

**Distressed Public Housing—What It Costs to Do Nothing**  
Margery Austin Turner, Susan J. Popkin, G. Thomas Kingsley  
with Deborah Kaye  
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Over the past decade, the HOPE VI program has invested over \$5 billion in federal funds in the replacement or revitalization of severely distressed public housing developments. These federal dollars have leveraged billions more in other public, private, and philanthropic investments. To date, over 63,000 distressed public housing units have been demolished, with another 20,000 units slated for redevelopment.

The current administration at HUD has been critical of the high costs of HOPE VI, and proposes that the program should be cut back dramatically or even eliminated. In effect, they argue that the problem of severely distressed public housing has largely been solved and that the country cannot afford to replace or revitalize more properties. By our estimates, however, between 47,000 and 82,000 severely distressed units remain in the public housing inventory that are not currently scheduled for demolition and replacement.<sup>1</sup> These units may not all need the full treatment of the existing HOPE VI program, but the evidence suggests that they exhibit many symptoms of severe distress and probably require substantial, targeted funding for replacement or revitalization.

Tackling the remaining inventory of severely distressed public housing would be costly. But doing nothing about distressed public housing has costs as well. Severely distressed developments are more expensive for local housing agencies to operate and maintain than normal public housing. Moreover, these developments often blight the neighborhoods that surround them, discouraging private investment and undermining property values. And distressed public housing subjects families and children to dangerous and damaging living environments that raise the risks of ill health, school failure, teen parenting, delinquency, and crime—all of which generate long-term costs that taxpayers ultimately bear.

This paper briefly summarizes the existing research evidence on the costs of doing nothing about the remaining inventory of severely distressed public housing:

- Section 1: A profile of severely distressed public housing properties.
- Section 2: Distressed developments cost more to operate and maintain.
- Section 3: Distressed developments blight the neighborhoods around them.

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<sup>1</sup> See Kingsley et al. (2004) for a complete discussion of these estimates. The lower bound estimate includes properties with REAC scores below 75 (reflecting serious problems of physical deterioration or mismanagement) where more than 30 percent of residents rely primarily on welfare income (as an indicator of concentrated poverty and resident distress). The upper bound includes properties with REAC scores below 80 and more than 25 percent of residents relying primarily on welfare income. It is important to say that these indicators are not put forward as a true or complete definition of severely distressed public housing. Nonetheless, we think they are enough to suggest that, even affording a fairly wide margin of error, the candidate pool of severely distressed public housing is by no means exhausted.

- Section 4: Distressed developments put families at risk.
- Section 5: Resident distress burdens public programs.
- Section 6: Summary and conclusion.

We do not attempt to produce a “bottom-line” cost-benefit estimate for continuing the HOPE VI program (or something like it). Such an estimate would require more information about the remaining inventory of distressed properties, including their age and physical composition, characteristics of their residents, and conditions in the surrounding communities.<sup>2</sup> The goal of this paper is to highlight the potential consequences of leaving distressed developments in place—for public housing agencies, for neighborhoods, for residents, and for city, state, and federal governments and taxpayers.

## 1. Distressed Public Housing—A Profile

Public housing was originally intended to provide decent housing for families who could not afford to pay private-market rents. Most developments today continue to achieve this goal—adding to the stock of decent and affordable housing in communities across the country. But some developments have spiraled into serious physical, financial, and social distress, owing to failures of both policy and program administration. These severely distressed developments are not just old, outmoded, or run down. Rather, many have become virtually uninhabitable for all but the most vulnerable and desperate families. This section describes the conditions that set severely distressed developments apart from the majority of the public housing inventory.<sup>3</sup>

***Physical Deterioration.*** Physically, “severely distressed” public housing is everything the label implies—dilapidated, often largely vacant buildings that show the effects of poor construction, managerial neglect, inadequate maintenance, and rampant vandalism. These developments have huge backlogs of repairs, creating hazardous conditions that place residents at risk for injury or disease. A recent survey (Popkin et al. 2002) asked residents of five HOPE VI developments about the pre-revitalization conditions of their housing. Most reported multiple serious problems, including cockroach infestations, excessive mold, and heating and plumbing problems.

