

# The Prospects for Guiding Housing Choice Voucher Households to High-Opportunity Neighborhoods

Kirk McClure  
University of Kansas

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## Abstract

*The Housing Choice Voucher Program seeks to do more than help poor households lease good-quality rental housing. One of the program's goals is to help poor households break out of the cycle of poverty by locating in neighborhoods with numerous opportunities for gainful employment, good schools, and racial and ethnic integration. The Moving to Opportunity (MTO) for Fair Housing program showed that, with constrained choice, households will locate in low-poverty neighborhoods. If the MTO model were to be used on a larger scale, would enough neighborhoods be available to offer good housing, employment, and educational opportunities?*

*Examination of census block groups across the nation suggests that the supply of high-opportunity neighborhoods may not be as large as desired; there are simply too few ideal neighborhoods and affordable units. By relaxing the objectives, however, and focusing on poverty deconcentration and perhaps expanding the use of HUD's procedure that grants exception rents above the Fair Market Rent limits, a more ample supply of target neighborhoods and rental units could become available.*

## Introduction

One goal of housing mobility programs at the U.S. Department of Housing and Urban Development (HUD) is the deconcentration of poverty (HUD, 2008), which is valuable because it can reduce the high concentrations of poverty that create distress within the affected neighborhoods. As households are moved from areas with high-poverty concentration to areas of low concentration, benefits will hopefully accrue beyond the provision of affordable housing. These benefits include providing the households access to opportunities for better employment, education, and shopping in addition to higher quality housing in safer neighborhoods.

The Housing Choice Voucher (HCV) Program is designed to provide very low-income households with spatial mobility (Winnick, 1995). Sadly, the HCV Program has been unable to generate the spatial mobility that researchers and housing advocates hoped it would achieve (Devine et al., 2002; Goering et al., 1995). In general, although the recipients of vouchers use them to reduce the burden of housing costs, they have not used the vouchers to move to demonstrably better neighborhoods in proportion to the availability of affordable units and are, in fact, confronting increasing difficulties in gaining access to good neighborhoods (Varady and Walker, 2003).

If the HCV Program is going to improve the level of economic and racial integration in the nation's neighborhoods, program administrators need to explore mechanisms that will encourage, and perhaps even require, participating households to locate in neighborhoods that offer better opportunities than those that are found in the neighborhoods plagued by highly concentrated poverty. Several housing advocates and researchers have called for this approach. Polikoff (2004) specifically recommended that a Gautreaux-style program, which links acceptance of Gautreaux vouchers to movement to neighborhoods with low levels of racial minorities and other assisted households, be implemented at a national scale, with 50,000 vouchers earmarked for poverty deconcentration each year for a decade. Briggs and Turner (2006) outlined the logic of poverty deconcentration efforts that use vouchers. They suggested that the implementation and administration of the HCV Program be revised to pursue this goal. They proposed identifying high-opportunity neighborhoods to which voucher households would be guided, which may not be as easy as it appears. Briggs and Turner cautioned that we do not know a great deal about how to define "opportunity rich neighborhoods." They suggested that simple proxies measuring a neighborhood's racial composition or its incidence of poverty are incomplete. When identifying a high-opportunity neighborhood, researchers should assess the neighborhood's safety, the quality of its schools, and its access to jobs suitable to the assisted households.

Debate is growing around this concept of restricting the choice of any HCV household to just high-opportunity neighborhoods. Imbroscio (2008) challenged the use of vouchers to disperse poor households, calling it a misconceived version of freedom of choice. Goetz and Chapple (2010) avoided the normative issues and simply found that households that moved out of high-poverty areas, whether involuntarily or voluntarily, realized too few benefits.

Although the debate over the benefits of dispersal continues, the calls for a national poverty deconcentration effort raise the question: Are enough neighborhoods available to provide affordable housing in low-poverty, high-opportunity neighborhoods? This article attempts to answer this question.

## Literature Review

The neighborhood outcomes of the HCV Program are unimpressive. The HCV Program does provide some opportunities for a household to move to low-poverty neighborhoods, and many households are able to locate in neighborhoods with modest levels of poverty, but many remain in neighborhoods with high concentrations of poverty. A study by Devine et al. (2002) of the 50 largest metropolitan markets in the nation found that more than 50 percent of participants in the HCV Program are living in neighborhoods with poverty concentrations of less than 20 percent, and close to 30 percent of participants are living in neighborhoods with a poverty rate below 10 percent. But

22 percent of HCV households live in neighborhoods with poverty levels at 30 percent or more. In central cities, more than one-third of HCV households live in neighborhoods with poverty rates at or above 30 percent.

In general, households participating in the HCV Program are free to choose the neighborhood in which they rent a unit. With only a few exceptions, the household chooses the location unencumbered by any programmatic constraints, and the issue of poverty deconcentration does not drive the process; however, the HCV Program is not completely without guidance in terms of the neighborhoods in which households locate. A relatively passive incentive guides HCV households to neighborhoods with greater opportunities. HUD uses a Section 8 Management Assessment Program to evaluate the administrative performance of the housing authorities that manage the HCV Program. The percentage of program participants who locate in neighborhoods with below-average levels of poverty is one criterion used to evaluate the housing authorities (HUD, 2007).

### **Previous Experience in Poverty Deconcentration**

Two previous initiatives in poverty deconcentration—the Gautreaux and Moving to Opportunity (MTO) programs—provide instructive experience to the HCV Program’s effort to move poor households to better neighborhoods.

Gautreaux was a quasi-experimental program born out of a court action taken against the Chicago Housing Authority and HUD. HUD gave vouchers and counseling assistance to a set of households on the condition that they move to neighborhoods with low levels of minority racial concentration. Households had to agree to move to census tracts with a minority population comprising less than 30 percent of the total (Keels et al., 2005). Given the high correlation between racial concentration and poverty concentration, the Gautreaux program was, in many ways, the initial foray into the use of housing vouchers as a method to relocate households out of impoverished neighborhoods and into racially and economically mixed neighborhoods.

