatively high proportion of non-working families and rather quickly became essentially 100% non-working due to the unwillingness of higher-income households to live in a predominantly non-working family environment. As noted earlier, Khadduri and Martin reported that unless there were at least 20% very low income and at least 20% higher income households, there was a high likelihood that management would view the property as socially troubled. A number of owners and managers have developed the opinion that a mix of 15%-20% non-working families in an otherwise working-family property is likely to be feasible if managed competently and intensively, and that higher proportions of non-working families are increasingly less likely to be feasible, even with correspondingly greater levels of management involvement. This suggests a number of practical conclusions:

- Plan for markedly higher management intensity in any mixed income property.
- If attempting to house more than 20% non-working families, plan for very intensive management.
- Planning for greater than, say, 40% occupancy by non-working families is a very high risk strategy that should be attempted only under the most promising circumstances – for example an owner and manager who have already succeeded with a very similar property, over an extended period of time, and with an operating budget that supports the requisite level of management and non-housing services.

Should The Higher-Income Households Pay Below Market Rent? The answer appears to be “yes, but with exceptions.” A distinction can be made between two situations.

1. The objective is to attract higher income residents into a lower income neighborhood.
2. The objective is to attract lower income residents into a higher income neighborhood.

Logically, a “bargain element” in the rent for the higher-income households is much more likely to be needed in the first situation than in the second¹⁵. This distinction should be kept in mind when considering rent-setting for the higher income households. In the context of HUD-assisted housing, Khadduri and Martin¹⁶ concluded that adequate neighborhoods, adequate buildings, good management, and preferences for working families, were sufficient to create “projects that

¹⁵ It is possible that the introduction of very low-income households into an otherwise market-rate property may impact the property's market rents. If that occurred, the higher-income households would pay the market rent for the property, which in turn would be below the market rent the property could otherwise have commanded – a bargain element by another name.

¹⁶ *Ibid.*

have a culture of work rather than a culture of poverty.” That is, with 100% project based §8, a mixed income community could be created under those conditions (with the working families having incomes up to 50% or 80% of area median, as permitted under the §8 contract). However, a bargain element for the higher-income households is likely to be necessary if a wider mix of incomes is desired. Brophy and Smith report that several of the seven properties studied have rents that are below the rents that the property could command in the market and conclude that this rent bargain is a material factor in the success of the properties in attracting and retaining the higher income residents¹⁷. Moreover, given traditional American attitudes toward economic integration, it stands to reason that many higher-income households are unlikely to choose to live with lower-income households absent a bargain element. Finally, there is analogous experience with the ELIHPA Preservation program. Several early ELIHPA properties experienced large numbers of move-outs among the higher-income residents after the income mix shifted from largely working-household to mixed-income. In response, ceiling rents were introduced, adding a bargain element intended to give the higher-income households an economic reason to remain.

Are Ceiling Rents¹⁸ Necessary? Khadduri and Martin observed that ceiling-rent properties (§236 and §221d BMIR properties) are more likely to be mixed income but that the majority of mixed income properties within the HUD assisted housing portfolio did not have ceiling rents. They hypothesize that ceiling rents may be more important in high-poverty areas than in other areas. A complicating factor is that, until recently, most HUD programs did not cap rents at market levels but, instead, continued to charge higher-income households 30% of adjusted income, even when that amount exceeded the comparable market rent that the unit would have commanded on the open market. Thus, historical experience is of limited use in determining whether ceiling rents are necessary. Certainly, rents should be capped at market. Whether they need to be capped below market is likely a property-specific question. Of course, if the property intends to create cross-subsidy from market renters, capping the rents for the higher income households would be directly counterproductive.

Can Mixed Income Housing Occur Naturally? Although income mixes in market-rate rental housing have not been extensively studied, apartment owners and managers make the practical observation that resident incomes vary quite widely, from households who stretch to afford the rent to those who could afford much more expensive housing but choose not to do so. This indicates that a mix of working households at various incomes is not at all unusual. Similarly, it is commonly observed that gentrification produces mixed-income communities, at least for some period of time. Using 1990 Census data, Khadduri and Martin estimate that “more than one quarter of unassisted poor renters in the metropolitan United States live in census tracts in which less than 10 percent of the population is poor¹⁹.” This result may also reflect an income mix among working households rather than a mix between working and non-working households. As Khadduri and Martin point out, it may also reflect, at least in part, census tracts in which the poor renters are segregated within the census tract. On balance, other than within the HUD-assisted portfolio, there appears to be little evidence in favor of naturally occurring communities that mix working and non-working families.

