RETHINKING HOMEOWNERSHIP: WHY ALTERNATIVE TENURE STRATEGIES ARE NEEDED TO STABILIZE NEIGHBORHOODS IN LAWRENCE, MA

by

Holly Jo Sparks
B.A. History of Art
University of Michigan
Ann Arbor, Michigan (1997)

Submitted to the Department of Urban Studies and Planning in partial fulfillment of the requirements for the degree of

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at the

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Author ....
Department of Urban Studies and Planning
January 22, 2010

Certified by ....
Professor Lynn M. Fisher
Center for Real Estate
Thesis Supervisor

Accepted by...
Professor Joseph Ferreira
Chair, MCP Committee
Department of Urban Studies and Planning

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ABSTRACT

This research is designed to examine the potential mismatch between neighborhood stabilization plans and resources with the unique needs of smaller post-industrial cities in the United States. Given the distinct demographic, economic and physical characteristics of smaller, post-industrial cities, I rely on Lawrence, MA as a case study to examine housing tenure and homeownership strategies—particularly within the current economic climate and foreclosure crisis. The primary goal of this thesis is to combine first-hand observations with quantitative analysis in order to address the question: is increasing homeownership an appropriate and feasible goal for cities with high concentrations of poverty and a prevalence of multi-family housing stock? If not, what alternative housing strategies and policy approaches are needed in order to stabilize distressed neighborhoods and improve quality of living?

Consistent with Lawrence's growing challenge with foreclosures and research on low-income homeownership, the findings of this thesis demonstrate that focusing on homeownership strategies in Lawrence and other smaller, post-industrial cities may not lead to more stable neighborhoods. To the contrary, due to localized concentrations of poverty and multi-family housing stock, homeownership strategies serve to put low-income households at greater risk while neglecting the needs of the most distressed neighborhoods altogether. Further, this thesis examines alternative forms of housing tenure, arguing that neighborhood stability does not accompany increased homeownership, per se, but rather, is facilitated by healthy residential environments where residents choose to stay. Thus, this thesis recommends that Lawrence pursue housing strategies that seek to improve residential stability in distressed neighborhoods, while simultaneously developing a diversity of tenure options for individual households.

Thesis Supervisor: Lynn Fisher
Title: Associate Professor of Real Estate, Center for Real Estate

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The experience of writing this thesis has been one of learning, growing, and healing. On June 17, 2009, I suffered an acute ischemic stroke and could not have completed this work at all, had it not been for the support and encouragement of countless individuals. I offer my sincere gratitude to each and every one of you.

I would first like to thank my thesis advisor, Lynn Fisher, whose clear and insightful comments always pushed my thinking, and this thesis, to the next level. For two years, in two different states, you have become a trusted mentor and role model. Without your patience and commitment, I would not be where I am today.

Particular thanks to my community partner and second reader, James Barnes, and to the rest of the Community Development Department, who welcomed me as part of the team, patiently and candidly introducing me to the challenges and aspirations of Lawrence. Your belief in me, and support for this thesis, were indispensable to its completion.

I can only hope that the City of Lawrence benefits a fraction as much from this thesis as I've gained through the experience of writing it.

I would also like to acknowledge my reader, Lorlene Hoyt, who inspired my interest in Lawrence and whose support, dedication, and creativity directly shaped the development of this thesis, especially during the formative stages.

This thesis has benefited from the support and guidance of numerous informal thesis advisors and mentors. Ezra Glenn, Langley Keyes, and Karl Seidman, to name a few, from MIT—and more recently, R. Quercia, W.M. Rohe, and K. Crowder from UNC at Chapel Hill, all of whom contributed essential insights that compelled me to the finish.

Thanks also to the MIT@Lawrence staff and alumni, and to my peers at DUSP, with whom I've had the pleasure of working for the past two years. You are an extraordinary and passionate group of individuals, who inspire hope for a better world. Alone we can do so little, but together we can do so much.

Finally, I am honored and blessed to have such a loving family and wonderful community of friends. I am indebted to each of you for your support, generous assistance, and devotion throughout my writing and recovery process. Special thanks to Jim Jones, my co-op mentor and dear friend of nearly 15 years, and to my extended co-op community. To Millstone, my housemates, and numerous friends, new and old: thank you for making sure I had popcorn and shelter, and for reminding me keep a good sense humor and balanced perspective toward this work. Sibsee, lrstaeo, l.l.s.f. and the gby gals: We made it!

This thesis is dedicated to my family, who love and believe in me unconditionally. I am forever grateful to you.

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CHARTS AND ILLUSTRATIONS

CHAPTER 1: INTRODUCTION

This thesis emerged through an applied research process that attempted to understand real-world problems and generate better solutions through new knowledge. Originally, an interest and background in cooperative housing and community development led to theoretical questions concerning residential tenure types—i.e. an examination of the legal and financial arrangements under which a resident has the right to occupy their property—and community outcomes. As a graduate assistant with MIT@Lawrence, a sustained university-community partnership between the Massachusetts Institute of Technology and the City of Lawrence, Massachusetts, I initially set out to reconcile my research and professional experience with the public service requirements of our grant funding. During the period of September 2007 to November 2008, I sought out data on housing, demographics, and foreclosure activity, and spoke to housing and community development practitioners about their perspectives regarding my inquiry. However, I quickly realized that my research project would have little bearing, at least in the near-term, on their ability to meet pressing community goals. Lawrence's neighborhoods were struggling with the devastating effects of subprime lending and foreclosures, which intensified with the financial collapse in Fall 2008.

During a pivotal meeting with Milagro Grullon, a neighborhood planner for the City of Lawrence, I was introduced to a framework for building research partnerships that ultimately guided my approach to this thesis. Grounded in a participatory process, the ideal research partnership involves both researcher and community stakeholders in the process of defining the problem and scope of inquiry, designing the project, and sharing in the data collection and interpretation. At the same time, in order to avoid redundancy and act upon the knowledge as it is generated, it is important for research to build upon previous work, rather than generate a series of "one-off" projects. Thus, my approach combines action and reflection, theory and practice, and brings findings back into the community to create change and improve neighborhood conditions.

With this framework in mind, I began an engaged process of shaping research questions through ongoing conversations with community development and housing stakeholders in Lawrence and elsewhere. Transparent about my own background and interests, I simply asked: "What do you want to know that would help to improve the community or housing situation in Lawrence?" Not surprisingly, strategies for responding to the foreclosure crisis, expanding homeownership opportunities, and improving neighborhood stability were top priorities. After speaking to various community partners and reviewing previous MIT@Lawrence work, I met James Barnes, the newly hired director for Lawrence's Community Development Department, and a fit between my learning objectives and the questions and concerns of the Lawrence community became clear. Lawrence had recently commissioned a study on the human impact of foreclosures in one of its most distressed neighborhoods, the Arlington District. The findings from this study would inform the city's strategy for neighborhood stabilization. Meanwhile, Mr. Barnes had started to take stock of previous knowledge in the form of research papers, planning documents, and public hearing records, and to reflect on how the City of Lawrence could improve its institutional knowledge and memory. He looked forward to developing an aggressive and comprehensive housing plan for the city, setting neighborhood-by-neighborhood target levels of homeownership for Lawrence, and then creating a strategy to achieve those goals. Like myself, Mr. Barnes hoped to discover the City's end goals with respect to homeownership and what role other housing options and tenure types could play in addressing community development and neighborhood stabilization.

Thus, this thesis not only addresses critical questions relevant to housing scholars, community developers and policy-makers across the country, it also directly assists the planning and design of housing and community development strategies for the City of Lawrence. During the course of my research, the federal government passed the Neighborhood Stabilization Program (NSP1), for which Lawrence applied and received funding through a competitive process managed by the Massachusetts Department of Housing and Community Development (DHCD). It is important for Lawrence and other smaller, post-industrial cities to determine the most effective use of resources, given the goals and constraints of their respective neighborhoods. Ultimately, I hope my research will aid the city's next five-year Consolidated Plan to the U.S. Department of Housing and Urban Development (HUD), the planning for which began in the fall of 2009, to be submitted in the spring of 2010.

To that end, three questions have guided my research: 1) What unique challenges do Lawrence and other smaller, post-industrial cities face in light of the current foreclosure crisis and economic meltdown? 2) Are policies aimed at expanding homeownership an appropriate and feasible neighborhood stabilization response for Lawrence? 3) If not, what alternative housing strategies and policy approaches are available in order to improve distressed neighborhoods while achieving the community's goals? Combining first-hand observations with comparative statistics, I demonstrate that the intrinsic combination of economic, demographic, and housing characteristics that distinguish Lawrence and other smaller, post-industrial cities make conventional homeownership unsuitable for stabilizing and improving neighborhoods, and that housing tenure options beyond homeownership must be explored.

Context: Lawrence, a smaller post-industrial city

The recent housing market collapse and subprime mortgage crisis have exposed the limitations inherent in the U.S.'s historical fixation with homeownership, especially for smaller, post-industrial cities[1] such as Lawrence. For 50 years, owner-occupancy rates in Lawrence were more or

[1] Throughout this paper, I refer to "smaller, post-industrial cities" as defined by their relative size (populations between 15,000 and 150,000), industrial legacy (populations of at least 5,000 by 1880), and

less constant at 33% until the early-mid 2000s, when subprime and predatory lending spiked, particularly in low-income and minority neighborhoods[2]. During this period, Lawrence saw a 5-10% increase in owner-occupancy rates, the largest jump in the city's history. Between 2007-08, the peril of expanding homeownership without regard for the capacity of households or housing structures to sustain it, became evident: Lawrence saw a higher rate of home foreclosures than any other municipality in Massachusetts, reaching three times the statewide average. This level of foreclosure activity is particularly worrisome in a city already burdened with high concentrations of poverty, a predominantly immigrant population, and a poorly maintained multi-family housing stock—all of which jeopardize efforts to improve distressed neighborhoods. Compounded with these existing issues, foreclosures and market depreciation in Lawrence not only eliminate the asset-building potential of homeownership in Lawrence, but they continue to threaten the social fabric of neighborhoods and deprive the city government of much-needed tax revenue.

Despite this grim reality—or, perhaps, for lack of alternative models—public officials and stakeholders in Lawrence and elsewhere continue to promote homeownership as the residential tenure of choice, allocating limited federal resources toward homebuyer counseling and down-payment assistance programs. Given a preponderance of evidence supporting homeownership in the general case, it is easy to see why this would be the preferred approach. Broadly speaking, homeowners tend to be happier, healthier, better educated, more financially secure, and make better citizens and neighbors—in short, they embody the characteristics of a healthy neighborhood. Yet, neighborhood stabilization strategies tend to treat homeownership as an end goal, taking as fact that residential tenure type determines quality, cohesion, and safety of neighborhoods.

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poverty levels (median household incomes of <$35,000) (Leroux, Hoyt, 2007). Within the U.S., there are 151 such cities. This paper only considers four of which located in Massachusetts: Lawrence, New Bedford, Holyoke, and Fall River.

While a re-examination of homeownership as a neighborhood stabilization strategy may be relevant to many cities with concentrated poverty, it is especially germane to smaller post-industrial cities like Lawrence. Once economic engines of their regions, many of these former capitals of production still struggle to recover from the collapse of the manufacturing industry during the second half of the 20th century. As the rest of Massachusetts, and the U.S. at large, prospered from the transition to an increasingly global knowledge-based economy, cities such as New Bedford, Holyoke, Lawrence, and Fall River stumbled and have fallen behind. Loss of jobs, shrinking population, and demographic shifts all contributed to social and economic decline in these cities. Compounding their woes, these cities have been hit hard by the recent subprime mortgage foreclosure crisis. Despite this, state programs are typically focused on larger city markets (i.e., Boston), neglecting the unique needs of smaller, post-industrial cities (Mayer, 2001). Likewise, economic development strategies continue to promote homeownership as a one-size-fits-all approach to building wealth and bringing stability to neighborhoods in today's most-distressed cities.

