An Econometric Analysis of the Impact of Affordable Housing Policy on Crime Rates

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Econometrics Thesis

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March 22, 2024

Abstract

This paper plans to expand upon previous literature by investigating how low-income housing policy, particularly Qualified Census Tract (QCT) status, impacts crime rates. This question is explored in three parts: firstly, QCT status is aggregated at the county level, and FBI crime data for 2007, 2010, 2013, and 2016 are used. Secondly, QCTs within Chicago and Chicago Uniform Crime Data for the same years are used. Thirdly, the number of newly allocated housing units within Chicago census tracts and Chicago Uniform Crime Data for 2006-2016 are used. The study employs several fixed effects models and finds a statistically significant negative correlation between crime and QCTs at the county level. Such findings suggest that low-income housing policy may effectively revitalize distressed neighborhoods and reduce county crime. Using the same fixed effects model but looking at census tract data from Chicago, the study finds no statistically significant relationship between QCT status or the number of newly allocated units and crime. These findings suggest that while low-income policy does not reduce crime within neighborhoods, it does not increase it either.

Keywords: Low-income housing policy, Crime rates, Fixed-effects model, Crime reduction

JEL Codes: C50

Introduction

Subsidized housing policy and affordable housing development, both large and small, are often met with significant contention, frequently involving a debate over the fear of their perceived association with increased crime rates. However, the connection between low-income housing and crime must be better understood. John Macdonald, a researcher in community design and crime, suggests that "zoning, designs of streets and housing, locations of public transit, and land uses shape the built environment in ways that can increase or reduce crime" (Macdonald, 2015). Low-income housing aims to help communities by generating positive externalities, like financial security and stability, that help reinvigorate declining neighborhoods. Concurrently, low-income housing may also generate negative externalities. For example, affordable housing increases the concentration of poverty, which has potentially detrimental effects. Notably, higher concentrations of poverty limit access to appropriate schools, satisfactory jobs, and other means of upward economic and social mobility.

Another significant externality associated with low-income housing developments is its implications for criminal activity. Researchers have yet to reach a consensus on the impacts of affordable housing and its associated policy on crime rates. Researchers cite several opposing phenomenons through which low-income housing could affect crime rates. Firstly, affordable housing is explicitly selected for low-income people, and low-income people are more likely to partake in criminal behavior. Several studies have found a strong correlation between income and the likelihood of partaking in criminal behavior. Bejerk (2007) finds that economic resources are a stronger predictor of youth criminal activity than gender. Secondly, affordable housing concentrates low-income people, which magnifies network effects that promote criminal activity. A large body of research suggests that youth and adults living in disadvantaged communities are

mechanisms between low-income housing and crime rates. Our analysis finds that QCT has no statistically significant impact on violent, property, and other crimes.

This question is thirdly investigated through a multivariate fixed effects model that controls for year and census tracts, where the independent

Low-income housing started in t

Existing research in the econometric field suggests that crime is heavily influenced by the "built environment" and offers conflicting conclusions regarding its correlation with low-income housing and its associated policy. Existing research from Fagan and Davies (2000) regarding public housing in Bronx County, New York, suggests a positive correlation with crime. They base their study on the "Broken Windows" theory, which suggests that neighborhoods with a greater concentration of physical and social disorder have higher crime incidences, especially “quality of life' ' crimes. The "Broken Windows" theory produces two predictions concerning the impacts of increased public housing in an area. Public housing can provide residents with an increased sense of security, leading to increased social order, which theoretically should reduce crime. However, at the same time, public housing potentially displaces high concentrations of poor individuals into more affluent areas. An influx of lower-income individuals into higher-income neighborhoods would result in an increased sense of inequality and decreased social order, increasing crime. These conflicting mechanisms make it difficult to predict the results of Fagan and Davies's study.

