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Are inclusionary housing programs color-blind? The case of Montgomery County MPDU program☆

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ABSTRACT

Relying on exhaustive administrative data spanned over four decades, this paper studies the treatment of African American applicants by the Moderately Priced Dwelling Unit (MPDU) program in Montgomery County, MD. We show that this program was equally accessible to African-American applicants, except between 1995 and 2000, when African Americans' conditional probability of purchasing a home through the program was lowered by 10% compared to that of other applicants, maybe as a temporary response to the sudden surge in African American applicants that occurred at that time, even though we cannot rule out that this may also have reflected changes in applicant behavior. Turning to the outcome of the allocation process, we show that African American MPDU beneficiaries purchase homes located in cheaper neighborhoods and that the spatial allocation of beneficiaries does reflect preference-based sorting patterns observed on the private housing market at the neighborhood level. However, we also show that the program seems to induce some scattering of different ethnic groups at the most local level: when comparing beneficiaries living in the same housing development, but at different addresses, we find that African American beneficiaries have fewer African–American neighbors.

1. Introduction

African Americans have historically faced many barriers that limit housing access and choice. Aside continued discrimination in the private market documented through the use of fair housing audits (Yinger, 1986; Turner et al., 2002; 2012), rising metropolitan housing prices have only made things worse. In the past couple of decades, many regions and cities -especially on the East and West Coasts (Glaeser and Gyourko, 2002)- have suffered from a perennial shortage in affordable housing due to acute economic conditions, rising rent prices, difficulties in obtaining mortgages (Urban Institute, 2012) and in several cases, strict zoning regulations (Rosen and Katz, 1981; Ihlanfeldt, 2004).

To address affordability issues, many localities have engaged in inclusionary practices and relied on mandatory or voluntary measures. Those range from price or rent control mandates to cities and counties offering bonus densities or additional lots or units normally allowed under specific zoning regulation, as well as fee waivers to streamlined review processes or other incentives to developers. Inclusionary zoning (IZ) programs are one of the most common and often require developers to set aside a percentage of units in housing developments for low and moderate-income residents (Schuetz et al., 2009; Meltzer and Schuetz, 2010). They allow for the creation of mixed-income communities in low-poverty neighborhoods (Schwartz et al., 2012). Density bonuses or other cost-reducing incentives are provided to compensate developers for providing affordable units in order to offset the potential reduction in profit margins.

IZ housing policy was initiated in the Washington, D.C. metropolitan area in the early 1970s. Among the first localities to experiment with this type of program was Montgomery County (MC), Maryland (Schwartz, 2010). Since then, over 500 local jurisdictions in 25 states have adopted similar programs with communities regionally divided across the United States from Davis County, FL to Orange

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County, CA (Stromberg and Sturtevant, 2016). As demand for affordable housing continues to be on the rise, so does the price of housing, prompting many areas to consider IZ programs as a premier method. IZ's strategy is particularly attractive to local municipalities due to its reliance on the private market to supply housing units rather than using public sector subsidies or funds. Besides its primary aim to increase the housing stock, one of the main goals of the program is to promote income integration at the project level through the dispersion of housing units, unlike the ethnic and income clustering often caused by other subsidized housing programs (Calavita and Grimes, 1998). It is also thought to help mitigate the segregating effects of restrictive land use practices.

This paper investigates the experience of African Americans in purchasing owner-occupied housing through the MC IZ program. Specifically, we study the outcome of the Moderately Priced Dwelling Unit (MPDU) program in terms of affordability and integration by race and income. Our analysis is based on data describing over 22,000 original participants or applicants to the program, from 1980 to 2015.

First, purchasers are supposed to be chosen through a race-neutral random selection process and we use a propensity score matching methodology to investigate whether this is actually the case, that is, if African American applicants are equally likely to access home-ownership through the program. We provide estimates of African Americans' relative likelihood to purchase an MPDU housing property conditional on the only individual characteristics that are supposed to be available to MPDU agents through the selection process and determine applicants' eligibility.

Then, we study the final result of the allocation process, after successful applicants have accepted to purchase a unit. First, we investigate whether there exists a racial price premium in the context of this policy. Then, and more importantly, we construct spatial sorting indices to examine the success of the MPDU program at integrating participants at several geographical levels: municipality, zip code, census tract, block group and development project. We show that while the program has not always successfully ensured African American applicants' equal access to affordable owner-occupied homes, it does seem to have a positive impact on integration at the development project level for African American beneficiaries.