The Challenge of homeownership: Realities and Constraints

An emerging body of literature calls into question the essential connection between homeownership and its purported advantages. Generally speaking, for example, homeownership is associated with reduced mobility and residential turnover, which, in turn, is correlated, with healthier neighborhoods. Since household access to resources and appropriate housing stock play a critical role in tenure decisions, neighborhoods with a higher propensity for owner-occupied single-family housing may also be associated with a lower propensity for social disorder. In addition to pointing out the limitations of current research, studies focused specifically on low-income households reveal that the purported benefits of homeownership are less significant than claimed, potentially even

[2] Joint Economic Committee of Congress, "The Subprime Lending Crisis: The Economic Impact on Wealth, Property Values and Tax Revenues, and How We Got Here," October 2007.

being outweighed by the risks. Consequently, encouraging at-risk families to buy unsuitable housing stock in areas of concentrated disadvantage brings more harm than good—not only for individual households, but also for neighborhoods at large.

While federal housing policies do not necessarily exclude a range of tenure types, their focus on owner-occupancy—particularly single-family housing structures—is nevertheless apparent. Perhaps, too, they focus on asset building without considering whether there are other mechanisms to achieve neighborhood stability. Acquisition and rehab programs intended to produce affordable multi-family rental housing are included in housing plans, usually to meet statutory minimums. Many government subsidies and incentives are not designed to work with shared-equity or rental tenancy commonly found in small, multi-family buildings. Yet, given the demographic, economic, and housing stock characteristics of distressed cities such as Lawrence, it is difficult to imagine how traditional homeownership could be a plausible strategy for neighborhood stabilization. Even an idealized scenario, in which young "entrepreneurial" families invest in owner-occupied, multi-family housing—living in one unit and renting the others—, seems untenable when (among other reasons) stricter underwriting standards limit rental income as a means of support.

Drawing on various theories of homeownership and neighborhood effects, I attempt to isolate two potential mechanisms—asset-building and residential efficacy—through which housing tenure influences neighborhood health. Using this framework, I introduce a heuristic model of tenure types, which illustrates a range of housing options that serve the needs of Lawrence's distressed neighborhoods.

Methodology

Background information and impressions for this thesis were formed as a participant-observer as a graduate assistant for the MIT@Lawrence university-city partnership. For two years, I worked with a coalition of graduate students, faculty, civic leaders, residents and community-based organizations in Lawrence to support locally-led projects and research at the intersection of democratic engagement, shared wealth creation and urban sustainability. Through this work, I developed relationships with people and organizations in Lawrence, and learned first-hand about the city's distinct history and setting. From November 2008 to April 2009, I worked as an intern and housing apprentice with Lawrence Community Development Department, attending various public, foreclosure stakeholder, and community development staff meetings. By participating in meetings and public events, reading and contributing to the city's NSP application, and visiting houses and neighborhoods; I gained personal knowledge of Lawrence's capacity and organization from the perspective of city government.

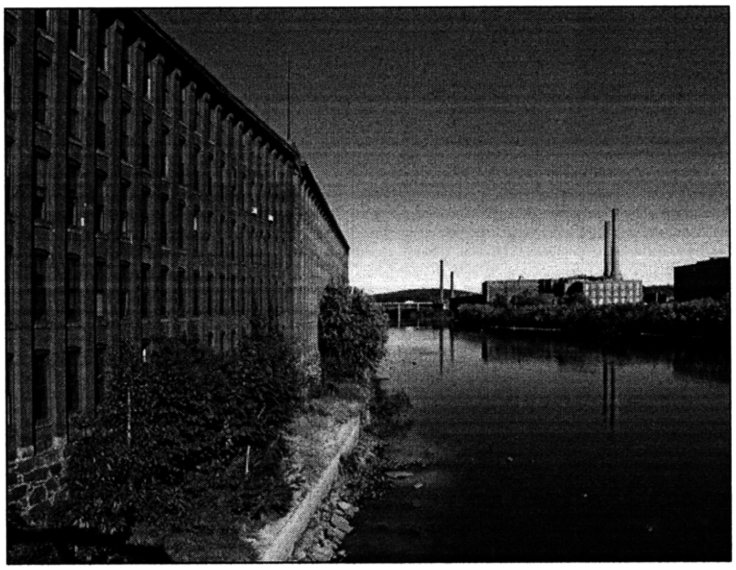
In conjunction with participating in the development of an affordable housing strategic plan, I assisted in the collection of housing and foreclosure information related to Lawrence, comparing characteristics with 34 similarly-sized cities in Massachusetts. Data was taken from the 2007 American Community Survey 1-Year Estimates, annual Census, DHCD, The Warren Group, and from Lawrence Community Development Department city records.

Overview of Chapters

This analysis is conducted in several parts. Chapter 2 considers the demographic, economic, and physical characteristics of Lawrence and smaller, post-industrial cities, with a focus on housing stock, household income, and recent trends in homeownership and foreclosure. This chapter lays the foundation for understanding the "double jeopardy" to neighborhood stabilization strategies in Lawrence. Chapter 3 weaves together different branches of academic literature—theories of social disorganization, asset-building, and housing functions. It begins with an overview of policies and attitudes toward homeownership in the U.S., particularly as its been promoted as a tool for neighborhood revitalization. This chapter concludes by offering a heuristic model of tenure types, which "un-bundles" the functions of housing. Chapter 4 reviews limitations of homeownership's claims, and examines the realities of low-income homeownership, neighborhood stabilization and small, multi-family housing stock. Using the heuristic model, this chapter suggests alternatives to homeownership that may be effective at stabilizing neighborhoods in certain situations. Finally, Chapter 5 suggests strategies for addressing the constraints of Lawrence and smaller, post-industrial cities.

CHAPTER 2: LAWRENCE, MASSACHUSETTS

Located 25 miles north of Boston, Lawrence is a smaller-sized city in Massachusetts, notable for its strong, industrial heritage and predominantly working-class, immigrant population. A county seat for Essex County, Lawrence covers 7.4 square miles and is bisected by the Merrimack River—a key attribute in the founders' decision to construct a textile-manufacturing city here in the 1840s. Today, Lawrence exemplifies many smaller-sized, post-industrial cities, struggling to address and overcome persistent economic decline, aging infrastructure and housing stock, and increasingly low-income, younger, and foreign-born populations.



Given its distinct economic, demographic and physical characteristics, Lawrence offers a case study to examine homeownership and neighborhood stabilization strategies in smaller, post-industrial cities, particularly in light of the current economic climate and foreclosure crisis. This chapter provides a brief overview of Lawrence's development as a New England mill town, focusing on its distinct and challenging combination of disadvantaged households and multi-family housing stock. It further addresses aspirations and constraints of Lawrence's neighborhoods, and the impact that homeownership and foreclosure have had on smaller, post-industrial cities.

The double jeopardy

As discussed in detail in Chapter 3, homeownership has long been promoted as an instrument for neighborhood change, believed to have positive social and economic spillover effects. Consequently, public policy and resources have focused on expanding homeownership opportunities in post-industrial cities with the hope that stable neighborhoods play a critical role in rebuilding the local economy. Decision-makers in Lawrence have adhered to this strategy, positing that homeowners take better care of their property and thus the higher the percentage of homeownership, the better off Lawrence would be.

Yet, given the "double jeopardy" of a predominantly small-scale, multi-family housing stock, combined with poor, minority-majority neighborhoods, Lawrence is unlikely to benefit from efforts to increase traditional owner-occupancy. Indeed, for over 40 years, Lawrence's homeownership rate remained virtually unchanged, despite various anti-poverty and housing policy interventions. Then, between 2000 and 2005, homeownership in Lawrence surged for the first time in history, increasing sharply from 32% to 38% (Fig. 5). Initially, housing and community development stakeholders viewed the expansion of home buying with enthusiasm; genuinely believing that increases in homeownership would transform the City's distressed neighborhoods. Far from panacea, however, this jump, as paralleled all around the country, signaled the advent of the foreclosure crisis and eventual housing market collapse. The impact of foreclosures has been significant, undermining the perceived gains made among cities' most distressed neighborhoods.

Industrial Legacy: constraints of the built environment

Founded in 1845 by the Essex Company, Lawrence was one of several "model" company towns built specifically for the production of and manufacture of economic goods around the turn of the 19th century. Strategically located along waterways and transportation hubs in the Midwest and Northeast, these cities once boasted large hospitals, vibrant retail centers, and strong civic infrastructure. Changes in transportation, deindustrialization and suburbanization contributed to these cities' eventual decline, however, and taken together, they are referred to by a number of terms, including "weak market cities", "third tier cities", "Forgotten cities", "Gateway cities", "transitional cities", "older core cities", and "mill cities." In all cases, they are defined by their loss of dominance—through both a declining population and the collapse of their economic base. Each possesses a strong manufacturing heritage, and is challenged by its obsolete spatial locations and infrastructure. Over time, new housing is increasingly constructed around the suburban periphery of theses cities, leaving older, lower-income neighborhoods with a prevalence of affordable multi-family housing stock, typically investor-owned, in the city center. (Transitional cities report, CHAPA, 2006: 40).

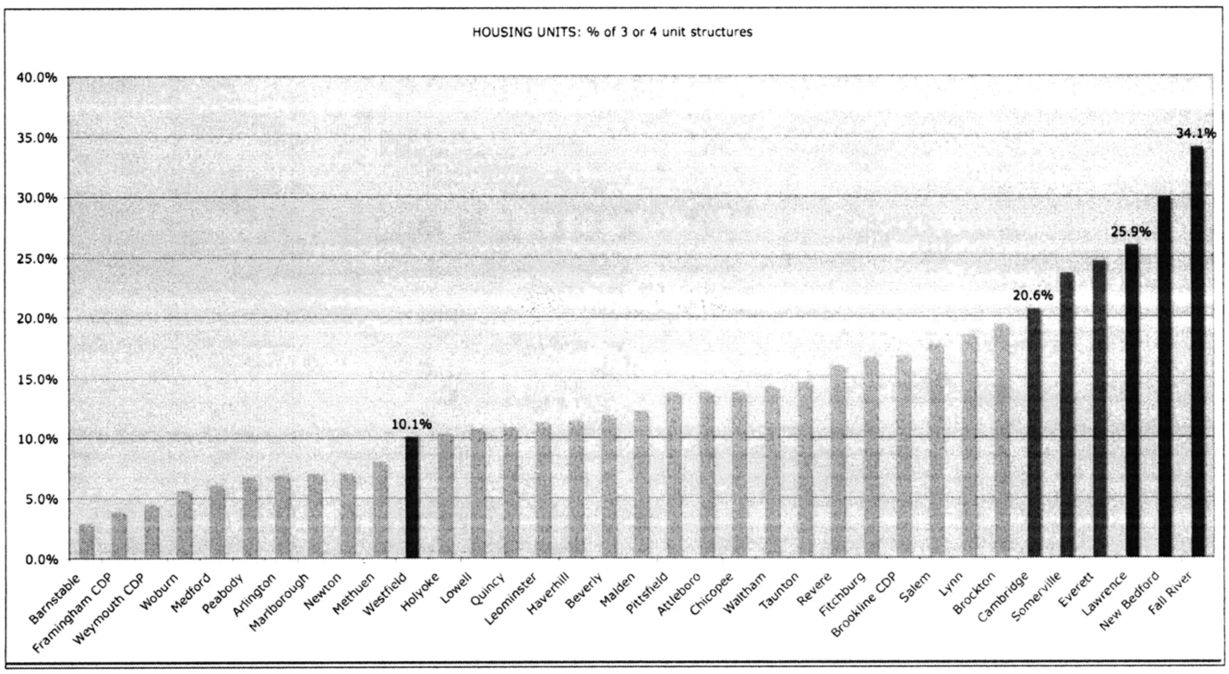
Despite its primary function to manufacture textiles and worsted wool, Lawrence, like other New England mill towns, was originally planned as a "utopian community" in response to the squalid working conditions of England's textile cities. Its founders took great interest in the physical appearance of these new industrial centers, concerned as much about the productive demands as the moral integrity of the workers. Early pictures of Lawrence, for example, depict a picturesque village with trees, grass, wandering animals, and children at play. To ensure social order and stability, deed restrictions limited residential structures to a maximum of three stories, built of brick or stone. Worker housing was originally conceived of as one house per lot, one family per dwelling, and conveniently located near to the mills and commercial center. Just as homeownership became emblematic of the American Dream, these smaller, industrial towns represented America's "hometowns," the kind romanticized in movies and literature (Siegel, 2001).

