What is the Effect on Affordability as Small Cities Invest in Market Rate Housing in their Downtowns?

A Literature Review

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Olympia's city planners hope that market-rate downtown housing will solve some of the city's downtown challenges. What is the effect on affordability as small urban cities reinvest in market rate housing in their downtown cores? Small cities should be confident that investing in market rate housing is positive for their community after considering the impacts of gentrification. In this paper we will discuss this research issue, outlining the epistemology and paradigm that frames it and review the literature related to understand the effect downtown reinvestment has on affordability.

Our research efforts and sources are largely informed by a post-positivist epistemology. There is substantial emphasis in establishing a research model to gain greater understanding through the construction of knowledge on the impacts of housing revitalization in small urban centers. Neuman refers to this as interpretive social science, or ISS, which seeks to increase knowledge rather than see substantial reform or dramatic change (2006). Real change is ideal, but not primary in intention. The post-positive epistemology and qualitative paradigm in social research have historically rejected the positivist, scientific mode of thought and practice (Adams 1992). Yet, our efforts closely reflect that of Neuman's definition of interpretive research, which illustrates that the qualitative research methodology is equally important to quantitative, scientific contributions (2006). Only, its emphasis primarily rests in qualitative, subjective understanding.

The sources analyzed in this literature review are mostly qualitative. The bulk of research articles utilized focus groups, surveys, interviews, and literature reviews to gain a better understanding of a particular instance in urban renewal. What are the measured financial benefits or shortfalls of market rate housing in small downtowns? Do municipalities recoup tax abatements with the onset of market rate development? What is the impact of existing lower income renters when governments subsidize new market-rate condominiums? To answer these questions effectively requires a review of studies with cost benefit analysis or other technical information. There is a tripartite importance in understanding who is impacted by market-rate housing subsidies, why and at what cost.

There is limited research available that assesses the impacts of small municipalities reinvesting in downtown market rate housing on affordable housing. Most research on this issue is represented, within the greater purview of urban planning, specifically gentrification or urban renewal with a focus on large metropolitan cities. (McGreal, Berry, Lloyd & McCarthy, 2002; Kennedy & Leonard 2001). As such, this review will analyze literature that contains elements central in discussing urban planning: small city downtown investment, gentrification, infill housing, high-density neighborhoods, downtown redevelopment, and financial incentives. It will be important to synthesize the main arguments from contemporary research and get to the core of what implications arise with regard to downtown housing development.

Robertson (1999) explores the revitalization of small cities and their (25-50,000 population) downtown cores. It focuses on how small cities have and plan to, revitalize their Central Business Districts, including investing in downtown housing. The study includes a national survey of 57 small cities and five case studies. This article, though not including an analysis on the effects of affordability, is one of the few scholarly articles that focus on small urban city investment in downtown cores, including downtown housing. The article adds value to our research by providing information on small city downtown revitalization.

Robertson (1999) writes about the increased number of people living downtown, in small cities, in the 1990's. He finds that downtown housing has been marketed to young professionals who work downtown, singles, childless couples, empty nesters, seniors, and those needing affordable housing. The Robertson survey reveals, ‘adding housing to downtown’ was ranked 2nd in the ‘list of future strategies’ to revitalize downtowns (Robertson, 1999).

Kennedy and Leonard (2001), discuss the causes and effects of gentrification on housing affordability, and strategies to decrease gentrification. Their paper analyzes local data from large urban cities, after gentrification has occurred. Gentrification, as defined by the authors, is when higher income households displace lower income residents of a neighborhood.

Atkinson (2006) also explores gentrification. He analyzes the neighborhood impacts of gentrification including the negative and positive effects on housing affordability. He conducts a systematic literature review of studies conducted between 1964 and 2001 in the U.K. and North America.

Kennedy, Leonard and Atkinson all speak to the effect on affordability as large cities reinvest in an urban center. Though, they do not focus on small cities or the downtown core; both articles add value to the understanding of affordability when cities invest in urban neighborhood housing.

Kennedy, Leonard and Atkinson's studies also detail the positive and negative effects of gentrification on housing affordability, and challenge decision makers to ensure that revitalization is equitable. First, the research evidence on the negative effects of gentrification includes displacement through rent and price increases of renters and homeowners. Displacement from gentrification is the most dominant theme in the literature. It occurs frequently in urban areas where the economy is doing well and affects the poor, elderly, female headed and blue collar households. Landlord evictions and rent increases also cause displacement. A second negative effect includes community conflict between old and new residents, expressed by resentment of being priced out sometimes resulting in a change in community leadership as an area is gentrified. A third effect is loss of affordable housing units due to speculative and investment maximizing, resulting in increased housing values and leading to greater equity for absentee owners and increased rents for tenants.