The research on the Gautreaux program compares outcomes for participants who moved to predominantly White suburbs with those for participants who located in predominantly African-American neighborhoods in the inner city. Participant surveys indicate that those participants who moved to suburban locations were more likely to have a job than those who remained in the urban locations (with a differential of 13 percentage points), although they did not work more hours or earn higher wages (Rosenbaum, 1995). Survey results also indicate that the children of those who moved to the suburbs were more likely to stay in school, to be employed after graduation, and to go on to 4-year colleges or universities (Popkin et al., 2000).

Gautreaux spawned MTO, which is an experimental version of the voucher program (Goering, Feins, and Richardson, 2003). The MTO program gave vouchers to an experimental group who were constrained; to get the voucher, they had to move to a low-poverty neighborhood. Researchers compared this experimental group with a control group that received vouchers that did not limit where they could choose to live. The researchers found that dispersing impoverished households through housing programs may reduce the social problems that result from the concentration of this population, but our understanding of the linkages between neighborhood and life outcomes is very limited. Although incomplete, evidence is growing that neighborhood conditions influence

the outcomes a household will experience. Research reviews on this topic are found in Brooks-Gunn, Duncan, and Aber (1997); Ellen and Turner (1997, 2003); van Kempen (1997); Friedrichs (1998); Galster and Zoebel (1998); Leventhal and Brooks-Gunn (2003); and Sampson, Morenoff, and Gannon-Rowley (2002). Specifically addressing the MTO program and its movement of households to low-poverty neighborhoods, Goering and Feins (2003) collected studies from all five cities where the MTO program was implemented. Gains with the MTO program are found among children in terms of reduced criminal behavior, higher school performance (although more so for girls than boys), and improved mental health (Ludwig, Duncan, and Hirschfield, 2001; Ludwig, Ladd, and Duncan, 2001; Leventhal and Brooks-Gunn, 2003). Adults experience modest but statistically significant reductions in welfare usage, although these reductions may evaporate quickly (Ludwig, Duncan, and Pinkston, 2000). Overwhelmingly, the households experienced increased safety because the crime levels around them were reduced compared with those around the households that did not move to low-poverty areas (Orr et al., 2003). Unfortunately, the MTO program did not find significant improvements in employment levels (Leventhal and Brooks-Gunn, 2003).

Orr et al. (2003) summarized the MTO experiment, stating that the program had tangible positive effects on the lives of the participating households in terms of housing and neighborhood quality and the characteristics of the schools attended. They also stated, however, that they found no convincing evidence of gains in educational performance, employment, income, or self-sufficiency. They concluded that the poverty rate is an important neighborhood characteristic but that residential environments are multidimensional; no single measurement is able to capture all the attributes that are important to the lives of low-income families.

This research suggests that, when identifying opportunity neighborhoods, we must look beyond just the poverty level in the receiving neighborhood and that we should examine the potential for higher educational attainment, more safety from crime, and better opportunities for gainful employment.

## **Trends in Poverty Concentration**

The number of neighborhoods with high concentrations of poverty actually decreased during the 1990s. The spatial concentration of poverty worsened during the 1980s, with Black households faring worse than White households (Kasarda, 1993). During the 1990s, this spatial concentration of those living in poverty lessened. By 2000, the number of census tracts with high poverty (greater than 40 percent) fell by 24 percent, affecting 2.5 million people (Jargowsky, 2003). This reduction in the number of high-poverty tracts has not meant that the number of low-poverty tracts has decreased. Rather, the number of low-poverty tracts (less than 10 percent) remained roughly constant while the number of tracts with moderate poverty (between 10 and 40 percent) increased (Galster, 2002; Kingsley and Pettit, 2003).

We will not know the spatial concentration of poverty for the first decade of this century until the American Community Survey begins to release those data at the tract level, and even these will be rolling averages that may take some time to stabilize. Overall poverty, however, has again risen to exceed the 1990 level. The percentage of the population that lives below poverty fell during the 1990s, from 13.1 to 12.4 percent (Census, 2002, 1992) but rose to 13.2 percent in 2008 (Census, 2009). This increase means that some neighborhoods with low levels of poverty in 2000 may have suffered from a rise in the incidence of poverty. An increase in poverty could move the neighbor-

hood out of the low-poverty category and into a different category suggesting that it should no longer be considered a high-opportunity neighborhood.

This changing level of poverty and its changing spatial concentration implies that the search for high-opportunity neighborhoods should examine more than just the most recent level of poverty in a neighborhood; it should also examine the changes in the level of poverty over time to prevent targeting a neighborhood as high opportunity when it is trending toward higher poverty.

### **Effect on Receiving Neighborhoods**

Galster (2003, 2002) examined whether programs to relocate poor households result in a net social gain. He investigated alternative models and compared the social costs and benefits of deconcentrating poor households. He suggested that the conditions necessary to justify programs designed to deconcentrate poor households may be more stringent than are commonly understood. Proponents of spatial mobility often frame arguments only in terms of the benefits to the participating households, neglecting to consider the costs imposed on the receiving neighborhoods. For the relocation to lead to a net social gain, the gain from moving the low-income residents away from areas with high levels of poverty must be greater than the loss experienced by the receiving neighborhoods.

Some level of deconcentration of the moderate-poverty neighborhoods would be desirable, because they already suffer from above-average poverty. It is important that those identifying opportunity neighborhoods do not consider these moderate-poverty neighborhoods as destination neighborhoods expected to absorb additional impoverished households. Galster (2005) suggested that a net social gain can be generated only if the deconcentration results in fewer neighborhoods with high poverty, more neighborhoods with low poverty, and no additional neighborhoods with moderate poverty.