Through their study Fagan and Davies find that the rate of public housing in a census tract area was significantly correlated with rape, robbery, assault, and murder, controlling for fundamental demographic differences between regions. However, a limitation of their research is that it is unclear whether public housing is a crime generator or whether higher concentrations of poor individuals create more opportunities for robbery and homicide. Further complicating the findings, the paper finds that stop-and-frisks happen more frequently within poorer and minority neighborhoods. Changes in stop-and-frisk rates within census tracts would result in biased results. As more people are stopped within a census tract, the likelihood of being convicted of a crime simultaneously increases. Therefore, the changes in crime rates may not be because of an actual increase in crimes being committed but rather because of increased policing.

Freedman and Owens (2011) find conflicting results to the Fagan and Davies study. They found that increases in the low-income housing stock are associated with crime reduction. They used variations in tax credits to real estate developers generated by changes in Department of Housing and Urban Development (HUD) program rules as an exogenous source of variation in low-income housing development. They used this data to conduct a quasi-experimental study. Freedman and Owens found that increases in low-income housing were associated with reduced robbery and assaults at the county level. This study suggests that public investment in private, affordable housing can reduce crime, but the mechanisms by which this occurs are unclear.

Freedman and Owens cite that a limitation of their paper is that they focus on county-level crime. No national dataset contains crime at the census tract level, and crime data at a more micro level is only available for a select few cities. By aggregating crime to the county level, the dependent variable contains crimes occurring in wealthier areas that may bias the results. The impacts of low-income housing on people's behavior are highly localized, as crime-reducing effects of "local amenities have been shown to dissipate rapidly over space" (Freedman and Owens, 2011, 16). Localized impacts indicate that the housing stock available to low-income individuals may reduce crime in particular census tracts and nowhere else, suggesting that using smaller units of analysis may be more useful in identifying casual effects.

Freedman and Owens's discussion regarding the limitations of utilizing data aggregated to the county level motivates the next steps of my analysis. Rather than aggregating crime to the county level, I intend to look at city data that includes more micro-level data on crime, specifically at the census tract level. Looking at microdata is also supported by the findings of

Glaser and Sacredote (1999), who investigated several causal links between cities and crime. One causal mechanism they find is the "opportunity hypothesis." This hypothesis suggests that high population density implies that urban criminals do not have to travel far to steal valuable items. Therefore, if QCTs draw low-income housing and crime-prone residents away from weather areas, any observed reduction in the county-level analysis may be driven by decreased crime in non-QCT areas.

Conversely, if LIHTC developments displace the most criminal-prone from higher-income areas, this may reduce crime in wealthier neighborhoods while increasing it in QCTs. Therefore, by not aggregating QCTs to the county level and looking at changes in crime at the census tract level, I will eliminate the bias introduced by geographic distribution to distinguish better between these alternative mechanisms. While there is only such micro-level data for select cities, comparing the results across cities within the US will provide greater insight into the impacts of low-income housing policy by helping eliminate bias introduced by geographic distribution.

Woo conducts a similar study examining how the Low-Income Housing Tax Credit (LIHTC) program impacts neighborhood crime rates. He estimated the levels and trends in neighborhood crime before and after LIHTC developments based on crime incidents from 2000 to 2009 in Austin, Texas, using the Adjusted Interrupted Time Series-Difference in Difference approach. The study found that LIHTC subsidized housing tended to be developed in neighborhoods that previously had high crime rates. He further found that LIHTC developments decreased neighborhood crime. This paper takes a more microgeographic approach to eliminate bias introduced through changes in the geographic distribution of crime, as Glaser, Sacredote, Freedman, and Owens discussed.

public discourse. This study implies that the argument that voucher programs bring crime to neighborhoods is unfounded, and as such, they should be met with less resistance.

