
CityVitals

Series: **Economic Integration**

Why It Matters and How Cities Can Get More of It



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Table of Contents

Introduction	1
The Reality of Economic Segregation	2
Why Do We Care about Economic Integration?	5
Measuring Economic Integration	9
Segregation of the Poor from the Non-Poor	13
Concentration of Poverty	15
The Metropolitan Context of Economic Integration	16
Weak Market Metropolitan Areas: Excess Supply	17
Strong Market Metropolitan Areas: Rising Demand, Limited Supply	21
Policy Approaches to Economic Integration	25
Inclusionary Zoning	28
Using Public Transit to Promote Economic Integration	32
Conclusion: Where Do We Go from Here?	35
Endnotes	37

Introduction

One of the most striking characteristics of U.S. cities is residential segregation. Historically, researchers and policymakers have focused on segregation by race, especially the segregation of African Americans into troubled black ghettos in central cities. Segregation of blacks from whites in most U.S. metropolitan areas rose steadily from the turn of the century until about 1970.¹ While racial segregation is still high by historical and international standards, there has been a slow and steady decline in segregation by race since 1970, driven by the Fair Housing Act of 1968 and steady progress in race relations.

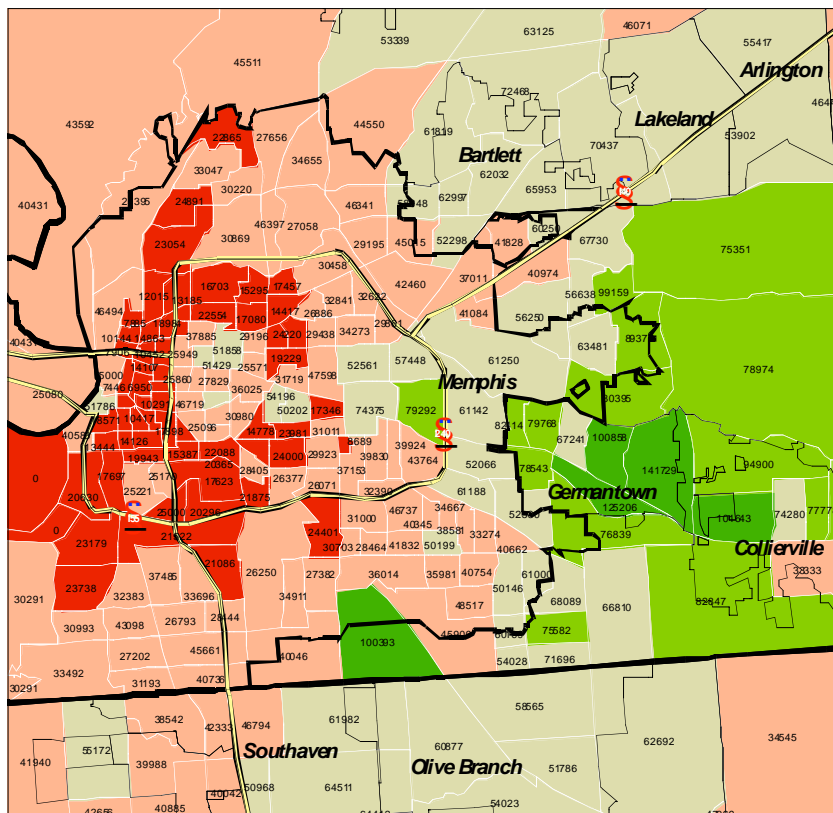
Progress against racial segregation is certainly good news, and it helps blacks and other minority group members enjoy better access to jobs and educational opportunities. Unfortunately, there is a countertrend that may undercut the benefits of reduced racial segregation. Closely tied to rapid suburbanization in many cities and regions, economic segregation, the degree of residential separation of families based on their incomes, has been rising in U.S. metropolitan areas since at least 1970.² The result is that low-income persons are spatially isolated in neighborhoods with few resources, high crime and little access to economic opportunities. A growing body of research shows segregation by income has harmful effects on low-income people, including worse economic outcomes for adults, higher school dropout and teenage pregnancy rates, and worse academic achievement for schoolchildren. Poor people who live in mixed-income areas do better than poor people who live in areas of concentrated poverty. As policymakers think about growth and development in their metropolitan regions, they need to implement policies that lead to economic integration to improve the spatial access to opportunity for low-income citizens.

Now may be a particularly favorable time for policymakers to consider policies that promote economic integration. For one thing, in many cities, rapid suburbanization has begun to reach limits imposed by commuting time and increased fuel costs. The housing finance crisis also calls into question the approach to urban and suburban development that has dominated the last several decades. Appealing to the free market, policies have promoted the flight of higher-income households to the suburban fringe, leaving behind pockets of concentrated poverty. In many neighborhoods, the large number of foreclosures provides the opportunity for and points to the necessity of creative approaches to redevelopment. In this paper, we seek to give policymakers a guide to the concept of economic integration and to highlight particular cities that are more integrated. We then examine a series of policies that have been tried or advocated to promote economic integration.

The Reality of Economic Segregation

Every metropolitan area has a wide variety of neighborhoods, including some very rich and some very poor neighborhoods. Often the poorest neighborhoods are clustered together in the central city, not far from the central business district, while many of the wealthiest neighborhoods are clustered in the outer suburbs. There are exceptions, of course. East St. Louis in the St. Louis metropolitan area and Camden, NJ, in the Philadelphia metropolitan area are high-poverty neighborhoods not even located in the same state as the central business district of those metropolitan areas. And there are often pockets of great wealth within central city boundaries, such as the Turtle Creek neighborhood of Dallas, home to some of the nation's wealthiest families.

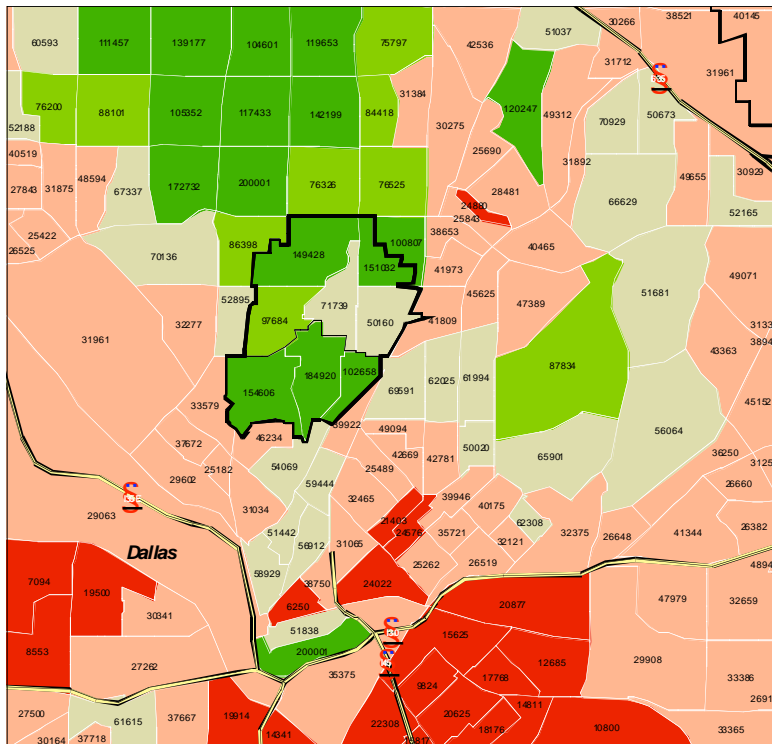
Even though all metropolitan areas have richer and poorer neighborhoods, they are not all segregated by income to the same degree. Some cities have a far more economic *integration*, the mixing of households of different income levels within neighborhoods. If economic segregation is harmful to low-income persons and creates barriers to economic success, then economic integration has the potential provide them with greater access to economic opportunities.



Map 1:
Memphis
Metro
Area

Neighborhoods of different incomes cluster together, with the highest incomes in the eastern suburbs.

Several examples will help to illustrate the patterns of economic segregation that frequently plague our metropolitan areas. Map 1 shows the median household income for neighborhoods in the Memphis metropolitan area, based on the 2000 U.S. Census. The pattern is striking. The central business district is an island, to the left side of the map, in a sea of neighborhoods with median household incomes in the lowest category (below \$25,000). Around the poor area is a region of middle-income neighborhoods in the \$25,000 to \$50,000 range, with a few neighborhoods in the \$50,000 to \$75,000 concentrated on the east side of the city. Outside the boundary of the central city, the suburbs consist primarily of neighborhoods in the highest income categories: \$75,000 to \$100,000 and those above \$100,000.



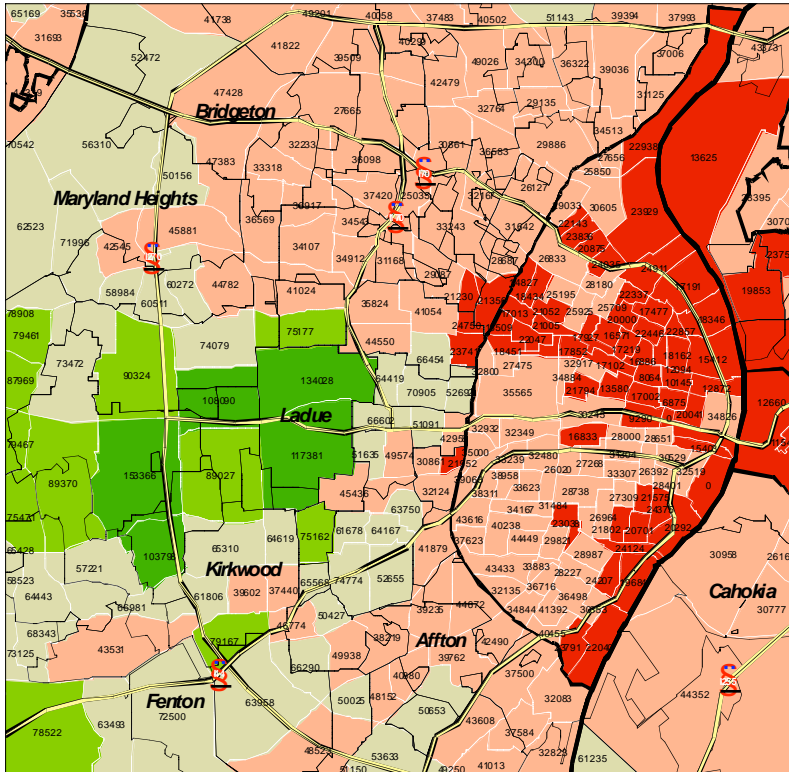
**Map 2:
Downtown
Dallas**

Dallas shows extreme variations, with household incomes over 100,000 in one area (near SMU), but consistently below 25,000 in another area south of I -30.

Median Household Income

Downtown Dallas is featured in Map 2. Neighborhoods are sharply differentiated by income level. For example, the independent political jurisdictions of Highland Park and University Park, the home of Southern Methodist University, have extremely high median household incomes, as do the neighborhoods to the north of SMU. One neighborhood has a median household income above \$200,000 and several exceed \$150,000. Just across sharp boundaries formed by highways and major streets, there are solid blocks of middle class neighborhoods in the \$25,000 to \$50,000 range. A short distance away, just on the other side of downtown and

south of Interstate 30, there is an extremely poor group of neighborhoods within median incomes below \$25,000, including a neighborhood with a median income of \$9,624. These neighborhoods, despite their close proximity, are virtually different worlds. They look and feel quite different, they contain different societies of people who distrust each other and rarely interact, and their children attend very different schools.



Map 3:
St. Louis

Median Household Income

St. Louis, shown in Map 3, is another prime example of economic segregation. The city is divided into several distinct zones by income level, with very low-income areas near the river both north and south of the Central Business District, and across the Mississippi River in East St. Louis. Moving west in the Central Corridor, neighborhood income levels rise and exhibit a high degree of clustering. This pattern is typical of many large metropolitan areas, especially those in the Northeast and Midwest.

Why Do We Care about Economic Integration?