¹⁷ It is also possible that the owners of the remaining properties have not set the “market” rents at the full amount that market forces would support. Thus there may be an undocumented – but nonetheless real -- bargain element in these properties as well.

¹⁸ Ceiling rents are rent caps, below the full market rent level, designed to give higher-income households an economic incentive to remain.

¹⁹ *Ibid*, page 37.

Do Children Receive a Role-Model Benefit? Khadduri and Martin report that the social science literature provides only weak support for this premise, and that there is some practical evidence of improved outcomes. It may be that the role-modeling effect is only sometimes achieved as a result of interaction between children and working neighbors, sometimes achieved through interaction with children of working families (at school, or in an on-site computer learning center or other before / after school program), and sometimes as a result of interaction between children and adults who work at the property (e.g., the management and maintenance staff, or police officers following a community policing approach). This is another area in which additional research would be useful.

Do Adults Receive a Role-Model Benefit? It appears that employment gains by adults depend on management's actions rather than on social interaction with working residents. In the seven properties studied by Brophy and Smith, job gains by formerly non-working adults appeared to be the result of intensive efforts by management. Similarly, they report that, of the seven successful mixed income developments they studied, only one achieved very high levels of social interaction, and that was apparently due to an extremely intensive management approach (108 units, 24 hour desk clerk and trained social worker in addition to normal management staff, high level of non-housing services). In a study of properties managed by CDCs, Sullivan and Mueller found that employment increased only where the CDCs invested significant effort in employment training and placement²⁰.

Should The Mix Be Marketed? Brophy and Smith report that management of the seven properties studied mentioned the mixed income nature of the community but did not emphasize it. They report further that if the higher income households are receiving a rent bargain, the mixed income character of the community is generally not a marketing disadvantage. By contrast, in some communities the mixed-income character of the community could be a central feature of the marketing approach²¹. Owners and managers report that individual markets vary in their receptiveness to mixed-income approaches. Areas that have had positive experience with affordable housing are likely to respond favorably to mixed income housing, and conversely. Reportedly, in rural areas, the mixed-income approach is relatively less likely to be a marketing problem and relatively more likely to be a marketing advantage.

Should The Low-Income Units Differ From The Higher-Income Units? There seems to be a consensus against lower-quality units for lower-income households. Although for many, the prime motivation for this consensus is social justice, it should be pointed out that an identical – quality strategy provides full flexibility to modify the income mix in response to changes in the market. It also avoids stigmatizing the low-income households. Also, “different” means “more complicated to build and maintain”, disadvantages that will cancel out some or all of the intended cost savings. However, identical quality need not mean identical units; see Appendix 1.

Should The Development Costs of the Higher-Income Units Be Subsidized? Significant

²⁰ “Social Impacts of Community Development Corporations, Research Findings, Phase Two”, Mercer L. Sullivan and Elizabeth J. Mueller, 1994.

²¹ The underlying theory is that such communities may be particularly attractive to higher income households who view themselves as pioneers, who see social value in supporting a mixed income community, and/or who desire to live in a mixed income community. In local markets with significant numbers of households holding these values, marketing the mixed-income nature of the community would be a sound strategy.

subsidies will always be required in order to develop the low-income units. However, many of the properties mentioned in the research literature received development subsidies for the higher-income units as well. Some properties use shallow subsidies (e.g., LIHTC) to create a moderate-income tier, with rents slightly or significantly below market. Other properties use subsidies to make the market-rate units feasible – for example, rents of \$900 are required to support new construction, market rents are \$800, and up-front capital subsidy allows the mortgage debt to be reduced enough that the property can be viable at the \$800 market rents. Some argue that this is a poor use of subsidy in that it merely accelerates the development of market-rate housing that likely would occur in a few years anyway. Others argue that such developments in fact help keep down the level of rent inflation in the local market and thus support affordability (an argument that is stronger if the “market rate” units carry an affordability restriction that limits future rent increases).

Racial and Ethnic Diversity May Not Be A Factor. From a study of privately owned, HUD-assisted apartment properties, Khadduri and Martin report that housing that is diverse in racial and ethnic terms is no less or more likely to have a broad range of incomes as housing in which one group predominates²². This suggests that integration by income is a challenge in itself, distinct from the challenge of integration by race or ethnicity.