As seen through this literature review, there exists no consensus amongst econometrics studies or politicians on the true impact of low-income housing on crime rates. Like Fagan and Davis, many studies have found that low-income housing increases crime rates, supporting the discourse by many that they do not want low-income housing in their neighborhood. Many others, like Woo, Freedman, and Owens, have found that low-income housing decreases

In panel B, the dependent variable represents the count of crimes occurring within a census tract in Chicago. This data was collected from the Chicago Police Department's CLEAR (Citizen Law Enforcement Analysis and Reporting) system and reported by the City of Chicago Open Data. This data set contained the longitudes and latitudes of where crimes were committed, and using Census tract shape files from the Census, one could match each longitude and latitude to a particular tract. Within this data set, are defined as assault, battery, sexual assault and offense, kidnapping, human trafficking, and homicide. are arson, burglary, criminal damage, motor vehicle theft, and robbery. are defined as concealed carry license violation, trespassing, deceptive practice, gambling, intimidation, interference with a public officer, narcotics, obscenity, offense involving children, narcotic violations, prostitution, disturbing the peace, ritualism, stalking, and weapons violation. The total number of violent, property, and other crimes committed within a census tract in a year is the sum of these sub-crime categories.

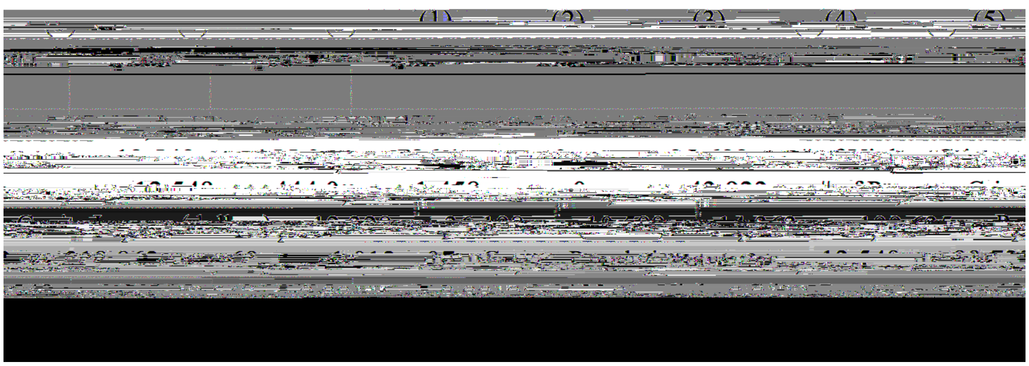
The primary independent variable of interest in panels A and B is QCT status. The United States Department of Housing and Urban Development (HUD) provides yearly data on whether or not a census tract is a Low-Income Housing Tax Credit Qualified Census Tract (QCT). To qualify for QCT status, a tract must have 50 percent of households with incomes below 60 percent of the Area Median Gross Income (AMGI) or a poverty rate of 25 percent or more. QCT status is represented by a dummy variable: zero if the tract does not qualify and one if the tract does qualify. This data is at the census tract level and thus aggregates at the county level for panel A. The aggregated variable is continuous and represents the number of census tracts within a county qualified for QCT status. The independent variable of interest in panel C is the number of newly allocated LIHTC units. The United States Department of Housing and Urban

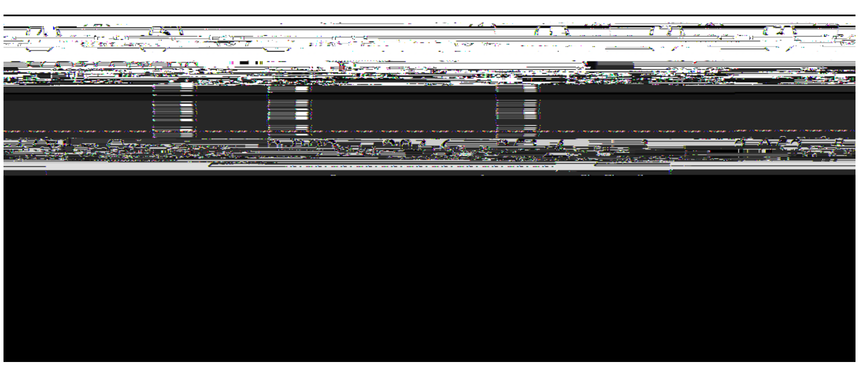
Development (HUD) provides yearly data on where LIHTC units are built and how many are built. The number of new units allocated in each year is used within the panel.