The implication of Galster's suggestion for identifying high-opportunity neighborhoods is that the process should examine not just the level of poverty in a neighborhood before an influx of assisted households, but it should monitor the effect that the in-moving assisted households will have on the level of poverty there. Any efforts to deconcentrate poverty should (1) reduce poverty in the high-poverty neighborhoods, (2) not increase poverty in the moderate-poverty neighborhoods, (3) move households to the low-poverty neighborhoods, and (4) not boost poverty in the receiving neighborhood in such a way that the neighborhood moves out of the low-poverty category (Galster, 2005). However, not all researchers are in agreement with this approach. Jargowsky (2005) suggested that the incremental harm to receiving neighborhoods with moderate-poverty may be relatively small and outweighed by the benefits realized by moving households out of high-poverty areas and into the moderate-poverty neighborhoods.

### **Categories of Poverty Concentration**

Galster also suggested that a nonlinear relationship may exist between the level of poverty in a neighborhood and measures of neighborhood condition, such as property values. Much is unknown about this relationship, but limited evidence suggests that a set of thresholds exists (Brooks-Gunn, Duncan, and Aber, 1997; Friedrichs, 1998; Galster, 2005). The first threshold may be found when about 15 percent of the population is living below poverty. Below this threshold, the problems resulting from the concentration of poverty may not significantly affect neighborhood

condition. Above this threshold, the problems with increased poverty may rise significantly, with each added increment of poverty imposing costs on the neighborhood. The second threshold may be found when about 40 percent of the population is living below poverty. Above this threshold, the negative effects of concentrated poverty reach a maximum; increased poverty above this second threshold may have no additional negative effects.

The implication of the possible existence of a nonlinear relationship between poverty and neighborhood conditions for identifying high-opportunity neighborhoods is that the process should examine not just the level of poverty in a neighborhood but also whether the neighborhood is in the low-, moderate-, or high-poverty category and should target only low-poverty neighborhoods.

### **Housing Availability and Condition**

Ultimately, the HCV Program is a housing program that uses the existing supply of rental dwellings. It can work only where rental housing units are available that can be leased within the regulatory constraints of the program. For the HCV Program to function properly, the rental units must exist in the market and some of these units must be affordable; they must be offered at rents below the Fair Market Rent (FMR) limitations of the program. The FMR is the starting point for setting the maximum rent on a unit that can be admitted to the HCV Program. Public housing authorities have some discretion to set payment standards between 90 and 110 percent of the FMR. The payment standard dictates the maximum amount of subsidy that an individual household can receive through the HCV Program. Although this flexibility is permitted, the number of units with rents below the FMR is a rough indicator of how many units could participate in the HCV Program.

The implication of this administrative procedure for setting payment standards for identifying high-opportunity neighborhoods is that the process must examine the counts of rental units available with rents at or below the FMRs.

### **Presence of Other Assisted Housing**

Any initiative that guides households to high-opportunity neighborhoods may need to consider the amount of assisted housing that already exists within the receiving neighborhood; too many assisted units or households may be harmful to the receiving neighborhood. Freeman and Botein (2002) reviewed the literature on the effect of project-based housing on surrounding neighborhoods. They found many flaws in past analyses and found conflicting results in the efforts to evaluate the perception that subsidized project-based housing results in negative neighborhood effects along dimensions such as property values, racial transition, poverty concentration, and crime. They found evidence that the effect can be positive, negative, or neutral. If a project removes a disamenity, such as a deteriorated building or vacant and litter-strewn site, the effect can be positive. If the project is poorly managed and fails to screen tenants, a negative effect can occur. Galster et al. (1999) extended this topic further into tenant-based housing assistance. They examined sales prices of single-family homes surrounding sites where Section 8 vouchers were being used in Baltimore County, Maryland. They found that if only a few voucher households were located within 500 feet of a property, this limited number had a strong, positive effect on property value in higher value tracts, with predominantly White populations, which enjoyed real value

appreciation. They found that in low- or moderate-value neighborhoods experiencing declining values, however, Section 8 voucher households have an adverse effect.

The implications of the effects of assisted housing on a neighborhood suggests that any effort to use vouchers for poverty deconcentration should guide participants away from vulnerable neighborhoods that already have high incidences of project-based units or tenant-based households.

## **Employment, Education, and Crime**

High-opportunity neighborhoods should provide households with access to good jobs, access to good schools, neighborhoods that are free of crime, and good affordable housing. Although identification of these high-opportunity neighborhoods is easy in concept, it is harder in execution simply because of the limited data available. The Census Bureau publishes counts of workers in each neighborhood and indicates whether they are employed, but it does not publish counts of jobs in each neighborhood by skill level. The Census Bureau publishes counts of adults in each neighborhood categorized by their level of educational attainment, but it does not publish the counts of schools or any measure of their quality. Crime is known to be declining, but it remains an issue in many neighborhoods. Unfortunately, the Census Bureau does not publish any information on the level of crime. Sadly, no readily available, nationwide data sources exist at the census block group level on these three issues. Researchers will have to use proxies, such as low unemployment as a proxy for good job prospects and high rates of high school completion for high-quality educational opportunities.

## **Data at the Block Group Level**

The data for this study come from census data tabulated at the block group level. For each block group, both 1990 Census and 2000 Census data were assembled. Those block groups that experienced boundary changes during the 1990s were reconciled through the use of data for all of the United States from GeoLytics, Inc. (2005).

In 2008, HUD provided household-level data for participants in the HCV Program, coded by block group location. The data were aggregated to the block group level for analysis. Only those households in the regular tenant-based voucher program were included in the analysis; those households in the homeownership, project-based voucher, enhanced vouchers, and the welfare-to-work subprograms were not included because they may have had different incentives and limitations on their ability to move to a rental unit in a location of their choice. Similarly, HUD made available counts of other forms of assisted housing at the block group level to assess the incidence of other assisted housing.

Block group data are a new unit of analysis for the study of poverty deconcentration. Most of the previous work was done at the tract level because the assisted household data were only available at that level. Now that the data are available at the block group level, however, the analysis will be improved. Block groups are smaller than tracts; each census tract contains about three block groups. This smaller size makes the unit closer to the generally held concept of a neighborhood (Coulton et al., 2001).

