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Low-Income Housing in Our Backyards: What Happens to Residential Property Values?

A market analysis of four very low-income family housing developments in four growing Chicago suburban market areas was conducted. Despite expectations to the contrary, the evidence indicated that low-income housing does not necessarily lower the value of surrounding residential property or curb further successful market development in the immediate area. The conditions contributing to the success of the four projects analyzed include good community planning, good design and buffering of the sites, and good property management.

Not in my backyard! This shout is especially strident when the proposed development is low-income housing—row after row of crowded, ugly, cheaply constructed buildings, garbage strewn everywhere, dirty curtains partially hanging from bent rods over screenless windows, and battered cars rusting to death in the parking lot. This image gives rise to a typically negative reaction. Who would choose to live next door to such a place as that?

Midway through the 1990s, 30 years into "The Great Society" housing programs, and 20 years into the Section 8 housing experiment, can we answer these questions?

- Is the low-income housing stereotype accurate?
- Does the commonly held fear of low-income housing have foundation?
- Will residential property values in the neighborhood plummet when low-income housing is built next door?

The certainty about low-income housing is that the residents have met government-established income criteria. Everything else is a variable—the density, the construction materials and design, the maintenance and management, and the resultant effect on neighboring residential property values. This study suggests that the stereotype is not necessarily accurate and the fear is not necessarily founded. Further, it reveals that low-income housing built right in our backyards might have no effect at all on property values.

In mid-1994, a suit was filed seeking to prevent the Illinois Housing Development Authority (IHDA) from financing the development of 180 units of very low-income

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housing in a suburb in western DuPage County, Illinois. The neighbors objected to the project, primarily based on the effect they expected that it would have on the property values of their houses. IHDA believed that the success of such a suit would be a deterrent to its activities statewide. As part of IHDA's full-scale defense, the potential impact of the development of the project on surrounding residential property values was assessed. In a relatively short time, parameters for a market study were set. Residential property values adjoining similar low- and very low-income housing complexes already constructed would be analyzed. From a list of recent IHDA projects in the Chicago metropolitan area, developments that matched the characteristics of the proposed development were chosen: recently constructed projects (as opposed to a rehabilitation project) adjoining single-family and/or market multifamily developments; large projects with low-income and very low-income family units (as opposed to elderly developments); and projects located in developing suburban areas with increasing property values.

Three projects on the list fit these criteria. Despite its recent completion, Waterford Place was included to assess the effects on additional development in the area. A fourth IHDA project built in 1981 and meeting all of the same criteria was chosen to assess long-term impact on the market. Although the specific loan guarantees, tax credits, or rent subsidy programs varied between the four projects, all were entirely either low-income or very low-income family housing developments in developing suburban areas.

STUDY PARAMETERS AND METHODOLOGY

The quality of the management of the projects chosen could not be determined in advance. As it turned out, all of the projects chosen for the study appeared to be adequately managed and were fully occupied. Therefore, the conclusions assume competent management—not an insignificant factor.

Because of the prevailing image of low-income housing, some measurable negative impact was expected; the method developed for analyzing the projects attempted to account for this impact. Each of the four projects was evaluated with respect to the compatibility of the development with the surrounding neighborhood in terms of design and construction quality; the condition of the buildings; and especially the density. The overall feel of each development was measured by the presence or absence of litter; the landscaping; the age and condition of parked cars; and the window treatments. The number of children in the complex and their ages were considered. Finally, the market was surveyed by interviewing developers and brokers, reviewing multiple listing service listings and annual summaries, and researching transactions with local assessors, focusing especially on the units immediately adjoining or facing the low-income housing. Summaries of the analyses of the four projects follow.

Victorian Park, Streamwood, Illinois

The first project reviewed was Victorian Park in Streamwood, Illinois (see Table 1). Streamwood is located 33 miles from downtown Chicago in DuPage County. In 1994, the population was 31,197; the value of the average house was $97,774; average income was $46,271. According to the Streamwood Building Department, 1993 building permits totalled 257, and 1994 building permits through October 30, 1994, totalled 1,591.