It was just a matter of time, however, before these utopian ideals reached their limitations, and Lawrence suffered a series of natural and man-made disasters, including flooding, upstream sewage dumping and several deadly explosions, including the Pemberton mill collapse in 1860. During the period of 1840 to 1920, the immigrant population in Lawrence swelled, and housing started to develop north of the city center, in areas previously unregulated by land use restrictions. Housing density reached 300-600 people per acre, comparable to inner-city neighborhoods such as Harlem. In 1874, the Massachusetts state legislature enacted a series of building reforms, re-establishing height limits, lot coverage, safety, and sanitation requirements for workforce housing. These restrictions, combined with the continued demand for cheap housing, gave rise to the development of "triple-deckers," a type of small apartment building, common to New England mill cities such as Fall River, New Bedford, and Lawrence. Comprised of three, superimposed apartments, triple-deckers became more or less the standard form of housing in working-class and new immigrant neighborhoods between 1885 and 1930. Built prior to FHA-regulated 30-year fixed rate mortgages, triple-deckers emerged not only as a result of changes in zoning and building codes, but also because they were economically efficient to produce and to rent to those for whom home loans and ownership were unaffordable.

Figure 1: Typical "Triple Decker" in Lawrence neighborhood.

In 1912, Lawrence was the scene for the infamous Bread & Roses labor strike, which resulted in increased national scrutiny of the living and working conditions in industrial towns throughout the region. That same year, a published survey reported on the overcrowding and low-quality housing concerns, affecting immigrants living in the Arlington and North Commons neighborhoods on the north side of Lawrence, two of the city's most distressed neighborhoods. Within the decade, portions of previously undeveloped land on the north side of town were developed rapidly, resulting in the largest concentration of triple-decker housing in Lawrence (Arlington Revitalization Plan, 2009). Today, over 25% of Lawrence's total housing stock is comprised of multi-family housing stock, of which at least half are three- to four unit structures which are increasingly lost to arson, flooding, and foreclosure and abandonment.

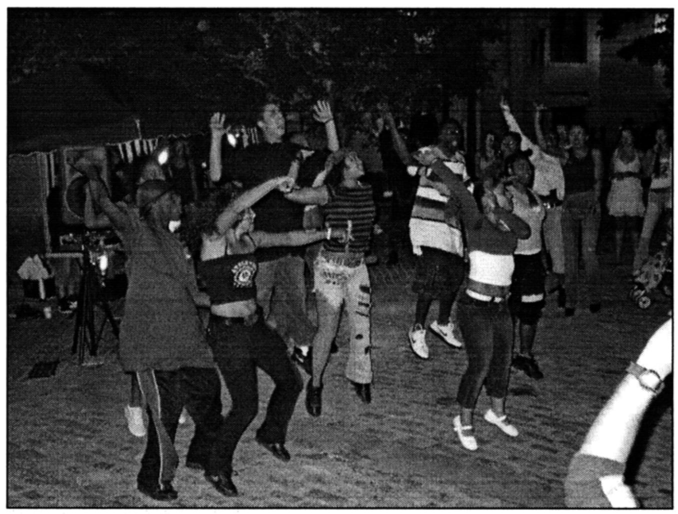
Figure 2: Percentage of housing stock composed of 3- to 4- unit structures by city.



Disadvantaged populations: patterns of inequality and persistent poverty

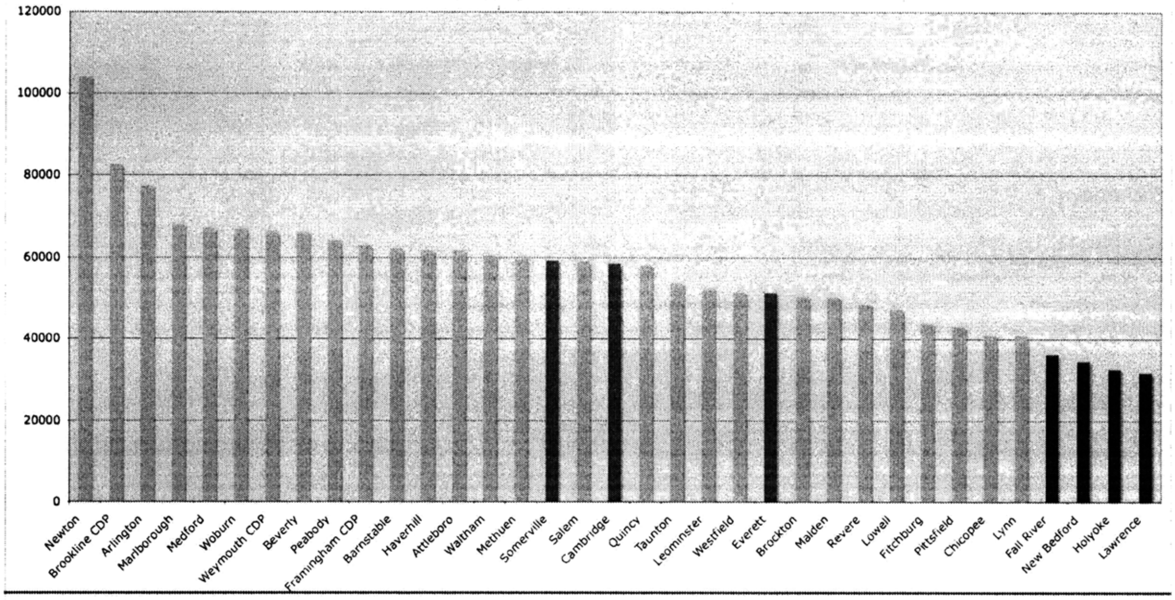
Not only did Lawrence's industrial legacy define its physical character, so too did its neighborhoods manifest spatial patterns of inequality. Considering class and ethnicity, residential inequality in Lawrence follows a distinct pattern: poor, predominantly Latino neighborhoods concentrated near the city center, surrounded by wealthier, mostly white suburban neighborhoods. This pattern of development is practically a hallmark for pre-industrial, rustbelt cities. The negative consequences of persistent residential inequality, particularly the interaction of race and poverty, have implications for neighborhoods and policy-makers. Minorities living in poor neighborhoods lack access to financial and asset-building opportunities, employment prospects, better health services, safer environments, and education. Moreover, many of the outcomes of residential segregation (Squires & Kubrin, 2005) can inhibit growth for the entire region.

Lawrence's early history of immigration and change in ethnic composition has been well documented, including the dramatic change it underwent following the Quota Act of 1921. Similar to other New England mill towns, Lawrence experienced significant loss of population and economic vitality, as textile industries moved to the Southern U.S. following World War II. This decline began even sooner in Lawrence, and by 1950, only 1 out of 50 mills remained. Once again, beset by hard times, Lawrence was declared a federal disaster zone by due to unemployment rates.



As the population declined, vacant and abandoned units depressed housing prices. This concentration of affordable, multi-family housing structures, combined with a scarcity of urban renewal projects in Lawrence, created an opportunity that led to the rapid in-migration of minority and new immigrant populations, turning Lawrence's Northern neighborhoods into "tenements" of the state (Muro, 2007:34; Santiago & Jennings, 2005). Immigration from Puerto Rico and

Figure 4: Household median income by city. Smaller, post-industrial cities are four lowest-income in MA.



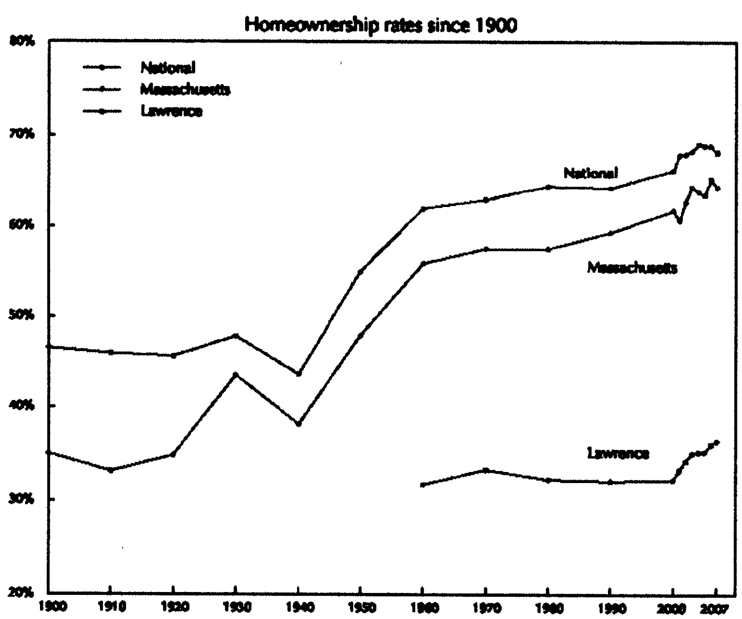
Dominican Republic started during the 1960s and 1970s, then increased dramatically starting in the 1980s.

This increase can also be explained in large part by the characteristics of the local and regional economy in New England. During the latter half of the century, jobs characterized by instability, low-wages, and poor working conditions were typically held by Latinos. Thus, as manufacturing jobs continued to decline, and Massachusetts' economy shifted toward high-tech and biotechnology industries during the 1990s, Latinos, who were new to the economy, were increasingly concentrated in the low end of the service sector. Though the poverty rate in Lawrence dropped significantly during the times of relative economic prosperity (2000 census), the poverty rate for Latinos remained high and is still nearly four times the rate of whites (Santiago & Jennings, 2005). Today, Lawrence represents a true majority-minority city: the Latino population grew from 3% in 1970 to over 60% of the city's total population by the 2000 census. Furthermore, all the census tracts in Lawrence, except for one, have more than 51% of the population in the low- or moderate-income category. In at least 12 census tracts, largely concentrated in the Northern, predominantly-Latino neighborhoods, the poverty rate is greater than 20%. Figure 4 illustrates the relative median household incomes for 35 cities in Massachusetts, confirming the relative poverty of Lawrence and smaller, post-industrial cities.

