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(Re)development in New Jersey's Suburbs:
Homeownership, Local Development & the Perpetuation of Inequality

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Introduction

Homeownership is one of the most esteemed values in American society. As such, homeownership is heavily promoted and subsidized by both federal and local governments in the form of tax credits, tax deductions,¹ federally subsidized loans, and federal mortgage insurance from the Federal Housing Authority.² The rationale for these subsidies is that homeowners make better citizens, which has been substantiated by researchers using measures such as local voting and church attendance.³ Conceptualizing homeownership as a socially constructed American value, one can extract that Americans who do not own their own homes are not conforming to traditionally accepted values.

As a homeowner, one is somewhat able to control the fate of their neighborhood through maintenance, home improvements, and expansion. In other words, homeowners can (and often do) endeavor to maintain or improve their property value, in turn maintaining or improving the value and 'desirability' of the neighborhood. Higher homeownership rates have

¹ 26 U.S. Code § 163 (2015).

² Denise DiPasquale & Edward Glaeser, *Incentives and social capital: Are homeowners better citizens*, 45 J. of Urb. Econ. 354 (1999).

³ Id. at 355. Even though there is some evidence that this association is largely explained by housing tenure, it is widely accepted that renters and homeowners are inherently different. See Robert D. Dietz & Donald R. Haurin, *The social and private micro-level consequences of homeownership*, 54 J. OF URB. ECON. 401 (2003).

been found to strengthen communities by fostering higher levels of social trust in neighbors,⁴ which can also work to increase neighborhood desirability. Homeownership is strongly and significantly related to participation in local politics, both in terms of voting in municipal elections and knowledge of one's state representative.⁵ Though this relationship holds true for all income levels, it is almost five times stronger for high-income homeowners than it is for their low-income counterparts.⁶

Adherence to the 'traditional' value of homeownership – and attendant issues such as wealth and rights to space – are at the core of debates surrounding gentrification. Community redevelopment and gentrification are hot-button issues widely explored by scholars and policymakers alike. Research on gentrification has largely focused on inner-cities, displacement, and the processes through which gentrification occurs. Less frequently explored are redevelopment and neighborhood change and ascent in non-urban spaces, such as suburbs. Also underexplored is the relationship between redevelopment, homeownership, local land use controls, and exclusion.

The purpose of this paper is to critically examine redevelopment within suburbs, highlighting the need to account for the exclusionary effects of various types of development in the perpetuation of various levels of inequality. First, I examine the integral role of homeownership in access to opportunity in the United States. I then examine the relationship between exclusionary practices and municipal and metropolitan-level inequality. Next, I

⁴ Brian J. McCabe, *Homeownership and social trust in neighbors*, 11 CITY & COMMUNITY (2012).

⁵ DiPasquale and Glaeser at 367.

⁶ *Id.* at 377.

examine two types of suburban redevelopment: 1) redevelopment as a result of city council planning or local development efforts, and 2) single-lot redevelopment of homes by homeowners. It is critical that I distinguish between these two types of development while still acknowledging that they can be (and often are) complementary processes that function to maintain or “improve” the neighborhood fabric through the systematic exclusion of undesirable populations, usually minorities and low-income populations. Only by understanding the complementary nature of both municipality-initiated development and homeowner-initiated single-lot redevelopment can we then link these actions to macro-level implications on inequality.

Homeownership in the United States

Though homeownership is the pinnacle of living the ‘American dream’,⁷ the opportunity to own a home is not evenly distributed across society.⁸ Rates of homeownership among whites are much higher than that of other racial and ethnic groups.⁹ The sources of racial and ethnic disparities in homeownership rates also vary depending on the racial or ethnic group.¹⁰ These racial gaps in homeownership have direct effects on families’ ability to generate wealth and

⁷ Richard Alba & John Logan, *Assimilation and stratification in the homeownership patterns of racial and ethnic groups*, 26 INT’L. MIGRATION REV. 1314 (1992).

⁸ Sanjaya Desilva & Yuval Elmelech, *Housing Inequality in the United States: Explaining the White-Minority Disparities in Homeownership*, 27 HOUSING STUDIES 1 (2012).

⁹ Aldaberto Aguirre, Jr. & Ruben Martinez, *The foreclosure crisis, the American dream, and minority households in the United States: A decriptive profile*, 40 Social Just. 6, 7-8 (2014) (noting that white homeownership rates were consistently above the national average in 2000 and 2010 while those of blacks and Hispanics were much lower).