***Crime and Insecurity.*** Exacerbating these problems, violent criminals and drug dealers dominate many distressed developments, causing residents to live in constant fear and luring young people into criminal activities. In same survey (Popkin et al. 2002), nearly three-quarters of the residents in a sample of HOPE VI developments reported major problems with drug trafficking and drug sales in their developments. Two-thirds of survey respondents reported that shootings and violence were also big problems, and half the respondents reported that they did

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<sup>2</sup> In fact, it seems likely that the cost-benefit calculation would vary by property, and could potentially prove a useful tool for determining which properties warrant HOPE VI-type investments.

<sup>3</sup> Note, again, that sufficient evidence is not currently available to determine how many of the units that remain in the public housing inventory share all these symptoms of severe distress.

not feel safe just outside their own buildings. The high levels of crime and disorder result not only from the overconcentration of profoundly poor and troubled families, but also from ineffective management by local housing authorities. In many developments, leases are not enforced, disruptive and destructive residents are not evicted, vacant units are not secured, and policing is inadequate.

***Residents in Distress.*** These developments have become dangerous and destructive communities in which to live, undermining the welfare of families and children. In its final report to Congress, the National Commission on Severely Distressed Public Housing (1992) made it clear that severely distressed public housing is “not simply a matter of deteriorating physical conditions, it is more importantly one of a severely distressed population in need of services and immediate attention.” Most of the residents are deeply poor, unemployed, and dependent on public assistance or the underground economy (Popkin, Gwiasda, et al. 2000). Moreover, the profound poverty, distress, and disorder of distressed public housing undermines the health of surrounding neighborhoods, which though generally less poor than the public housing, typically have very high rates of poverty, unemployment, high school dropouts, crime, and other social ills; few services or stores; and even fewer jobs.

These “residents living in despair” are primarily minority women and children. A national analysis of HUD data documented that the majority of HOPE VI residents are African American or Hispanic (Kingsley, Johnson, and Pettit 2002). Further, a staggering 88 percent of the people who lived in the neighborhoods surrounding the severely distressed developments were minorities. The economic segregation in distressed public housing is also extreme. The National Commission on Severely Distressed Public Housing cited evidence that more than 80 percent of public housing residents live below the poverty threshold, and most earn less than 20 percent of what unsubsidized residents in the same communities earned. Not surprisingly, rates of unemployment and public assistance receipt are also very high.

## **2. Distressed Developments Cost More to Operate and Maintain**

Distressed public housing developments are expensive to operate and maintain; if left in their current condition, these properties generate high costs to PHAs and HUD (compared to healthier properties that make up most of the public housing stock). All the factors that contribute to making a property severely distressed potentially raise the costs of maintenance and management, while reducing revenues from tenant rent contributions. This section summarizes the available research evidence on the abnormally high costs born by PHAs and HUD as a consequence of severe distress.

***Maintenance and Repair Costs.*** At the most basic level, these properties are generally old and structurally deteriorated, often have obsolete mechanical and electrical systems, and may have been poorly built or constructed with inappropriate materials (National Commission on Severely Distressed Public Housing 1992). All these physical problems—and distressed public housing properties often have multiple problems—demand extra time from maintenance and repair staff,

thereby raising the costs of basic operations. In its recently completed study of the costs of operating subsidized rental housing, the Harvard Graduate School of Design found that older properties (over 26 years old) cost 10 percent more to operate than properties built within the past 10 years (Harvard University Graduate School of Design 2003).

**Costs of Vacancies.** Severely distressed developments often have high vacancy rates, which deprive the PHA and HUD of rental income, but also increase the costs of management and maintenance costs. The Commission on Severely Distressed Public Housing highlighted the role of high vacancies, explaining that once vacancies reach a certain threshold, they often spiral out of control. Maintenance staffs cannot keep pace with the volume of units that need to be readied for reoccupancy, and occupancy staff may get backlogged on the tenant selection and certification process. As a result, units remain vacant for long periods, creating opportunities for squatters and drug traffickers to move in, and leading to vandalism and physical abuse of the property. And the PHA has to spend more to provide extra security, evict squatters, clean up graffiti and vandalism, and make building repairs (National Commission on Severely Distressed Public Housing 1992).