To our knowledge, this is the first paper to study the allocation process of an inclusionary zoning program and to use the universe of applicants and beneficiaries while doing so. This is also one of the first studies of a housing policy that empirically models racial integration at a geographical level smaller than block groups. Studying potential ethnic biases in the selection process of this type of programs not only adds to the literature on housing market discrimination and segregation but also provides guidance on the implementation for a fair housing policy such as the MPDU program.

The remainder of the paper is organized as follows. Section 2 surveys literature on housing market discrimination, sorting and segregation patterns of African Americans, and available evidence on outcomes of IZ policy on neighborhood integration. Section 3 presents the study area, features and mechanisms of the MPDU program, data, and variables. Our analysis of selection into the program is presented in Section 4, while Section 5 focuses on program outcomes, especially the level of racial clustering within localities. We then conclude by discussing results and policy recommendations.

2. Related literature

2.1. Discrimination in access to housing

Discrimination in housing markets and increasing prices of housing have long been an impediment to affordable housing. Housing market discrimination can occur at several stages in the purchase or rental of a home such as through direct contact with leasing or sales agents, during mortgage lending, or indirectly through house prices (Ross, 2010). Previous work documenting the experiences of minorities in housing access has relied heavily on experimental studies using matched-pair techniques or audits such as that of Yinger's (1986) real estate agent experiment in Boston and those conducted by the Department of Housing and Urban Development (HUD) in 1977, 1989, 2000, and 2012 (Turner et al., 2002; 2012). Significant level of discrimination was found in all studies. However, the last two HUD studies show that the gap in access between Whites and African Americans shrunk.

Although seen as a more reliable method in detecting discriminatory practices in the housing market, audits have become increasingly critized due to likelihood of bias in results if actors are dissimilar along other dimensions except race (Heckman and Siegelman, 1993; Heckman, 1998). Such actor bias may be reduced if actors are carefully chosen and given proper training. However, Hanson and Hawley (2011) also suggest that actors may either not report their experiences accurately or unknowingly cause a discriminatory response. To avoid actor bias, this study and many others began to utilize alternative audit methods using the Internet. Hanson et al. (2016)'s study using electronic correspondence with mortgage loan originators (MLOs) is one of the most recent and the only looking specifically into home buying and mortgage market discrimination through online audits. Their results point out that African Americans receive 1.8 percent less response than Whites when they seek housing.

Another limitation of the paired testing studies, described by the previous paper, comes from their focus on the initial encounter between the home-seeker and a rental or sales agent, whereby they may only detect discrimination at the early stages of home purchase. Discrimination may occur later in the housing transaction when a home-buyer makes an offer on a particular unit or applies for financing. Our research differs from the pair testing studies such that it is non-experimental, which makes causal inference more difficult. On the other hand, its goal is specifically to assess whether random selection of participants, conditional on a narrow set of administratively-defined characteristics, which are both observable to the econometrician and to the program agents, is actually taking place.[1] Using the observable characteristics of the participants, in particular, income and household size, which define MPDU eligibility requirements, we are able to identify and test whether race has an effect on the likelihood of purchasing a home through the program. In addition, dealing with a universe of applicants to the program, with a long time span, allows us to try and assess the long run effects of the program, contrary to the "one-shot" dimension of audit studies.

2.2. Racial price differentials, sorting, and segregation

Empirical measures of racial differentials in housing prices have yielded mixed results due to data limitations. Rather than using address level data, most studies have relied on the immediate block surrounding a household as a proxy for neighborhood characteristics (Myers, 2004). King and Mieszkowski (1973) offered the first study to look into price differential at the smallest possible geography by using survey data of 220 rental units in New Haven, Connecticut. They controlled for renter's race, the racial composition of the neighborhood and whether the neighborhood was considered "black ghetto", "white interior", or "boundary areas", and found that Blacks paid about 7 percent more than whites in the boundary areas, where Blacks were the minority.

Follain and Malpezzi (1981) implemented a similar methodology but used a larger dataset from the Annual Housing Survey (AHS) on 39 SMSAs. Contrary to King and Mieszkowski (1973), they found that, compared to Whites, black owners payed 15 percent cheaper while

[1] From now on, a "purchaser" will refer to an individual who met the program eligibility requirements, was successful in the random selection drawing and purchased a home, while a "participant" will refer to someone who applied and met the program eligibility requirements but was not successfully selected in the drawing to purchase a house.