Developing mixed-income housing

Some practitioners and local decision-makers see mixed-income housing as a way to facilitate or preserve economic integration, create well-maintained and amenity-rich housing options for low-income individuals and families, and increase community acceptance of affordable housing, particularly in higher-income neighborhoods. This brief reviews the meaning of the term “mixed-income,” some of the reasons that cities promote mixed-income development, its limitations, and options for reducing or overcoming obstacles.

1. “Mixed-income” is a flexible label that can be used to describe many types of developments, but most commonly refers to projects that include a mix of market-rate units and units dedicated to serving low-income households.

Mixed-income development refers generally to residential settings in which housing is affordable to individuals and families with different income levels. The term is often applied to projects that include a mix of market-rate and dedicated affordable units (restricted to low-income households) in the same building or development. These units may be mixed in the same hallway, separated in different buildings or on different floors or wings of the same building. City blocks or neighborhoods can also be described as mixed-income when they include a diverse housing stock affordable to residents with a range of income levels.

In different municipalities and in different contexts, the term mixed-income may be used to describe different ratios of affordable and market-rate units. Similarly, the determination of what income level (or range of income levels) makes up the affordable units in a mixed-income development may vary, and a variety of subsidy programs may be used and combined to reach the lowest-income households, including Low Income Housing Tax Credits and project-based vouchers. All of these factors will vary depending on the community and the type of housing assistance used.

Community revitalization, economic mobility, and other social goals can also influence the target income mix at a particular development. In redevelopment projects, including a greater share of affordable units may be more desirable if the primary goal is to prevent displacement and preserve social networks among existing residents. Setting aside a larger share of units for higher-income residents can lead to better maintenance and amenities in the development (as the development has to compete with market-rate developments) and help to increase economic diversity. However, the research evidence does not support the hypothesis that mixing lower-income
households with higher income households in the same development results in stronger social connections. The evidence to date indicates that interaction across income groups has been limited, with no significant changes in the economic status of families in assisted housing units.

2. **Mixed-income development can be a useful tool to prevent new or break up existing concentrations of poverty, although it may not be politically or economically feasible in all neighborhoods.**

Mixed-income development can be used to achieve a variety of goals in different types of neighborhoods. For example, when redevelopment of public housing in low-income neighborhoods includes a mixed-income component, it can be an effective tool to promote economic diversity and attract investment. Including affordable units in market-rate developments can help to preserve economic diversity in areas that already have a mix of incomes or are gentrifying. New mixed-income developments can also help to create diversity in high-income neighborhoods. Despite this versatility, there are circumstances under which mixed-income development seems to work best.

**High-poverty and distressed neighborhoods**

In low-income neighborhoods, mixed-income housing can help to attract relatively higher-income households, particularly when developed as part of a community revitalization plan that also includes a range of other activities to strengthen the neighborhood. The redevelopment of distressed public housing through HOPE VI, Choice Neighborhoods, and other federal programs provides one illustration of how cities, towns, and counties have attracted an economically diverse population to live in areas that had been almost exclusively poor. The large scale of these projects has in some cases resulted in the transformation of entire neighborhoods, and new mixed-income housing has been associated with significant decreases in poverty and violent crime, reduced exposure to environmental hazards, and other positive neighborhood changes.

The success of this approach will depend in part on the ability to attract market-rate residents to the units that are not income-restricted or, if subsidized, are intended for a relatively higher income group. Tenant composition and the ratio of extremely low-income households to relatively higher income households (including low-income working households who are also in subsidized units) are important factors, and active management will be required to maintain the desired income mix over time. In particular, apartments that are assisted through the Low Income Housing Tax Credit (LIHTC) program and are affordable to low- and moderate-income households may
gradually become occupied by extremely low-income housing choice voucher holders—providing important housing opportunities for the lowest-income households but undermining the goal of bringing relatively higher income families into a low-income neighborhood. Conscious attention to the tenant profile, including through advertising designed to appeal to higher-income households, can help to preserve the desired income mix.

The replacement of deeply subsidized units with mixed-income housing has also raised concerns about the loss of subsidized units and the displacement of extremely low-income residents. These concerns are heightened when redevelopment is undertaken in a way that leads few of the original residents to return to benefit from the revitalized neighborhood. Any community considering mixed-use development as a strategy to promote economic diversity will need to carefully coordinate tenant relocation programs and the provision of replacement units to minimize disruption for existing residents and maximize opportunities for residents to return to the revitalized development.