Economic segregation, and the harm that it does, has lived to some extent in the shadow of racial segregation. Given the history of segregation by race in the United States, a great deal of public policy concern focused on highly segregated concentrations of African Americans in the nation's central cities. This attention was clearly needed, given the extreme deprivation, high crime and social disorder in those neighborhoods, which contributed to highly destructive race riots in the 1960s. In the aftermath of these riots, the Kerner Commission appointed by President Johnson delivered a stunning indictment of the American institutions, policies and practices that created and sustained the ghetto.³ While race was the primary organizing principal of the ghetto, the vast difference in economic status between blacks and whites meant that racial concentration created and exacerbated economic segregation. Race prejudice created the ghettos but the concentration of poverty within them caused much of the harm.

In the years since, there has been slow but steady progress in reducing racial segregation, and the levels in the fast-growing cities in the West and Southwest are substantially lower than the older industrial cities of the Northeast and Midwest. At the same time, levels of economic segregation have mostly been increasing. As we strive for a post-ghetto world, we are unfortunately replacing one form of segregation with another. There are a variety of reasons why policy makers should not squander the gains of declining racial segregation by allowing this substitution to take place.

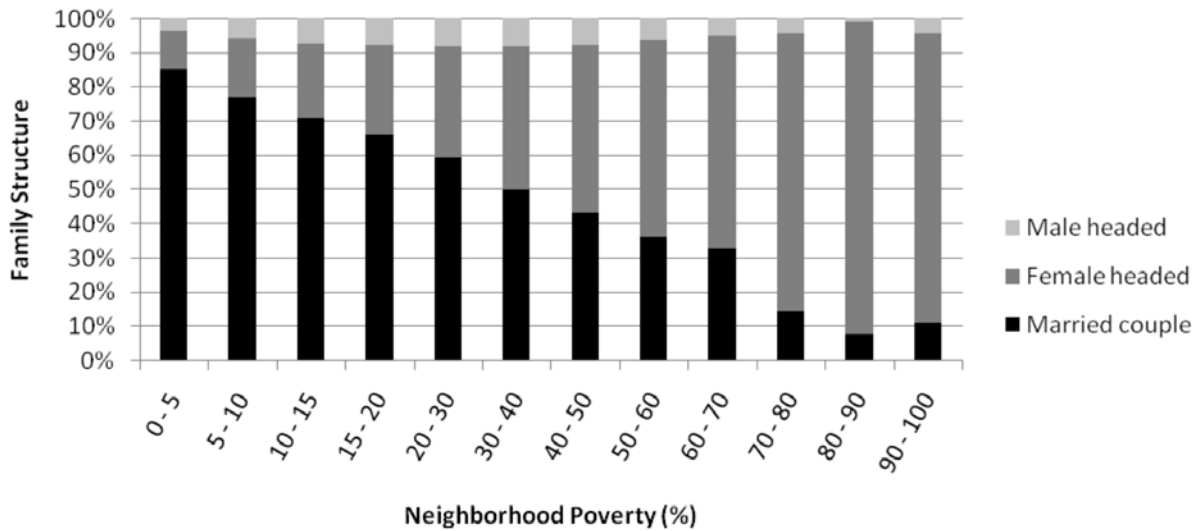
When metropolitan areas are economically segregated, every problem in every policy area becomes harder to address.⁴ Low-income adults in highly economically segregated metropolitan areas are less likely to come into contact with employed persons who can act as mentors and provide information about employment opportunities. Lower-income neighborhoods are usually located far from the areas with the fastest growth of low-skill jobs. When low-income neighborhoods are created by a process of out-migration of the middle class, as they often are, the result is low-density neighborhoods with few role models. Such neighborhoods are harder to police and often experience high levels of crime, violence, gang activity and drug abuse.

Public health is worse in high-poverty neighborhoods for a variety of reasons. First, health service providers are reluctant to locate in poor neighborhoods. Second, the stress of dealing with high crime rates and the deteriorated condition of the housing stock in such communities contribute to poor health outcomes.

Poor communities often have to shoulder the fiscal burden of providing the social and public health needs of low-income residents, increasing the tax burden on businesses and the middle class. In turn, this discourages private sector investment and encourages further flight to wealthier suburban communities, increasing economic segregation. Declining or stagnant property values in and near concentrations of poverty inhibit capital formation, shutting off one of the key routes to social mobility.

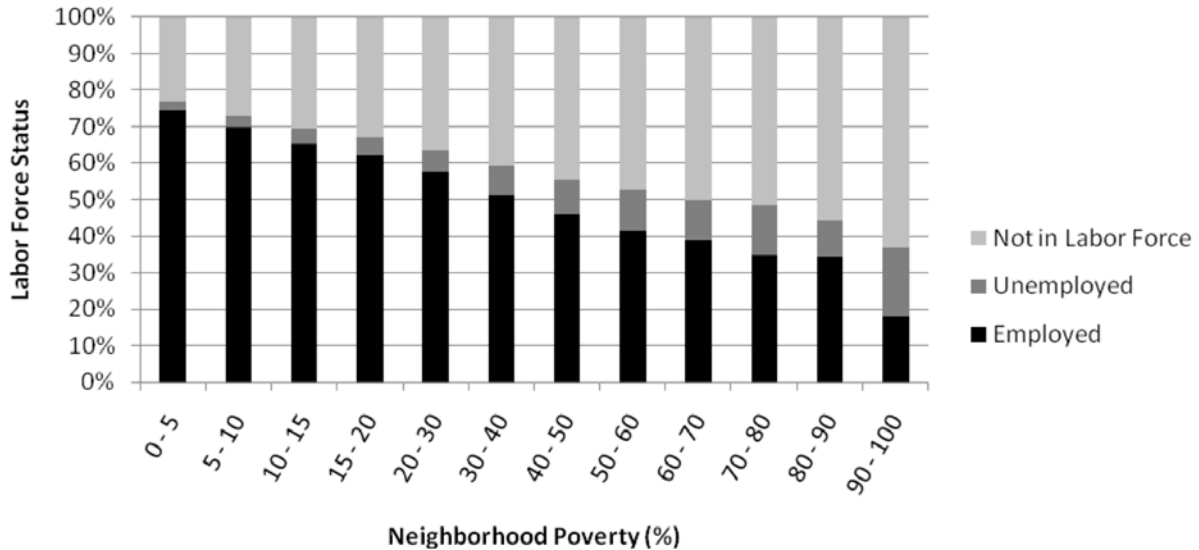
As Figure 1 shows, family structure is very different in high-poverty neighborhoods. Married-couple families are the dominant family structure in neighborhoods with poverty rates of less than 40 percent. For neighborhoods with poverty in excess of 40 percent, female-headed families are the dominant family structure.

Figure 1: Families with Children by Family Structure, by Neighborhood Poverty Level



Similarly, as indicated in Figure 2, more than half of all males age 16 or older are employed in lower-poverty neighborhoods, but in high-poverty neighborhoods, the opposite is true.

Figure 2: Males 16 Years of Age or Older, by Labor Force Status, by Neighborhood Poverty Level, 2000



Adolescents are particularly vulnerable to the effects of living in separate communities. When adolescents live in communities where the modal family type is a single mother with children, where the majority of men are not in the labor force, and where college graduation is rare, they are more at risk of falling into those behaviors themselves.

Perhaps most importantly, economic segregation has implications for education because schools are creatures of neighborhoods. Often the relationship is legally encoded in school attendance zone boundaries. Even for schools that draw on larger and less precise areas, such as magnet and charter schools, commuting time and transportation costs often restrict attendance to those who live nearby. Schools usually closely reflect the racial and economic composition of the surrounding community. When they do differ, public schools will tend to have a greater proportion of minority and low-income children due to life cycle differences and differential selection into private schools and home schooling. Thus, schools are often even more segregated by race and income than the surrounding community.

As a result, when poor families reside in different neighborhoods than middle- and upper-income families, their children will likely attend different schools

than more affluent children. Over time, the schools themselves become different. Schools in poorer neighborhoods have greater needs than schools with more advantaged children. Teachers and school administrators may develop lower academic expectations when they deal predominantly with poor children, many of whom do not have resources and support in the home. There is also a feedback effect, because school performance plays a role in parent's decisions about where to live, and the effect is greatest for the parents who have the most resources to spend on housing and who place the greatest value on education. The neighborhood drags down the school, and the school drags down the neighborhood, *ad infinitum*.

Anyone who has been a teacher understands that learning is, in part, a group process. Students bring their own skills and abilities, but they learn from and with their fellow students. Children, especially adolescents, want to fit in, so they may adopt the prevailing attitude towards the value of academic achievement. In some inner-city schools, working hard and getting good grades is derided as "acting white." Even students who resist caving in to peer pressure may still be impeded in learning if enough classmates are disruptive and slow the pace of instruction. These so-called peer effects on students have been documented in a number of carefully controlled studies.⁵

Over and above peer effects, neighborhood conditions may have spill over effects on academic achievement. Neighborhoods develop cultures that in turn influence their members. Students may lack positive role models if few members of a community graduate from college or have steady employment in high-skilled occupations that require education. The noted sociologist William Julius Wilson wrote that children in such communities may come to question the value of education if they "seldom interact on a sustained basis with people who are employed."⁶ Parents are not immune to neighborhood influences either. It may be harder for parents to keep pressure on their children to achieve academically if other parents in the neighborhood do not demand the same effort from their children's friends and classmates.

Economic integration ameliorates all of these effects. When there is less difference between neighborhoods in economic status, the quality of public goods and economic opportunities available to any given individual is less dependent on that person's own economic status. The conflict between local jurisdictions within a metropolitan area is also reduced if there is less of a disconnect between social needs and fiscal capacity.

Measuring Economic Integration

Economic integration can take many forms. It is highly unlikely that economic integration will be so complete that every neighborhood has exactly the same mean income. However, every neighborhood can contain a mixture of housing types of varying proportions. In that case there would still be some economic differentiation between neighborhoods, but not the kind of extreme variation shown in Maps 1-3. Economic integration could also operate at a higher scale, so that there was still great variation among census tracts, but rich and poor census tracts were not as clustered as those shown in those maps. In that case, you might still have rich and poor neighborhoods, but they would not also be located in separate political jurisdictions, dependent on different tax bases, and physically remote from one another.

Economic integration, stated simply, means that households of all different income levels have realistic housing options in all parts of a metropolitan area, so that they can pursue opportunities throughout the region.