Research on the positive effects of gentrification on housing affordability is sparse. One positive effect is increased property value to owner occupants, boosting their equity and wealth. Strategies to anticipate the adverse effects of gentrification include, identifying gentrification pressures early, creating a community unified vision, creating policies for expanding affordable housing and linking residents to jobs created by gentrification.

Weber, Doussard, Bhatta and McGrath (2006) discuss housing demolition as urban cities redevelop. They study the demolition of housing in 1990's Chicago through the use of literature review and Logit analysis of address level data. The author's analysis includes the decrease in affordable housing through the use of demolition. Demolition of existing units leads to construction of newer units with higher purchase prices or rents, enabling the cycle of gentrification. The analysis from Weber et al helps researchers better understand the conditions that lead to gentrification and a decrease in affordable housing.

Weber, et al outlines when demolitions are likely to occur and potential results. When reinvestment in housing occurs, demolition of existing units affects affordability. Demolitions occur in urban areas where a “rent gap’ exists. The “rent gap” is the difference between a property’s undeveloped value and its redeveloped value. Demolitions also occur the closer housing is to a Central Business District. Demolitions cause a chain effect. Once a unit is demolished and a new one built to bridge the “rent gap”, the owner can charge a higher rent. Only those with a higher income can afford the new rent.

Municipalities can also contribute toward gentrification. Slater (2004) tells the history of the city of Toronto’s involvement in gentrification through a historic reflection and a compilation of interviews of residents. Similarly, Olympia has recently begun to encourage ‘market-rate’ housing in it’s downtown.

South Parkdale in Toronto was once an attractive neighborhood of Victorian brownstones and small parks on the banks of Lake Ontario (Slater, 2004). South Parkdale’s most significant amenity, its view of the lake, was obstructed by a freeway completed in 1959 (Slater, 2004). In the 1980’s, thousands of patients from a local psychiatric hospital were discharged into the neighborhood, creating a need for small ‘bachlorette’ apartments. Many of the Victorian homes were converted into bachlorettes in order to support the areas low-income residential demand.

Meanwhile, other parts of Toronto were becoming too expensive for artists and young entrepreneurs. As more artists and performers settled in the area, small businesses including restaurants, coffee shops and art galleries opened in freshly remodeled storefronts. In response to the new growth in the area, the city of Toronto changed its codes for that neighborhood. The changes resulted in higher rents and a restriction on the small apartments the low-income residents depended on.

Slater’s collection of interviews is reminiscent of Olympia’s interest in attracting higher income residents to a downtown currently abundant with small, affordable apartments. Slater’s work also reminds the reader of the ongoing efforts to reduce, remove or transfer homeless and transient populations out of Olympia’s downtown core.

A report authored by the Urban Lands Institute (2001) detailed and debunked the biggest myths of urban infill housing. The Urban Lands Institute (ULI) argues that it is easier, in most cities, to build housing downtown than it is perceived. The ULI report considered specific issues that have been raised by potential Olympia developers. For example, ULI cited financing for urban infill in Seattle, Portland and Denver markets where land acquisition is much greater than Olympia. Zoning and other building codes are also often seen as barriers to infill housing downtown according to the report. ULI profiled a large project in Portland (211 units per acre) that achieved that density without meeting parking requirements because of its proximity to transit services. The ULI study confirms that Olympia is not alone in its interest in infill housing downtown. Many cities have encouraged housing downtown that resulted in greater urban density, reduction in regional traffic congestion and business growth associated with new residents.

Perhaps Olympia has not had success achieving downtown density because it is courting the wrong population of residents? Mitrany (2005) surveyed 2 high-density neighborhoods in Haifa, Israel. The author asked condominium residents about the perceived density of their neighborhoods, level of satisfaction with their amenities and reasons for that satisfaction. He found that women were more likely than men to live in urban residential areas because they perceive them to be safer. Both men and women in dense urban neighborhoods were attracted to contact with other people, even if it was not social contact. People in his study were specifically attracted to areas of mixed public, residential and commercial space.

Mitrany's research also indicates that cities can create high-density neighborhoods in urban areas if those areas are designed to attract people for a variety of uses. Olympia could apply Mitrany's research in its efforts to attract more residents downtown by continuing to improve Olympia's most dense downtown neighborhoods through the encouragement of a mix of uses, effectively extending the downtown core's hours of activity.

Robertson, (1995) reviews strategies that cities have successfully employed to redevelop their downtowns. Olympia has already followed much of Robertson's advice; however there is room for improvement. The paper concludes with an "Agenda for Downtown Development".