The entire 300-unit development has 100 low-income units in a single section and was constructed on a site of about 50 acres for a density of about 6 units per acre. The allowed density under the site's R-5 zoning is 10 units per acre. The density as built is consistent with the surrounding development; the adjacent neighborhood is

TABLE 1 Victorian Park Summary

	One Bedroom/One Bath				Two Bedrooms/One and Two Baths			
Total Number of Low-Income Units	No. of Units	Size (in square feet)	Monthly Rent	Rent per square foot	No. of Units	Size (in square feet)	Monthly Rent	Rent per square foot
100	27	750	$474	$0.63	37 (2Ba)	1,050	$600	$0.57
		800	$546	$0.68	36 (1Ba)	955	$674	$0.71

zoned R-3, a designation that allows 6 dwelling units per acre. The rear of the low-income section borders the Windsor Place subdivision, a single-family neighborhood to the west.

Windsor Place is predominately frame houses, some with brick facades; modest ranches; and some two-story houses ranging in price from $130,000 to $150,000. Other development in the area includes slightly older single-family housing and townhouses. Portions of the single-family neighborhood border the unsubsidized Victorian Park apartment buildings.

The Victorian Park project was constructed in 1987 under a Section 236 interest subsidy.[1] Construction consists of four-unit and eight-unit two-story frame buildings with attached garages accented with dark blue or black shutters, patios or balconies, and some landscaping. The property appears to be in good condition. The management reported that 30 to 40 children live in the low-income housing units.

The MAP Multiple Listing Service (MLS) reports that for the first nine months of 1994, 405 houses sold in Streamwood, with an average listing price of $136,240 and an average sale amount of $133,096 (or about 98% of the asking price). Sales in the single-family area immediately adjoining the subsidized low-income units were analyzed over the life of the development. Data concerning sales of similar houses in the subdivision not adjacent to the subsidized housing as well as resales of houses bordering the subsidized units were collected.

The research found 12 sales of single-family houses in the immediate vicinity. Sales of houses bordering the low-income apartments showed increases in value ranging from 2.5% to 3.6% per year; the average increase was 3.1%, a figure consistent with the general market area according to the brokers interviewed. Sale prices averaged 98% of asking prices. Recent sales of identical model houses showed no relationship between value and proximity to low-income units.

Liberty Lakes Apartments, Lake Zurich, Illinois

The second project reviewed was Liberty Lake Apartments in Lake Zurich, Illinois (see Table 2). Lake Zurich is located 37 miles northwest of downtown Chicago in Lake County. In 1994, the population was 14,947; the value of the average house was $183,781; the average income was $76,876. According to *Living in Greater Chicago*,[2] 134 building permits were issued in 1993 and in 1994; four were issued through September 30, 1994.

Liberty Lakes was constructed on an irregularly shaped 8.05-acre site. The density as built is 8.7 units per acre, which is below the density allowed under the site's R-4 zoning—12 units per acre. Although the Liberty Lakes density is somewhat higher than the nearby R-3 zoning, which allows 4.35 dwelling units per acre, because of the mixed uses in the area, the density of Liberty Lakes appears consistent with its surroundings. Uses to the immediate north are a public library, a church, and a parochial school; uses to the northwest are the Lake Zurich main post office and a fire station. Two single-family developments are located east of Liberty Lakes across a street. Old Mill Grove is about 20 years old and has housing prices from $120,000 to $200,000, and Jonquil Estates is a new development currently under construction and planned for 22 houses in the $229,000 to $292,000 price range. The developer of

TABLE 2 Liberty Lakes Summary

	One Bedroom/One Bath				Two Bedrooms/One Bath				Three Bedrooms/One Bath			
Total Number of Units	No. of Units	Size (in square feet)	Rent per Month	Rent per square foot	No. of Units	Size (in square feet)	Rent per Month	Rent per square foot	No. of Units	Size (in square feet)	Rent per Month	Rent per square foot
70	8	950	$867	$0.91	28	824	$907	$1.10	34	950	$1,055	$1.11

1. Under Section 236, tenants are required to pay at least 30% of their income, which must be lower than 80% of the median. According to federal guidelines for 1994, 80% of the median income for a family of four in DuPage, Lake, and Cook counties is $39,900.
2. GAMS Publishing, Inc., *Living in Greater Chicago*, 1994 Edition (Deerfield, Illinois: GAMS Publishing, Inc., 1994), 188.