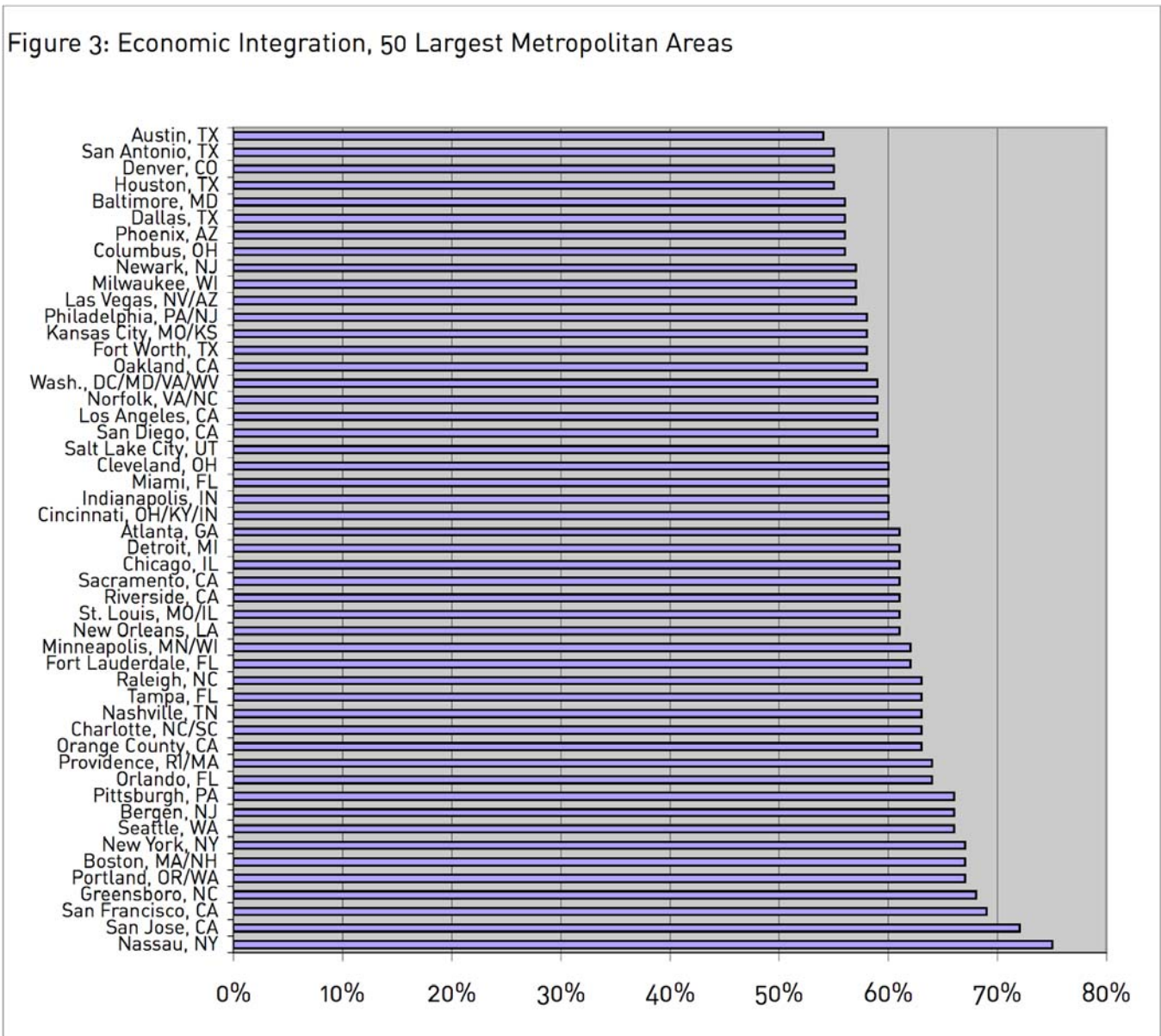
Household Income Integration

A previous CEOs for Cities report, *City Vitals*, presented a measure of economic integration based work by the Lewis Mumford Center at the State University of New York at Albany.⁷ The measure uses Census data from the 2000 Census. There is no national definition of what constitutes a neighborhood, but the Census Bureau has divided the nation up into parcels known as census tracts, which average 4,000 in population and can serve as a proxy for neighborhoods. Within each neighborhood, they report the number of households with household income in 1999 in categories, such as less than \$10,000, \$10,000 to \$14,999, and so on up to \$200,000 and higher.⁸

Given that there are hundreds of neighborhoods in many large cities and sixteen different income brackets, some way must be found to reduce all the information to a single number representing the degree of economic integration in a metropolitan area. The Mumford Institute created three groups: low income (less than \$30,000 in household income), middle income (\$30,000 to \$59,999), and high income (\$60,000 or more). They then computed an Index of Dissimilarity between the low-income and high-income groups. (The Index of Dissimilarity measures economic segregation by reporting the share of persons in one group who would have to move to achieve an even distribution of the groups across neighborhoods.) *City Vitals* inverts the scores so that they measure economic integration, i.e., the proportion of persons who would *not* have to move to achieve an even distribution of the three groups.

We recomputed this measure from the raw Census data for all metropolitan areas in the United States.⁹ Economic integration for the top 50 metropolitan areas is shown in Figure 3. In the least segregated areas such as Nassau-Suffolk, San Francisco and San Jose, fewer than three out of 10 households would have to move to create a perfectly even distribution of households of different incomes across neighborhoods. In the most economically segregated areas, such as Austin, San Antonio, Denver and Houston, nearly half of all households would have to move to obtain perfect economic integration. The national average economic integration score for all 331 metropolitan areas was 66 percent, meaning that one third of all households would have to move to achieve an even distribution of high- and low-income households.

Figure 3: Economic Integration, 50 Largest Metropolitan Areas



There is not an immediately obvious pattern. It is true that Portland, which actively works to contain sprawl and manage growth, is one of the most economically integrated cities. And cities like Dallas, Houston and Phoenix, with unbridled suburban sprawl and a fondness for gated communities, are among the least economically integrated. Other economically integrated cities have geographic constraints on growth such as San Francisco and Boston, which force infill development and redevelopment of older areas. But the high-ranking cities also include San Jose and Nassau/Suffolk, which seems counterintuitive.

This economic integration measure, patterned after the *City Vitals* economic integration score, is based on the application of fixed income levels, regardless of differences in relative wealth and differences in cost of living among metropolitan areas. The cut off values used by the Mumford Center – \$30,000 and \$60,000 – have very different meanings in New York than in Memphis or Buffalo. The proportion of the households with incomes below \$30,000 ranges from less than 20 percent in San Jose to more than 40 percent in New Orleans. Similarly, the proportion with household incomes of \$60,000 or more is over 60 percent in San Jose and about 25 percent in New Orleans.

With such wide variations in the relative position of the two income groups, we decided to develop a new measure of relative economic integration that takes into account the differences among metropolitan areas in their income distributions. The procedure is as follows:

- First, we calculated the dollar values that divided the income distribution into three equal sized groups within each metropolitan area. These are shown in the Appendix. Note that the boundary between the middle and upper thirds in New Orleans is less than the boundary between the lower and middle thirds in San Jose.
- Second, we applied these thresholds to each census tract within a metropolitan area to get the count of relatively poor and relatively rich households in each neighborhood. Because the threshold often was in the middle of one of the household income brackets given in the data, we use linear interpolation to allocate the households to the appropriate groups.
- Third, we calculated the Relative Economic Integration score as 1 minus the Index of Dissimilarity between the upper third and the lower third of households within each metropolitan area. It is the proportion of households that would *not* have to move to achieve a perfectly even distribution of household income across neighborhoods.

Table 1 shows the result of the analysis. The economic integration scores and relative rankings do change, although for the most part the differences are small

relative to the gap between the most and least economically integrated metropolitan areas. The changes in the economic integration score range from -4.6 percentage points to +2.1 percentage points. The Orange County MSA drops 19 places, from 12th to 31st place. Boston drops from 6th to 10th. Salt Lake City's rank rises 10 places.

Table 1: Relative Economic Integration of the 50 Largest Metropolitan Areas, 2000

Rank	Metropolitan Areas	Relative Economic Integration	Rank Difference	Change
1	Nassau/Suffolk, NY	72.9%	-2.4%	0
2	Greensboro/Winston-Salem/High Point, NC	69.1%	1.0%	-2
3	Portland/Vancouver, OR/WA	67.4%	0.1%	-2
4	San Jose, CA	67.1%	-4.6%	2
5	San Francisco, CA	66.9%	-2.1%	2
6	Pittsburgh, PA	66.3%	0.9%	-3
7	Seattle/Bellevue/Everett, WA	65.0%	-0.7%	0
8	Tampa/St. Petersburg/Clearwater, FL	65.0%	2.1%	-7
9	Orlando, FL	65.0%	1.1%	-1
10	Boston, MA/NH	64.4%	-2.7%	4
11	Nashville, TN	63.3%	0.3%	-3
12	Providence/Fall River/Warwick, RI/MA	63.1%	-0.7%	1
13	Charlotte/Gastonia/Rock Hill, NC/SC	63.0%	-0.1%	0
14	Raleigh/Durham/Chapel Hill, NC	62.3%	-0.6%	-2
15	Bergen/Passaic, NJ	62.3%	-3.3%	7
16	Fort Lauderdale, FL	62.0%	-0.2%	-1
17	St. Louis, MO/IL	61.3%	0.0%	-2
18	Minneapolis/St. Paul, MN/WI	61.2%	-0.2%	0
19	New Orleans, LA	61.0%	-0.3%	-1
20	Salt Lake City/Ogden, UT	60.8%	1.2%	-10
21	Sacramento, CA	60.5%	-0.2%	0
22	Riverside/San Bernardino, CA	60.4%	-0.2%	0
23	Miami, FL	60.4%	0.6%	-5
24	Cincinnati, OH/KY/IN	60.3%	-0.2%	-2
25	Norfolk/Virginia Beach/Newport News, VA/NC	59.8%	0.9%	-8
26	Indianapolis, IN	59.8%	0.0%	-1
27	Cleveland/Lorain/Elyria, OH	59.6%	-0.1%	-2
28	Atlanta, GA	59.6%	-1.0%	4
29	Detroit, MI	59.5%	-1.0%	6
30	Chicago, IL	59.3%	-1.2%	5
31	Orange County, CA	59.2%	-4.0%	19
32	Fort Worth/Arlington, TX	58.4%	0.3%	-4
33	San Diego, CA	58.4%	-1.0%	2
34	Kansas City, MO/KS	58.3%	0.3%	-4
35	Los Angeles/Long Beach, CA	58.1%	-1.0%	3
36	Las Vegas, NV/AZ	57.7%	0.6%	-4
37	Milwaukee/Waukesha, WI	56.9%	-0.1%	-4
38	Washington, DC/MD/VA/WV	56.6%	-1.8%	4
39	New York, NY	56.4%	-1.6%	2
40	Philadelphia, PA/NJ	56.4%	-1.2%	1
41	Columbus, OH	56.1%	0.1%	-2
42	Phoenix/Mesa, AZ	56.1%	0.1%	-2
43	San Antonio, TX	55.9%	1.2%	-6
44	Oakland, CA	55.4%	-2.9%	9
45	Baltimore, MD	55.0%	-0.6%	-1
46	Dallas, TX	54.5%	-1.1%	1
47	Houston, TX	54.4%	-0.9%	0
48	Denver, CO	54.2%	-0.5%	0
49	Austin/San Marcos, TX	53.5%	-0.7%	-1
50	Newark, NJ	53.1%	-3.1%	8

The contrast between the absolute and relative Economic Integration scores demonstrates that the metric used to measure economic integration clearly matters. For that reason, we provide several additional measures of economic segregation that provide alternative perspectives.

Segregation of the Poor from the Non-Poor

From a public policy perspective, we are particularly concerned with the extent to which the spatial organization of neighborhoods affects the poorest members of the community. The federal poverty definition classifies a person as poor if they live in a household with income below a specified threshold level that is adjusted for family size and is updated every year for inflation. For example, in 2008 the poverty level for a family of four is \$21,200. Unfortunately, the federal poverty measure is not adjusted for local differences in the cost of living, and it does not take into account in-kind benefits such as Medicaid and Food Stamps. With all its faults, it is still the most widely available measure of poverty and is familiar to researchers and policy makers.

One consequence of economic segregation is that the poor mainly come into contact with other poor persons. For that reason, we have computed several segregation measures indicating the segregation of the poor from the non-poor. They are the Index of Dissimilarity (D) described above and three additional measures: the Variance Ratio Index (V), the Gini Index of Segregation (G) and the Theil Index (T). In contrast with the Economic Integration measure presented above, these segregation measures emphasize the spatial distribution of those at the lower end of the income distribution.

These figures, and the ranks of the 50 largest metropolitan areas under each measure, are presented in Table 2. With a few small exceptions, the four different measures rank the metropolitan areas very similarly. However, the focus on the segregation of the poor from everyone else, compared to low-income from high-income, has a large effect on the outcomes. Portland has little segregation of the poor from the non-poor regardless of the measure used. Philadelphia and Milwaukee consistently have the worst segregation of the poor. Yet Milwaukee was only ranked 37th on the Relative Economic Integration measure. Milwaukee falls from 18th place to 42nd (on D). Other metropolitan areas that look substantially worse when the focus is on the poor include Cleveland, Detroit and Chicago. Some cities look more integrated (or, equivalently, less segregated) by the poor/non-poor measures, such as Los Angeles, Los Vegas and Miami.