Additionally, income is included in panels A and B. The income variable in panel A is per capita income in dollars, collected by the Bureau of Economic Analysis. Specifically, this data is from the Local Area Personal Income data set. It is calculated by taking the personal income of a given area and dividing it by the resident population of the area to determine the per capita income in dollars. For the census tract level data in Chicago (panel B), income is not directly controlled; instead, the poverty rate is controlled. This data is collected by the HUD and provided in the Qualified Census Tracts data set. Additionally, the population is included in all the panel data sets (A, B, and C) and was collected from the Census.

The data regarding these three variables (QCT status, income or poverty rate, population, and crime rates) is then merged to create three comprehensive panel data sets. After creating the county-level data set, several counties were removed due to missing observations. Specifically, counties in Puerto Rico, Alaska, and several other smaller counties were removed because they were missing either crime or QCT data. After creating the Census tract-level data sets, several observations were dropped as well, which can be explained by the changing boundaries of census tracts across years.

Intriguing suggestive evidence emerges when looking at patterns throughout the data. When considering macro trends, it is suggested that between 2005 and 2016, crime incidence was on a relatively stable decline across the US; it also appears that the number of QCTs was relatively stable over the period. When looking at the mean number of QCTs per county vs. the mean number of crimes committed at first glance, there appears to be a substantial positive correlation—suggesting higher crime rates in counties with more QCTs ( ). Conversely, when looking at the total number of crimes committed within a tract by QCT status, it appears that the average crime rate is very similar amongst QCTs and non-QCTs and that there are more outliers in tracts that did not qualify for QCT status ( ). Another intriguing trend is revealed when looking at the total number of crimes committed within a tract vs. the number of low-income housing units in that tract ( ). This graph shows a negative correlation between crime incidence and the number of low-income housing units. This correlation suggests that low-income housing units are built in larger quantities in places with previously low crime levels. Such conflicting suggestive evidence makes this a fascinating question to try and investigate.





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Methodology

The empirical strategy utilizes a multivariate regression with county and time-fixed effects. The equation for the regression is as follows:

$$= \quad + \beta \quad + \alpha + \mu + \epsilon$$

Within this equation, (i) is the county-state, (t) is the year, and (x) is per capita income.

The analysis commenced with a straightforward linear regression of crime rates on the number of qualified census tracts within a county. Subsequently, a multivariate regression was conducted, incorporating income as a crucial crime determinant. This multivariate regression played a pivotal role in controlling for endogeneity within the model, as evidenced by the significant decrease in the coefficients associated with violent and property crime. However, despite this control, residual bias persisted due to the omission of time and unit fixed effects. Given the inherent systematic differences across years and counties, this omission could potentially bias the previous coefficient estimates.

Recognizing the potential biases introduced by not controlling for time and unit-fixed effects, we employed a new model that included county and time-fixed effects. A fixed-effect model is appropriate for running a regression on this data as it was a panel data set. The time-fixed effect, for instance, controls for time-specific factors that affect all of the units simultaneously, such as a broad macroeconomic trend like the great depression in 2008. The county-fixed effect, on the other hand, controls for county-specific factors constant over time, like population density. This comprehensive approach, including fixed effects, not only accounted for unobserved factors that vary across time and

While the fixed effects model addressed some endogeneity concerns, a significant limitation remained. County-level education levels, a crucial determinant of crime rates, remain not explicitly controlled for. While effective in controlling for county-specific factors that are constant over time, the county-fixed effect may not capture the yearly changes in education levels. If this is the case, then the county fixed effect would not pick up this factor, and as such, education could bias our results. Education is undoubtedly correlated with crime rates and is likely associated with QCT status. Less educated people are more likely to live in lower-income areas, which are more likely to qualify for QCT status. Explicitly controlling for education levels is especially important as within the literature regarding crime determinants, it is found that the two most prominent crime determinants are education and income. So, while income is explicitly controlled for, not controlling for education could bias the coefficients.