The Census Bureau has identified about 210,000 block groups nationwide (see exhibit 1). Each block group contains about 1,400 people divided among a little more than 500 households. These households live in 528 housing units, 187 of which are rental. Of the rental units, a little less than one-half are rented at prices that qualify them for the HCV Program, because they are offered at rents below the applicable FMR for the county where they are located. Nationwide, these units with rents below the FMR total 18.6 million units. Any of these units could be in the HCV Program. They are not concentrated in just a small proportion of the block groups. More than 98 percent of all block groups contain at least some rental units, and about 89 percent of all block groups contain at least some rental units offered below the FMR.

**Exhibit 1**

**General Characteristics of Block Groups**

	<b>Median</b>	<b>Average</b>	<b>Total</b>
Population	1,139	1,357	284,889,180
Households	430	509	106,741,426
Housing units	446	528	110,887,704
Rental housing units	118	187	38,707,899
Rental housing units offered below the FMR	43	90	18,575,689
<b>Total count of block groups</b>			<b>209,876</b>

*FMR = Fair Marker Rent.*

*Source: U.S. Bureau of the Census, Census 2000*

**Analysis**

Exhibit 2 begins the estimation of the number of high-opportunity neighborhoods by showing some very basic characteristics of the nation’s block groups. Census data provide good counts of population and housing, but they provide only weak indicators of the potential for skill-appropriate employment opportunities for HCV households. Similarly, the census data indicate neither the quality of the schools nor the level of crime in a neighborhood. Because of the limitations of census data, proxies will have to be used. Unemployment is used as a proxy for job opportunities. The high school completion rate is used as a proxy for educational opportunities. Crime data are not readily available at the block group level, criminal activity must be assumed to correlate with the incidence of poverty. Although these variables are closely correlated, they do not always predict neighborhood distress accurately, nor do they always predict trends in neighborhood distress (Galster et al., 2003). They are, at best, proxies for the social forces at work, and as such introduce some level of measurement error into the analysis. Consequently, the results should be viewed with some caution.

Other characteristics of the populations living in block groups also display some spatial concentration. Within the typical block group, minorities account for about 31 percent of the population. Minorities are defined as anyone other than non-Hispanic Whites. Like those living in poverty, racial minorities are highly concentrated, with one-half of all neighborhoods containing less than 17 percent of minorities. In 2000, the average block group unemployment rate among all members of the workforce was 6.5 percent, but one-half of block groups enjoyed an unemployment rate under 5 percent. In the average block group, 21 percent of adults did not complete high school, but one-half of the block groups have about 18 percent that did not graduate.

## Exhibit 2

### Population Characteristics of Block Groups

	Median	Average	Standard Deviation
Percent of population below poverty, 2000	9.6	13.7	13.2
Percent change in poverty, 1990 to 2000	-0.1	-0.4	8.8
Percent of population minority	16.9	30.9	32.0
Percent of workforce unemployed	4.7	6.5	6.7
Percent of adults who did not complete high school	17.9	21.2	15.2

Source: U.S. Bureau of the Census, Census 2000

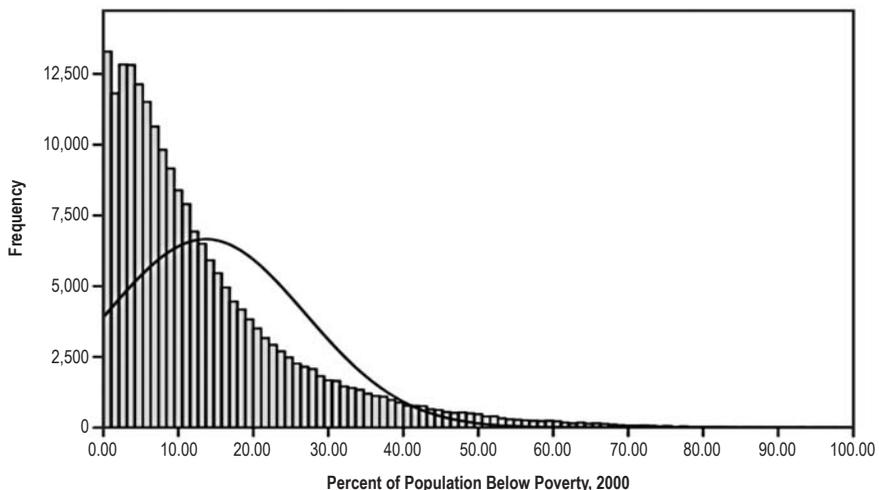
### Distribution of Neighborhoods by Poverty Level

Deconcentration of poverty is an objective of the HCV Program. Typically, about 14 percent of a neighborhood's population lives below poverty. This group, however, is not distributed evenly. Rather, most neighborhoods tend to have a very low level of poverty.

In more than one-half of all block groups, less than 10 percent of the households live in poverty, which is below the lowest estimates of the threshold below which incremental increases in poverty have no damaging effects on the receiving neighborhood. The threshold of 10 percent is chosen here for two reasons. First, it is safely below the approximately 15-percent level that Galster identifies as the point at which a neighborhood is harmed by incremental increases in poverty. Using the 10-percent threshold should leave little concern that the neighborhood is threatened by the influx of low-income households. Second, using the 10-percent threshold is consistent with the MTO experiment. With one-half of all neighborhoods below this level, low-poverty neighborhoods are abundant. In addition, with the threshold at 10 percent, no problems will result from identifying a neighborhood as a low-poverty area when it is above median as would be that case with a threshold between 10 and 15 percent. (See exhibit 3.)

## Exhibit 3

### Distribution of Block Groups by Percent of Population Below Poverty in 2000, With Normal Curve Superimposed



At the other extreme, only about 1 in 20 block groups have very high poverty (that is, greater than 40 percent). About two-thirds of all block groups have below-average poverty, (that is, 13.5 percent). These statistics indicate that poverty is highly concentrated; about 4,100 block groups have poverty levels in excess of 50 percent, and another 5,500 block groups have poverty levels between 40 and 50 percent. The data show that 108,000 block groups with poverty levels below 10 percent can receive HCV households, probably without measurable harm. The remaining 90,000 block groups are the moderate-poverty neighborhoods (that is, poverty levels between 10 and 40 percent). (See exhibit 4.)