Neighborhoods in Distress: Homeownership and foreclosure in Lawrence

"It was so exciting for the city to see people buying homes and investing, and neighborhoods becoming economically stable. Now we know it wasn't all real." —Housing Manager, City of Lawrence, 2007

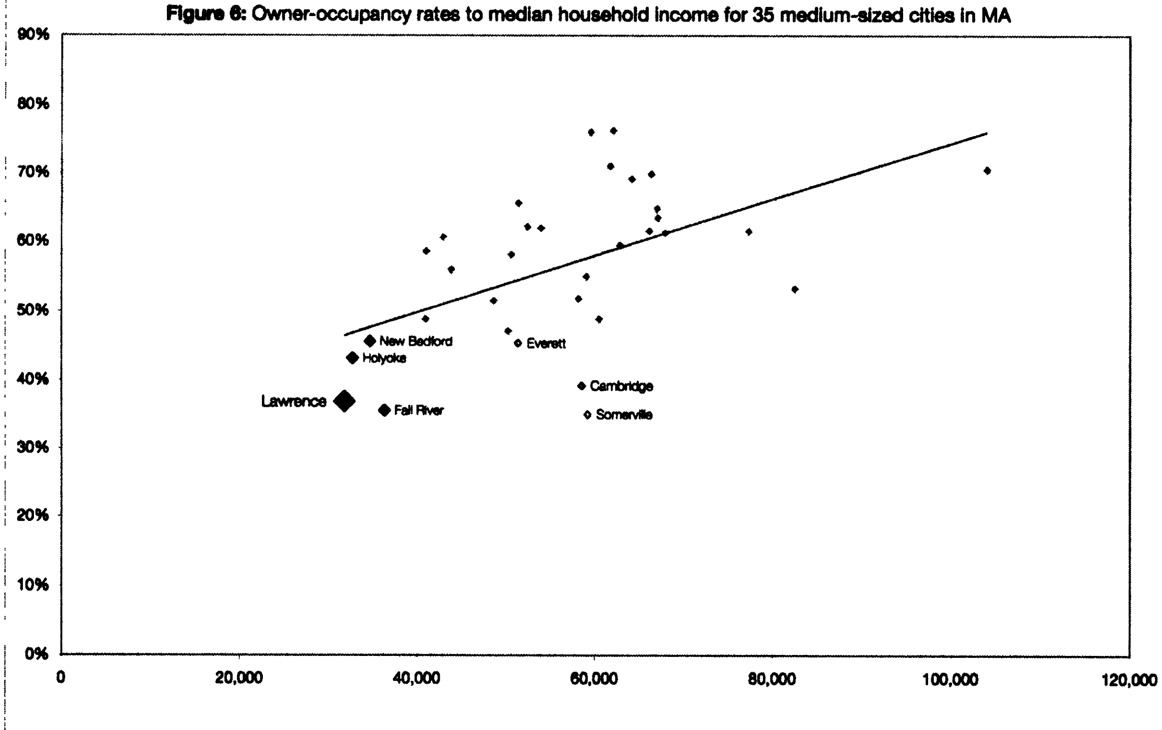
This section provides an overview of homeownership and foreclosure trends in Lawrence. National homeownership rates have risen dramatically over the last century, and Massachusetts largely mirrored these changes. In Lawrence, however, owner-occupancy rates remained virtually unchanged for 50 years, despite nationwide anti-poverty and federal housing policy interventions. Then, between 2000 and 2005, homeownership in Lawrence surged for the first time in history, increasing sharply from 32% to 38%.



Today's economic hardships are hardly new for cities like Lawrence, however, having already experienced with the realities of utopian dreams gone wrong. From abandoned models of industrial hometowns to epicenters for home foreclosures, Lawrence's most distressed neighborhoods have been undermined by crisis on multiple occasions, undermining perceived gains.

In the Commonwealth's fiscal year 2008, there were 522 foreclosures in Lawrence, ranking it sixth in the state. As a percentage of dwelling units, Lawrence has the highest foreclosure rate in Massachusetts. In the *Massachusetts Foreclosure Monitor*, published by Massachusetts Housing Partnership, Lawrence consistently ranks among the highest in the state for foreclosure petition activity when measured in "housing units affected per 1,000 housing units" (Mass. Foreclosure Monitor, Jan. 2006). Using the same data, Lawrence contains 11 of the top 20 Block Groups in the Commonwealth with foreclosure petition activity. Of particular note, that compares with two block groups in the top twenty in the city of Boston. These levels of foreclosure activity are particularly worrisome in a smaller city already burdened with high concentrations of poverty, a predominantly immigrant population, and a poorly maintained multi-family housing stock. These elements combined jeopardize efforts to improve distressed neighborhoods. While Latinos as an immigrant group have the greatest dream of homeownership, they seem further from it today than anytime in the last decade (Santiago & Jennings, 2005).

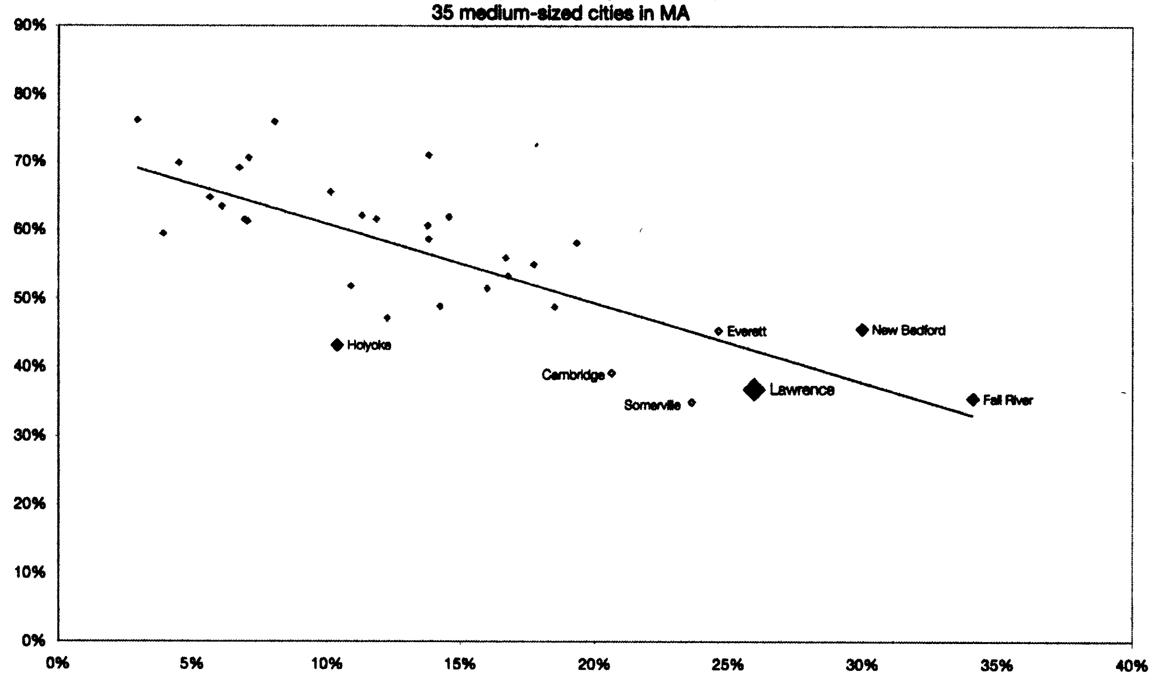
Figure 6: Owner-occupancy rates to median household income for 35 medium-sized cities in MA



Generally speaking, homeownership rates in cities are positively correlated with median family income. Since Lawrence and the other smaller post-industrial cities are distinguished by their high concentrations of poverty (as seen previously in Figure 4), one would expect these cities to have the lowest levels of owner occupancy. Indeed, Figure 6 clearly demonstrates that this is the case: the four smaller, post-industrial cities clearly have the lowest levels of homeownership of the 35 Massachusetts cities with populations between 35,000 and 110,000. Several cities, however, including Cambridge and Somerville, also have low levels of homeownership, yet with median incomes markedly higher than those of the smaller post-industrial cities.

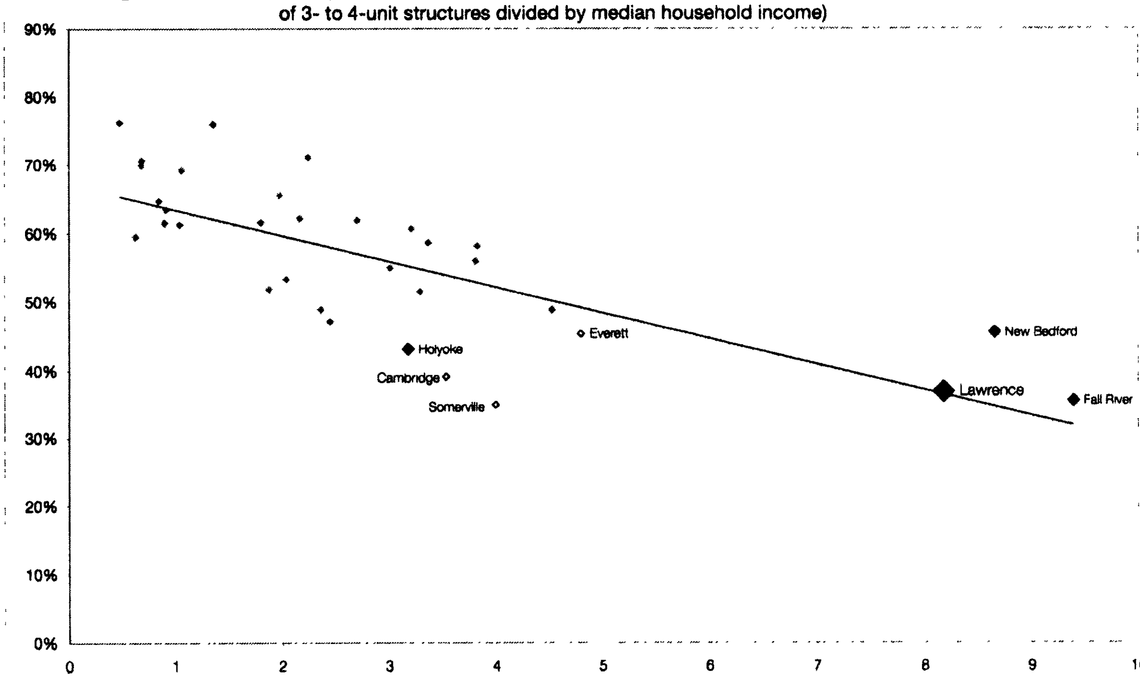
To understand these differences, consider Figure 7, which shows a distinctive negative correlation between homeownership and housing stock composition. Here again, smaller post-industrial cities, such as Lawrence, New Bedford and Fall River, whose housing stock comprises at least 20% 3 to 4 multi-family housing stock, have among the lowest owner-occupancy rates in the state. Yet, owner-occupancy rates are also low for Cambridge and Somerville, which are far less impoverished. Importantly, these two cities rank among the top six cities in terms of percentage of housing stock as 3-4 unit structures. On the other hand, Holyoke has a median income and ownership rate similar to those of Lawrence, New Bedford, and Fall River, yet has only ~10% 3-4 unit structures. Thus, it is clear that owner-occupancy rate in Massachusetts depend on both the nature of housing stock and median income. These findings are each consistent with what would be expected based on realities and constraints reviewed in Chapter 4.

Figure 7: Owner-occupany rates to percentage of housing stock composed of 3- to 4-unit structures for 35 medium-sized cities in MA



In the Figure 8, owner-occupancy rates are plotted vs. a composite "double jeopardy" variable, consisting of 3-4 unit housing structure % *divided* by median income, in order to demonstrate the combined effect of *low* median income and high percentage of triple-deckers. Smaller post-industrial cities such as Lawrence, with a high proportion of triple-deckers, and a low median household income, score higher on this double jeopardy index. Thus, demonstrating that, taken together, the combination of low household median income and higher prevalence of small multi-family housing stock has a more dramatic effect on owner-occupancy than each taken individually.