Another limitation of the model is that it looks at county-level crime rates. To address this concern, I looked specifically at data from the Chicago census tracts. I used a similar model to that above. The equation for the m specifically

A notable constraint of the model mentioned above lies in its potential difficulty asserting external validity. It is plausible to infer that systematic variances exist among different US cities. Consequently, the influence of low-income housing on crime rates in one city may significantly differ from that in another. To address this concern, one could juxtapose the findings in Chicago with those of other cities across the United States. Doing so would allow one to make more definitive assertions regarding its implications and validity. Incorporating data from multiple cities could enhance this examination and validate its external applicability. This endeavor, while at exogenous variation due to policy. A way to only look at this variation is to utilize QCT status as an instrument variable for the number of affordable housing units within a county. The empirical strategy for this follows the following equations (two-stage least squares):

$$\Delta \quad = \beta_2 \quad \widehat{\quad} \quad + \beta \quad + \alpha + \mu + \epsilon \quad \textbf{(4)}$$

$$\widehat{\quad} \quad = \hat{\gamma} \quad + \hat{\gamma} \quad + \phi + \lambda \quad \textbf{(5)}$$

An instrumental variable strategy is appropriate due to concerns regarding reverse causality between the number of affordable housing units and crime rates. Previous research suggests that crime rates may impact the affordability of housing units, so using an instrumental variable should address this concern. QCT status is a valid instrumental variable in this case as it has a causal impact on the number of newly allocated crime. However, these results are only informative when controlling for the population and demographics of the counties; a fixed effects model can be used to control for such variables.

In the fixed effects model ( ), it is discovered that an additional census tract qualifying for QCT status is associated with a property crimes. These findings align with expectations, as counties with larger populations would naturally have more crime.

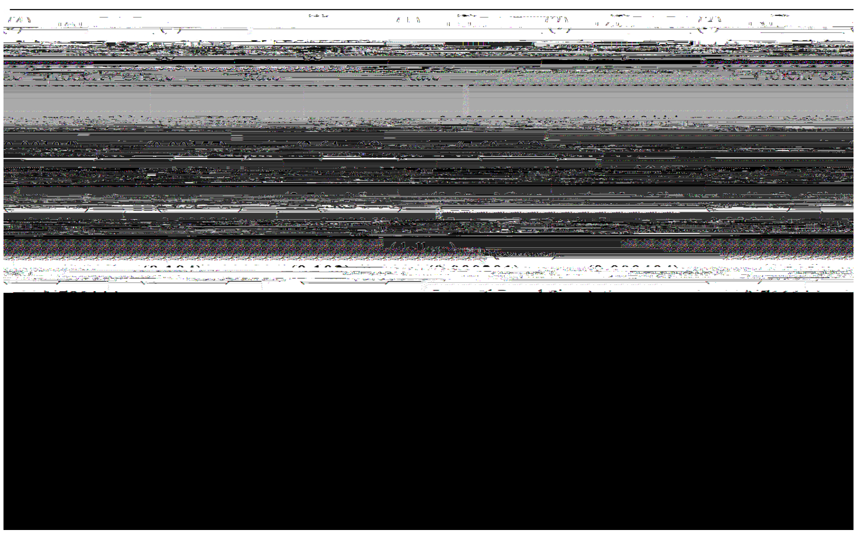
Significant differences are found when comparing the fixed effects estimates ( ) to the OLS estimates ( ). This comparison indicates that not controlling for county and year introduces significant omitted variable bias into the model. Using the fixed effects model helps eliminate endogeneity caused by constant unobservables within a county and year-specific across all counties. Furthermore, significant differences exist between the fixed effects model and OLS's fitness. The R-squared value in the fixed effects model increases significantly to 0.945 and 0.962 from tracts are associated with increased crime. However, these results are only that informative when controlling for systematic differences across tracts and between years. A fixed effects model can be used to control for such variables.