**Exhibit 4**

**Distribution of Block Groups and Rental Units With Rents Below the FMR, by Level of Poverty in the Block Group**

Level of Poverty in the Block Group	Block Groups	Percent	Rental Units Below the FMR	Percent
Less than 10%	108,175	52	5,214,971	28
10 to 19%	54,153	26	5,675,053	31
20 to 29%	23,728	11	3,550,024	19
30 to 39%	11,708	6	2,135,858	11
40 to 49%	5,542	3	1,101,222	6
50% or more	4,132	2	898,561	5
<b>Total</b>	<b>207,438</b>	<b>100</b>	<b>18,575,689</b>	<b>100</b>

*FMR = Fair Market Rate.*

*Source: U.S. Bureau of the Census, Census 2000*

**Distribution of Rental Units Below the Fair Market Rent by Level of Poverty**

As a point of departure for examining the feasibility of any poverty deconcentration program, it is important to look at the availability of rental units in the low-poverty neighborhoods targeted for receipt of HCV households, especially rental units offered at rents low enough for admission to the HCV program. About one-half of all block groups are in low-poverty areas, but only 28 percent of the rental units offered below the FMR are located in these neighborhoods. At the level of very crude arithmetic, the fact that only 28 percent of all rental units are available in high-opportunity neighborhoods is not prohibitive. More than 5 million rental units are offered at rents below the FMR in low-poverty neighborhoods. Those calling for greater poverty deconcentration efforts within the HCV Program do not seem to envision that more than a small portion of the HCV households would be involved in an initiative to move households to low-poverty areas. Polikoff (2004) suggests allocating 50,000 vouchers per year over a 10-year term to a poverty deconcentration initiative. Thus, even this ambitious effort would peak at 500,000 vouchers, which is only a small proportion of the available units in the marketplace.

**Distribution of Assisted Housing Units**

Exhibit 5 lists assisted households in the HCV Program and units in other federally funded project-based rental assistance programs. All programs listed in the exhibit suffer from some level of undercount. Some units or developments could not be assigned to a specific location because of reporting errors or other problems. Some projects simply did not report. This lack of reporting is

## Exhibit 5

### Assisted Rental Units and Voucher Households in All Block Groups

	Median	Average	Total
Count of Housing Choice Vouchers, 2008	3.0	10.3	2,165,998
Count of LIHTC units, 2006	0.0	6.7	1,402,999
Count of Public Housing units, 2008	0.0	5.3	1,118,427
Count of HUD Multifamily units, 2008	0.0	6.8	1,426,979
Count of all project-based units	0.0	18.8	3,948,405
Count of all assisted units	4.0	29.1	6,114,403

HUD = Department of Housing and Urban Development. LIHTC = low-income housing tax credit.

Sources: U.S. Bureau of the Census, Census 2000; U.S. Department of Housing and Urban Development, Office of Policy Development and Research

especially true for the Low-Income Housing Tax Credit (LIHTC) Program. States are not required to report all developments to HUD, thus generating the data set depends on voluntary participation in survey analysis. Through 2006, the portfolio of LIHTC developments contains about 1.4 million units, but it is believed that 1.6 million units were in place through that year. Although a difference of 200,000 units represents a sizable loss of data, the remaining data represent a very large sample, which provides a good indication of the location of these units.

The HCV Program serves about 2.2 million households.<sup>1</sup> The average block group has about 10 voucher households, but these households tend to concentrate in select neighborhoods. One-half of all block groups have three or fewer voucher households within their boundaries. In 2008, the HCV Program assisted very low-income renter households in about 147,000 block groups, or about 70 percent of all the block groups in the nation. Thus, about 63,000 block groups did not house any HCV households. Removing these 63,000 block groups with zero HCV households from consideration, the average presence of voucher households rises to about 15, with a median of only 6 units. This uneven distribution of voucher households means that in neighborhoods where voucher households are present, they typically lease well below 10 percent of the rental housing stock.

The distribution of project-based programs is understandably different from the voucher programs because the assistance is tied to a specific building. Project-based housing is concentrated in a subset of the nation's block groups. The typical block group contains no project-based units; thus, the median number of units in a block group is zero for all types of project-based units. The LIHTC program averages fewer than 7 units per block group, but the typical project contains about 50 units, and these developments are distributed across a little more than 17,000 block groups or only about 8 percent of the block groups nationwide. This concentration of LIHTC housing means that, where LIHTC developments are found, they comprise a significant share of the rental housing in the neighborhood, typically one-third to one-half of the rental housing in the block group. Public housing, with a portfolio of more than 1.1 million units, adds another 5 units per block group, but the

<sup>1</sup> For purposes of this study, only regular tenant-based vouchers are included in the analysis. Vouchers were excluded if they were used for homeownership, the Welfare-to-Work program, project-based housing, or the enhanced voucher program. Tenant-based vouchers account for more than 99 percent of all housing choice vouchers.

average public housing development contains about 50 units, although one-half contain 12 or fewer units. Similarly, where public housing is present, it is a significant share of the rental stock. Finally, the portfolio of HUD-assisted multifamily housing is subsidized under the Section 8 New Construction/Substantial Rehabilitation Program, the Section 236 Mortgage Assistance Program, and a variety of other vintage programs that no longer actively produce units. These programs have a combined portfolio of more than 1.4 million units. These HUD multifamily units add an average of about 7 units per block group, but they add more than 50 units to those neighborhoods where they are present.

Although all of these programs comprise only a small part of the rental housing market, it is important to examine the extent to which they facilitate the poverty deconcentration process.