Figure 8: Owner-occupany rates to "index of double jeapordy" (percentage of housing stock composed of 3- to 4-unit structures divided by median household income)



Chapter 3: Homeownership, Neighborhood Stability, and the Functions of Housing

Housing and neighborhood stability are fundamental to determining one's quality of life. Where a household lives influences a wide range of individual and collective outcomes: from health, safety and well being, to financial security, educational prospects and job opportunities. In the U.S., housing policy has long embraced homeownership as an instrument for neighborhood change, neglecting other forms of residential tenure—such as rental, shared-equity, or mutual housing associations. Federal housing resources have likewise targeted the development of detached single-family homes, while multi-family buildings are treated less favorably. So entrenched is the view that single-family homeownership improves neighborhoods that expanding owner-occupancy is often considered the goal of community development programs, rather than the means (Rohe, Stewart, 1996).

Theoretical literature offers multiple explanations for the effects of housing tenure on neighborhood outcomes. Generally speaking, tenure forms that encourage people to stay in their residences longer are associated with healthier, more desirable neighborhoods. Yet, empirical research remains inconclusive regarding the specific mechanisms by which neighborhood stability is achieved. Functioning as both an asset and a shelter, owner-occupied housing combines distinct perspectives of neighborhood change—from investment return theories to sociological and sub-cultural ties. Though a comprehensive review of these theories exceeds the scope of this discussion, I consider two potential mechanisms by which residential stability—and hence, neighborhood stability—might be achieved.

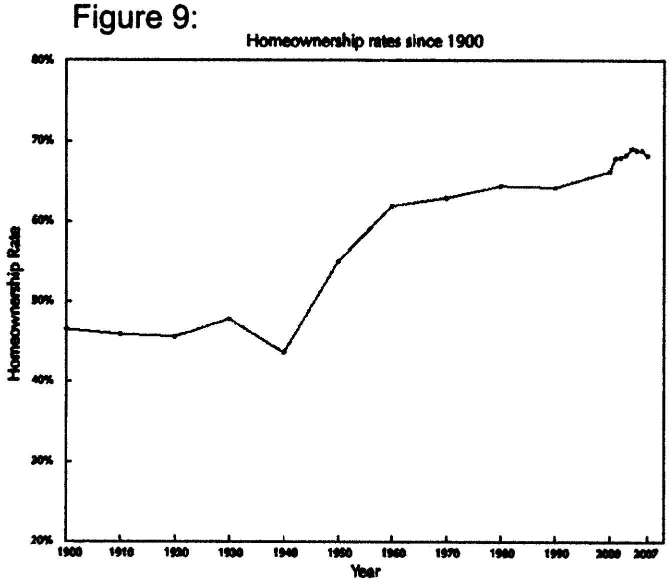
After a discussion of the evolution of housing policy in the U.S., particularly noting its focus on homeownership; the goals of this chapter are to: 1) examine two potential mechanisms—"residential efficacy" and equity ownership—through which housing tenure influences residential stability and community development; and 2) introduce a heuristic model of tenure options that relate these theoretical mechanisms to neighborhood stability. Taken together, the history and spectrum of housing tenures provide insight into how public policy decisions and resource allocation can be made, given a city's neighborhood goals and constraints.

Evolution of Homeownership Policies

Symbolic of "The American Dream," homeownership has long been promoted as the primary mechanism for accumulating wealth and promoting neighborhood stability. Public policy and government-supported housing programs facilitate this narrow focus, justifying it on the grounds that owner-occupancy is not only beneficial for the well-being of the household, but also has positive spillover effects for the community. Local officials in particularly distressed cities believe that increasing the number of homeowners will transform their city and improve neighborhood health and well being (Mallach, 2005). Consequently, community development programs often treat homeownership as an ends rather than a means, with success of public policy hinging on increased homeownership rates. Renters, on the other hand, are perceived as unstable, disorderly, and less likely to contribute to neighborhood stability—leading some communities to question whether they have provided more than their fair share of subsidized rental housing (Goetz, Rohe, Watson, 2007: 99).

Prioritizing homeownership as a form of tenure in the U.S. is hardly new—even the framers of the Constitution originally conferred voting privileges exclusively upon landowners; tenants weren't even allowed to vote in federal elections until 1860. From the Homestead Act of 1862 to the 2008 Mortgage Crisis Bailout, the government has directly and indirectly promoted conventional, fee-simple ownership of land and single-family homes. Literature, such as that contributed by Lawrence Vale, thoroughly documents the government's explicit embrace of homeownership policies during the 1920s, establishing the single-family home as a moral imperative for every American family [3]. Margaret Crawford further points out how these cultural attitudes, combined with biases in financing and regulation, changed the nature of the built environment over time—favoring increased suburbanization over renovation and re-use of existing multi-family buildings [4].

Figure 9:



Housing finance reforms during the 1930s, including the establishment of the Federal Home Loan Bank, the Federal housing administration, and the National Mortgage Association, signaled a major expansion in homeownership. Within two decades, home owning had eclipsed renting as the dominant form of housing tenure (Schwartz, 2006). Figure 9 illustrates the dramatic changes in homeownership rates as a result of these actions. Not only that, public opinion clearly favored the single-family-owned homes. Alternative tenure types in communal dwellings, such as cooperative ownership, which had started to gain traction as an affordable option in high-priced housing markets, drew criticism and disdain (Rohe, Watson, 2007: 27).

In 1949, Congress further articulated national housing policy with the "Declaration of Housing Policy" of Title II of the Housing Act, setting as its goal: "the realization as soon as feasible of the goal of a decent home and suitable living environment for every American family" (Martinez,

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[4] Personal notes from "Redlines: Mortgage Crisis" Panel Discussion on 10/17/2008.

2000). This Act expanded the availability of Federal Housing Administration (FHA) guarantees on market-rate mortgages, which helped finance an early post-World War II housing boom. At this time, however, the act did not specifically define the type of tenure through which this housing goal should be achieved, and was subsequently amended to include Section 213, which permitted financing for the construction and conversion of housing cooperatives and other tenure options.

Despite nationwide increases in homeownership, housing accessibility for low-income and minority households did not improve significantly until 1968, when the Housing and Urban Development Act authorized the FHA Section 235 homeownership program, aimed at achieving housing that was both affordable and accessible for every American family—including minorities and the poor (Martinez, 2000). At the same time, the government phased out several below-market interest rate loan programs, which had contributed to an explosion of federally assisted rental and equity-restricted cooperative housing development during the 1960s (Sazama, 2000). By 1973, however, the Nixon administration placed a moratorium on new approvals for the construction of federally subsidized housing, and the federal government turned its attention almost exclusively toward conventional rental and homeownership programs.

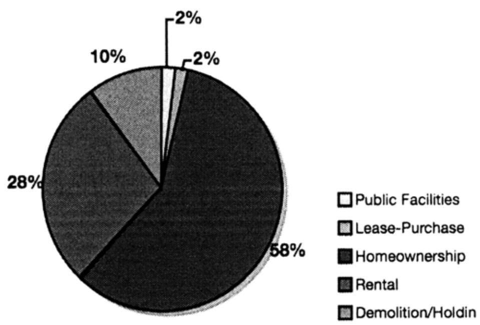
The National Housing and Community Development Act of 1974 ushered in a new era of federal affordable housing policy. Section 8 rental supplements were introduced, and the authority over some affordable housing funds devolved from the Housing and Urban Development (HUD) to state and local officials (Thompson, 2006). Over the next few years, the enactment of the Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act dramatically expanded homeownership opportunities for minorities and lower-income households (Martinez, 2000). A few state and municipal programs have enabled the creation of programs with other forms of tenure; nonetheless, since the 1980s, sponsorship of rental and third sector affordable housing development has fallen predominantly on the shoulders of non-profit and community-based organizations (e.g.

Habitat for Humanity and Nehemiah Plan Homes) (Bratt, R. in Rohe, Watson, 2007). Local municipalities, meanwhile, continue to focus much of their federal community development block grants for the purpose of expanding homeownership among inner-city residents (Retsinas, Belsky, 2002: 2).

In the 1990s, the federal government renewed efforts to expand homeownership, and the FHA focused primarily on program improvements and mortgage innovations. During this period, even some HUD programs originally designated for rental subsidies were adapted for homeownership. In response to a favorable economic and regulatory environment, home buying picked up speed again in the 1990s. By the end of 2004, homeownership had reached record levels, with nearly 70% of U.S. households owning their own homes (Retsinas, Belsky, 2002; Schwartz, 2006: 15). Primary residences made up more than half of the value of the non-financial assets owned by American families and roughly a third of all their assets (NLIHC, 2007). During the same time, the number of minority home buyers soared, and while racial and ethnic gaps persisted, census data confirmed that home buyers increasingly include Latin American, Caribbean, or Asian immigrants, or a people of color native to the United States (Retsinas, Belsky, 2002: 5). In short, decades of policies and federal regulations aimed at expanding homeownership appeared to be making an impact, and the American dream flourished.

Within the context of the current foreclosure crisis and housing market collapse, then, it is not surprising that, at least initially, few people questioned homeownership as an appropriate strategy to bolster the struggling economy. These strategies focus on arresting declining home values, rather than questioning the wisdom of expanding financial markets to low-income households without ongoing support or income. The federal government passed the Housing and Economic Recovery Act of 2008 (HERA), which included a number of resources aimed at expanding and sustaining the number of first time homebuyers.

Figure 10: Initial NSP funds allocation nationwide.



The Neighborhood Stabilization Program (NSP) was part of this legislation, which was extended in 2009 (NSP2) through the American Recovery and Reinvestment Act (ARRA). Intended to be a short-term neighborhood stabilization strategy, NSP's explicit goals are to stem decline in home values, and reduce or eliminate vacant and abandoned properties in targeted geographic areas (Source: "American Recovery and Reinvestment Act of 2009: Overview of Implementation at the Department of Housing and Urban Development" May 2009). According to an early analysis of NSP applications, state and local governments initially planned to use nearly 60% of the funding to support homeownership opportunities, with the remaining 40% allocated for subsidized rental, demolition, and other public goals. This focus may shift as homeownership policies and practices receive more scrutiny.

Housing tenure and neighborhood stability

Although public policy interventions that address neighborhood decline are still actively debated, housing policy has incontrovertible implications both for individual households and neighborhood outcomes. As a neighborhood stabilization strategy, the promotion of homeownership is predicated on the belief that homeowners, as people, produce more positive externalities than renters or those living under other forms of tenure. Using NSP funds to support homeownership opportunities, for example, presumes that owner-occupants will maintain or improve their homes, thereby increasing property values. Since housing is fixed in space, the presumed stabilizing effects of specific tenure types are expected to spill over to the neighborhood (Rohe, Stewart, 1996). In the case of distressed neighborhoods, which are marked by increased residential turnover, high crime and vacant or abandoned housing stock, the goal of community development is, technically speaking, to enhance neighborhood conditions, not necessarily to stabilize them. Nevertheless, in keeping with a broader usage of the term, I refer to "neighborhood stability" and "neighborhood health " interchangeably.