TABLE 3 Waterford Place

	One Bedroom/One Bath				Two Bedrooms/One Bath			
Total Number of Units	No. of Units	Size (in square feet)	Monthly Rent	Rent per square foot	No. of Units	Size (in square feet)	Monthly Rent	Rent per square foot
288	24	550	$480	$0.87	96	720	$600	$0.83
	168	860	$500	$0.58		720	$620	$0.86

Jonquil Estates reports that, since an advertising sign was posted in May 1994, six contracts have been signed. The rear of the Liberty Lakes site is open area with a detention pond beyond which are some condominium units. There are 270 parking spaces on the site but no garage parking.

Constructed in February 1991, Liberty Lakes is a dormitory-style development that consists of 70 units of low-income and very low-income housing, all of which are Section 8 units.[3] Of the one-bedroom units, six are for the elderly and two are for the mobility impaired. The building appears to be well maintained. The management reports that about 120 children live in the development, of which 10 are infants and toddlers, 10 are high school age, and the rest are elementary school age.

The MAP MLS for the first 9 months of 1994 shows that there were 286 sales of single-family houses in Lake Zurich, with an average listing price of $197,825 and an average sale amount of $191,934, or about 97% of the asking price. Data available for sales in the single-family area immediately adjoining the subsidized low-income units were analyzed over the life of the low-income development. Data concerning sales of similar houses in the subdivision not adjacent to the subsidized housing as well as resales of houses bordering the subsidized units were collected.

Eleven sales of new or existing single-family houses in the immediate area were found. Resales of houses bordering the low-income apartments showed annual increases in value of 2.8%, 6.9%, and 9.7%. These figures are superior to the 3.2% to 4.6% increases in houses not bordering the Liberty Lakes low-income house, and superior to increases in the general market area, according to the brokers interviewed. Sale prices in the neighborhood averaged 97% of the asking price.

Waterford Place Apartments, Zion, Illinois

The newest project analyzed was Waterford Place Apartments in Zion, Illinois (see Table 3). Zion is located 45 miles north of downtown Chicago in Lake County. In 1994, the population was 19,775, the value of an average house was $96,496, and the average income was $39,385. According to *Living in Greater Chicago*,[4] 1993 building permits totalled 134, and 1994 permits totalled 94 through September 30, 1994.

The Waterford Place site contains 17.42 acres for a density of 16.5 units per acre. There is parking for 576 cars. The development is denser than the proposed surrounding development, but is part of an overall design. North of Waterford Place is an area planned for single-family houses; on a deadend road, this single-family development will eventually connect with its extension in an area of existing houses. Development on both sides of this road is part of the developer's overall original plan. The plan calls for commercial development along the major arterial at the front of Waterford Place, townhouses to the northwest of Waterford Place, and single-family houses to the north. Another major developer has a single-family development known as Butterfield Place underway northwest of Waterford Place. To the east of Waterford Place is farm land, a cemetery, and the Harbor Ridge single-family development. High-tension wires run along the northern rear boundary of the Waterford Place site.

Waterford Place was constructed in two phases in 1992 and 1993, using Section 42 income tax credits.[5] There are eight

3. Under Section 8, the government pays the owner the difference between the tenant contribution (30% of income) and a fair market rent based on capital and operating costs for a period of 20 to 40 years. Tenants are eligible if their income is lower than 50% of the median income adjusted for family size. According to federal guidelines, 50% of the median income for a family of four in DuPage, Lake, and Cook counties was $25,650.

4. *Living in Greater Chicago*, 220.