The HCV Program is mandated to help poor households surmount the price barriers that prevent them from leasing good quality housing in decent neighborhoods. Exhibit 6 examines the extent to which HCV households are able to move into low-, moderate-, or high-poverty neighborhoods. The distribution of HCV households in each of the three categories of neighborhood poverty is roughly the same as the distribution of rental units offered at or below the FMR. The HCV Program is able to locate 27 percent of its households in low-poverty block groups. This rate closely corresponds to the 28 percent of the rental units with rents below the FMR. Similarly, 51 percent of all HCV households are found in moderate-poverty neighborhoods (block groups with poverty ranging from 10 to 30 percent), and this closely matches the 50 percent of the affordable rental housing stock found in these neighborhoods.

The data suggest that HCV households are very much dependent on the presence of affordable units, even though the households lease only a small portion of the available units. Whether in the low- or moderate-poverty block groups, HCV households lease between 11 and 12 percent of the available units offered below the FMR. Only in those neighborhoods where poverty afflicts more than 50 percent of the population does the incidence of HCV households decline to 8 percent. This decline suggests that the HCV Program is helping households to move away from areas with high concentrations of poverty and move to neighborhoods with lower levels of poverty.

**Exhibit 6**

**Distribution of Housing Choice Vouchers in 2008 in Block Groups, by Poverty Category**

<b>Level of Poverty in the Block Group</b>	<b>Housing Choice Voucher Households</b>	<b>Percent</b>	<b>Rental Units Below the FMR</b>	<b>Percent</b>
Less than 10%	589,023	27	5,214,971	28
10 to 19%	680,356	31	5,675,053	31
20 to 29%	434,377	20	3,550,024	19
30 to 39%	260,068	12	2,135,858	11
40 to 49%	126,556	6	1,101,222	6
50% or more	75,618	3	898,561	5
<b>Total</b>	<b>2,165,998</b>	<b>100</b>	<b>18,575,689</b>	<b>100</b>

*FMR = Fair Market Rate.*

*Sources: U.S. Bureau of the Census, Census 2000; U.S. Department of Housing and Urban Development, Office of Policy Development and Research*

Exhibit 7 describes the same issue for the project-based housing. While the variation is greater, the result is roughly the same: project-based units are distributed across neighborhoods categorized by poverty in proportion to the availability of affordable housing which, in nearly all cases, includes this project-based housing. (Note that in some block groups, the LIHTC units were added after the 2000 Census.) About 26 percent of project-based housing exists in low-poverty neighborhoods, which is close to the 28 percent of affordable housing that exists in these neighborhoods. Project-based housing is, however, heavily overrepresented in high-poverty neighborhoods. About 20 percent of all project-based housing exists in high-poverty neighborhoods (those with 40 percent or more poverty), but only 11 percent of affordable housing exists in these neighborhoods. These percentages indicate that this publically supported housing represents a disproportionate share of the rental stock in these distressed neighborhoods.

Examining the number of assisted units in a neighborhood is simple; determining the proper measure of market penetration by assisted housing units or voucher households is difficult.

Out of the 210,000 block groups nationwide, the incidence of assisted housing, either as project-based units or through vouchers, is very low.<sup>2</sup> More than one-half of all block groups contain only four or fewer assisted households or housing units, but distribution includes 50,000 block groups that have no voucher households or project-based units at all. Excluding those block groups with no assisted housing, the incidence of assisted housing remains low. Among those block groups with some assisted housing, about one-half have fewer than 10 assisted units, which is only 2.2 percent of the housing stock in these block groups.

Many issues are involved in determining the level at which assisted housing in a neighborhood is viewed as a threat. The literature is large (see Freeman and Botein, 2002, for a literature review); however, the bulk of this literature addresses the effect of project-based housing on the value of nearby properties. Little of this research addresses the effect of voucher households on receiving neighborhoods, but work by Galster et al. (2003) addresses the issue directly.

## **Exhibit 7**

### **Distribution of Project-Based Housing in 2008 in Block Groups, by Poverty Category**

<b>Level of Poverty in the Block Group</b>	<b>Project-Based Assisted Units</b>	<b>Percent</b>	<b>Rental Units Below the FMR</b>	<b>Percent</b>
Less than 10%	1,021,078	26	5,214,971	28
10 to 19%	983,681	25	5,675,053	31
20 to 29%	679,109	17	3,550,024	19
30 to 39%	499,664	13	2,135,858	11
40 to 49%	339,151	9	1,101,222	6
50% or more	425,505	11	898,561	5
<b>Total</b>	<b>3,948,188</b>	<b>100</b>	<b>18,575,689</b>	<b>100</b>

*FMR = Fair Market Rate.*

*Sources: U.S. Bureau of the Census, Census 2000; U.S. Department of Housing and Urban Development, Office of Policy Development and Research*

<sup>2</sup> The incidence of assisted housing may actually be lower because the calculation here adds the count of HCV households to the count of assisted units, but vouchers may occupy LIHTC units. Where this possibility exists, the count of assisted units is too high.

Galster et al. found that a few HCVs in a strong neighborhood can be beneficial if they are small in number (five or fewer within a 500-foot radius) and the neighborhood is strong (high market value and values that are appreciating). A 500-foot radius is not a big area: it is approximately 20 acres. A typical residential development contains four to five households per acre; thus, a 500-foot radius area would hold about 80 to 100 housing units. The typical block group holds about 500 units; thus, the area defined in the work by Galster et al. would be only a fraction of a block group, with five or six of these 20-acre areas in each block group. The implications of the work by Galster et al. is that 15 to 25 vouchers would be the maximum desirable in a block group with a strong market. These voucher households would need to be dispersed throughout the area, not concentrated within a single 20-acre area. Block groups typically contain about 500 housing units, suggesting that the maximum desirable percentage of HCV households is 3 to 5 percent.

This very crude arithmetic stretches the reach of the work by Galster and his colleagues. Despite the lack of precision inherent in such simple calculations, this figure can provide some guidance.

If the presence of HCV households is greater than 3 to 5 percent of all housing in neighborhoods with strong housing markets, it is likely to be detrimental to the neighborhood. For purposes of this research, the criterion will be that HCV households should be less than 4 percent of all housing in the neighborhood.