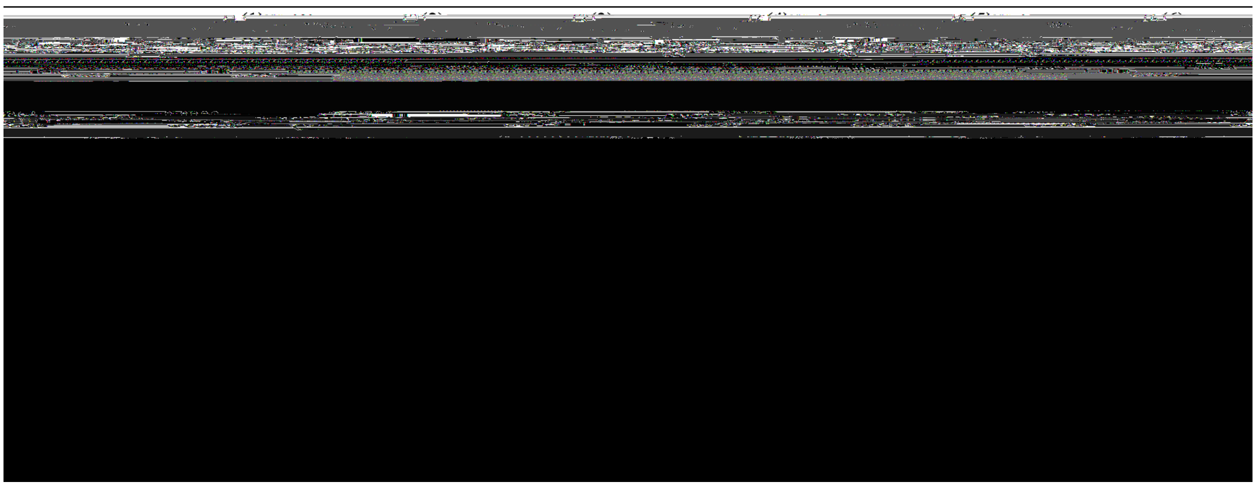
In the fixed effects model ( ), it is found that a census tract qualifying for QCT status was associated with a 2.14% increase in violent crimes committed compared to a census tract that did not qualify. It was also found that QCT status was associated with a 2.33% decrease in property crimes and a 0.828% decrease in other crimes compared to those without QCT status. All of these estimates are not statistically significant at any reasonable level. These findings suggest that the presence of a low-income housing policy does not impact the incidence of crime in the surrounding areas—such results conflict with the county-level findings, which indicated that county-level crime rates decreased.

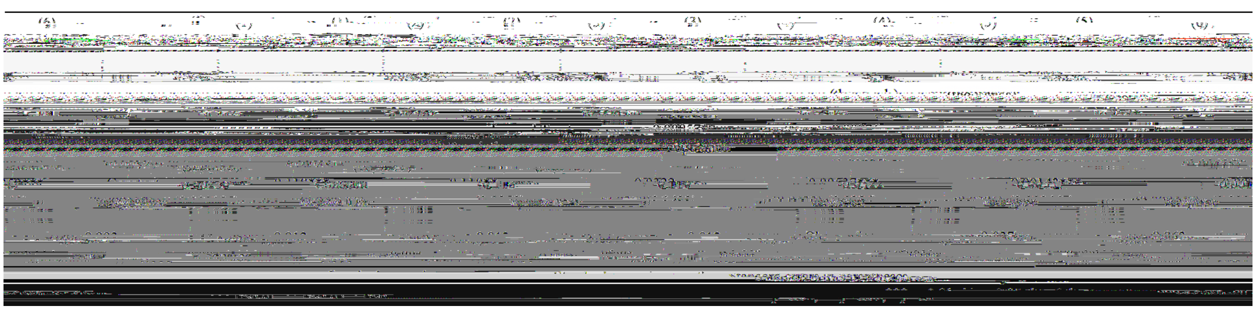
Similar to the county-level analysis, significant differences exist between the fixed effects and multivariate OLS estimates. This comparison indicates that not controlling for census tract and year introduces significant omitted variable bias into the model. Using the fixed effects model helps eliminate endogeneity caused by constant unobservables within a census tract and year-specific across all tracts. Furthermore, significant differences exist between the fixed effects model's and OLS's fitness. The R-squared value in the fixed effects model increases significantly to 0.967, 0.969, and 0.978 from 0.321, 0.119, and 0.158. These values mean that the fixed effects model represents 96.7% of the variance in violent crime rates, 96.9% in property crime rates, and 97.8% in other crimes. These higher R-squared values indicate that the fixed effects model represents much more of the variance in crime.