Table 2: Segregation of the Poor from Nonpoor, 50 Largest Metropolitan Areas, 2000: Dissimilarity (D), Gini (G), Variance (V), and Thiel (T)

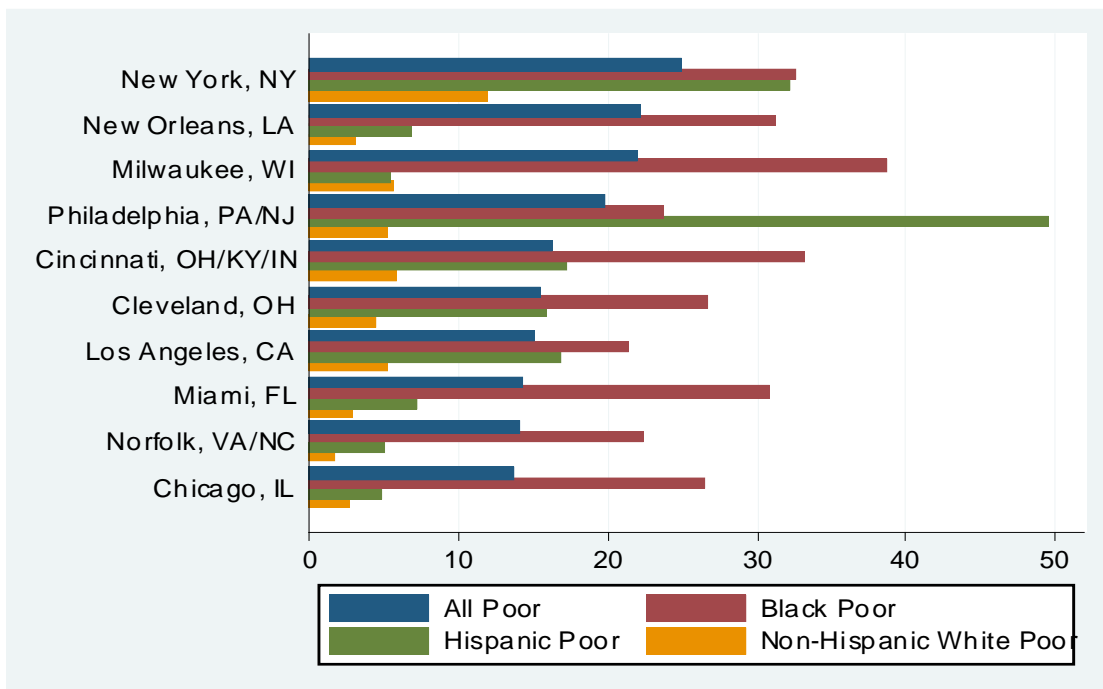
Metropolitan Area	Score				Rank			
	<u>D</u>	<u>G</u>	<u>V</u>	<u>T</u>	<u>D</u>	<u>G</u>	<u>V</u>	<u>T</u>
Portland, OR/WA	0.27	0.38	0.05	0.07	1	1	3	1
Orlando, FL	0.29	0.41	0.06	0.08	2	4	7	6
Nassau, NY	0.29	0.40	0.03	0.07	3	2	1	2
Seattle, WA	0.29	0.41	0.05	0.08	4	5	4	4
Charlotte, NC/SC	0.30	0.42	0.06	0.08	5	10	6	7
San Jose, CA	0.30	0.41	0.04	0.07	6	3	2	3
Miami, FL	0.30	0.41	0.09	0.09	7	6	19	11
San Francisco, CA	0.30	0.42	0.05	0.08	8	7	5	5
Tampa, FL	0.30	0.42	0.07	0.09	9	8	11	8
Greensboro, NC	0.30	0.42	0.07	0.09	10	9	10	10
Fort Lauderdale, FL	0.31	0.42	0.07	0.09	11	11	12	9
Riverside, CA	0.31	0.43	0.08	0.09	12	12	14	12
Las Vegas, NV/AZ	0.33	0.44	0.07	0.09	13	13	8	13
Pittsburgh, PA	0.33	0.46	0.09	0.11	14	15	22	17
Los Angeles, CA	0.34	0.45	0.10	0.11	15	14	34	16
Salt Lake City, UT	0.34	0.47	0.07	0.10	16	18	9	14
Nashville, TN	0.34	0.47	0.09	0.11	17	17	27	20
Raleigh, NC	0.34	0.47	0.09	0.11	18	19	26	21
San Diego, CA	0.35	0.47	0.09	0.11	19	19	23	19
San Antonio, TX	0.35	0.47	0.09	0.11	20	16	24	18
Orange County, CA	0.36	0.47	0.07	0.10	21	21	13	15
Houston, TX	0.36	0.48	0.09	0.11	22	22	29	22
Atlanta, GA	0.36	0.49	0.10	0.12	23	25	32	28
Fort Worth, TX	0.36	0.49	0.08	0.11	24	23	17	23
New York, NY	0.36	0.49	0.12	0.13	25	24	40	32
Sacramento, CA	0.37	0.50	0.10	0.12	26	26	31	25
New Orleans, LA	0.37	0.50	0.14	0.13	27	27	47	37
Dallas, TX	0.37	0.50	0.09	0.12	28	28	25	26
Wash., DC/MD/VA/WV	0.37	0.50	0.09	0.12	29	30	18	27
Norfolk, VA/NC	0.37	0.51	0.11	0.13	30	33	36	35
Indianapolis, IN	0.37	0.50	0.08	0.11	31	29	15	24
Oakland, CA	0.38	0.51	0.09	0.12	32	31	28	30
Boston, MA/NH	0.38	0.51	0.09	0.12	33	32	20	28
Bergen, NJ	0.39	0.52	0.09	0.13	34	35	21	33
Denver, CO	0.39	0.53	0.08	0.12	35	36	16	31
Kansas City, MO/KS	0.39	0.53	0.09	0.13	36	38	30	36
Cincinnati, OH/KY/IN	0.39	0.54	0.13	0.15	37	39	43	42
Phoenix, AZ	0.40	0.53	0.11	0.14	38	37	37	38
St. Louis, MO/IL	0.40	0.54	0.12	0.14	39	40	38	39
Providence, RI/MA	0.40	0.52	0.11	0.13	40	34	35	34
Austin, TX	0.41	0.54	0.12	0.15	41	41	39	41
Minneapolis, MN/WI	0.41	0.55	0.10	0.15	42	43	33	40
Columbus, OH	0.41	0.55	0.12	0.15	43	42	41	43
Baltimore, MD	0.43	0.57	0.13	0.16	44	44	44	44
Chicago, IL	0.44	0.58	0.14	0.17	45	46	46	46
Detroit, MI	0.45	0.58	0.13	0.16	46	45	45	45
Cleveland, OH	0.45	0.59	0.15	0.17	47	47	48	48
Newark, NJ	0.46	0.59	0.13	0.17	48	48	42	47
Philadelphia, PA/NJ	0.46	0.59	0.15	0.18	49	49	49	49
Milwaukee, WI	0.51	0.64	0.17	0.21	50	50	50	50

Concentration of Poverty

Policymakers are particularly concerned with the most extreme form of segregation of the poor: high-poverty ghettos and barrios. Such neighborhoods are dominated by housing projects and vacant housing units and often suffer high levels of crime and violence. The formation of such neighborhoods is driven by high overall poverty levels and the intersection of racial and economic segregation. One way to measure the concentration of poverty is the percentage of the poor residents of a given metropolitan area who live in extremely poor neighborhoods, defined as census tracts with poverty rates of 40 percent or more.¹⁰

Figure 4 shows the 10 metropolitan areas of the top 50 with the highest concentrations of poverty. In New York, for example, one fourth of the poor live in high-poverty ghettos and barrios. In low economic segregation metro areas such as Portland and San Francisco, fewer than 2 percent of the poor reside in such neighborhoods. Also shown in the figure are the concentration of poverty levels for the Black poor, the Hispanic poor, and the Non-Hispanic White poor. The differences among the groups are striking. The Black Poor are substantially more concentrated than the Hispanic poor, except in Philadelphia and New York. The Hispanics in those areas are predominantly Puerto Ricans, compared to Mexicans in the other metro areas depicted. The White poor almost never live in high-poverty neighborhoods, except in New York, which is affected by a higher than normal presence of white immigrants from central Europe.

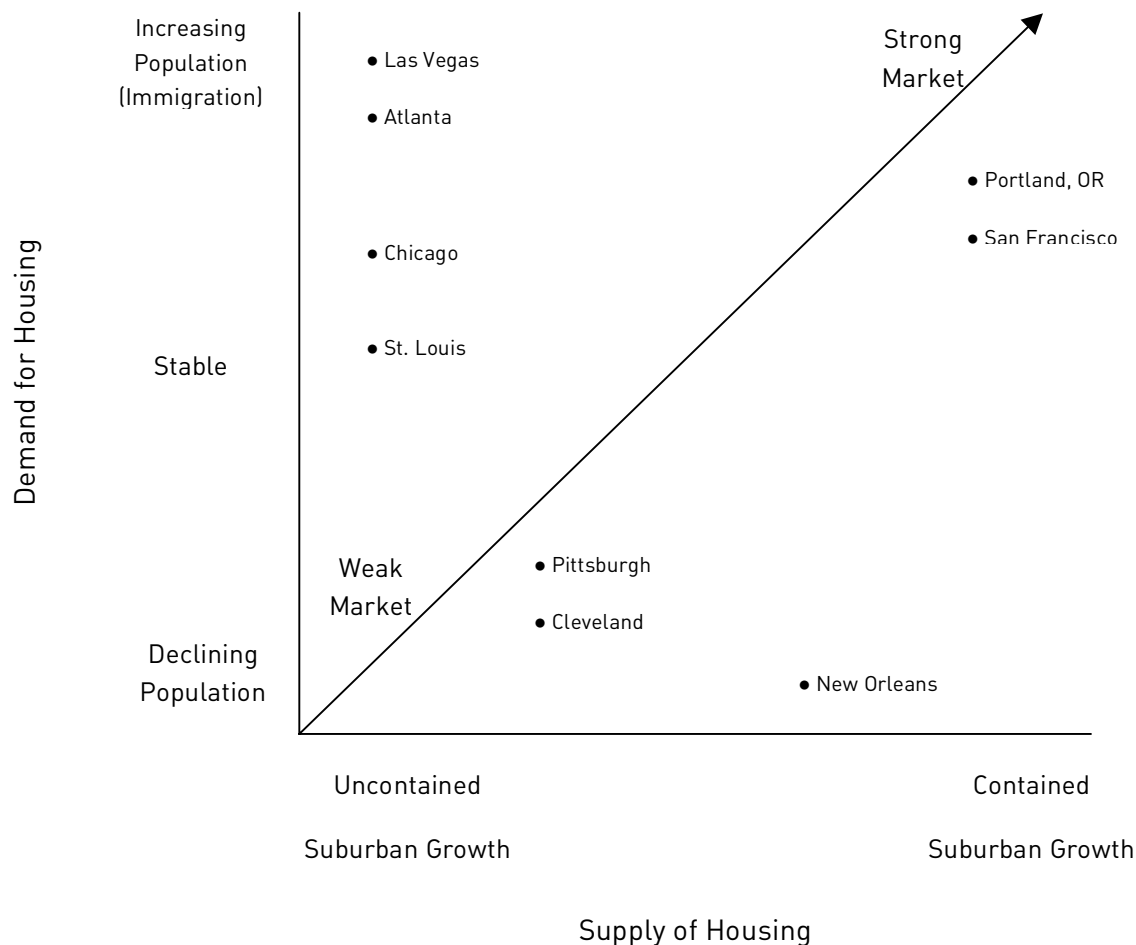
Metropolitan Areas with the Highest Concentrations of Poverty



The Metropolitan Context of Economic Integration

Metropolitan development patterns influence the ability of communities to achieve economic integration. Mixed-income communities are easier to develop in metropolitan areas with strong housing markets where developers have incentives to develop at higher levels of density to accommodate affordable workforce housing. In metropolitan areas with weak housing markets it is more difficult to entice developers to build affordable housing and more affluent households choose to segregate themselves in new single-family developments on the suburban fringe.

The strength of metropolitan housing markets depends on the balance of the supply and demand for housing. The supply of housing is determined by public policies that either subsidize or constrain new development and availability of developable land. The demand for housing is driven by job growth and population growth, often driven by immigration.



As Figure 5 illustrates, American metropolitan areas vary in the ratio of supply and demand, with weak market metros having a surplus of housing and strong market regions having a shortage of housing. (Metropolitan areas are placed in the graph for illustrative purposes only, not based on any quantitative determination.)

The strength of housing markets also varies within metropolitan areas. A metropolitan area can have an overall strong housing market but the market can be very weak in some central city neighborhoods with high poverty rates. Conversely, even weak metropolitan housing markets have islands of renewal in inner urban areas that policymakers can build upon to promote economic integration. In any case, local leaders need to understand both the general metropolitan context and the specific neighborhood contexts in order to choose the best approach for promoting economic integration.