5. Section 42 Income Tax Credits are available for eligible new construction or acquisition and rehabilitation of existing buildings. The tax credits may be taken for ten years after the project is placed in service with an annual amount of credit at a fixed per-

TABLE 4 Brookhaven Summary

Total Number of Units	One Bedroom/One Bath: No. of Units	Size (in square feet)	Rent per Month	Rent per square foot	Two Bedrooms/One or One-and-a-Half Baths: No. of Units	Size (in square feet)	Rent per Month	Rent per square foot	Three Bedrooms/One-and-a-Half Baths: No. of Units	Size (in square feet)	Rent per Month	Rent per square foot
181	70	700	$848	$1.21	82	1,100	$1,045	$0.95	16	1,250	$1,143	$0.91
	13	600	$818	$1.36								

buildings and 36 units per building for a total of 288 units. Some of the units are slightly below grade. Amenities include two detention areas, landscaping, and a clubhouse currently housing the rental office. The building is fully occupied. Units come with carpeting, window treatments, ceiling fans, and microwave ovens. The management estimates that 30 to 40 children live in the complex, of which 20% are school age, 5% are high school age, and the remainder are elementary school age. The developer of Waterford Place previously has constructed identical developments that are commanding market rents in other locations in Lake County. The complex appears to be well maintained.

According to the MAP MLS, the average listing price in the Zion and Beach Park market area for the first 9 months of 1994 was $99,876, and the average sale price was $95,328. All lots in Westside Hills, the single-family development immediately north of Waterford Place, are priced at $27,900 and are being sold both to individuals and to developers. New houses in Westside Hills are listed at $132,000 to $136,900. In Butterfield Place, since marketing began in January 1994, 22 houses have sold and 10 have closed. Listing prices range from $114,990 to $122,990. In Harbor Ridge, listing prices range from $111,990 to $146,900. Waterford Place appears to have no adverse impact on market demand in the area, as evidenced by continued sales and development of single-family lots immediately north of this housing development.

Brookhaven Apartments, Gurnee, Illinois

The final development analyzed was the oldest one (see Table 4). Brookhaven Apartments is located in Gurnee, Illinois, 45 miles north of downtown Chicago in Lake County. Rapidly growing, the 1994 population was 13,701, the value of the average house was $176,897, and the average income was $64,259. *Living in Greater Chicago* reported 1993 total building permits of 594 and 1994 building permits of 578 through September 30, 1994.[6]

The Brookhaven site contains 15.8 acres, resulting in a density as built of about 11.5 units per acre. A library, a detention area, and open space are between the low-income housing and the street on which the project is located. West of the site is county-owned land designated as a forest preserve. North and west of Brookhaven is a public library, and north of Brookhaven is a high school. A small group of single-family houses are north of Brookhaven, and a newer townhouse development is across the street.

Constructed in 1981, the development is entirely Section 8. The 181 units are configured in seven clusters of four buildings. Of the 70 garden-level one-bedroom units, 12 are handicapped accessible, and of the smaller one-bedroom units, 6 are handicapped accessible. There are 82 two-bedroom units with three slightly varying sizes and configurations and 16 three-bedroom units. The main buildings contain a total gross building area of about 191,000 square feet and a total rentable area of about 165,600 square feet. The complex includes a clubhouse, a maintenance building, parking, two children's play lots, a tennis court, and a swimming pool. There is ample unassigned parking. The complex appears to be in good condition. Management reports that there are 142 children living in the development, of whom 62 are preschool age, 59 are in elementary school, and 21 are in high school.

According to the Northern Illinois MLS, the average sale price of single-family homes in Gurnee for 1994 was

centage of qualified project costs, which is generally that portion of the project that serves low-income tenants. Rents can be no greater than 30% of 50% or 60% of the area's median income.

6. *Living in Greater Chicago*, 218.

Low- and very low-income housing do not automatically lower the value of surrounding residential development or prevent successful market development around it.

$179,941. Data available for sales in the single-family area immediately adjoining the Brookhaven low-income units were analyzed from 1988 to the present. The Northern Illinois MLS reports that sales for the first 9 months of 1993 for attached single-family houses had an average listing price of $107,490 and an average sale price of $102,756, or 96% of the asking price. Sales for the first 9 months of 1994 for attached single-family houses had an average listing price of $109,675 and an average sale amount of $105,402. This is an increase of 2.6% in sale price. Data available since 1988 for sales of townhouses in the area immediately adjoining the subsidized low-income units and similar units not immediately adjoining were analyzed. The single-family houses bordering the low-income complex have not turned over, at least since 1988.