Similarly, a reasonable limit on the maximum number of assisted units desirable within a neighborhood may exist. The literature is silent on this issue. The debate has yet to be resolved on whether assisted housing affects the surrounding neighborhood positively, negatively, or not at all. Researchers may never undertake calibrating the effect as a function of the number of units, which is a more finely tuned issue. The typical block group with project-based housing, however, has a mean of 20 percent of all units assisted, but a median of only 8 percent. Using these rates as guides, it may be best that any poverty deconcentration initiative avoid neighborhoods where the incidence of project-based housing is more than 15 percent, both because this percentage represents a conservative level between the mean and the median and because it corresponds to the average level of poverty found in neighborhoods nationwide. HCV households should not be guided to neighborhoods where the presence of project-based assisted housing already creates a significant concentration of poor households.

A well-designed poverty deconcentration program should guide HCV households to desirable neighborhoods based on factors beyond just the presence of poverty and affordable housing. Again, how the criteria should be derived for distinguishing desirable neighborhoods from less desirable is not entirely clear. Most agree that desirable neighborhoods should provide opportunities for gainful employment, good schools, and racial integration. A cursory examination of measures of unemployment, educational attainment, and minority concentration could illustrate some criteria that could be used to identify desirable neighborhoods.

The analysis presented in this article assumes that low unemployment in a neighborhood is a good proxy for the availability of jobs in or close to that neighborhood. Neighborhoods with low unemployment are plentiful; more than one-half of all block groups experienced unemployment below 5 percent in 2000. (The national unemployment rate was 6.5 percent in that year.) Unfortunately, these low-unemployment neighborhoods appear to have smaller shares of rental units with rents

below the FMR than are found for block groups as whole. Those neighborhoods with unemployment below 5 percent contain only about one-third of the rental units with rents below the FMR. These percentages suggest that an HCV poverty deconcentration effort may confront problems if the criteria identifying high-opportunity neighborhoods become too ambitious. To succeed, the effort may have to permit households to enter rental units with rents above the FMR.

Another objective of poverty deconcentration is the movement of households, especially households with children, to areas with good schools. The census does not have a mechanism to tabulate school quality, but it does measure the educational attainment of the resident population of each neighborhood. It is assumed that this stands as a proxy for school quality. The measure used here is the percent of the adults who have completed high school. Housing units in areas with high educational attainment are distributed in a manner similar to housing in areas with low unemployment. About 42 percent of block groups have below average levels of high school completion (that is, under 15 percent); in 2000, about 21 percent of all adults had not completed high school. These block groups, however, contain only 28 percent of the rental units available below the FMR.

The level of minority concentration is the final issue regarding poverty deconcentration. Racial or ethnic minorities are defined here as all people except non-Hispanic Whites. Using this definition, the median minority presence is 17 percent among all neighborhoods. Given the high level of spatial concentration of minorities, the average presence, at 31 percent, is much higher. Developing categories is problematic because there is little theory to guide the process. When it comes to poverty concentration, some guiding theories suggest that if the distribution of poor households can be kept below a low threshold, such as 10 percent, that the effect on the neighborhood will be negligible. No comparable guiding theory for racial mixing exists. Evidence shows Whites have a lower tolerance for non-Whites than non-Whites do for Whites. This tolerance differential leads to an ideal level of integration for Whites that contains a lower percentage of minorities than the ideal level of integration among minorities (Farley, 1979).

In addition, minority concentration is subject to local conditions. In the Minneapolis-St. Paul area, all minorities make up 18 percent of the population, a figure close to the national average, but Blacks make up only 6 percent of the total area population compared with 13 percent of the nation's population. Hispanics comprise only 4 percent of the total compared with 15 percent of the national population. Similarly, in San Antonio, Blacks comprise only 6 percent of the population, but Hispanics comprise 53 percent. These data suggest that analysis of minority concentrations at the national scale must be viewed with some caution; the delineation of ideal levels of racial and ethnic integration are very different from one city to the next.

Exhibit 8 combines the many criteria that can be used to identify desirable neighborhoods. It begins with all block groups that contain all 39 million rental units in the nation, of which 18.6 million are offered at rents below the applicable FMR. The exhibit outlines the number of neighborhoods and rental units available as successive criteria are added to the definition of a high-opportunity neighborhood.

Beginning with all 210,000 block groups, this total is immediately reduced to 108,000 with the assumption that only block groups with poverty levels below 10 percent are desirable. Accepting only low-poverty neighborhoods as potential high-opportunity neighborhoods results in a loss of

**Exhibit 8**

Distribution of Rental Units With Rents Below the FMR and All Rental Units in Block Groups With Poverty Below 10 Percent and Cummulatively Adding Other Neighborhood Attributes

Poverty (%)	Project-Based Housing (%)	Housing Choice Vouchers (%)	Adults Not Completing High School (%)	Unemployed Workers (%)	Minority Population (%)	Growth in Poverty (%)	Block Group	Rental Units Below the FMR	Rental Units
All block groups							209,876	18,575,689	38,707,899
<10							108,175	5,214,971	14,655,207
<10	<15						103,190	4,896,221	13,865,507
<10	<15	<4					98,321	4,402,629	12,846,599
<10	<15	<4	<20				80,814	3,451,185	10,804,244
<10	<15	<4	<20	<5			63,085	2,573,679	8,269,921
<10	<15	<4	<20	<5	<20		50,090	1,739,372	5,493,402
<10	<15	<4	<20	<5	<20	<0	28,155	974,911	2,960,768

FMR = Fair Market Rent.

Note: R-square for the current formula is 0.787; 0.927 for the Administration's proposal.

48 percent of the neighborhoods. The loss of affordable rental units is even greater. The 18.6 million affordable rental units fall to only 5.2 million, a loss of 72 percent of the units offered below the FMR.

The order of adding additional constraints is somewhat arbitrary. Each new constraint causes a loss of neighborhoods and units. The order used in exhibit 8 simply adds constraints with the least potential to cause a loss of neighborhoods and units as indicated with the analysis of the distributions of assisted housing, educational attainment, unemployment, and minorities.