¹⁰ See *id.* at 18-19 (discussing that homeownership disparities between Asians and whites can be entirely explained by economic and spatial characteristics, whereas disparities between blacks and whites is largely attributable to socioeconomic, demographic, and unobservable factors such as institutional discrimination and differential access to credit markets).

access better educational opportunities.¹¹ This, in turn, has long-term adverse effects on the outcomes of these populations. Gaps in homeownership thus also function to perpetuate inequality at various levels.

In addition to the opportunity of homeownership being unequally distributed, favorable loan terms are also unevenly accessible to those minorities and low income individuals who can purchase a home, many of whom have fallen prey to predatory lending practices.¹² After the passage of the GI Bill, many black World War II veterans were denied benefits afforded to them by the act, including the ability to purchase a home at low interest rates.¹³ There is a long history of redlining minority neighborhoods and denying FHA loans to black borrowers. There is vast evidence of discriminatory lending practices by banks making mortgage decisions.¹⁴ Differential access to both the credit and housing markets due to both institutional and individual discrimination have served as continuing barriers to homeownership for minorities and low-income individuals.¹⁵

Even among those who gained access to home mortgage loans, the likelihood of foreclosure is unevenly distributed across populations.¹⁶ One study found that loans defined as ‘high cost subprime loans’ were over 800 percent more likely to enter foreclosure than those at

¹¹ See Catherine Wallack, *Dream home: Remodeling the American Dream with model homes*, 32 J. of Am. Culture 332 (2009) , discussing the opportunities opened up to families through homeownership.

¹² Aguirre, Jr. & Martinez, *supra* note 7 at 9.

¹³ Hillary Herbold, *Never a Level Playing Field: Blacks and the GI Bill*, 6 J. OF BLACKS IN HIGHER EDUC. 104, 106 (1994).

¹⁴ Helen F. Ladd, *Evidence on Discrimination in Mortgage Lending*, 12 J. of Econ. Perspectives 41 (1998).

¹⁵ Gary A. Dymksi, *Discrimination in the Credit and Housing Markets: Findings and Challenges*, (William M. Rogers III, ed.) Handbook on the Economics of Discrimination (2006).

¹⁶ Aguirre, Jr. & Martinez, *supra* note 7 at 11-12.

market rate.¹⁷ As a result of the obstacles in lending, minorities and lower-SES individuals have had a harder time building wealth than their white and higher-SES counterparts. After controlling for age, income, location, and other sociodemographic correlates, Black and Latino homeowners have less equity in their homes than their similarly situated white counterparts.¹⁸ Even once minorities become homeowners, they are at a higher risk of transitioning out of homeownership and back into renters.¹⁹ They were also disparately affected by the recent mortgage foreclosure crisis.²⁰ Thus, minority homeownership experiences are one contributor to persistent inequality in the United States.

Exclusion and Inequality

While disparities in homeownership are one contributor to structural inequality in the United States, it is the tandem exclusionary practices of municipalities that amplify the insidious effects of these disparities. Exclusion of low-income and minority populations from suburbs has taken a variety of forms. Some of the more historical practices included redlining (briefly discussed above), racial zoning, and restrictive racial covenants. Once racial zoning and racial covenants became illegal²¹ municipalities began to use other municipal zoning regulations and

¹⁷ Claudia Coulton, Tsui Chan, Michael Schramm, & Kristen Mikelbank, "Pathways to Foreclosure: A Longitudinal Study of Mortgage Loans, Cleveland and Cuyahoga County, 2005-2008." Center on Urban Poverty and Community Development, Case Western Reserve University, 2008, available at http://www.neighborhoodindicators.com/sites/default/files/publications/coulton_-_pathways_to_foreclosure_6_23.pdf.

¹⁸ Lauren J. Krivo & Robert L. Kaufman, *Housing and Wealth Inequality: Racial-Ethnic Differences in Home Equity in the United States*, 41 *Demography* 585 (2004).

¹⁹ George Sharp & Matthew Hall, *Emerging Forms of Racial Inequality in Homeownership Exit, 1968-2009*, 61 *SOCIAL PROBLEMS* 427 (2014).

²⁰ Center for Responsible Lending, *A National Tragedy: HMDA Data Highlight Homeownership Setbacks for African Americans and Latinos*, Issue Brief (Sept. 2010), available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/HMDA-issue-brief-final.pdf>. Cf., Renae Merle, "Minorities Hit Harder by Foreclosure Crisis", *WASHINGTONPOST.COM* (Jun. 19, 2010), available at <http://www.washingtonpost.com/wp-dyn/content/article/2010/06/18/AR2010061802885.html>.

exclusionary practices.²² Exclusionary zoning refers to, “zoning that raises the price of residential access to a particular area, and thereby denies that access to members of low-income [and minority] groups.”²³ One such zoning practice is that of exclusionary zoning single-family, large-lot zoning, which often requires single-family homes to be built upon lots of one acre or larger. Hyper-local exclusionary practices by neighborhoods and municipalities are not hyper-local in their effects. These practices work to exacerbate structural inequality at the local, regional, and state level.