The sales of the townhouse units close to Brookhaven were compared with sales of similar units away from the low-income housing, all in Phase I of the townhouse development. There are four different unit models with different layouts and sizes. Units with the A layout away from Brookhaven ranged from a loss in value of 0.89% to an increase in value of 2.93% on an annual basis in contrast to a 1.67% increase for an A unit adjacent to the Brookhaven units. Increases for B units away from Brookhaven ranged from 1.84% to 9.76% annually. Increases for C units ranged from 0.89% to 3.07% away from Brookhaven; a C unit facing Brookhaven showed an increase of 1.38% per year. The only D unit sale away from Brookhaven showed a 2% annual increase in contrast to a 2.5% increase in a D unit facing the low-income units. These figures show that resales of townhouses directly facing the Brookhaven low-income apartments reflect increases in value consistent with those reported by the Northern Illinois MLS and with comparable sales of similar units in Phase I of the adjacent market townhouse development that are not directly adjacent to the low-income housing.

CONCLUSION

A dampening effect of 3% to 5% on the market values of residential property values adjacent to low-income and very low-income family housing was expected. However, there was no evidence of this. Instead the evidence showed market values consistent with property not adjacent to the low-income units, and values rising at rates consistent with the community as a whole. A dampening effect on investment in new development in the immediate area was also expected. There was no evidence of this either. Instead developers are constructing and are selling good-quality, single-family housing right next door to very low-income buildings.

This study was designed as a market analysis, not as a statistical regression analysis. However, a statistical regression analysis, "Relationships between Affordable Housing Developments and Neighboring Property Values," conducted by Paul Cummings and John Landis, of the Institute for Urban and Regional Development of the University of California at Berkeley, reached similar conclusions for a variety of low-income housing types. Although they did not specifically address the issue of density, the authors concluded:

> Poorly designed, poorly maintained, and poorly managed projects can affect neighborhood property values—regardless of whether they are affordable or market-rate. Conversely, well-designed, well-managed, and well-maintained projects should not affect neighborhood property values, regardless of whether they are affordable or market-rate.[7]

From an appraiser's viewpoint, the conclusion must be that low-income and very low-income housing does not automatically lower the values of surrounding residential development or prevent successful market development around it.

Apparently, a development must fulfill certain specific conditions before this conclusion can be reached. First, there must be good planning on the part of both the community and the developer. The projects reviewed were well coordinated with surrounding densities and uses, and natural and manmade buffers were used to good effect at all four sites. Second, there must be good construction quality and design. The developments reviewed fit in with the surrounding community; there were no "public-housing red" doors in sight. The

7. Paul Cummings and John Landis, "Relationships between Affordable Housing Developments and Neighboring Property Values," Working Paper 599, University of California at Berkeley, Institute for Urban and Regional Development, September 1993, 17.

one project that was not as attractively designed was well buffered. Third, there must be good management. All four complexes were well maintained with competent onsite management. This factor cannot be overlooked, especially when considering the importance of the integration of these complexes into their larger communities.

There is nothing new about these conclusions, and the same criteria apply to the successful development of market-rent housing as well. What *is* new is that these standards are now being achieved for low-income and very low-income housing and that the result serves well to dispel the low-income housing stereotype.

The shift in the national political temperament brings high irony to this discussion. Section 8 housing programs are being phased out; HUD is being dismantled. State programs will feel the pinch of these national activities and likely will be targeted themselves. The negative image immediately conjured up by low-income housing has no doubt contributed to these decisions. Yet the need for "decent, safe, and sanitary housing for every American" has not diminished since that goal was articulated in the Housing Act of 1948. The irony is that now that low-income housing is being well executed, the question has become whether or not it will continue to be built at all. Perhaps the greater question is whether or not the truth about low-income housing can make a difference in either the reactions of its potential neighbors or in the decisions made about its future.