Weak Market Metropolitan Areas: Excess Supply

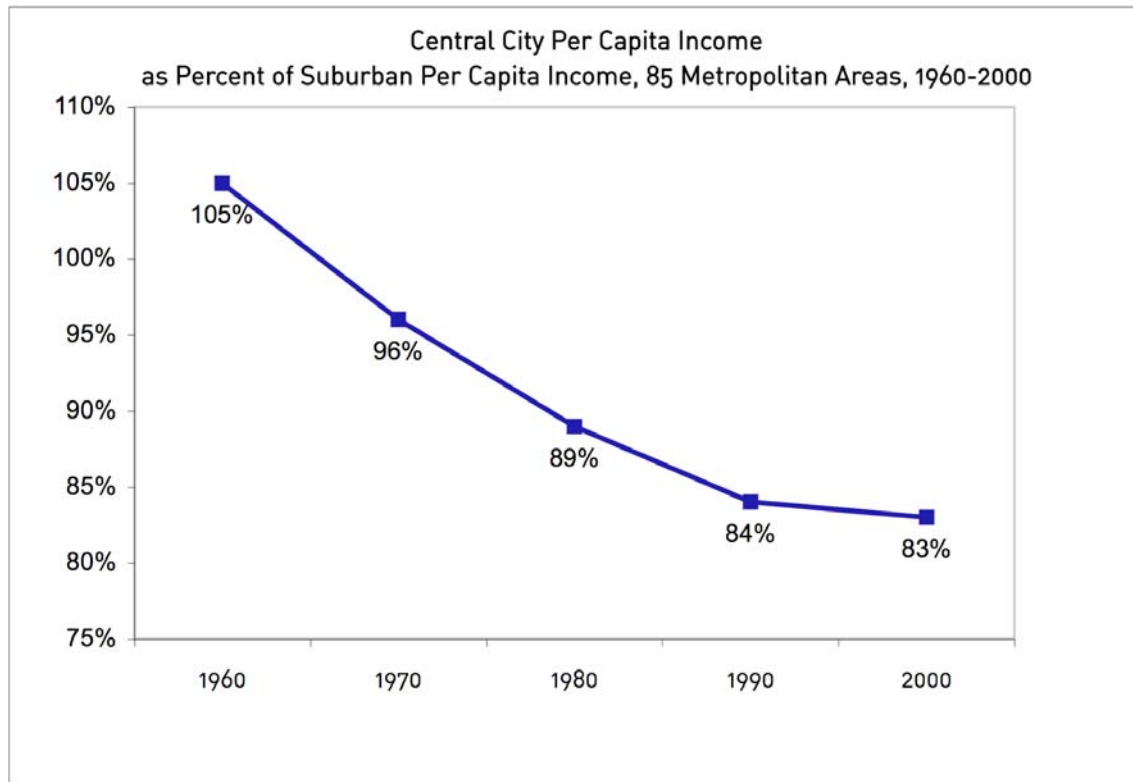
Weak housing markets are created by an excess of supply and/or a shortage of demand for housing. The United States has supported a range of policies that have subsidized an oversupply of single-family housing for middle and affluent households in the suburbs. This has led inevitably to concentrated poverty and weak housing markets in central cities and inner suburbs. Metropolitan areas with suburban sprawl and weak housing demand due to job loss and population out-migration face a double whammy that makes building mixed-income communities all that more difficult.

In most countries, the rich live in historic housing near the urban center while the poor are relegated to newer housing on the urban fringe. The historic American pattern has been the opposite: the poor generally live in older housing near the center and higher-income households occupy new housing in the suburbs. The main reason for this is that the United States has spent considerably more on homeowner tax deductions, highways and other subsidies of suburban development than it has spent on new housing for the poor. Less than a third of poor households receive any form of housing subsidy and those subsidies have at best not been effective in de-concentrating poverty, and at worst have exacerbated the problem. In effect, the *de facto* low-income housing policy in the U.S. has been to build new housing for the affluent in the suburbs and let their old housing filter down to the poor. The result of the housing filtering chain, or what some call the “thrift shop” approach to affordable housing, has been economic segregation.

The housing filtering chain did help low-income Americans improve the physical attributes of their housing. Overcrowding is down and most poor households

now have running water and other basic amenities. The problem with the American pattern of subsidizing the construction of new single-family homes in the suburbs is that it has been a mighty engine of economic segregation. Indeed, over time, suburban development has become even more oriented toward the “secession of the successful,” to use Robert Reich’s felicitous phrase. New housing construction has always been geared to the affluent but this tendency grew more pronounced in recent decades. After World War II developers built relatively inexpensive housing in Levittown-like developments for returning veterans. They continued this pattern of building relatively modest suburban homes until the 1960s and 1970s. After that, new home construction shifted from the middle of the income distribution into the top of the income distribution. Between 1950 and 2000 the average size of a new home increased by more than 50 percent (from 1,470 sf to 2,265 sf).¹¹ In 2000, the average new house was almost two-thirds more expensive than in 1960 (in constant dollars), and the share of new housing purchased by the top 20 percent of the income range increased dramatically. McMansions, large (3,000 to 5,000 square feet) mass-produced homes in suburban subdivisions, have become more and more common. The correlation between new housing and economic segregation is strong: the newer the housing in a neighborhood, the higher the average income in that neighborhood.¹²

The demand for housing in the core parts of the region is determined not only by immigration and population growth but by the attractiveness of the central city. One of the main causes of weak housing markets in central cities is job decentralization. In weak market areas, jobs have decentralized and suburbanization is driven in part by a desire to be closer to jobs. In a study of the 100 largest metropolitan areas, extremely decentralized metro areas with less than 10 percent of jobs located within 10 three miles of the Central Business District included Detroit, St. Louis, Riverside and Gary, Indiana.¹³



Source for 85 metropolitan areas: Larry C. Ledebur and William R. Barnes, "City Distress, Metropolitan Disparities, and Metropolitan Growth," comb. rev. ed., Research Report of the National League of Cities (Washington, D.C.: National League of Cities, September 1992), p. 2, and authors' calculation for 2000.

The decanting of the middle and upper classes from the cities to the suburbs is the main reason that the income of central cities fell behind the income of suburbs. This also created inner suburban decline. A study of the thirty-five largest metropolitan areas found that 37 percent of all suburbs actually lost population in the 1990s.¹⁴ Another study of over 5,000 suburbs found that the proportion of suburban residents living in "poor" suburbs more than doubled from 1980 to 2000 (from 8.4 to 18.1 percent).¹⁵

Suburban sprawl becomes especially damaging in metropolitan areas with weak job and population growth. Weak market cities tend to be located in the Midwest and Northeast, and include metropolitan areas like Buffalo, Scranton, Cleveland, Akron, Youngstown, Detroit, Flint and Milwaukee. In these metropolitan areas, the housing market becomes especially weak because the supply of housing far outstrips demand. Metropolitan areas in the bottom third of job and population growth from 1960 to 2000 actually built housing at *six times* the rate of population growth.¹⁶ Table 3 lists the top ten metropolitan areas in the ratio of building permits to new households in the 1990s. During this period, Buffalo actually issued 3.89 building permits for every one new household.¹⁷ This massive oversupply of housing led inevitably to abandonment and concentrated poverty in

the urban core. The correlation between excess home construction and central city decline is strong.

Table 3. Top Ten Metro Areas, Ratio of Building Permits to Household Growth, 1990-2000

Rank	Name	Permits	Household Change	Ratio
1.	Buffalo-Niagara Falls, NY MSA	26,881	6,916	3.89
2.	Pittsburgh, PA MSA	55,936	19,252	2.91
3.	Scranton-Wilkes-Barre Hazelton, PA MSA	13,462	5,331	2.53
4.	Youngstown-Warren, OH MSA	15,505	6,613	2.34
5.	Dayton-Springfield, OH MSA	33,888	15,326	2.21
6.	Hartford, CT MSA	67,227	37,660	1.79
7.	St. Louis, MO-IL MSA	109,944	64,650	1.70
8.	Syracuse, NY MSA	16,222	9,627	1.69
9.	Cleveland-Lorain-Elyria, OH PMSA	70,718	47,376	1.49
10.	Gary, IN PMSA	30,304	20,375	1.49

Source: Thomas Bier & Charlie Post, "Vacating the City: An Analysis of New Home Construction and Household Growth," in *Redefining Urban & Suburban America: Evidence from Census 2000*, edited by Alan Berube, Bruce Katz & Robert E. Lang (Washington, D.C.: Brookings Institution Press, 2006), p. 185.

In weak market metropolitan areas the outward movement of middle and affluent households and rising concentrated poverty creates a reinforcing cycle of decline. The desire of affluent households to separate themselves from the poor artificially drives new home construction. In other words, in areas with wide income inequalities and uncontained suburban sprawl, the desire of the middle class to separate from problematic areas of concentrated poverty artificially inflates the demand for new housing on the urban fringe. Excess housing construction causes abandonment, undermining the ability of inner urban areas to jump-start their housing markets. As the poor become more concentrated in areas with vacant and abandoned homes, their social problems worsen and upper-income households have even more motivation to separate themselves. In weak market sprawling metropolitan areas, a vicious cycle of suburban flight and inner urban decay is set in motion.

Efforts to increase economic integration must be adapted to conditions in weak market cities. The policy tools must be powerful enough to counter the negative trends that are undermining housing markets in poor areas. Strategies must face the realities of consumer choice and build the market for working and middle class households. The recent rash of foreclosures only makes this task

all the more daunting. In areas with weak markets, foreclosures often lead to vacant and abandoned properties, which can cripple the local housing market. Cities need to prevent foreclosures or break the link between foreclosures and vacancy and abandonment by helping CDCs to purchase, rehabilitate, and market the properties or land bank key properties as part of a strategy for mixed-income revitalization. Above all, cities need to recognize, given the regional context of population stagnation and surplus housing construction, that they need to “right size” themselves, strategically investing in selected neighborhoods that can attract a socio-economic mix.¹⁸ Even weak cities have areas with strong amenities such as parks, pedestrian spaces or public transit that can be leveraged to market housing to middle- and working-class households. Increasingly weak market cities are recognizing that a bricks and mortar approach to urban revitalization is not enough – and, in fact, can backfire. In metropolitan areas where new home construction greatly exceeds household formation, CDCs are put in the position of running up the down escalator. An evaluation of CDCs in Cleveland, for example, concluded that every new unit of housing added to the supply in one neighborhood may only result in abandonment somewhere else in the city. As a result, Neighborhood Progress Inc. (NPI), an intermediary which provides technical and planning support for CDCs, has embarked on an ambitious Strategic Investment Initiative that concentrates funding in six neighborhoods viewed as having a reasonable chance of becoming stable, mixed-income neighborhoods.¹⁹ Housing investments are linked to investments in schools, open space, transportation and other anchors in order to make these areas regional “neighborhoods of choice.”²⁰ This initiative recognizes that in a shrinking city like Cleveland not all neighborhoods can be revitalized and policymakers must make tough choices to concentrate resources in neighborhoods that have inherent strengths that can be built upon.

Strong Market Metropolitan Areas: Rising Demand, Limited Supply

One of the best things the federal and state governments could do to encourage greater economic integration would be to eliminate policies that subsidize suburban sprawl and encourage affluent households to meet their housing demand by building new homes on the suburban fringe. Smart growth and “fix-it-first” policies that encourage infill development turn housing demand inward toward the urban core, increasing the possibilities for stable integrated neighborhoods. Smart growth aids economic integration efforts and protects the natural environment.²¹

In strong housing markets, prices increase rapidly, outpacing incomes. Table 4 shows the top ten metropolitan areas in the nation in terms of housing affordability, defined as the ratio between an “affordable” house (costing no more

than three times the 2006 median income). High housing prices occur for two basic reasons – either escalating demand outstrips supply or the supply of new housing is constrained and cannot keep up with demand. In the Los Angeles-Long Beach-Santa Ana metro area, the average sales price is more than three times the affordable home price.