**Security Costs.** Whether or not units are vacant, the high levels of crime, violence, and disorder that prevail in many distressed public housing developments impose tremendous cost burdens on public housing management. They make it more difficult for maintenance staff to gain access to buildings and units in need of repair and upgrade, and raise the costs of providing basic security for residents and staff. Between 1990 and 1999, PHAs spent over \$4 billion on crime reduction and prevention, for additional police officers, community policing, tenant patrols, fencing, lighting, and security cameras (U.S. Department of Housing and Urban Development 1999). The Chicago housing authority alone spent nearly \$500 million between 1992 and 1998 (Popkin et al. 2000).

**Diversion of Scarce Resources.** Leaving distressed properties in their current condition potentially siphons scarce resources away from other public housing properties, and may lead to undermaintenance and deterioration in the rest of the public housing stock.<sup>4</sup> A PHA's total operating subsidy is based on agencywide needs, not project-by-project needs. Distressed developments, with above-average operating and maintenance needs, reduce the operating resources available for stable housing developments (National Commission on Severely Distressed Public Housing 1992). Moreover, the total capital investment need for the public housing inventory as a whole has been estimated at over \$20 billion. And as the Commission on Severely Distressed Public Housing noted in 1992, "given current funding constraints, the decision to use disproportionate amounts of PHA modernization dollars on one or more severely distressed developments may force difficult choices about the priority of more routine modernization of other developments" (p. 79).

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<sup>4</sup> This discussion assumes that the total pool of federal resources committed to public housing modernization would not be substantially increased in the absence of HOPE VI (or a successor program).

### 3. Distressed Developments Blight the Neighborhoods Around Them

As a general rule, public and assisted housing developments have little impact on the value of surrounding properties, and in some cases their effects can be positive. But distressed public housing properties are different; they often contribute to the concentration of poverty in inner-city neighborhoods, exacerbating disinvestment and undermining property values and local property tax revenues. This section summarizes existing research on the blighting effects of severely distressed public housing, as well as emerging evidence from the HOPE VI experience that revitalizing distressed public housing can reverse these effects and enhance the surrounding neighborhoods.<sup>5</sup>

**Concentrated Poverty and Distress.** The history of racial segregation and poverty concentration in distressed public housing is well documented (Massey and Kanaiaupuni 1993). In many cities, discrimination led to the deliberate siting of public housing in poor minority neighborhoods that lacked access to transportation and jobs (Bickford and Massey 1991). Over time, these developments were often allowed to deteriorate, due to the lack of political clout, deliberate neglect, and prejudice. Moreover, HUD policies targeting public housing assistance to households at the lowest income levels and giving priority to those in the most extreme distress exacerbated the concentration of profoundly poor households in these developments. In many cases, therefore, severely distressed developments increase the overall poverty rate in the surrounding neighborhood (Schill 1995). And concentrated poverty has been shown to undermine the viability of neighborhood businesses, civic institutions, schools, exacerbating neighborhood crime and distress (U.S. Department of Housing and Urban Development 1995).

**High Costs of City Services.** Concentrated poverty also burdens city government with high costs of delivering public services. These costs fall into two categories: spending for services that are directly related to poverty, such as hospitals, public welfare, and health; and spending for general public services, such as police, courts, fire, sanitation, recreation, and infrastructure. Both categories of spending are higher in cities with high poverty rates. Even after accounting for intergovernmental transfers, cities with higher poverty rates spend \$277 per capita on *poverty-related services* (in 1990 dollars), compared to \$124 per capita in cities with low poverty rates. And cities with high poverty rates spend \$422 per capita more than low-poverty cities on general public services. In fact, researchers estimate that every percentage point increase in a city's poverty rate adds \$27.75 to per capita expenditures on general public services (Pack 1998).