For the purpose of understanding housing tenure effects on neighborhood outcomes, this discussion distinguishes between the concepts of neighborhood stability and residential stability. The latter refers to how long an individual has lived in one place, while neighborhood stability reflects the quality, cohesion and safety of a community. Researchers frequently define neighborhood stability by the relative length of residential tenure within a given census tract or geographically designated area. Inherent to this definition, however, are assumptions regarding household mobility, income, and access to healthier neighborhoods and housing choices. Residents who are in a position, economically and socially, to move to better neighborhoods are more likely to stay there; whereas, the decision of disadvantaged households to stay or leave has little to do with self-determination, and more to do with external constraints and opportunities. Thus, individual choice and capacity are critical to understanding residential stability, plays a role the neighborhood health. Relative residential turnover aside, neighborhood stability can also be gauged by social indicators such as crime, delinquency, educational performance, and health outcomes. Other measures include civic participation, social ties, and residential satisfaction (Rohe, Stewart, 1996).

The association between homeownership and neighborhood stability is well documented. William M. Rohe and Leslie Stewart provide a comprehensive literature review addressing the empirical evidence (1996). According to their review, existing research substantially supports the relationship between homeownership and neighborhood stability, as measured by residential stability, or length of tenure, and property conditions. While these findings show that homeownership positively influences the market value of neighboring properties, studies that link property value with homeownership are less common. Homeownership is also positively associated with civic participation and stronger social ties within the community. Studies of the impact of housing markets on neighborhood change confirm that owner-occupied homes are usually better maintained and more likely to produce secure, safe, and stable environments for families and their children (Rohe, Stewart, 1996). Thus, in weak-market and distressed cities, homeownership is seen as particularly important to creating "neighborhoods of choice." (Mallach, 2005). This, in turn, is expected to improve the city's ability to attract job-producing firms, economic investment, and more stable, engaged residents.

The means by which homeownership achieves these desired neighborhood outcomes remains a topic of much debate. Since housing can function as both an asset and a shelter, it is difficult to separate out specific mechanisms responsible for inducing residential, and thereby, neighborhood stability. Theoretical perspectives offer different explanations for homeowners' behavior, from rational investment decision-making to social capital and collective efficacy (Morenoff, 2001). In any event, the social and economic benefits of homeownership are closely related to longer periods of residence rather than to formal tenure choice. This suggests that the empirical association between homeownership and reduced mobility plays an important role in neighborhood health. As previously mentioned, however, the stabilizing effects of residential stability are more likely associated with households who have the ability to exercise *choice* over whether to stay or move. At the same time, restricting households' ability to move can have destabilizing effects.

Housing as Shelter

At its most fundamental level, housing functions as a shelter, defined by its ability to provide secure residence and protection from the elements for its inhabitants. In Freedom to Build, John F.C. Turner refers to "housing as a verb," which focuses on its role within the broader context of a household's livelihood, seeing housing as an ongoing process. In this light, housing occupants are concerned primarily with their home's use value, or its capacity to accommodate their various desires and needs [5]. Use interests relate to the enjoyment, satisfaction, and other non-economic benefits of residing in a particular unit (Davis, 1994). Since housing is inextricably rooted to place, its effectiveness takes into account the complex dynamics and conditions of the surrounding neighborhood.

Policy provisions for supportive housing services underscore the use values of housing, particularly as it serves homeless, mentally ill, and other disadvantaged populations. Continuum of Care strategies[6], for example, specifically cite residential security and greater self-determination as goals of housing programs. The underlying presumption is that physical and psychic security in one's residence plays a critical role in achieving socially desirable outcomes. This view is consistent with concepts of self-efficacy and individual agency, which profoundly influence people's well-being and attachment to neighborhood. When the locus of control is shifted internally, the theory posits, one's physical and mental soundness improves.

According to theories of social disorganization and collective efficacy, lower residential turnover makes neighbors more likely to share values and norms, which improves their ability to organize and act together. Residential instability, ethnic heterogeneity, and concentrated poverty produce socially disorganized communities. These factors undermine the neighborhood's ability to supervise and control undesirable behaviors such as crime, juvenile delinquency, and physical deterioration. Integrated social networks of empowered residents are therefore critical to stabilizing neighborhoods (Morenoff, Sampson, Raudenbush, 2001). A community's confidence in their ability

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5 D. Harvey, Social Justice and the City, Edward Arnold, London (1973): p. 163)

6 Continuum of Care is a community plan to organize and deliver housing and services to reduce the incidence of homelessness by assisting homeless individuals, youth and families with children to move to self-sufficiency and permanent housing.

to effect change is determined by the extent to which households feel socially embedded within, or attached to, their neighborhood (Keyes, 1996). Social ties, sentimental attachment, and self- and collective-efficacy, in turn, solidify a household's commitment to the neighborhood, potentially influencing the residents' decisions to remain. Thus, the degree to which a resident feels they have control over their living environment, or "residential efficacy," is a useful concept understanding potential neighborhood stabilizing effects of specific tenure types.

Housing as Asset

In the U.S., homeownership policy has long focused on housing for its investment function, often acting as a household's primary vehicle for accumulating wealth. Homeowners, then, while certainly interested in their house as a shelter, are simultaneously concerned with its exchange value within the market. As an asset, the home provides numerous financial benefits: building equity through appreciation, fixing housing costs, forcing savings, and leaving a legacy for one's family. Favorable tax treatments and resale deductions reinforce this perspective, justified on the grounds that strong housing markets and wealth building improve the economy at-large [7].

Theories of investment return also claim that owning a home fundamentally changes people's behavior, by increasing their stake in economic viability of their asset (Scanlon, 1998). According to this view, homeowners act in ways that are logical to protect their investment, considering their financial interest in maintaining or increasing their home's capital value. Many of these behaviors, such as improved property maintenance, community involvement, and improved personal efficacy produce positive spillover effects on the neighborhood. Unlike sociological explanations, however, economic-based theories emphasize the importance of owning equity and accumulating household wealth. Empirical studies confirm that homeowners, regardless of race, consistently have greater

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[7] Schwartz, 2006.

wealth and equity then renter households. Data further confirms that owner-occupied housing generally performs well as a long-term investment (Scanlon, 1998).

Finally, as a result of the transaction costs of moving, homeowners are more likely to live longer in geographic areas, which reduces residential turnover. Other studies have shown that mortgage valuation plays a role in the effect of homeownership on mobility, through what has been termed the "mortgage lock-in" effect (Quigley, 1987). To the extent that homeowners understand the increased barriers to mobility associated with holding property, they expect to realize benefits in excess of the expected costs, and make their tenure choice accordingly. In sum, home equity ownership also provides a plausible explanation for the positive effects of homeownership on stabilizing residential tenure, and improving neighborhood outcomes.

Heuristic model of housing tenure alternatives

Drawing on theoretical perspectives of housing functions and values, Figure 11 represents these two potential explanations for the relationship between homeownership and neighborhood stability. The first mechanism for achieving stability, "residential efficacy," builds on theories of social disorganization and collective efficacy, which emphasize the use values of homeownership, as they facilitate social connectedness, satisfaction and empowerment. The second explanation, rooted in economic—or asset-building—functions of housing, posits that ownership of equity promotes positive outcomes by giving homeowners a financial stake in their community. Therefore, they will act in ways that protect their investment and ensure a positive return. Within this framework, homeownership represents the most cohesive "bundle of rights," giving occupants the exclusive right to equity (far left column), and sole control (top row) over their residence. At the other end of the continuum is private rental, which offers neither ownership nor residential control (lower-right corner). Equity ownership and residential efficacy need not be absolute, however, and a range of

EQUITY OWNERSHIP

RESIDENTIAL EFFICACY		Resident Ownership		Non-Resident Ownership	
		Individual	Shared	Public	Private
Resident Controlled	Individual	• Owner-Occupied Housing*	• Deed-Restricted House*		
Resident Controlled	Shared	• Condominium	• Community Land Trust (CLT)* • Limited Equity Cooperative (LEC)*	• Mutual Housing Association* • Non-equity Cooperative • Common Equity Rental Co-op	
Non-Resident Controlled	Associative	• Resident-Owned Communities (ROC)	• Renter Equity℠ Housing	• Public Housing • Nonprofit Rental*	• "Benevolent Landlord" • Dormitory
Non-Resident Controlled	None	• Manufactured Housing	• Adult Congregate Living Facilities (ACLF)	• Private Rental with Project-based subsidies • Private Rental with Tenant-based subsidies (i.e Section 8)	• Tenant-Occupied Housing* • Private Rental

tenure options exists along each spectrum, possessing different combinations and degrees of occupant ownership and control.

Residential Efficacy

The horizontal continuum, labeled Residential Efficacy, illustrates the degree to which occupants exercise control over their shelter. Taking sociological explanations of residential stability as fact, suggests that a greater sense of control over one's residence is associated with more positive neighborhood effects. Formally speaking, residents may have control over their living quarters or not. Whether this resident control is exclusive (a.k.a. "individual") or shared depends in large part on the structure of the building, as well as the relationship among the residents. Single-family homes, for example, offer the only physical structure over which it is possible for the occupant to exercise individual control. By definition, residents of multi-family housing structures must share decision-making, either among their fellow occupants, or with non-resident agents. Decision-making may be coordinated through homeowners' associations or unit association bylaws, as in the case for condominiums, or residential control may be structured through other participatory models. For example, community land trusts, cooperatives, and some mutual housing associations, rely on democratically-run boards comprised of resident directors, or occasionally use consensus-driven models of decision-making that involve every occupant.

Even among tenure types in which the occupants possesses no formal or legal control over their housing, there are degrees to which they may feel their actions influence decisions. Mission-driven, or public benefit housing, for example, is generally intended to serve the interests of its occupants. Residents' opinions may be considered via established mechanisms such as resident associations, management surveys, or informally, as in the case of an altruistic landlord. In these cases, the occupants' control of their domicile is associative (a.k.a. the resident has an association with the formal decision-making agent), but not absent. Finally, there are tenure types in which occupants have no input into the decision-making over their units, except to the extent that they enter into rental contracts or leasing agreements with the managing agents.

Equity Ownership

The economic explanation, illustrated along the horizontal continuum of Figure 11, posits that greater ownership of equity, is correlated with positive neighborhood benefits. Tenure types in which the occupants hold exclusive rights to equity, maximizes their investment in the property, and their ability to accumulate wealth, both of which have stabilizing effects on the neighborhood. An emerging area of tenure types, shared equity ownership claims to have similar benefits to exclusive ownership, yet disperses the risk among co-owners. Furthermore, tenure options such as deed restricted housing, community land trusts, and limited equity cooperatives, often restrict the resale value of housing, making them "permanently affordable" to future generations of homebuyers. For this reason, these models are increasingly attractive to affordable housing subsidies.

The right half of the equity ownership continuum further divides ownership interests, differentiating between publicly and privately held property. It may be the case that a private landlord has more of a financial stake in the quality of the neighborhood than a public or nonprofit owner does, but often, as in declining neighborhoods, absentee landlords may neglect property maintenance or abandon their property altogether if it ceases to yield financial returns. While non-owning occupants may be more concerned with their immediate surroundings, they possess less long-term financial incentive or capacity to act in ways that improve the neighborhood.

Unbundling homeownership

In general, the closer a tenure type is positioned near the top, left corner of the chart in Figure 11, the stronger its neighborhood effects will be. No specific tenure types, including homeownership, however, should be used to drive community goals; rather community goals should provide the basis by which to determine appropriate tenure options. The distinctions between categories are meant to delineate the extent to which a tenure type possesses the corresponding characteristic. For example, owner-occupied single-family housing, offers the same degree of equity investment as condominiums do, but a greater level of control. Similarly, community land trusts and common equity rental co-ops may provide the same level of residential input into decision-making, yet community land trusts also offer partial right to equity.