TABLE 4. Ten strongest metropolitan housing markets, Ratio of Affordable Home Price to Actual Sales Price, 2006

R	Name	Affordable Home	Actual Sales	Ratio Price
1.	Los Angeles-Long Beach-Santa Ana, CA	\$183,900	\$584,800	.31
2.	San Diego-Carlsbad-San Marcos, CA	\$194,700	\$601,800	.32
3.	Honolulu, HI	\$213,900	\$630,000	.34
4.	San Francisco-Oakland-Fremont, CA	\$258,900	\$736,800	.35
5.	San Jose-Sunnyvale-Santa Clara, CA	\$291,300	\$775,000	.38
6.	New York-Wayne-White Plains, NY-NJ	\$212,700	\$539,400	.39
7.	Riverside-San Bernadino-Ontari, CA	\$172,500	\$400,100	.43
8.	Miami-Fort Lauderdale-Miami Beach, FL	\$167,700	\$371,200	.45
9.	NY: Neward-Union, NJ-PA	\$212,700	\$433,000	.49
10.	Sacramento-Arden-Arcade-Roseville, CA	\$196,200	\$374,800	.52

Source: Based on calculations by David Rusk using National Association of Realtors data on sales prices and HUD Area Median Income (AMI)

The main reason for excess housing demand is a strong economy that fuels population growth. Attracted by jobs, immigrants fuel population growth. Many cities in the South and the West fit this pattern, including Miami, Tampa-St. Petersburg, Dallas, San Antonio, Las Vegas and San Diego. In every one of these metropolitan areas, the central city gained population from 2000-2006.

Housing demand is also turning inward, boosting markets in inner urban areas. A major reason for this is the clustering of jobs there. Many jobs, especially the higher paid, skilled information processing jobs, need to locate in dense clusters that encourage innovation and the sharing of cutting-edge information. In dense

employment metro areas, such as New York, San Francisco and Portland, Ore., more than 25 percent of the jobs in the region are located within three miles of the Central Business District.²² As people move out to the suburban frontier, they are confronted with longer commutes, and urban living looks more attractive. In addition, the rising price of energy is making long suburban commutes and large, detached single-family homes more expensive. During the recent run-up in energy prices, homes in the urban center did better than homes on the suburban fringe.²³ This will happen again when energy prices rise. People are being pulled to the center by the attractions of energy-saving, mixed-use, pedestrian friendly, more compact forms of development.

The other reason for strong housing markets is that the supply of new housing on the urban fringe is contained by natural barriers, market dynamics or intentional policies. When suburban sprawl is contained, whether by natural barriers or deliberate policies, upper-income households have no choice but to search for housing near the center, often competing with the poor in gentrifying neighborhoods. Natural barriers that limit suburban sprawl include oceans, mountains and protected wetlands. Caught between the Atlantic and the Everglades, some Florida metropolitan areas have been forced to grow at higher rates of density. Hemmed in by the Pacific Ocean and the desert and attracting huge numbers of immigrants, Los Angeles is now one of the densest metropolitan areas in the country.

Public policies also restrict new suburban construction, including restrictive zoning laws, such as minimum lot requirements and open space preservation. Federally owned land is another obstacle to expansion. At a certain point, developable suburban land within a reasonable commuting distance of jobs is exhausted. The New York, Boston, Seattle and San Francisco metropolitan areas all qualify as regions where the growth of the housing stock on the urban fringe is constrained. Instead of the rich occupying new housing on the urban fringe, increasingly, they compete for housing in gentrifying areas of the urban core. In these metropolitan areas, the segregation machine of suburban sprawl has ground to a halt.

In most cases, urban containment is the result of a series of uncoordinated policies, market forces and natural limits. But a few metropolitan areas have implemented intentional policies to contain sprawl and force development back to the center. Urban containment policies include requiring that infrastructure be in place before development occurs and various growth management policies, such as public land purchases. The most powerful form of urban containment is a greenbelt. A greenbelt is a ring around a metropolitan area that restricts development to the area inside the urban growth boundary. European cities are famous for their greenbelts. When you leave London, for example, you will see a

clear boundary between the city and the countryside. In most American cities the dividing line between city and country is blurred. Many Americans have adopted open country living, building homes on lots of 5, 10, or more acres on the exurban fringe. A driver approaching most metropolitan areas in the U. S. gradually sees homes sprinkled across the countryside before noticing the first suburban development. The income segregation is often very explicit with signs declaring "Homes starting in the \$300s."

Portland, Ore., is an exception. As you drive into Portland you go through what looks like a nature preserve until you cross the urban growth boundary and relatively dense urban development suddenly appears. When first implemented in 1979, Portland's UGB was quite loose. It took 20 years for development to reach it. But it is clear now that the UGB has had a major impact on development. Before the UGB Portland was suburbanizing at a rapid rate and consuming land at a rate way beyond its population growth. Since 1979, Portland has become one of the rare American cities where the consumption of land has not exceeded population growth.

The evidence is strong that urban containment policies reduce segregation. One study found that 10 years of strong urban containment reduces the level of racial segregation by an additional 1.4 percent than would have occurred without containment policies.²⁴ According to our measure, Portland, which has the strongest urban containment policies in the nation, is one of the least economically segregated metropolitan areas in the nation. In addition, the central city of Portland has done well relative to the suburbs, with the per capita income of the central city at 96 percent that of the suburbs in 2000.

However, the UGB has not been without controversy. One critique of the UGB is that it has increased housing costs. In fact, the UGB has been loosened over the years. According to law, the UGB must allow for 20 years worth of growth. Scholars disagree about the effect of the UGB on housing prices. The consensus seems to be that it has had a moderate impact on housing prices, perhaps \$10,000 per house. Greenbelts increase land costs but more compact development also saves money on infrastructure and city services.²⁵ One thing is clear: Portland's UGB has disrupted the pattern of meeting demand for high-end housing by building new single-family homes on large lots on the urban fringe. In Portland, this demand is met in all sorts of ways, including luxury condos in the central city.

Urban containment policies are not the sole answer to rising economic segregation for two reasons. First, urban containment policies face entrenched political opposition. With a small minority presence, Portland did not have to overcome racial fears. Assembling a unique coalition of urban and agricultural interests, Portland drew its growth boundary early and far out, not threatening

existing landowners. Once the snowball of suburban sprawl gathers momentum, it is difficult to stop with local policies. Powerful land interests and homebuilders on the suburban fringe are able to veto strong urban containment policies.

Second, even if a metropolitan area is able to enact strong urban containment policies, there is no guarantee that it will increase economic integration. Policies that disrupt the pattern of building high-income housing on the urban fringe provide an opportunity to reduce economic segregation but do not guarantee it. In Portland's case, a series of policies, including accelerated approval of housing permits, massive investments in public transit and a requirement that 20 percent of all new housing be affordable for low- and moderate-income households, ensured that new housing would include a mix of incomes.

Even though strong urban containment policies are politically difficult, urban containment will occur spontaneously over time through spontaneous market processes and physical limits. Rising traffic congestion, longer commuting times and higher gasoline prices will limit how far commuters will be willing to drive for new homes in the suburbs. Suburban zoning laws will restrict the supply of housing in suburbia and affluent households will be forced to turn to the urban core to meet their demand for high-end housing. The gradual closing of the suburban frontier will open up opportunities to promote economic integration. But urban containment and strong urban housing markets will not automatically reduce economic segregation. Without the political will to enact policies that support economic integration, we could end up copying the worst of the European pattern, with the middle and upper classes dominating in the historic urban cores and the poor relegated to depressing suburban ghettos. We need innovative and flexible policies to ensure that when metropolitan areas turn inward to accommodate growth they do not sort the affluent into gated enclaves and the poor into ghettos, barrios and slums. At the same time, we need policies appropriate for weak market metropolitan areas still characterized by suburban sprawl and central city decline.

Policy Approaches to Economic Integration

There are many different ways to promote economic integration. One way would be to lift up the incomes of people living in poor areas through job training or economic development initiatives. The movement of jobs, especially entry-level jobs, to remote suburban areas is an important cause of urban poverty concentrations and promoting jobs and economic development in poor areas is a crucial way to promote economic integration. In this paper we focus on housing policies but it is important to understand that housing policies must be

coordinated with jobs and economic development policies if we are to promote sustainable economic integration.

Table 5. Policy Approaches for Promoting Economic Integration

LAND USE AND PLANNING	REGIONALISM	SUBSIDIES FOR AFFORDABLE HOUSING IN HIGHER INCOME AREAS	DISCOURAGING FLIGHT FROM DECLINING OR GENTRIFYING NEIGHBORHOODS
Removing exclusionary zoning barriers (e.g., minimum lot size & parking requirements; zoning out multi-family housing, etc.)	Regional fair-share housing (Mt. Laurel in New Jersey)	Targeting federal housing subsidies to mixed-income areas (HOPE VI, Low-Income Housing Tax Credits, New Market Tax Credits, Section 8 Vouchers, etc.)	Home equity assurance programs (Oak Park, IL)
Zoning for affordable and manufactured housing in rural areas	Regional tax-base sharing by municipalities (Minneapolis-St. Paul metro area) or by school districts (Texas)	Targeting local subsidies to mixed-income communities (tax increment financing (TIF), tax abatements, etc.)	Community land trusts (nonprofits own land and keep some housing perpetually affordable); Limited-Equity Cooperatives (tenants share in overall ownership and price increases are limited)
Inclusionary zoning and Transit-Oriented Development (TOD)	Consolidated school districts (Charlotte-Mecklenburg)	Private financial aid for mixed-income communities (resource-efficient and location-efficient mortgages)	Nonprofit owned rental housing (community-development corporations)

Table 5 summarizes the main housing policy approaches to economic integration. Some policies are designed to prevent middle-income families from fleeing declining neighborhoods by protecting their home equity. Other policies aim to prevent families from being displaced from gentrifying neighborhoods using community land trusts or limited-equity co-ops. Policies that consolidate school districts or reduce funding inequities among school districts reduce incentives for higher-income households to avoid living close to lower-income households. One of the most powerful ways to promote economic integration would be to remove exclusionary zoning laws that prevent affordable housing from being built near suburban jobs.

Successful economic integration requires working with the market, not against it. Policies must be place-based, sustaining stable market demand in neighborhoods for both low- and middle-income households. Middle and affluent households always have the alternative to move out. And if policies concentrate on improving the incomes of poor families, without a strong place-based strategy, many households will simply move out once their incomes move up. In order to sustain stable integrated neighborhoods, economic integration policies must be adapted to each metropolitan context.

In weak market regions experiencing suburban sprawl, powerful policies will be needed to overcome centrifugal tendencies. Given a surplus of housing in many central cities and inner suburbs, housing subsidies will need to be carefully targeted to create *neighborhoods of choice* for middle- and working-class families. Strong neighborhoods with self-sustaining markets as well as weak neighborhoods suffering rapid abandonment should not be the targets of housing subsidies. Target neighborhoods should be chosen because they possess anchors, such as public transit, parks, or pedestrian access to job clusters that increase the chances of making them true neighborhoods of choice. Housing policies should be coordinated with other supportive policies, such as economic development, job training, schools, parks and public transit. The most difficult challenge for local governments will be resisting the law of political dispersion – the tendency to spread the money around to benefit the most political interests. Spreading the money around, the so-called “peanut butter” approach, ensures that the neighborhoods will continue to be overwhelmed by weak market housing dynamics.

Strong market regions have a completely different challenge in promoting economic integration. In strong markets the problem is too much demand for housing, not too little. The main challenge in strong market regions is that gentrification will lead to displacement of the poor and areas will re-segregate. Research suggests that gentrification may have more benefits for low-income

residents than is generally thought. Many long-time residents find ways to stay in gentrifying neighborhoods and the influx of higher income households reduces crime and creates job and retail opportunities.²⁶ Nevertheless, displacement of low-income households can be a problem in gentrifying neighborhoods. Policy tools to limit displacement, including community land trusts, limited-equity co-ops and nonprofit ownership of rental housing. (See Table 5.)

Over the years, the most common method for promoting mixed-income neighborhoods has been to subsidize affordable housing in middle-income areas where it would not otherwise be built or give people vouchers so that they can move to middle-class areas. These approaches have one major drawback: they cost money. Indeed, because housing is so expensive they cost a considerable amount of money per household. Especially in strong market metropolitan areas with rising housing prices subsidizing economic integration with taxpayer-funded incentives is prohibitively expensive. With the looming recession placing fiscal stress on federal, state and local governments, housing subsidy funds will be limited. It is for this reason that we have chosen to concentrate on two place-based strategies that local governments can use to promote economic integration by leveraging market dynamics without taxpayer funding.