**Mixed-income and gentrifying neighborhoods**

In gentrifying neighborhoods and other areas where residents already have a mix of incomes, mixed-income development can help to provide and sustain housing opportunities for the lowest-income households. In these neighborhoods, one reason for creating a mixed-income development (rather than a 100 percent affordable development) may be to overcome resistance to subsidized housing. However, a development that serves only a trivial number of the lowest income households will not be serving its intended purpose. Cities, towns, and counties developing mixed-income housing in strong neighborhoods should also be mindful of the unit mix. If the affordable units are primarily studio and one-bedroom apartments, they may be occupied by households in transition, such as students and couples just entering the workforce, who only temporarily meet income requirements. The mixed-income strategy should ensure the creation of larger units that can be occupied by families with children who may have longer-term affordability needs.

**Resource-rich neighborhoods**

The same concerns apply to mixed-income developments proposed for resource-rich neighborhoods in which most of the residents have relatively high incomes. A mixed-income development may encounter less resistance in these neighborhoods than one targeted exclusively to low-income households. Projects in higher-income areas will probably find it easier to attract higher-income families than those in low-income or declining moderate-income neighborhoods, and stronger neighborhoods with high demand for housing will be better able to support a wider range of incomes than
weaker ones with less demand. Given the relatively high incomes of neighborhood residents, however, a 100 percent affordable project would do more to mix incomes in this context than one in which low-income households occupy only one-third of the units. Still, there may be reasons to consider mixed-income development in resource-rich neighborhoods, for example if the market-rate units can rent or sell for a sufficiently high price and generate profits that can help to cross-subsidize the rents of lower income households in the same development. (See the related brief, How should cities balance trade-offs among the quantity, quality, and location of affordable housing? for additional guidance on the costs and benefits of developing affordable housing in resource-rich neighborhoods.)

3. A mixed-income approach can make development more feasible, but also introduces risks that can make it harder to secure public and private financing.

The inclusion of market-rate units in a proposed affordable housing development can have both positive and negative effects on its public reception. Proposals to create 100 percent affordable housing can be derailed by well-organized and vocal community opposition. Neighbors may have concerns about the quality of management or maintenance in affordable developments or negative preconceptions about the tenants. Inclusion of market-rate units can help to allay these concerns, and proposals for mixed-income developments that include an affordable component may draw less resistance than proposals for a development that is 100 percent affordable. On the other hand, some community members may object to the use of available land for purposes other than affordable housing or the inclusion of any market-rate units in developments supported with public funds, arguing that scarce resources should be reserved only for helping the lowest-income households. Existing residents may also be wary of new development that has the potential to lead to gentrification and push up rents for market-rate housing.

A mixed-income approach can also affect the financial feasibility of developing affordable housing—introducing both challenges and benefits. Most new affordable housing is built with support from the Low Income Housing Tax Credit program; however, lenders and investors who finance tax credit developments are not always comfortable with the risks associated with units that charge market-level rents. Similarly, lenders who typically work with market-rate developments may be unwilling to lend to projects with an affordable component because they may be concerned that the affordable tier will make the market rate units appear less attractive. However, the income mix can also provide advantages for the economics of an individual development. As noted above, in areas with very high rents or home prices, mixed-income developments that include market-rate housing may be able to use profits from
the market-rate units to cross-subsidize the units for low-income households and reduce the amount of subsidy required. In condominium projects, households in affordable units may pay lower condo fees (and have a lower beneficial interest) than other owners and receive a cross-subsidy from market-rate owners to help cover operating costs of the building.

**Other factors for cities, towns, and counties to consider when deciding how to balance quality, quantity, and location of affordable housing include:**

1. As noted above, having higher-income neighbors does not necessarily lead to the formation of relationships across income groups that promote economic mobility for lower-income households. Rather than relying on newly-forged social connections to help advance the careers of assisted-housing residents, the community may wish to offer career guidance and training and other supports to help low-income residents get ahead. Intentional efforts to create infrastructure and opportunities for interaction among neighbors—through the design of public spaces and creation of shared use facilities such as coffee shops, recreational centers, and schools, as well as the promotion of diverse and inclusive resident organizations—can also help to foster relationships and integration.

2. The city or county will need to establish clear guidance on how basic operating issues will be handled in mixed-income housing. For example, will residents of assisted units pay the same homeowner or amenity fees as market-rate residents? If not, will they be able to access all of the amenities, or will access be restricted (and how will those restrictions be communicated to residents)? The community will also need a plan to handle scenarios where low-income residents can’t afford homeowner association or amenity fees.

**See also:**

- Comprehensiveness and balance – key attributes of a local housing strategy
- Taking a balanced approach to new development: the importance of creating and preserving dedicated affordable homes as well as allowing for new housing for all income levels
- Setting income eligibility levels for local housing programs