The first two constraints added involve the incidence of project-based housing and the presence of other HCV households. Guiding HCV households away from neighborhoods with above-average concentrations of project-based housing does not cause a great loss of either neighborhoods or units. Avoiding neighborhoods that already have a significant concentration of other HCV households also does not cause a great loss. If the high-opportunity neighborhoods have poverty levels below 10 percent, project-based housing below 15 percent of the total stock, and voucher households leasing no more than 4 percent of the housing, then 98,000 block groups remain with 4.4 million units.

Adding a constraint for low levels of adults who did not complete high school further reduces the number of neighborhoods and units. If the neighborhoods are also limited to just those where the failure to complete high school is less than 20 percent, then the available opportunity neighborhoods drop to 81,000 block groups and 3.5 million affordable units.

If we limit the available block groups to just those with unemployment below 5 percent in 2000, the count of available block groups falls to about 63,000 with 2.6 million affordable units.

Adding a constraint based on the presence of minorities has a significant effect. If the constraint calls for the presence of minorities to be less than 20 percent—a very modest level—then the

available neighborhoods drop to about 50,000 block groups (about 23 percent of the total) and the number of units to only about 1.7 million (only 14 percent of the total).

The last constraint is the trend in poverty, which is based on a decline in poverty during the 1990s, which was typical. This constraint, when added to the others, drops the available neighborhoods to only 28,000 and the available units to under 1.0 million.

It is difficult to know when the loss of neighborhoods and units becomes prohibitive, because it is hard to know how many neighborhoods and units need to exist to effectively implement a poverty deconcentration program. The HCV program as a whole assists more than 2.2 million households, but it is doubtful that a poverty deconcentration program would be applied across the entire program; too many households would not want to locate elsewhere. Even a modest effort, however, such as the proposal to engage 50,000 vouchers per year for 10 years, means that 500,000 units would need to be successfully leased in the designated high-opportunity neighborhoods. We do not know a great deal about the capacity of HCV households to compete against households without subsidies. We do know that HCV households are able to lease about 11 to 12 percent of the units in low-poverty neighborhoods. Perhaps this figure could be pushed higher, but it is doubtful that, short of a significant new incentive for landlords to participate in the HCV Program, the ability to capture units can be dramatically higher. If this is true, it suggests that a poverty deconcentration initiative should adopt not-too-stringent criteria for high-opportunity neighborhoods so that the participating households will be able to enter a large number of neighborhoods with more than enough units available.

### **What Has Not Been Examined**

Several issues have not been explored that possibly should. The current analysis depends heavily on data available from the decennial census. These data may be sufficient, because several variables used in the census data correlate with other factors that should be used to develop an opportunity index. It is possible, however, that other data sets should be explored to see if they can provide measures that will improve the assessment of a neighborhood's potential to provide opportunities for good housing, employment, schools, shopping, and other services.

## **Conclusions**

In an ideal setting, if enough neighborhoods enjoyed desirable traits (low poverty, high educational attainment, and full employment) and provided sufficient rental units priced below the applicable FMRs, it would be simple to guide HCV households to these neighborhoods. As a practical matter, however, too few neighborhoods offer all of these traits making the task very challenging.

Roughly 38 million rental units exist in the United States, but only about 50 percent of these units are listed below the FMR levels that govern the HCV Program. Thus, about 19 million units are eligible to participate in the program. Not all of these units, however, are located in desirable neighborhoods; many are located in neighborhoods that suffer from high poverty and unemployment.

If the HCV Program, or at least a significant share of its participating households, were to be restricted so that they could reside only in neighborhoods with poverty below 10 percent, only 5.2 million

rental units would be available. Although the 5.2 million units are greater in number than the approximately 2.2 million HCV households, this may not be enough, because the households in the HCV Program seeking eligible rental dwellings would have to compete with other unassisted renter households for these few units.

The HCV Program could restrict a program household to only those neighborhoods with the following characteristics:

- Low poverty (less than 10 percent of the population).
- Low presence of other assisted rental units (less than 15 percent project-based housing and 4 percent voucher households).
- Low incidence of adults who did not complete high school (less than 15 percent).
- Low incidence of unemployment (less than 5 percent).
- Low incidence of minorities (less than 20 percent).
- Declining poverty.

If these constraints were adopted, the number of affordable rental units would diminish considerably. Using 2000 Census counts, it is estimated that only 1.0 million rental units would be able to participate in only 28,000 block groups. This count of units is smaller than the number of households already in the HCV Program. In addition, units meeting these conditions are located in only 13 percent of the block groups across the nation, which would be a prohibitively small number of neighborhoods.

At present, HCV households are able to lease 11 to 12 percent of the affordable rental units in low-poverty neighborhoods (590,000 voucher households in the 5.2 million affordable units). If another 500,000 voucher households were added to this number, it would mean that HCV households would have to capture 21 percent of the available affordable units. It is unlikely that an influx of additional voucher households of this scale could successfully compete with unsubsidized households for units within a narrowly constrained set of neighborhoods. The voucher households would need to be able to search across many neighborhoods, not just a few. The need to search across many neighborhoods means that any effort to identify high-opportunity neighborhoods should exercise caution when adopting criteria that limit the location options of the participating households.

The households may also need to compete for units that are priced above the FMR. Units rented at or below the FMR make up just 28 percent of all the rental units in the low-poverty neighborhoods. This low percentage suggests that guiding households to low-poverty neighborhoods will be hindered by the requirement that units be rented at or below the FMR. Poverty deconcentration may be facilitated through the use of exception rents and other possible modifications to the HCV Program.

The analysis here is developed using only crude measures of the housing and demographic conditions in the block groups. Although this research is instructive because of its national scope, the results are only suggestive. It may be necessary to conduct more detailed research following the successes and failures of HCV households in metropolitan areas where the housing, employment, educational, and crime characteristics can be measured with greater precision.

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## Author

Kirk McClure is a professor in the Department of Urban Planning at the University of Kansas.

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