Robertson's article suggests that cities have continued to do what they have done well historically: plan. Olympia is off to a good start, though there is much room for improvement. If on a tour of Olympia's downtown housing sites, Robertson might suggest that the barriers preventing downtown housing from occurring include the lack of pedestrian connectivity and an unpopulated downtown at night and on the weekends.

Contemporary research on the dynamic of attracting market-rate housing development in urban cores partly focuses on municipal tax incentive schemes. Tax incentive schemes for urban renewal efforts are sometimes controversial. They are sometimes viewed as subsidizing high-end capital investment in order to ensure its arrival, rather than focusing on the actual needs of the population that exists within an area (e.g., homelessness, affordable housing). For example, McGreal, Berry, Lloyd and McCarthy (2002), focus on a funding scheme referred to as "tax incremental financing," or TIFs, which allow local governments to finance urban renewal projects through the speculation of future property tax increases (p. 1832). Tax breaks, or tax abatements, as a measure to attract developers can become a rather disconcerting reality particularly if the general public feels that low-income housing is a more important priority for government. McGreal et al fall short of essentially agreeing with the latter, but further contend that tax incentive models to attract market rate development requires a solid "questioning of their effectiveness" (p. 1819, 2002). McGreal et al refrain from using the term gentrification in describing urban core revitalization. Their primary focus is with the financial model or tax schematic that institutes redevelopment.

With an influx of new market rate developments in a particular area, there is an additional concern of rent increases on existing stock. McGreal et al's study pointed out the use of TIFs in Dublin had substantially increased rent because developers had the opportunity to utilize tax incentives to build above market rate developments (2002). Local officials often see this dynamic as increasing an area's tax base, which increases municipal revenues. Thus it becomes vital to understand a municipality's motivations as they attract market rate housing developments.

Depending on the municipality, financial incentive models to attract development have mixed results. McGreal et al suggest TIFs essentially work, at least through a financial frame, but are difficult to assess as far as long-term cost-benefits due to the lack of research in the area (2002). Kennedy and Leonard contend that gentrification is positive for some and negative for others, in that low-income renters almost always lose out (2001). The contrast between Kennedy, Leonard and McGreal et al, is a research focus on policy execution versus social impact. Kennedy and Leonard were certainly more ambivalent about urban regeneration. They indeed point out the utility in mixed income urban planning, but generally conclude that providing tax incentives for developers has a negative impact on lower income renters. It is important to note the importance of mixed income development as a planning tool and theory. If a particular municipality has an isolated stock of publicly subsidized affordable housing for the poor, the New Urbanist tendency is to ensure a balanced mix of income groups to enhance socio-economic mobility and vice versa. There is literature that debates as to *where* this should occur, whether in suburban edge nodes, or urban cores (Calthorpe & Lerup, 2005), though the essential point here is that a careful analysis is required prior to making assumptions related to tax incentives for market rate development.

It is not only important to analyze how downtown market rate housing gets implemented, but what the impacts of such efforts turn out to be. For instance, Kennedy and Leonard closely looked at urban areas that experienced increased pressure to raise rents in order to offset increases in property taxes caused by urban renewal (2001). On the homeownership side, Kennedy and Leonard's report adds that gentrification can be a positive dynamic as property values increase for low-income owner-occupiers as market rate units get developed in an area (Kennedy, Leonard 2001). The jobs/housing balance, according to Kennedy and Leonard, must be closely analyzed to understand gentrification. As urban job growth occurs, a natural influx of residents also occurs in the area (2001). What the authors fail to focus on is analysis of the *type* of jobs that get created in a city core.

Kennedy and Leonard present research assert that urban areas that employ mixed income schemes show greater levels of poverty deconcentration (2001). Coupled with this research is a discussion on the rent-gap theory. The theory focuses on the reality of developers purposely disinvesting in downtown areas in order to create exorbitant, speculative value in the downtown property (Kennedy, Leonard 2001). Once there is strong evidence of potential property value increases, developers reinvest (Kennedy, Leonard 2001). This research demonstrates a balanced effort in trying to assess impacts of gentrification and urban revitalization where supply-side and demand-side theories are closely examined. Paying attention to political forces is also important; advocacy groups often contend with pro-development, business entities, creating an atmosphere of constant deliberation and controversy.

The research analyzed in this review explores the central tenets surrounding affordability when downtown market rate housing is being developed: financial modeling, gentrification, infrastructure investment, infill housing, and high-density neighborhoods. A theme throughout this review is how local governments affect the affordability of existing housing as downtowns redevelop. Absent in the research is the impact of market rate housing on small urban cities. The bulk of the research on gentrification primarily focuses on large metropolitan urban centers. There is a need for research on the impacts of municipally subsidized market rate housing in small urban cities to confirm they are worth the investment.

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