Inclusionary Zoning

Inclusionary zoning (IZ) is one way to promote economic integration without taxpayer subsidies. IZ relies upon leveraging developer commitments to affordable housing by allowing them to build at higher densities. The success of IZ depends upon a strong real estate market. Ironically, IZ is often made possible by exclusionary zoning. To the extent that zoning requires single-family homes on large lots, the supply of housing will not be able to keep pace with demand. IZ laws enable developers to build at higher densities *if* they agree to set aside a certain number of units for low- and moderate-income families. Developers not only have an incentive to build units with a mix of incomes but they have a strong motivation to ensure that the affordable units do not harm the value of the market-rate units.

All IZ laws operate under the same principles, but they can vary significantly in their application.²⁷ Some IZ laws are voluntary: developers can accept or reject the density bonus in exchange for providing affordable units. More municipalities are now switching to mandatory IZ programs, which are more effective at producing affordable units. Usually the laws only apply to larger developments of 50 units or more. The set aside for affordable units varies from 5 to 35 percent and the targeted incomes vary from 30 to 120 percent of area median income. The two factors interact so that the lower the income group targeted, the lower the set

aside. IZ laws need to be carefully calibrated to protect the profitability of developers. In strong housing markets IZ laws can generate more units for lower-income families. In weak markets, IZ may need to be accompanied by subsidies for the developer.

One of the nation's first and probably most successful IZ ordinances was adopted in 1973 by Montgomery County, Maryland. According to Maryland law, with the exception of a few municipalities, Montgomery County exercises all land use planning and zoning powers. The law requires that in all housing developments of 50 units or more 15 percent of the housing must be set aside for the lowest one-third of county residents. Today, the cut off is 65 percent of the median household income in the county. Montgomery's law has an innovative dimension that enables it to address the needs of low-income renters. The local Housing Authority can purchase up to one-third of the affordable units and sell or rent them to low-income families. In return, developers can receive a density bonus of up to 22 percent. To date the IZ ordinance has produced over 11,000 affordable units that are dispersed throughout middle-class housing developments in Montgomery County – at little or no cost to the taxpayers.

IZ represents a dramatic shift away from “Euclidian” zoning laws. Named after the 1926 Supreme Court ruling (*Village of Euclid v. Ambler Realty Co.*, 1926) that upheld zoning power in the United States, Euclidean zoning is based on a map that sorts different types of land uses into separate sections of the city. Each classification (single-family, rental, retail, etc.) is strictly separated from the others. IZ is a non-Euclidean approach to zoning that sets up incentives to achieve public goals and then leaves it largely up to developers on how to achieve those goals. Under this more flexible approach, developers have invented ways to build affordable housing units that blend into the neighborhood. If the market-rate housing has a brick façade, they put brick on the affordable units. Instead of building two duplexes side-by-side, they will build them back-to-back so that from the street it looks like only one duplex. As a result of developer creativity, it is almost impossible to spot the affordable units and there is no stigma attached to living in one.



Affordable Dwelling Units in Fairfax Count, Virginia, Required by Inclusionary Zoning
Can you tell which townhouses are affordable and which ones are market rate (selling for \$750,000)?

The key to the political success of IZ ordinances is that they frame the issue not in terms of welfare or public housing but as a matter of correcting a market failure. Instead of using the terms “public housing” or “subsidized housing,” IZ advocates use of the term “workforce housing.” Their mantra is: *“If someone is good enough to work here, they ought to be good enough to live here.”* The lack of affordable housing is not caused by people making insufficient incomes, but by the market failing to meet housing demand. Exclusionary zoning laws artificially restrict the supply of affordable housing. Montgomery County experienced a huge boom in jobs in recent decades but without the IZ law many of those workers would have been forced to live outside the county, clogging the highways. IZ is framed as meeting multiple objectives: by increasing economic integration it reduces the crime and social decay that follows concentrated poverty; it reduces roadway congestion by enabling workers to live closer to where they work; by economically balancing communities, it reduces fiscal stress.

Above all, political success requires convincing citizens that the affordable units will not harm property values. Research has shown this to be true.²⁸ If the demand for affordable housing is satisfied over a large geography, no single neighborhood is forced to accept a large proportion of affordable units (which

could negatively affect neighboring property values). If all developers are required to set aside units for affordable housing, no developer feels unfairly burdened. This is another argument for mandatory IZ laws.

Finally, IZ does not cost the taxpayers anything. How, then, does affordable housing get built if no public money is involved? Essentially, developers are able to meet the demand for low-income housing the way they have always done – by building smaller units in more dense configurations. In the 19th and early 20th centuries developers made profits by building multi-story tenements in central cities. In the case of IZ the units can be affordable because the cost of the land is effectively zero. The affordable units are added on to an existing site plan. The profit rate on the affordable units can be zero or even negative. But because the density bonus extends beyond the affordable units, the developer is able to make additional profits by building more market-rate units on the land. IZ creates value by letting the market operate to satisfy demand. Developers would not participate if they did not make a profit.

In strong market regions with rising land values and strong demand for housing, IZ provides a way to promote economic integration at no cost to the taxpayers. By 2008, about 500 cities and counties encompassing 38 million residents had enacted mandatory IZ laws. One out of eight Americans now resides in communities requiring mixed-income housing.²⁹ Responding to Long Island's severe shortage of workforce housing, in July 2008, the New York Legislature mandated that all 109 villages and towns in Nassau and Suffolk counties enact IZ laws. Inclusionary zoning expert David Rusk has estimated what would happen if IZ were enacted in the 100 largest American metropolitan areas. Assuming a 15 percent set aside that would cover 80 percent of all new construction between 1980 and 2000, the result would be the creation of 2.6 million additional affordable units and a 37 percent reduction in economic segregation.³⁰ This would result in dramatic reductions in crime and other social problems without major taxing and spending programs.

IZ has been limited almost entirely to strong market regions. But even in weak market regions, there are housing submarkets that are strong enough to leverage investment in affordable workforce housing. Strong housing submarkets are created by access to amenities, such as walking distance to employment centers, parks and open space, pedestrian-friendly public spaces and retail developments, and access to safe and convenient public transportation.

Using Public Transit to Promote Economic Integration

Housing policy and transportation policy tend to be developed in separate policy silos. HUDs don't talk to DOTs. This is a mistake. Transportation investments shape housing demand in powerful ways. Suburbanization would not have been possible without massive investments in suburban road capacity. Years ago in cities, multi-story apartment buildings, often with shops on the first floor, clustered along trolley lines, and streetcar suburbs developed at trolley hubs. Transportation policy can be used to shape housing development. Linking transportation to housing development is a powerful way to build mixed-income communities.

In the last 20 years, a new generation of fixed-rail transit systems has evolved. Starting with San Diego in the early 1980s metropolitan areas have invested in new light rail systems that are faster than trolleys, but stop more frequently than the heavy rail suburban commuter trains. Bus rapid transit (BRT) lines, in which buses are given dedicated lanes and priority at traffic lights, are being developed in many cities and can provide many of the same benefits as light rail. The demand for housing near light rail station lines is soaring. Today, about 6 million households live within a half mile of a transit station. The demand for housing adjacent to transit is projected to reach 16 million by 2030.³¹ To meet this demand, 10 million housing units will need to be built within a 10-minute walk of transit stations. This movement toward denser, mixed-use forms of development presents a golden opportunity to create economically integrated communities.

Transportation has taken up a larger and larger proportion of household budgets, especially for low-income families. Since the 1930s the amount the average American family spends on transportation has increased by about 500 percent (in real terms). As a proportion of family income, transportation costs have more than doubled.³² A major reason for this is the sprawled out pattern of suburban development. As women have entered the workforce, owning two automobiles has become a necessity. In 2007 the cost of owning an automobile averaged \$9,498.³³ Today, the average American family spends 19 percent of its budget on transportation with the burden increasing as family incomes decline. High-income families spend only about 9 percent of their incomes on transportation compared to 55 percent for very low-income families. The rising cost of gasoline is essentially a regressive tax.³⁴ The average American household now spends about 4 percent of its income on gas, but low-income households, typically driving older cars that get lower gas mileage, spend twice that percentage or more.

For most Americans, transportation costs are fixed because they must use an automobile for nearly all their trips. But people who live in transit-rich, pedestrian-friendly neighborhoods have a choice. Accordingly, the amount of

money spent on transportation varies depending on where you live. In reality, transportation costs are tightly tied to housing. Under the slogan, “drive ‘til you qualify,” households trade longer commutes in exchange for more affordable suburban housing on cheaper land. Housing near the center of urban areas that is well serviced by transit is more expensive per square foot but enables households to cut their transportation costs. Recognizing this, Fannie Mae created a Location Efficient Mortgage that enables borrowers to qualify for a larger loan if they are buying in areas that have lower average transportation costs.

The proportion of household budgets spent on transportation varies across metropolitan areas, from 21 percent in Houston, Cleveland and Detroit, to 15 percent in Baltimore, Portland and New York.³⁵ Higher levels of density and public transit enable households to cut automobile use and decrease expenditures on transportation. Transportation costs also vary *within* metropolitan areas. The Urban Markets Initiative has developed a new tool called the Affordability Index that shows how much a household can save by living in a transit-rich environment. In Minneapolis-St. Paul, monthly costs of transportation varied from \$446 to \$941. Moving from a transit-poor to a transit-rich neighborhood would save the average household \$5,940 a year.³⁶ For a low-income family, this would be huge.

Substantial new investments are being made in new light rail systems. The Federal New Starts program has been funded at less than \$2 billion a year and only a handful of metropolitan areas get assistance in any year. But many metropolitan areas are passing local taxes to expand transit. In 2004 Denver voters passed a half-cent sales tax that will fund a \$4.7 billion expansion of the light rail system. Charlotte voters also approved a half-cent sales tax that will finance a \$9 billion light rail system scheduled for completion in 2030. Light rail systems are sold to the voters for a wide range of benefits, including cutting traffic congestion, reducing gasoline consumption, improving air quality and attracting new investment to the region. In addition, light rail systems are touted for stimulating dense, mixed-use development and helping low-income people who cannot afford to own a car.

Light rail systems are valuable not just because they respond to present demand for transit but because they shape future demand for transit. Transit-oriented development (TOD) is development within a half mile of a transit station (about a 10-minute walk) that is high-density, pedestrian friendly, mixed-use and includes station-focused public spaces. TOD is built primarily by private developers but it has extensive public benefits that justify government support: TOD can increase property values around stations and therefore enhance tax revenues; well-designed TODs can reduce crime by creating “eyes on the street” and 24-hour activity; TOD increases transit ridership by giving residents access to more

destinations by transit and on foot; TOD promotes active, healthy lifestyles; and TOD saves infrastructure costs by reducing the need for parking.

TOD can also improve social equity and reduce economic segregation. Low-income households are good to have in TOD developments because they tend to use transit more than higher-income households. In 2001, those making less than \$20,000 a year accounted for 38 percent of all transit riders, far more than their 14 percent share of the urban population.³⁷ Mixed-income TOD also provides low-income people better access to jobs and therefore increases their chances of upward mobility.

Mixed-income TODs can be promoted by governments in a number of different ways. TOD overlay zoning districts have been implemented that reduce the requirements for parking, develop design standards, and encourage denser developments around stations. In strong markets, TOD overlay zoning can permit higher levels of density in exchange for a certain percentage of affordable units. Low-income households are less likely to own a car and therefore the government can reduce the parking requirement by 75 percent (from one parking space per middle-income unit to one-quarter of a space per low-income unit).³⁸ At \$20,000 to \$30,000 per underground parking space, this can be a powerful incentive for developers to include affordable housing. In weaker housing markets, governments can further incentivize mixed-income TODs using Tax Increment Financing (TIF) districts or Low-Income Housing Tax Credits (LIHTC).

The potential savings to low-income households of living in a TOD are significant, but only rarely is it possible for households to entirely give up access to a car. In most American metropolitan areas families need a car periodically to make major purchases or to visit friends or relatives in another part of the region. Normally, there is no way to own “part” of a car, but now with the spread of carsharing you can gain access to an automobile on a part-time basis. A nonprofit in the Bay Area, City CarShare, began operating in 2001. Subsequently private companies, FlexCar and ZipCar, have entered the business. Flex cars are parked on city streets or in parking garages, and after joining and doing a background check, members can use the cars on a per hour basis, usually for less than \$10 an hour. A study of CarShare members found that nearly 30 percent had gotten rid of one or more cars and nearly two-thirds said they had decided not to purchase another car.³⁹ Imagine what it would mean to a family of three earning the federal poverty cut-off (\$17,600 in 2008) if they could dispense with the cost of owning a car (annual cost \$9,498) and instead use public transit and carsharing at half that amount or less.