**Declining Property Values and Property Tax Revenues.** When public and assisted housing is properly designed, sited, and managed, it generally has no adverse impact on the value of surrounding residential properties. In fact, proximity to scattered site developments that are well constructed and maintained can actually increase property values. But when public housing is

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<sup>5</sup> We do not know what share of the remaining distressed public housing inventory is located in high poverty or distressed neighborhoods. This may prove to be an important criterion for determining which properties warrant priority for future HOPE VI investments.

overconcentrated, it has been shown to reduce nearby home values, especially in lower-income neighborhoods, where housing demand is already weak or quality of life is threatened (Galster 2002). Moreover, severely distressed properties—with their high poverty rates, physical deterioration, and crime—often blight the neighborhoods that surround them. Higher-income families move away from these neighborhoods, demand and investment decline, surrounding properties are allowed to deteriorate, and property values fall. And as property values decline, so too do property tax revenues. Thus, the concentration of poverty and neighborhood decline triggered by distressed public housing simultaneously raises the costs of local government services and reduces a city's tax base.

Evidence beginning to emerge from research on completed HOPE VI developments indicates that successful HOPE VI investments can reverse the blighting influence of distressed public housing. More specifically, some HOPE VI projects have improved the basic services and amenities available for all neighborhood residents; some have improved neighborhood schools; and some appear to have catalyzed or contributed to the revitalization of the neighborhoods that surround them.

***Community Services and Amenities.*** Many of the neighborhoods surrounding distressed public housing lack basic community services such as parks, libraries, and police stations, as well as commercial facilities such as supermarkets, banks, and restaurants. Some HOPE VI sites have made significant improvements in community institutions and physical infrastructure in the neighborhood. These improvements are intended to provide much-needed services to families at the site and throughout the neighborhood. In Seattle, for example, HOPE VI funds were used to expand the neighborhood community center and ball fields, build a satellite public library, and develop a new neighborhood resource center (Epp 1996). Other HOPE VI revitalization investments have led to the creation of new neighborhood institutions such as community centers, police substations, medical centers, and job training centers (Holin et al. 2003).

***Improved Neighborhood Schools.*** In a few sites, HOPE VI has sponsored innovative efforts to link public housing redevelopment with substantial investments in neighborhood schools. At the Murphy Park site in St. Louis, the Jefferson Elementary School now serves not only local students but also those in the surrounding community. Partnerships formed among the developer, McCormack Baron and Associates, the St. Louis public school system, and a newly created community development corporation helped to establish a school and ensure resident participation in the planning process (Myerson 2001). Funds were used to install state-of-the-art technology infrastructure in the school, and computers and educational software in each classroom.

At the Villages of East Lake in Atlanta, in addition to new residences, facilities included a new charter school, the first of its kind in Atlanta (Myerson 2001). Children from the Villages of East Lake and the surrounding community receive priority when enrolling, but the school is open to any student residing within the Atlanta Public School District. School improvements also figured

prominently in the revitalization of Atlanta's Centennial Place, which includes a magnet school that serves both community residents and those from other parts of the city (Holin et al. 2003; Khadduri et al. 2003; Turbov and Piper 2004).

***Potential for Neighborhood Revitalization.*** Do the substantial investments in HOPE VI redevelopment result in the “turnaround” of distressed neighborhoods? Four major studies of the neighborhood effects of HOPE VI have been completed to date (Kingsley et al. 2004). This research suggests that there have been dramatic improvements in the neighborhoods surrounding some HOPE VI developments. For example, in some HOPE VI neighborhoods the incomes of neighborhood residents rose substantially faster than in neighborhoods citywide, unemployment fell dramatically, and concentrated poverty declined. In addition, rates of mortgage originations in HOPE VI neighborhoods were higher than in surrounding jurisdictions, indicating that these neighborhoods were experiencing increasing rates of residential investment. Finally, there were big reductions in crime rates, particularly the rate of violent crime. It is important to note that the data from these studies cannot reliably estimate the degree to which HOPE VI, as opposed to other factors, caused these changes.<sup>6</sup> Nevertheless, these early studies offer important insight into how HOPE VI may be helping to revitalize the communities that surround previously distressed public housing developments.