Many of these shared equity models (i.e., limited equity housing cooperatives, mutual housing associations, co-housing, community land trusts) offer a greater degree of residential efficacy and/or equity ownership than public housing or private rentals. Presumably, therefore, these tenure types have a more stabilizing effect than non-resident controlled housing. Some scholars argue that they offer high quality, stable housing alternatives to renting, and, in addition, share the financial, social, and psychological benefits associated with homeownership (Saegert & Benitez, 2003). A few empirical studies attempt to test the degree to which various tenure types produce positive neighborhood outcomes; however, the scope and availability of this research is limited.

The classification of tenure types is necessarily imprecise, although I abstract from the legal mechanisms, pricing formulas, and administrative structures of each (Davis, 1994). Furthermore, the distinctions within each spectrum, e.g., shared versus associative control or public versus private ownership, may not, in fact, reflect an actual hierarchy in terms of neighborhood effects. This does not take into account any additive or interaction effects between theoretical mechanisms, though it is assumed that the maximum degree of efficacy <u>and</u> ownership that is possible will facilitate greater neighborhood stability.

Ultimately, this model serves as a reference, offering insight into housing typologies and tenure options other than homeownership that may be applied, given a community's particular goals and constraints. As we shall see in Chapter 4, there are situations in which individual homeownership or sole resident-control is not feasible, and may even produce undesirable neighborhood effects. Given income limitations and housing structure constraints, other forms of tenure represent alternative paths to neighborhood stability. Specific recommendations of tenure types that are appropriate for declining cities, disadvantaged neighborhoods, or for particular types of housing stock—especially small, multi-family buildings—will be discussed in the final chapter.

CHAPTER 4: REALITIES AND CONSTRAINTS OF HOMEOWNERSHIP

While research empirically demonstrates the positive externalities associated with homeownership, it is not without limitations. An emerging body of literature calls into question the essential connection between homeownership and its purported advantages, particularly in less-than-ideal circumstances. In light of the recent subprime mortgage meltdown and rising levels of foreclosures and mortgage delinquencies, it is apparent that, while homeownership is associated with benefits for the general population, it is not a universal strategy for achieving neighborhood stability. To the contrary, misguided and inappropriate efforts to expand homeownership opportunities among the marginal homebuyers in distressed neighborhoods have had particularly devastating repercussions (Mallach, 2009). For individual households, it can be a disservice to create barriers to mobility, locking them in to neighborhoods with poor access to services or unsustainable maintenance and cost burdens. Thus, at the local level, homeownership misapplied actually can serve to further destabilize neighborhoods.

This chapter reviews the scope and limitations of existing research on homeownership, making the case that certain attributes of homeownership, but not tenure choice itself, may be responsible for producing positive social and economic benefits. Furthermore, it examines the realities of homeownership for low-income households, and the barriers to expanding owner-occupied multi-family housing stock. As evidenced by the subprime debacle, if homeownership is challenging for cities that have high concentrations of poverty, or a prevalence of small, multi-family housing stock, then it is particularly challenging for cities that that possess both.

Limitations of research

As discussed in the previous chapter, the specific mechanism by which homeownership induces economic and social benefits is an unresolved debate. Yet, there is clearly an association between ownership with residential mobility. Whether due to residential efficacy, equity ownership, or a combination of both, homeowners have lower rates of residential turnover and mobility. According to the American Housing Survey (AHS), half of homeowners stay in their homes for 10 years or more, whereas renters tend to move every three years or less (Retsinas, Belsky, 2002: 16). Residential stability, however, is not necessarily fixed to tenure type. In Western Europe, for example, renters have lower average turnover rates than U.S. homeowners. Furthermore, as suggested by the heuristic model introduced in Chapter 3, other forms of housing tenure may achieve levels of equity investments and " residential efficacy" similar to homeownership. As a matter of fact, some studies support the notion that limited equity housing cooperatives, mutual housing associations, co-housing, community land trusts and other resident-controlled or shared-equity housing options are an effective tenure alternative for low and moderate-income households. They offer high quality, stable housing, but also the financial, social, and psychological benefits associated with homeownership (Saegert, Benitez, 2003).

Another confounding aspect of homeownership research is the difficulty establishing causality. Does homeownership, as a tenure type, change residents' behavior, thereby affecting the neighborhood? Or do healthy neighborhoods attract stable residents, who are more likely to become homeowners? Researchers speculate that a higher propensity for individuals to own homes also is associated with a lower propensity for social problems. Demographically, owner-occupants tend to have higher income households, move less frequently, and avoid buying homes in low-income inner-city census tracts marked by poor social indicators. It is obvious to see how the "creaming effect" could distort findings on homeownership's benefits (Rohe, Watson: 235). In other words, individuals who are more likely to succeed as homeowners are also more likely to "rise to the top," economically and socially. One study concluded, for example, that even low-income homeowners tended to live in neighborhoods with lower levels of social disorganization than low-income renters. While favorable for the individual households, the spatial impact of their decisions can be destabilizing to the neighborhood that is left behind.

The presumption that homeownership is good for neighborhoods relies on the implied characteristics of homeowners as people. Purchasing a home generally results in buyers moving to better-quality neighborhoods rather than staying in those marked by weak social indicators. Yet, for various reasons, not everyone is capable of owning a home, nor even necessarily desiring of homeownership, and those that do, may not be able to afford moving out of poorer, more distressed neighborhoods. So, for this portion of the population, community development strategies need to focus on stabilizing through other forms of tenure, without emphasizing owner-occupancy as the remedy. Ignoring the needs of low-income and minority families does make them go away—and suburbs are unlikely to welcome them (Rohe, Watson: 109). Not only that, many of the findings on homeownership and neighborhood stability overlook the fact that many residents choosing other forms of tenure are often just as involved in their neighborhoods and social activities. Thus, for multiple reasons, it is not certain whether homeownership programs achieve many of the individual household and neighborhood stabilizing goals for which they are intended.

Realities for low-income households and neighborhoods

As previously described in Chapter 3, homeownership has a long history of being promoted by public policies in the United States. However, efforts to expand low-income homeownership did not emerge significantly until the 1960s. Under the Clinton administration, homeownership flourished, and continued in popularity under George W. Bush. More than half of low-income households owned their own homes by the year 2000 (Joint Center for Housing Studies, 2001). As a result, homeowners owed almost $5.7 trillion on mortgages, an increase of 50 percent within four years. Importantly, 40 percent of first-time borrowers in 2000 put down 10 percent or less on their mortgage; 16 percent of all borrowers put down 5 percent or less. The past decade alone has seen nearly a 97% increase in lending to low-income households (Retsinas, Belsky 2002). Notably, the median wealth of low-income homeowners is more than 12 times that of renters with similar income: 66% is accounted for by home equity (Reid, 2004)

Still, the benefits of homeownership remain unequally distributed across the population: 54% of renters and 30% of very low-income homeowners suffer from severe housing costs burdens (Dolbeare, 1999). In eight states, it requires two full-time jobs to meet HUD's fair market rent, and in a few states it take almost three jobs (Joint Center for Housing Studies, 1999a). Moreover, recent research indicates that even when homeownership is accessible, nearly half of first-time, low-income and minority homeowners return to renting within five years; one-third of those return within two years (Reid, 2004). Thus, while innovation in the mortgage market may have, at least temporarily, brought the American Dream to many low-income homebuyers; it has been accompanied by riskier mortgages, higher prices, and predatory lending practices, which disproportionately impact lower-income and minority households (NLIHC, 2007).

Significantly, very few low-income families that return to renting ever buy another house (Reid, 2004). Data indicates that income and employment uncertainty lead to more frequent moves for new low-income owners, debunking the old adage: "once an owner always an owner." (NLIHC, 2007). In 2002, Nicolas Retsinas, director of Harvard University's Joint Center for Housing Studies warned, "We can't just get overly obsessed with getting people into homeownership. We have to make sure they stay in homeownership."(Pitcoff, 2003). Anne Shlay, Director of the Center for Public Policy at Temple University adds: "Homeownership policy is being treated as an economic development strategy and a wealth enhancement policy, but it's really gambling. Low-income people are being encouraged to buy older homes with an unclear shelf life that may or may not appreciate in value."(Davis, 2006). Given market conditions, predatory loan terms combined with short tenure can reduce or even negate the wealth-building potential of homeownership for low-income households (NLIHC, 2007).

With housing market turmoil and the accompanying dramatic rise in foreclosures having a profound impact on individual household and neighborhood outcomes. The subprime market has created many unsustainable ownership situations, reducing barriers to borrowers with poor credit histories, little to no financial wealth, and unstable income streams to become homeowners. Then, in the face of housing market volatility and high cost of mortgage products, many new homebuyers without the resources or support to sustain homeownership faced foreclosure and the loss of equity. In these cases, foreclosures have had with negative externalities at the neighborhood level. Foreclosures and abandonment depress property values, increase violent criminal activity and social disorder, and exacerbate public fiscal health, not to mention lead to displacement, economic insecurity, and stress for households. These externalities are probably the strongest in poor, urban neighborhoods during a housing downturn, when clusters of vacant, neglected properties form from widespread foreclosures. In the current housing crisis, foreclosures are highly concentrated in minority neighborhoods, even relative to past foreclosure booms, such as the crisis in the early 1990s (Gerardi, 2009). Research has shown negative correlations between clusters of foreclosures and increased criminal activity and lower neighborhood property values. There is evidence that these negative consequences not only occur at the household level, but also may adversely impact entire neighborhoods.

Figure 12: Model of tenure options, shaded for multi-family structures.

EQUITY OWNERSHIP

RESIDENTIAL EFFICACY

		Resident Ownership		Non-Resident Ownership	
		Individual	Shared	Public	Private
Resident Controlled	Individual	• Owner-Occupied Housing*	• Deed-Restricted House*		
Resident Controlled	Shared	• Condominium	• Community Land Trust (CLT)* • Limited Equity Co-op (LEC)*	• Mutual Housing Association* • Non-equity Cooperative • Common Equity Rental Co-op	
Non-Resident Controlled	Associative	• Resident-Owned Communities (ROC)	• Renter Equity℠ Housing	• Public Housing • Nonprofit Rental*	• "Benevolent Landlord" • Dormitory
Non-Resident Controlled	None	• Manufactured Housing	• Adult Congregate Living Facilities (ACLF)	• Private Rental with Project-based subsidies • Section 8	• Tenant-Occupied Housing* • Private Rental

The shaded regions in Figure 13 illustrate the range of tenure options more appropriate for the population that is either incapable of, or uninterested in, owning a home. Considering the income and asset constraints of low-income households, 100% equity ownership, as is the case with owner-occupied housing and condominiums, is an unachievable goal without the subsidy or support offer by models further to the right on the spectrum. Furthermore, a complete lack of control without mutual or public goodwill does not facilitate more stable neighborhoods. However, as suggested in Chapter 3, alternative tenure types, especially those that offer shared equity or mutual control, may offer more asset and community building potential than do private rental and tenant-occupied housing.

Constraints of small, multi-family housing

Though studies confirm that low-income households are more likely to occupy small multi-family housing stock, such as triple-decker tenements, condominiums, or "manufactured" housing, few discuss housing stock as an actual barrier to homeownership. Accounting for over 18 million units of housing in the United States, small multi-family housing structures comprise over half of the nation's housing- most of which is renter occupied (Obrinsky, Stein, 2007). As part of its industrial legacy, New England contains a disproportionately amount of small, multi-family housing stock. Triple-deckers, in particular, (discussed in detail in Chapter 2) are found largely in the lower income, distressed, inner-city neighborhoods.