In short, the development of new light rail systems across American cities offers an opportunity to build economically integrated transit villages. Even in weak market metropolitan areas land values are rising around transit stations, justifying

denser development. Local governments can induce mixed-income developments by allowing denser development in exchange for setting aside some units for low- and moderate-income housing. Transportation policy can be used to leverage housing dollars and opportunities for low-income families. If land values are not high enough to leverage developer commitments for workforce housing, governments can use housing subsidies, such as Low-Income Housing Tax Credits, to make it profitable. Targeting subsidies to mixed-income TOD makes sense because of the added benefits of reducing traffic congestion and increasing economic integration. With political will, it can be done in any city where transit increases land values around stations.

Conclusion: Where Do We Go from Here?

Given the enormity of the recent financial bailout, the new administration in Washington will undoubtedly be forced to cut social spending. State and local governments also face cutbacks. How can the United States address serious social problems – failing schools, crime, chronic joblessness, teen pregnancy, drug abuse – in a time of fiscal retrenchment? One way is to promote economic integration. The research is clear that concentrated poverty has negative effects on school performance and a range of social outcomes *independent of individual characteristics, including poverty*. Even if we cannot reduce poverty we can reduce its effects by creating more mixed-income communities. Though racial segregation has been declining slowly, economic segregation has been increasing steadily, and we need to do something about it.

Economic integration varies significantly across metropolitan areas. As we show, there are many different ways to measure economic integration. For this study we devised a Relative Economic Integration Index that takes into account the huge differences in income ranges across metropolitan areas. We also examined the segregation of the poor from the rest of society and the concentration of poverty. The different ways of measuring economic integration are related but measure different aspects of the same phenomena. Notwithstanding the complexities of measuring economic integration, the federal government should make tracking and setting goals for increasing economic integration, part of its policy.

Policies for promoting economic integration should not tell people where to live. As we put it: *Economic integration, stated simply, means that households of all different income levels have realistic housing options in all parts of a metropolitan area, so that they can pursue opportunities throughout the region*. A certain amount of economic segregation is normal. But present levels of economic segregation are excessive. They are driven not just by individual choices but by public policies, including exclusionary zoning laws, excess highway capacity and fiscal inequities across municipalities and school districts.

Federal and state governments should level the playing field, eliminating the market distortions created by public policies.

Policies to foster mixed-income communities must be based on the realities of the market. Suburban sprawl has been an engine of economic segregation. Smart growth and urban containment policies would help to level the playing field, fostering economic integration. Urban containment policies are politically difficult but containment is happening spontaneously as regions exhaust developable land, traffic congestion increases, commutes lengthen and gas prices rise. As the suburban frontier gradually closes, new housing demand will turn inward, presenting opportunities to leverage market forces to promote economic integration.

Intelligent economic integration policies require us to transcend the policy silos that too often reinforce the status quo. Transportation policy is housing policy. Transportation policy should not just aim at mobility, which often results in a predominant focus on highways, reinforcing sprawl. Transportation policy should aim at accessibility, which requires a multimodal approach that integrates transportation with land use. Transportation policy should be used to build sustainable mixed-income communities. Housing policy is education policy. Housing policies that promote mixed-income communities can improve school performance. Flexible policies that work with the market can give the taxpayers more bang for their buck. Indeed, as we show, inclusionary zoning and transit-oriented development can leverage market values to increase economic integration, with all its collateral benefits, at little or no cost to taxpayers.

Endnotes

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³ *Report of the National Advisory Commission on Civil Disorders* (New York: E.P. Dutton & Co., Inc., 1968).

⁴ For syntheses of the research on the policy challenges posed by economic segregation, see Paul A. Jargowsky, *Poverty and Place: Ghettos, Barrios, and the American City* (New York: Russell Sage Foundation, 1997); Alan Altshuler, et al, *Governance and Opportunity in Metropolitan America* (Washington, D.C.: National Academy Press, 1999); Peter Dreier, John Mollenkopf, and Todd Swanstrom, *Place Matters: Metropolitan Politics for the Twenty-First Century*, rev. ed. (Lawrence, KS: University Press of Kansas, 2005).

⁵ For example, see E. A. Hanushek, J. F. Kain, J. M. Markman, and S. G. Rivkin, "Does peer ability affect student achievement?" *Journal of Applied Econometrics* 18 (2003), pp. 527-544; A. A. Summers and B. L. Wolfe, "Do Schools Make a Difference," *American Economic Review* 67 (1977), pp. 639-652; and R. W. Zimmer and E. F. Toma, "Peer effects in private and public schools across countries," *Journal of Policy Analysis and Management* 19 (2000), pp. 75-92.

⁶ William Julius Wilson, *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy* (Chicago: The University of Chicago Press, 1987), p. 57.

⁷ Joseph Cortright, *City Vitals* (Chicago: CEOs for Cities, undated), pp. 36-37.

⁸ The complete list of income brackets is:

Less than	\$9,999
\$10,000 to	\$14,999
\$15,000 to	\$19,999
\$20,000 to	\$24,999
\$25,000 to	\$29,999
\$30,000 to	\$34,999
\$35,000 to	\$39,999
\$40,000 to	\$44,999
\$45,000 to	\$49,999
\$50,000 to	\$59,999
\$60,000 to	\$74,999
\$75,000 to	\$99,999
\$100,000 to	\$124,999
\$125,000 to	\$149,999
\$150,000 to	\$199,999
\$200,000 and over	

⁹ We combine Metropolitan Statistical Areas (MSAs) with Primary Metropolitan Statistical Areas (PMSAs). We don't report figures for Consolidated Metropolitan Statistical Areas (CMSAs), which are composed of PMSAs and are probably too large to be considered a cohesive social and economic unit.

¹⁰ Paul A. Jargowsky, *Poverty and Place: Ghettos, Barrios, and the American City* (New York: Russell Sage Foundation, 1997).

¹¹ Rachel Dwyer, "Expanding Homes and Increasing Inequalities: U.S. Housing Development and the Residential Segregation of the Affluent," *Social Problems* 54 (1), 2007, pp. 23-46.

¹² Paul Jargowsky, "Sprawl, Concentration of Poverty, and Urban Inequality," in *Urban Sprawl: Causes, Consequences, and Policy Responses*, edited by Gregory D. Squires (Washington, D.C.: Urban Institute Press, 2002), p. 57.

- ¹³ Edward Glaeser, Matthew Kahn & Chenghuan Chu, "Job Sprawl: Employment Location in U.S. Metropolitan Areas," The Brookings Institution, Center on Urban & Metropolitan Policy, May 2001.
- ¹⁴ Lucy and Phillips, 2003.
- ¹⁵ Todd Swanstrom, Colleen Casey, Robert Flack & Peter Dreier, "Pulling Apart: Economic Segregation Among Suburbs and Central Cities in Major Metropolitan Areas," Brookings Institution Living Cities Census Series, October 2004. "Poor" suburbs are defined as suburbs with per capita incomes less than 75 percent of the per capita income for the metropolitan area.
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- ²⁰ Bruce Katz, "Neighborhoods of Choice and Connection: The Evolution of American Neighborhood Policy and What It Means for the United Kingdom," Brookings Institution, Research Brief, July 2004.
- ²¹ Danielle Arigoni, *Affordable Housing and Smart Growth: Making the Connection* (Washington, D.C.: National Neighborhood Coalition, 2001).
- ²² Glaeser, Kahn & Chu, op. cit.
- ²³ Peter S. Goodman, "Fuel Costs Shift Equation for Life in Far Suburbs," *New York Times* (June 25, 2008).
- ²⁴ Arthur C. Nelson, Thomas W. Sanchez & Casey J. Dawkins, "The Effect of Urban Containment and Mandatory Housing Elements on Racial Segregation in US Metropolitan Areas, 1990-2000," *Journal of Urban Affairs* 26 (3), 2004, p. 348.
- ²⁵ Robert W. Burchell, et al, *Sprawl Costs: Economic Impacts of Unchecked Development* (Washington, D.C.: Island Press, 2005).
- ²⁶ Jacob L. Vigdor, "Does Gentrification Harm the Poor?" *Brookings-Wharton Papers on Urban Affairs* (Washington, D.C.: Brookings Institution Press, 2002), pp. 133-182; Lance Freeman, *There Goes the 'Hood: Views of Gentrification from the Ground Up* (Philadelphia, PA: Temple University Press, 2006).
- ²⁷ This section is based on a PowerPoint presentation by David Rusk, "Inclusionary Zoning 101: A Presentation for ISAAC," Kalamazoo, Michigan, May 21, 2008.
- ²⁸ See Innovative Housing Institute and Greater Washington Research Council, "The House Next Door," (www.inhousing.org/housenexhtm); and MIT's Technology Center for Real Estate, "Effects of Mixed-Income, Multi-Family Rental Housing Developments on Single-Family Home Values," (http://mit.edu/cre/research/hai/pdf/40B_report_HAI_0405.pdf).
- ²⁹ Calculation by David Rusk (personal communication).
- ³⁰ Based on calculations by David Rusk using 2000 Census data and the Urban Institute's economic segregation index.
- ³¹ Shelley Poticha, "Building Housing Near Transit: A Long-Lasting Affordability Strategy," Congressional Testimony Before the Appropriations Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, U. S. House of Representatives, March 8, 2007. This estimate was made before the recent increase in gas prices.
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- ³³ American Automobile Association, *Your Driving Costs* (Heathrow, Florida: AAA, 2007). The estimate is based on gasoline costing \$2.256 a gallon.
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Appendix:

Household Income Thresholds for Membership in Top or Bottom Third, by Metropolitan Area, 2000

Metropolitan Area	Thresholds (\$)	
	Bottom Third	Top Third
New Orleans, LA	23,022	51,680
Miami, FL	23,334	52,864
Pittsburgh, PA	25,014	53,798
Buffalo, NY	25,481	55,139
New York, NY	25,572	62,199
Tampa, FL	26,145	52,707
San Antonio, TX	27,011	54,976
Providence, RI/MA	27,300	59,473
Los Angeles, CA	27,953	62,542
Greensboro, NC	28,374	56,474
Fort Lauderdale, FL	28,468	59,671
Cleveland, OH	28,785	59,312
Riverside, CA	28,946	60,171
Orlando, FL	29,906	57,688
Norfolk, VA/NC	30,252	58,253
Cincinnati, OH/KY/IN	30,287	61,915
Las Vegas, NV/AZ	30,313	58,861
Houston, TX	30,554	64,596
St. Louis, MO/IL	30,703	61,902
West Palm Beach, FL	30,821	64,406
Nashville, TN	30,927	60,665
Columbus, OH	31,203	62,096
Phoenix, AZ	31,515	62,093
Milwaukee, WI	31,664	63,738
Indianapolis, IN	31,759	63,179

Philadelphia, PA/NJ	31,805	67,861
San Diego, CA	32,318	66,736
Sacramento, CA	32,376	65,225
Fort Worth, TX	32,388	63,937
Kansas City, MO/KS	32,471	63,638
Charlotte, NC/SC	32,522	63,375
Detroit, MI	33,004	69,214
Portland, OR/WA	33,308	64,458
Dallas, TX	33,595	68,460
Austin, TX	33,799	68,216
Baltimore, MD	33,823	69,159
Chicago, IL	35,662	72,195
Denver, CO	36,269	70,371
Boston, MA/NH	36,856	78,435
Atlanta, GA	36,887	71,574
Seattle, WA	37,448	72,499
Newark, NJ	37,695	81,878
Minneapolis, MN/WI	38,621	72,853
Bergen, NJ	40,274	84,930
Oakland, CA	40,338	83,431
Orange County, CA	40,982	82,342
San Francisco, CA	42,659	91,862
Wash., DC/MD/VA/WV	43,962	86,299
Nassau, NY	48,481	93,030
San Jose, CA	52,342	102,814

Source: 2000 Census, Summary File 3, Table P-52, Calculations by the author.