#### **4. Distressed Developments Put Families at Risk**

A growing body of social science research shows that living in profoundly poor and distressed neighborhoods can significantly damage people's health, foster school failure, delinquency, and crime, and undermine the long-term life-chances of children and youth. These impacts—and the extent to which they have been rigorously studied—vary across different age groups. Here we review the existing research evidence on how high levels of neighborhood poverty and distress affect infants and young children, adolescents, and adults. Although this “neighborhood effects” research does not focus specifically on public housing, conditions in many severely distressed public housing developments are as bad (or worse) as in the typical high-poverty neighborhood. Moreover, this section summarizes findings from the Gautreaux experiment, the Moving to Opportunity (MTO) demonstration, and recent HOPE VI research about how the opportunity to move away from distressed public housing into a safer and healthier neighborhood can improve the life chances of families and children.

***Infants and Young Children.*** Relatively little empirical research has focused on how neighborhood distress affects infants and young children. But several studies have found that having more affluent neighbors is associated with higher IQ for preschool children (Brooks-Gunn et al. 1993; Chase-Lansdale and Gordon 1996; Chase-Lansdale et al. 1997). In addition,

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<sup>6</sup> There is a method that can estimate the effect that HOPE VI has on trends in home sales prices in areas surrounding the sites (Galster and Quercia 2000), but it is not workable in all cities and has yet to yield statistically significant results where it has been applied, possibly because not enough time has elapsed since project completion.

elementary school children living in low-income neighborhoods exhibit more aggressive behavior when interacting with others (Kupersmidt et al. 1995), and elementary school performance is linked to neighborhood social and economic status (Halpern-Felsher et al. 1997).

**Adolescents.** Many more studies have focused on links between neighborhood environment and the social and economic well-being of adolescents.<sup>7</sup> Young people from high-poverty and distressed neighborhoods are less successful in school than their counterparts from more affluent communities; they earn lower grades, are more likely to drop out, and less likely to go on to college. Young people from poor neighborhoods are also less likely to get jobs during and immediately after high school. Studies have also documented that neighborhood environment influences teens' sexual activity and the likelihood that girls will become pregnant during their teen years. And finally, young people who live in high-crime areas have been found to be more likely to commit crimes themselves.

**Adults.** Adults may be influenced more by the environments in which they grew up than by conditions where they currently live. Nonetheless, considerable research has found evidence that distance from jobs reduces employment rates, particularly among lower-skilled adults.<sup>8</sup> Additionally, research suggests that living in disadvantaged neighborhoods increases the risk of mortality and disease. This means that a poor person living in a disadvantaged neighborhood would tend to have worse health than a poor person living in a more prosperous neighborhood. A recent study estimated that deaths could potentially be reduced by about 20 percent if neighborhood-based differentials in mortality rates could be eliminated (Acevedo-Garcia et al 2004).

When families are able to escape from distressed public housing and move to healthier communities, their lives improve measurably. Research on families who have moved through the Gautreaux demonstration, the Moving to Opportunity demonstration, and the HOPE VI program provides evidence significant benefits for both parents and children.<sup>9</sup>

**Greater Safety and Security.** Research on participants in the Moving to Opportunity (MTO) demonstration finds that moving with a regular voucher—generally to intermediate-poverty neighborhoods—increased families' perceptions of safety by 15.6 percentage points, while moving with an MTO voucher (to low-poverty neighborhoods) produced a 30.3 percentage point increase (Buron et al. 2002). We see similar gains among HOPE VI relocatees (Buron 2004). And families place tremendous value on these improvements, telling interviewers what a relief it

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<sup>7</sup> For a review of this extensive research literature, see Ellen and Turner (1997).

<sup>8</sup> For the most current review of the literature on this “spatial mismatch” hypothesis, see Ihlanfeldt and Sjoquist (1998).