Originally designed to provide affordable, workforce housing, triple-deckers once provided a sound economic investment opportunity. Entrepreneurial households could occupy one unit, while leasing the remaining units for rental income. This arrangement also made sense from a lifecycle perspective, giving the household flexibility to accommodate the changing needs of growing families. In some cities, for example, immigrant families, with larger household sizes, are relatively more likely to occupy small multi-family rental housing.

Over time, however, small multi-family housing stock has seen a significant shift from owner-occupancy to absentee ownership. Evidence suggests that this housing structure does not support homeownership. Today, only about 30% of the 2 to 4 family multi-housing stock inventory is owner-occupied; and those units are most prevalent in New England. In general, this housing stock is not particularly attractive for owner-occupancy. It has poorer quality construction, lower square footage areas, and offers less privacy and control than single-family homes. Those homeowners who do occupy 2 to 4 multi-family housing units tend to be older, lower income, and minority households. This reflects the age, condition, and location of this housing stock, which is prevalent in relatively poorer and heavily minority populated areas.

Though the housing market may reject small multi-family housing units as suitable for owner-occupancy, private absentee ownership is not the only alternative. Just as a heuristic model presented in Chapter 3 offers a range of housing available to low-income households, so too does it provide options for shared equity and residents control of multi-family buildings (see Figure 12).

Figure 13: Model of tenure options, shaded for low-income households.

EQUITY OWNERSHIP

RESIDENTIAL EFFICACY		Resident Ownership		Non-Resident Ownership	
		Individual	**Shared**	**Public**	**Private**
Resident Controlled	Individual	• Owner-Occupied Housing*	• Deed-Restricted House*		
Resident Controlled	Shared	• Condominium	• Community Land Trust (CLT)* • Limited Equity Co-op (LEC)*	• Mutual Housing Association* • Non-equity Cooperative • Common Equity Rental Co-op	
Non-Resident Controlled	Associative	• Resident-Owned Communities (ROC)	• Renter Equity℠ Housing	• Public Housing • Nonprofit Rental*	• "Benevolent Landlord" • Dormitory
Non-Resident Controlled	None	• Manufactured Housing	• Adult Congregate Living Facilities (ACLF)	• Private Rental with Project-based subsidies • Section 8	• Tenant-Occupied Housing* • Private Rental

CHAPTER 5: RECOMMENDATIONS & CONCLUSIONS

This thesis considers whether homeownership is an appropriate tenure strategy for stabilizing neighborhoods in smaller post-industrial cities, such as Lawrence. To do this, I sought to understand the physical development of Lawrence's neighborhoods and their multi-family housing structures, as well as the persistence of poverty, particularly among minority citizens. Then, I compared the income, housing stock composition, and owner-occupancy data from 35 similarly sized cities in Massachusetts, in order to see whether Laurence and other smaller, post-industrial cities were distinct. Then, I examined the relationship between housing and neighborhood stability, and introduced a range of alternative housing tenure types, which form the basis for more appropriate and feasible strategies to achieve neighborhood stability in cities characterized by a high concentration of poverty and a prevalence of multi-family housing stock.

This chapter summarizes the findings and recommendations that address each of my guiding questions. Taken together, I conclude that smaller, post-industrial cities, and Lawrence in particular, posses distinct/unique characteristics, that make homeownership as a neighborhood stabilization strategy implausible and counter-productive. These conclusion are supported not only through a comparison of quantitative data with other cities in Massachusetts, but also by my own first-hand observations and impressions, gleaned through a two-year relationship with the people and the city of Lawrence.

1) What unique challenges do Lawrence and other small post-industrial cities face in light of the current foreclosure crisis and economic meltdown?

The comparative findings and review of literature on the limitations and constraints of low-income homeownership indicate that smaller, post-industrial cities face extraordinary challenges to neighborhood stability within the current economic crisis. Characterized by a jeopardizing combination of low-income households and small, multi-family housing stock, Lawrence is particularly vulnerable to the risk of expanding homeownership opportunities beyond a certain threshold. Smaller, post-industrial cities have inherited a legacy of housing stock built for workforce tenants, and have consequently been "left out" from the economic prosperity experienced elsewhere. It is this combination of features—the "double jeopardy" described in Chapter 2—that truly distinguish Lawrence, and strongly suggest innovative approaches to neighborhood stabilization need to be pursued.

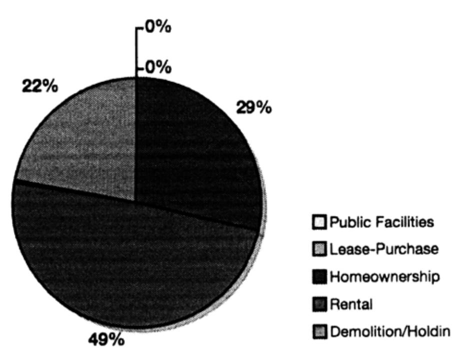
2) Are policies aimed at expanding homeownership and appropriate and feasible neighborhood stabilization response for Lawrence?

Comparing the basic demographic and housing profiles of three dozen cities in Massachusetts (population 35,000—110,000), this thesis confirms that homeownership is ineffective and possibly counterproductive for households and neighborhoods possessing the demographic, economic, and housing structure characteristics most commonly found in smaller, post-industrial cities such as Lawrence. Historic homeownership trends further imply that Lawrence's housing market was more or less at equilibrium, until changes in finance policy and subprime lending reduced barriers to capital for households and housing structures that could not sustain owner-occupancy. Without significantly changing the underlying economics of Lawrence, or altering the built environment, it is unlikely that conventional homeownership rates could or should exceed 32%. Thought rate could conceivably reach few percentage points higher, given appropriate financial literacy and ongoing homeowner support programs, clearly the recent peak of nearly 38% is not sustainable.

The high incidence of foreclosure activities in Lawrence's poorest, most distressed neighborhoods supports this claim, spelling trouble for low-income and minority households. Neighborhood stabilization programs, aimed at stemming the decline in property values and keeping low-income homeowners in place, do not address the fundamental conditions of persistent poverty and unsuitable housing stock found in Lawrence. Indeed, a survey of distressed properties in Lawrence revealed that, in higher-income neighborhoods with more owner-occupied single-family homes, the market appears to be absorbing foreclosed properties without policy intervention[8]. It was primarily in the neighborhoods comprised of three-family and four multi-family buildings that that housing still languish in disrepair.

Intuitively, Lawrence's decision-makers acknowledge the constraints to homeownership posed by low-income households and small, multi-family housing stock, as evidenced by their NSP application, which allocates significantly fewer resources to homeownership, than many of larger cities reviewed in Chapter 3 (see Figure 10), while devoting nearly 49% toward rental (see Figure 14). Still, as the tenure model in Chapter 3 suggests, absentee landlords and disempowered tenants are not associated with positive neighborhood outcomes.

Figure 14: NSP funds allocation in Lawrence.



Nevertheless, Lawrence clearly favors homeownership—and the promise it represents. Housing stakeholders and local officials have expressed their preference for homeownership, citing privacy, space and control, and to a lesser extent, equity-building, as primary motivations for the aspiration of the

[8] Personal communication.

majority of households, especially Latino immigrant families, to own their own single-family attached or detached homes[9]. One city leader advised that most renters don't care about maintaining their property, and so the higher the percentage of homeownership, the better off the city would be.

While additional support and subsidies for homeownership may benefit households at the margins of housing affordability, this thesis clearly suggests there are limitations. Down-payment assistance programs in Lawrence, for example, have had no net effect on increasing or stabilizing residents in the most distressed neighborhoods[10]. Given scarce public resources available to address foreclosures and neighborhood stabilization, it is important to focus resources on community development strategies and tenure types other than homeownership, that are more likely to assist Lawrence's existing low-income households and neighborhoods.

3) What alternative housing strategies and policy approaches are available in order to improve distressed neighborhoods while achieving the community's goals?

In order to improve neighborhoods and opportunities for lower-income households without placing them at greater risk, it is necessary to revisit the narrow scope of public policy. For too long, the goal of "a decent home and suitable living environment" has focused on housing as an asset—deriving its wealth-building potential from individual ownership, appreciating market values, and maximizing economic gain upon resale. For many who are now being driven from their homes, however, the concept of housing as shelter appears progressively more attractive: housing that focuses instead on affordability, stabilized tenure, and residential efficacy. Thus, a more balanced housing objective is to provide people with an effective choice of tenure that is affordable and appropriate to their needs (Martinez, 2000).

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[9] Personal communication.

[10] In terms of down payment assistance program – records show that in terms of residential stability by neighborhood, no real effect. In NRSAs – no transactions in park st or north common; no net change in Arlington. Half of 29 (14) project were 2 or 3 multi-family.

To fill the gap between rental housing and traditional homeownership, this thesis introduces a heuristic model of alternative tenure types that approach housing along two continua. Chapter 3 illustrated the range of feasible tenure types that are most appropriate given constraints of low-income households and small, multi-family housing stock. Figure 15 overlays these Figures 12 and 13, leaving seven squares of tenures types that are most plausible for the distressed neighborhoods of Lawrence.

FIGURE 15: Tenure alternatives for Lawrence, and cities facing "double jeopardy" (an overlay of Figures 12 & 13)

EQUITY OWNERSHIP

RESIDENTIAL EFFICACY

		Resident Ownership		Non-Resident Ownership	
		Individual	Shared	Public	Private
Resident Controlled	Individual	• Owner-Occupied Housing*	• Deed-Restricted House*		
	Shared	• Condominium	• Community Land Trust (CLT)* • Limited Equity Co-op (LEC)*	• Mutual Housing Association* • Non-equity Cooperative • Common Equity Rental Co-op	
Non-Resident Controlled	Associative	• Resident-Owned Communities (ROC)	• Renter Equity℠ Housing	• Public Housing • Nonprofit Rental*	• "Benevolent Landlord" • Dormitory
	None	• Manufactured Housing	• Adult Congregate Living Facilities (ACLF)	• Private Rental with Project-based subsidies • Section 8	• Tenant-Occupied Housing* • Private Rental

If current housing programs promote homeownership as a vehicle to capital accumulation, improved health and welfare, and increased neighborhood stability; then alternative forms of tenure that combine elements of owning and renting, offer appealing alternatives. Tenure types located in the upper-left hand quadrant are more closely associated with the goals of neighborhood stabilization. Although other tenure models have struggled to move to scale, there have been notable exceptions worth supporting. For example, the Bread & Roses Community Land Trust, which has been active in Lawrence for over 20 years, develops shared-equity housing for low-income households in the most distressed neighborhoods. The stabilizing effect of this tenure form was evident at an Arlington District community meeting, at which nearly 80% of the attendees lived in land trust housing. Although these residents owned no equity in their homes, they had lived in the neighborhood longer and demonstrated as much attachment and commitment to positive neighborhood change as their conventional home-owning neighbors.

Final thoughts

Neighborhood stabilization is not always about housing policy. Trying to induce changes in tenure type, as homeownership strategies have promoted for decades, is misconceived. While different tenure types are associated with different degrees of residential stability, asset-building, and collective efficacy, it is clear that, without considering the specific constraints of the neighborhood, tenure types do not *create* stronger households and neighborhoods. For decades, Lawrence has served new immigrant and working-class populations, who have made use of a housing stock originally built for its convenience and affordability. To ensure that these existing and future residents benefit from neighborhood stabilization programs, policy-makers should concentrate on a diversity of housing arrangements, considering a range of suitable housing structures and tenure forms as the opportunities arise, flexible to the variable needs and aspirations of the community.

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