At the local level, exclusionary practices toward minorities and low-income families translate into disparities in educational opportunities and local amenities which are largely funded by local taxes; some have even argued that exclusionary zoning is an equal protection violation.²⁴ Municipal exclusion of minority and low-income populations often leads to their funneling into cities and municipalities that already house a disproportionate share. This can, in turn, burden the provision of public goods and services. Also, suburban municipalities have higher rates of segregation across municipalities in a metropolitan area than within

²¹ Racial zoning was declared unconstitutional in *Buchanan v. Warley*, 245 U.S. 60 (1917). Although racial restrictive covenants became common after *Corrigan v. Buckley*, 271 U.S. 323 (1926) when they were validated by the Supreme Court, they were later declared unconstitutional in *Shelley v. Kraemer*, 334 U.S. 1 (1947).

²² *Village of Euclid v. Ambler Realty Co.*, 272 U.S. 365 (1926) (validating the use of municipal land use controls in suburban planning). See Marc Seitles, *Perpetuation of Residential Racial Segregation in America: Historical Discrimination, Modern Forms of Exclusion, and Inclusionary Remedies*, 14 J. LAND USE & ENVTL. L. 89 (1998). See generally Richard R.W. Brooks & Carol M. Rose, “Saving the neighborhood: Racially restrictive covenants, law, and social norms,” Harvard Univ. Press (2013), discussing the methods in which whites maintained racially segregated neighborhoods after racially restrictive covenants became unenforceable.

²³ Lawrence G. Sager, *Tight Little Islands: Exclusionary Zoning, Equal Protection, and the Indigent*, 21 STANFORD L. REV. 767, 767 (1969).

²⁴ See e.g., *id.*

municipalities,²⁵ as between-area segregation has increased over time, even though neighborhood-level segregation has decreased.²⁶

In other words, residents of certain demographics tend to live in municipalities with other residents of similar sociodemographic characteristics. As such, concentrating low-SES individuals and minorities (due to the significant overlap in the likelihood to be of lower socioeconomic status) can potentially drain those local resources and amenities.²⁷ Such formal exclusionary practices by municipalities further amplify other private forms of housing discrimination and exclusion.²⁸ As a result, in order to fully understand the maintenance (and increases) of inequality over time, we must begin to account for the ways in which prejudiced and discriminatory attitudes are reflected in both municipal and individual development efforts to exclude undesirable populations from municipalities (and neighborhoods).

Neighborhood Change and (Re)development

Much of the research on neighborhood redevelopment and revitalization discusses it in the context of gentrification,²⁹ but there is a dearth of literature on alternative processes of neighborhood maintenance, ascent and exclusion. One study of the persistence of neighborhood status found that while a significant number of poor neighborhoods ascend to

²⁵ Paul Jargowsky, Debra J. Rog, & Kathryn A. Henderson, "Suburban Poverty and Racial Segregation," a part of the *Urban Publications* series at Cleveland State University, 9-11 (2014).

²⁶ Daniel T. Lichter, Domenico Parisi, and Michael P. Taquino, *Toward a new macro-segregation? Decomposing segregation within and between Metropolitan cities and suburbs*, 80 AMER. SOCIOLOGICAL REV. 843, 857 (2015).

²⁷ See Levine & Gershenson *infra* note 67.

²⁸ See Seitles, *supra* note 19, for a discussion of the relationship between housing discrimination and modern forms of exclusion.

²⁹ Lance Freeman, *Displacement or succession?: Residential mobility in gentrifying neighborhoods*, 40 URB. AFF. REV. 463 (2005).

become middle-income it is very rare that poor or middle-income neighborhoods ascend to become affluent.³⁰ Further, affluent neighborhood and poor neighborhood persistence rates increasingly stabilize over time.³¹ In a typology of neighborhoods on the rise, Owens discusses the emergence of booming suburbs in 2000 and 2005-2009.³² Characteristics of these tracts in these neighborhoods include their being twice as large as a typical tract, a slightly lower proportion of white residents and higher proportion of foreign born residents than other suburbs, have high socioeconomic status, and over 80% of which are located in suburbs.³³ Owens surmises that the likely processes of ascent are middle-class in-migration and incumbent upgrading, particularly of middle-class minority residents.³⁴

Redevelopment plays an integral role in neighborhood change. Within suburbs, (re)development can occur for a variety of reasons. One reason is to rehabilitate an area that is rundown or 'blighted,' now re-coined 'areas in need of redevelopment.' This blight is often the result of simultaneous municipal and state disinvestment. Blight can also occur as a result of a structural change in the local economy such that the area is no longer being optimally used for its best economic purpose. For example, in *Kelo v. New London* the city was aiming to redevelop an area that become economically distressed after the closing of a federal naval

³⁰ Claudia D. Solari, *Affluent neighborhood persistence and change in U.S. cities*, 11 CITY & COMMUNITY 370 (2012).