<sup>9</sup> The Gautreaux demonstration provided special-purpose vouchers and counseling to African American families who moved from poor, predominantly black neighborhoods in Chicago to racially integrated communities in the city and its suburbs. The MTO demonstration is a carefully controlled experiment to test the impacts of helping families move from high-poverty assisted housing projects (in Baltimore, Boston, Chicago, New York, and Los Angeles) to low-poverty neighborhoods.

is not to worry every day about possible violence and to have the freedom to let children play outside (Orr et al. 2003).

**Better Schools.** The evidence is mixed on how moving to a better neighborhood may affect children's educational achievement. Gautreaux research found striking benefits for children whose families moved to suburban neighborhoods. They were substantially more likely to complete high school, take college-track courses, attend college and enter the workforce than children from similar families who moved to neighborhoods within Chicago (Rosenbaum 1995). The MTO evidence is not as strong. Families have moved to neighborhoods with better schools, but—unlike Gautreaux movers—relatively few have left central-city school districts. Moreover, some MTO children continue to attend the same schools, despite the fact that their families have moved. To date, there is no evidence that MTO moves have led to better educational outcomes, possibly because so few children are attending significantly better schools, or because it may be too soon to see benefits (Orr et al. 2003). HOPE VI relocatees who have moved with vouchers report improvements in the schools their children attend. They see the schools as safer and better quality, and they also report that their kids are having fewer problems at schools, including trouble with teachers, disobedience at school and at home, and problems getting along with other children (Popkin, Eiseman, and Cove 2004).

**Better Outcomes for Teenage Girls.** Some of the early research on MTO families in individual sites suggested that young people whose families moved to low-poverty neighborhoods were engaging in less risky behavior and committing fewer crimes. In Baltimore, for example, moving to a low-poverty neighborhood was found to cut violent crime arrests among juveniles roughly in half (Ludwig, Duncan, and Ladd 2003). More recent and comprehensive data for all sites suggest that moving to a lower-poverty environment is indeed improving the behavior of teenage girls, but not boys.<sup>10</sup>

**Improved Health.** The MTO demonstration has shown improvements in the health of the families who moved to lower-poverty neighborhoods. In particular, the most recent follow-up study shows a substantial reduction in adult obesity (Orr et al. 2003). This effect is noteworthy because the prevention of obesity has emerged as a national public health priority. Obesity increases the risk of illness from some 30 serious medical conditions, results in approximately 300,000 premature deaths each year, and is associated with \$117 billion in costs (Turner and Acevedo-Garcia 2004). MTO and adolescent girls also showed significant improvements in mental health, including reductions in psychological distress and depression, and increasing feelings of calm and peacefulness (Orr et al. 2003).

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<sup>10</sup> Research is currently under way to better understand what is happening to the boys, and why they do not seem to be enjoying the same benefits from mobility as girls. One possible explanation is that black and Hispanic boys moving to integrated or predominantly white neighborhoods are not engaging in any more criminal behavior, but are being arrested more due to racial profiling. Another possibility is that girls and boys respond differently to the loneliness and fears of relocation.

**Employment and Earnings.** The current evidence on how mobility affects adult employment and earnings is mixed and still somewhat inconclusive. It is important to note that mobility assistance does not directly address employment problems, although it may remove barriers standing in the way of employment. As a consequence, employment effects may take more time to materialize than other outcomes. Long-term research on Gautreaux families has found significant increases in employment and reductions in welfare receipt. To date, we see no statistically significant employment or earnings effects across the total sample of MTO families or among HOPE VI relocatees.<sup>11</sup>

## 5. Resident Distress Burdens Public Programs

All of us bear the costs of the damage to families and children that occurs in distressed public housing environments. More specifically, when residents fail in school, cannot get steady jobs, have children while they are still teenagers, and suffer from poor health, our taxes pay for welfare benefits, food stamps, unemployment insurance, and health care. And we pay to prosecute and incarcerate those who engage in serious criminal activities. Of course, many people who live in distressed public housing live decent and responsible lives, despite the hazardous environment.<sup>12</sup> And not all of those who have serious problems are transformed when their communities are revitalized. Nonetheless, leaving distressed public housing developments as they are—and allowing the damage to families and children to continue—is a costly choice. This section summarizes evidence on the public costs associated with the problems of school failure, chronic unemployment, teen parenting, poor health, and crime.