Moving into the analysis of how the number of newly allocated LIHTC units impacts crime, the fixed effects model (3) found that 1,000 newly allocated units within a developing new infrastructure in that area. Given the reduced form results, the second-stage results are not informative.

After completing this primary analysis, additional specifications and models are used to address several concerns and check for can be used to mitigate this concern. Adding 1 to the count before taking







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utilizing FBI crime data from 2007, 2010, 2013, and 2016. Secondly, QCTs within Chicago are examined alongside Chicago Uniform Crime Data for the same years. Thirdly, using the number of newly allocated LIHTC units within census tracts, alongside changes in the number of crimes committed within a census tract from 2005 to 2016. When employing a fixed effects model at the county level, the research reveals a negative and statistically significant association between QCT status and crime, both property and violent. These findings imply that low-income housing policies might effectively rejuvenate distressed neighborhoods and mitigate neighborhood crime.

Conversely, when using the same fixed effects model but looking at census tract data from Chicago, the study finds no statistically significant relationship between QCT status and violent crime, property crime, and other crimes. These findings suggest that while low-income policy does not reduce crime within neighborhoods, it does not increase either. Similarly, when using the same fixed effects model but looking at newly allocated LIHTC units and changes in crime incidence, the study [illegible] statism oods, control over education levels becomes crucial. Controlling for this variable is particularly pertinent considering the literature on crime determinants, where education and income emerge as primary determinants. Consequently, while income is explicitly factored into the analysis, overlooking education could bias the coefficients. Another constraint is the lack of external validity of the census tract fixed effects analysis. Claims regarding external validity can only be made if additional cities are analyzed and their results are compared.

Despite the limitations, this analysis presents various policy implications. The findings suggest that at the county level, there is a negative correlation between low-income housing and property crime, implying that low-income housing policy can effectively rejuvenate distressed neighborhoods and mitigate neighborhood crime. This finding challenges the assertions of opponents who argue that low-income housing exacerbates crime rates. These findings could help sway public discourse and allow future policies to be more easily passed. These findings additionally reveal the potential role of low-income housing policies in crime reduction. This potential highlights the need for lawmakers, city planners, and law enforcement agencies to coordinate their efforts and consider low-income housing as a tool for crime reduction.

Furthermore, while the analysis did not find a significant relationship between QCT status and crime rates at the census tract level, this alone holds importance to public discourse. It further debunks arguments utilized by people who advocate against low-income housing developments, citing their association with increased crime. Like the county-level findings, this insight can provide policymakers with the justification for continued and potentially increased development of low-income housing, ultimately benefiting those in need.

This research opens up several avenues for further exploration. The most pressing expansion would be determining the Chicago findings' external validity. This is especially pertinent as we have seen a different (and more sensible) first stage for the larger sample that included all counties in the United States. I would begin by running a similar analysis for other cities that provide crime data at the census tract level, as the HUD provides LIHTC and QCT data at the census tract level across the United States. The biggest obstacle to this will be finding enough cities that provide detailed crime data at the census tract level, as most do not.

Another potential improvement would be considering an event study or regression discontinuity approach. For an event study, one would need to identify counties and census tracts that were 'switchers.' For an RD design, one must identify tracts just above or below the cutoff criteria. While these methods may have the potential to provide greater insight and allow for causal estimates to be drawn, there may not be enough observations that fulfill these requirements for a practical analysis to be conducted. Notwithstanding, these suggestions provide suggestions for further research that would give great insight into the causal mechanisms of the relationship between crime and low-income housing. The potential for further research in this area is vast and promising, and I hope these suggestions and findings will inspire and guide future studies.

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