Success Factors. Khadduri and Martin visited eight mixed income properties as part of their research. These visits suggested the following rules of thumb:

- **Strong Management is Vital.** Management screened applicants carefully, briefed potential residents on expected standards of conduct²³, and did not hesitate to follow through with evictions when needed.
- **Good Maintenance is Vital.** Each property visited, including those that were 100% §8, were in excellent physical condition.
- **Below-Market Ceiling Rents May Not Be Needed In Good Neighborhoods.** Two properties, one with excellent curb appeal and one without, both demonstrated ability to attract households above \$20,000 income at full rents (30% of adjusted income).
- **Below-Market Ceiling Rents May Be Needed in Bad Neighborhoods.** A property with ceiling rents was succeeding in a bad neighborhood. A property without ceiling rents was losing its mixed income character as its neighborhood declined.
- **Immigrant Gateway.** In the HUD-assisted stock, mixed income properties are likely to be occupied by recent immigrants. Khadduri and Martin observed that students and young professionals were quite likely to occupy the market-rate portions of partially subsidized properties. Anecdotal evidence from HOPE VI developments suggests that

²² *Ibid*, page 33.

²³ Owners and managers report that success typically entails finding effective means for addressing the problem of unsupervised children. When supported by strong community norms, management action in this area is likely to succeed. Conversely, owners and managers report mixed success in overcoming existing community norms under which parents are not regarded as accountable and children are not expected to respect others and to respect the property.

students and young professionals are particularly likely to be housing “pioneers.” Anecdotal evidence from the market-rate world indicates that recent immigrants also are likely to be pioneers. Similar effects may occur in those rural areas that have high populations of recent immigrants.

- **Higher Income Families Are Difficult to Retain.** Unless the neighborhood schools are thought to be particularly good, there was a tendency for the higher-income families who had children to move. Relocation was often reported to be based largely on quality of schools²⁴. It is also important to remember the conventional wisdom that renter families with children are more likely to rent a single family home than an apartment, thus it may be unrealistic to expect to attract or retain large numbers of higher-income families with children, unless the property has powerful compensating features such as well below market rents or a particularly advantageous location.

POLICY IMPLICATIONS

Affirm Mixed-Income Approaches. Some owners and managers report that their attempts to create and maintain mixed-income communities are opposed by well-meaning advocates and officials, based on some combination of: (a) a conviction that affordable housing should be reserved exclusively for very low income households; (b) a conviction that ‘mixed income housing’ is code for illegal discriminatory conduct; or (c) lack of comfort with an approach that differs significantly from the status quo. Strong policy statements, backed up with appropriate regulatory changes, would go a long way toward eliminating these sorts of barriers. In particular, regulatory changes that clarified the ability of owners and managers to maintain the targeted income mix would be helpful.

Importance of Location. It appears that a good location (good schools, low crime rate, good access to jobs) is almost a prerequisite for a successful mixed-income community. Said differently, if the goal is to produce a successful mixed-income development in an adverse neighborhood, that plan is likely to require greatly increased development costs, little or no debt, very intensive management, and significant non-housing services (see in particular Jones Family Apartments, and Residences at Ninth Square, in Brophy and Smith). Alternatively, the scale of the development must be large enough to be able to change the character of the area (see Quality Hill, in Brophy and Smith). One potential policy implication is that selecting a marginal but inexpensive site may be very counterproductive from the standpoint of the overall success of the community. A second potential policy implication is that some traditional rules of thumb regarding the relationship between land cost and total development cost should be revisited, to the extent the rules of thumb are based on sites that are not adequate to support successful mixed income communities.

Importance of Management. Evidence from mixed income communities suggests that there is powerful public benefit in having not merely adequate but excellent management. There is some evidence that role-modeling benefits occur only when management is extremely active and only when management institutes significant non-housing services. Moreover, there is some evidence that, given the right level and quality of management, these sociological benefits can occur

²⁴ Owners and managers report that higher income families with children will sometimes reside in a district with poor public schools if there are affordable, high quality private schools nearby.

despite a relative shortage of higher income working households. Management's ability and willingness to develop and enforce clear rules that set a high standard of conduct was frequently mentioned as an essential factor. Indeed, properties that initially adopted a more permissive approach experienced difficulty until management adopted tougher standards. Policy implications include:

- Adequate Property Management Fees. One clear implication is that government should recognize mixed-income housing as a "difficulty factor" calling for appropriate increases in the allowable property management and asset management fees.
- Insist on Excellence. These increased fees should be accompanied by higher standards as well, recognizing that a drop from excellent to normal management may precipitate the failure of a mixed income community.
- Support High Standards For Resident Conduct. To the extent permissible under fair housing laws, government should actively support strong lease provisions and strong house rules for mixed income properties.
- Role Modeling Requires Management. Without significantly increased management intensity plus appropriate non-housing services, "role modeling" benefits in particular, and social interaction between working and non-working households in general, are unlikely to be achieved.
- Support Appropriate Non-Housing Services. Particularly for riskier mixed-income approaches (in marginal neighborhoods, or with a predominance of large units, or with more than 20% non-working families, or attempting a very wide income mix), the development and financing plans should make provision for appropriate non-housing services such as before- and after-school programs. There also is some evidence that computer learning centers can facilitate the success of mixed-income properties. Some in the policy community believe that services should be funded separately from housing operations, but this may not be a good approach for mixed income communities.