**Costs of School Failure.** When young people fail in school and drop out without a high school diploma, their potential earnings are dramatically reduced. They are considerably less likely to get jobs, and the jobs for which they can qualify have lower wages. More specifically, in 2001, the unemployment rate for non-graduates was 7.3 percent, compared with 3.7 percent for high school graduates (Veale 2002). And in 2000, the average income for high school dropouts was \$20,748, compared with \$38,068.93 for graduates (Veale 2002, p.2). Other researchers have estimated that a high school dropout earns less than 50 cents for every dollar earned by a high school graduate (De Souza and Gebremehin 1999), and that a boy who drops out of high school will earn about \$200,000 less over his lifetime than if he graduated (Catterall 1985). School failure also contributes to the incidence of crime and violence, since adults who lack the skills and credentials to succeed in the labor market are more likely to engage in criminal activity. Research has estimated that inadequate education contributes 12.5 percent of the costs of crime, and that annual savings of up to \$5.9 million in judicial costs, \$116.1 million in

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<sup>11</sup> When we look at the MTO sites individually, we do see significant impacts on employment and earnings among MTO families in New York and Los Angeles, but it is not clear why there would be an impact in these sites and not in others.

<sup>12</sup> As discussed earlier, precise estimates of the public costs of distressed public housing would require information on the characteristics of residents in the remaining inventory of properties and the incidence of problems among them.

the costs of police protection, and \$119.6 million in stolen property costs could be achieved if the dropout problem were eradicated (Ramirez and Robledo 1987).

**Costs of Unemployment.** High rates of unemployment among school dropouts generate public costs, including the costs of job placement programs and unemployment benefits. In 1987, Ramirez and Robledo estimated these costs to be \$15.7 million a year (1987 dollars), or about 2.5 percent of all the money paid out in unemployment insurance claims in 1985. Moreover, dropouts tend to use social welfare services at a greater rate than the total population. In 1987, researchers estimated the contribution of inadequate education to AFDC and food stamp spending to be \$253.7 million—\$94.8 million for AFDC and \$158.9 million for food stamps (Ramirez and Robledo 1987). Finally, because high school dropouts earn less, they pay less in taxes, at local, state, and federal levels. These lost tax revenues have been estimated to total 30 percent of the lifetime earnings deficit (Ramirez and Robledo 1987).

**Costs of Teen Parenting.** When teenage girls have children, their chances of completing school drop, contributing to the cycle of unemployment, lost wages, and increased social costs discussed above (Dillard and Pol 1982, Hoffman, Foster, and Furstenberg 1993). In addition, having a child early is strongly associated with having many children (Trussell and Menken 1978; Dillard and Pol 1982). Being a teenage mother does not directly correlate to occupational status, hourly wage, annual earnings, and hours of work. However, numerous studies find that education, experience, and family size are the most crucial factors affecting these work variables. Since early childbearing is highly correlated with inadequate education, poor work experience, and large family size, it indirectly affects employment outcomes. Moreover, if mothers lack the education and skills to support large families, welfare costs increase as a result. In fact, women who give birth when they in their teens are more likely to receive public assistance than those who postpone childbearing (Hoffman, Foster, and Furstenberg 1993).

**Costs of Poor Health.** Emerging evidence suggests that living in severely distressed public housing may contribute to poor physical and mental health, including obesity (and its consequences for heart problems), asthma, and depression. These health problems often prevent people from getting and keeping jobs, contributing to high rates of unemployment and welfare receipt. Moreover, the costs of treating these health problems is high, and for poor families, health costs are often borne by Medicaid and by public health clinics and hospitals. Researchers estimate that the direct costs of obesity in the US now exceed \$39 billion annually—more than 5 percent of total medical care expenditures (ObesityHelp Online 2005; Thompson et al. 1998). Similarly, the estimated financial costs of depression in missed days at work, medical expenses, and premature death total \$43 billion annually (American Psychiatric Association 1998).