Managing The Mix. Best practices include:

- Flexibility. Markets and neighborhoods change. A target mix that made sense at the time of initial development may be inappropriate only a few years later. This argues against rigidly tiered income mixes that cannot be changed later, or that can be changed only with great difficulty.
- Working-Family Preference. If some deep-subsidy slots are intended for working households, a preference for working families creates the mechanism through which the upper end of the mix can be achieved and maintained, without regard to the volume or timing of applications from very poor households.
- Bargain Element in "Market" Units. It is at least prudent – and quite possibly essential -- to set rents for the higher-income units below the full market rent level. At a minimum, rents will need to be set below market in order to attract higher-income households into marginal neighborhoods.
- Very Low-Income Set-Aside. Especially in the best properties, a mechanism is needed to ensure that a significant number of units are actually occupied by the very poor.
- Range of Incomes. A very wide range of incomes is more difficult to achieve and sustain than a modest range of incomes. In particular, a wide gap between the very low-income and higher-income groups is likely to be counterproductive.
- Percentages. Experience suggests that keeping the percentage of non-working families below 20% is prudent. There is some evidence that mixes with 20%-40% non-working

families can succeed if very intensively managed.

- **Marketing.** The decision whether to actively advertise the community as mixed-income should be left to the owner and manager.
- **No Quality Difference.** The low-income units should not be materially or noticeably lower in quality than the higher-income units.

Preserving Existing Mixed Income Properties. The case for preservation is especially strong for properties that are already mixed income communities. Moreover, the process of preservation should not interfere with factors (such as working family preferences, or set-asides for the very poor, or strong management) that helped to produce the mixed income community in the first place. Finally, if existing mixed income properties include barriers to occupancy by working families, or lack a set-aside for the very poor, those defects should be cured during the preservation transaction.

Potentially Mixed Income Properties. Family properties in immigrant gateway cities have above-average potential for achieving a mixed income profile. The same is true for properties in cities with tight housing markets, and properties in good neighborhoods. When such properties are preserved, consideration should be given to changes (such as removing barriers to occupancy by working families, adding set-asides for the very poor, and reducing project-based deep subsidy well below 100% of the units) that would facilitate mixed income communities.

Improve Usefulness of Vouchers Generally. Tenant-based assistance is a potentially powerful tool for giving very low-income households access to otherwise working-family housing. However, there are significant administrative barriers to owner acceptance of vouchers. These include the payment standard rules, the ‘reasonable rent’ determination by the PHA, the lease requirements, the physical inspection by the PHA, and the timeliness and accuracy of payment by the PHA to the owner. Removing these barriers may be a threshold issue in order to make vouchers truly useable for mixed-income housing purposes.

Availability to Voucher Holders. A number of the properties mentioned in the research studies had little or no project based deep subsidy and had rents that exceeded the voucher payment standard. Such properties are not available to voucher holders. Consideration should be given to solving this problem. One obvious approach is to reform the voucher payment standard rules²⁵. A less direct approach is to provide additional up-front subsidies so that some units can be restricted at rents that are within the payment standard and can be targeted to voucher holders over the long term.

Partial Deep Subsidy. Whenever a mixed income community is desired, logically the most direct way to achieve it is not to subsidize the units targeted for higher income households (thus the higher-income units will carry market rents), and target some units for lower income households -- either reserved for voucher holders (a “split subsidy” approach) or under a project-based deep subsidy contract.

Patience. Perhaps the most important measure of the success of a mixed income community is

²⁵ As an owner / manager said, “if the market rent is higher than the voucher payment standard, which one is wrong – the market or the voucher program?” For example, Congress could provide a broad exception to the normal payment standard for vouchers that are used in mixed income initiatives.

whether children who grow up there are working steadily, ten years later. It may therefore be the case that we will need to pursue mixed income approaches for some time before the actual level of success becomes apparent.

AUTHOR

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