**Costs of Crime and Incarceration.** The high rates of crime and violence that plague distressed public housing not only victimize residents but also generate substantial public sector costs. Estimates of the annual monetary cost of violent crime in the United States as a whole include \$1.4 billion in criminal justice processing, \$11.2 billion in sanctioning, and \$1.2 billion in other

public programs (Economic and Data Analysis Resource Center 2005). These are in addition to the estimated monetary costs borne by the victims of violent crime, such as medical spending (\$6.7 billion), property damage (\$1.5 billion), and victim work loss (\$39.7 billion) (Economic and Data Analysis Resource Center 2005). Early estimates from the MTO demonstration suggest that enabling a family to move out of distressed public housing to a low-poverty neighborhood yields a reduction of \$22,900 in short-term costs attributable to teen delinquency and school failure (Ludwig and Ladd 2001). Other MTO research has estimated per family savings of over \$5,000 based solely on the shift from violent crime in high-poverty neighborhoods to less costly property offenses in lower poverty areas (Johnson 2001).

## **6. Summary and Conclusion**

Most public housing developments deliver on their original promise, providing decent and affordable housing for low-income families in need. But a combination of policy errors, insufficient funding, and failed management has caused some developments to spiral into severe distress. Fixing distressed public housing is costly. Demolition and relocation, building renovations or new housing construction, site improvements, community facilities, and supportive services all require large expenditures of both public and private funds.

Some have argued that our country can no longer afford these costs. But doing nothing about distressed public housing has costs as well. We do not attempt, in this overview of the existing research evidence, to tally up these costs (on a per family or per property basis), although we hope to do so in future research. Nonetheless, as illustrated in the table below, the costs of inaction are potentially enormous. Severely distressed developments are often more expensive for local housing agencies to operate and maintain than normal public housing. They blight the neighborhoods that surround them, raising the costs of delivering local public services and discouraging private investment and undermining property values. And distressed public housing subjects families and children to dangerous and damaging living environments that can raise the risks of ill health, school failure, teen parenting, unemployment, delinquency, and crime—all of which generate long-term costs that taxpayers ultimately bear.

Producing rigorous cost-benefit estimates for the distressed properties that remain in the public housing inventory will require more information about the condition of these properties, the challenges facing their residents, and the characteristics of the neighborhoods in which they are located. In fact, it seems likely that the cost-benefit calculation may vary considerable depending on factors such as building age, physical condition and vacancies, prevailing levels of delinquency and crime, the incidence of poverty and social distress among residents in the development and in the surrounding neighborhood, and the quality of neighborhood services and supports, particularly the public schools. Developing a set of cost-benefit estimates for different categories of distressed properties could provide a useful tool for determining where future investments (under HOPE VI or a successor program) are likely to yield the highest pay-off.

## If Nothing Is Done About a Distressed Public Housing Development

What Happens?	Who Pays?		
	Local government	PHAs and HUD	Other state and federal programs
Buildings continue to deteriorate		- High maintenance and repair costs	
Units stand vacant		- Lost rent revenues - High turnover costs	
Vandalism, drug dealing, and crime increase	- High costs of police protection and law enforcement	- High security costs - High repair costs	- High costs of adjudication and incarceration
Neighborhood poverty intensifies and property values decline	- Lost property tax revenues - Increased cost of city services		
Young people fail in school and drop out	- Increased need for GED and job training programs - Lost income taxes	- High costs of crime prevention and youth programs	- Increased demand for unemployment and welfare benefits - Lost tax revenues
Teenage girls have babies	- Increased need for child welfare and family services		- Increased demand for unemployment and welfare benefits
Unemployment remains high	- Increased need for job training and placement programs - Lost income taxes	- Lower tenant rent contributions	- Increased demand for unemployment and welfare benefits - Lost income taxes
Residents' physical and mental health worsens	- Increased need for public health clinics and services		- Increased need for Medicare, Medicaid, and SSI

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