³¹ *Id.*

³² Ann Owens, *Neighborhoods on the rise: A typology of neighborhoods experiencing socioeconomic ascent*, 11 CITY & COMMUNITY 345 (2012).

³³ *Id.* at 355.

³⁴ *Id.* at 362.

base.³⁵ Similarly, many developers and municipalities are looking for ways to reuse and transform the suburban campuses of former commercial enterprises. Many suburbs developed around these large office parks, but with innovations in technology came changes in the need for and structure of corporate office space.³⁶ One such example is that of Bell Laboratories in Holmdel, New Jersey which is being repurposed into residential and commercial mixed-use space.³⁷

Much of the research on suburban zoning has focused on racial residential segregation. In 1917 the Supreme Court outlawed racial zoning³⁸ and in 1948 ruled that racial restrictive covenants were unconstitutional and thus not enforceable.³⁹ However, in the wake of this restriction on mechanisms to explicitly exclude undesirable racial minorities, many municipalities began utilizing other land use controls such as large-lot zoning, maximum occupancy, and square footage requirements. Land use controls have been found to contribute to exclusionary housing market conditions. One study found that low-density-only zoning and caps on building permits, for new residential constructions corresponded to the exclusion of blacks and Hispanics,⁴⁰ while boxed-in status and moratoria on building were related to

³⁵ Kelo v. City of New London, 545 U.S. 469, 473 (2005).

³⁶ Stephen Stirling, "How office parks are dragging down N.J.'s recovery," NJ.COM (Apr. 10, 2015), available at <http://parsippanyfocus.com/2015/04/05/how-office-parks-are-dragging-down-n-j-s-recovery/>.

³⁷ Chris Matthews, "The reincarnation of Bell Labs," FORTUNE.COM (Feb. 2, 2015), available at <http://fortune.com/2015/02/02/bell-labs-real-estate-revival/> (discussing the process of redevelopment of the Bell Laboratories former office buildings into a multi-use residential, commercial, and recreational property).

³⁸ Buchanan v. Wharley, 245 U.S. 60 (1917).

³⁹ Shelley v. Kraemer, 334 U.S. 1 (1948).

⁴⁰ Rolf Pendall, *Local land use regulation and the chain of exclusion*, 66 J. of Amer. Planning Assoc. 125, 135-138 (2000).

reduced affordability of rental housing.⁴¹ The use of these zoning and land use controls has been especially relied upon by the New Jersey municipalities, as New Jersey is a state strongly controlled by home rule.

In his in-depth analysis of municipal creation in New Jersey, Karcher documents how single-issue political agendas led to the proliferation of municipalities throughout the state.⁴² Such agendas included the prohibition of alcohol sales, the preservation of tax benefits and amenities, and “the use of municipal incorporation as a means to attain exclusivity and enforce de facto segregation along ethnic, racial, and economic lines.”⁴³ Along these lines, the siting of affordable housing developments have long been at issue as many townships have refused to carry their “fair-share obligations” under the *Mount Laurel* doctrine.⁴⁴ It is the strong adherence to ‘home rule’ and ‘not-in-my-backyard’ mentality across New Jersey’s municipalities that make the combination of municipal-initiated redevelopment with single-lot homeowner improvements such a perfect storm for exclusion and thus inequality.

Progress is not Progress For All

Even though New Jersey’s state courts have found the use of land use controls and municipal zoning ordinances to exclude low-income populations to be illegal,⁴⁵ there is still

⁴¹ Id. at 138.

⁴² Alan Karcher, “New Jersey’s Multiple Municipal Madness,” (Rutgers Univ. Press, 1998).

⁴³ Id. at 14.

⁴⁴ Andrew Seidman, “New Jersey Courts Will Now Supervise Affordable Housing,” GOVERNING.COM, (Mar. 11, 2015), available at <http://www.governing.com/topics/politics/new-jersey-courts-will-now-supervise-affordable-housing.html>. E.g., Barbara Rybolt, “Township of Berkeley Heights Affordable Housing Public Statement,” TAPINTO.NET (Sept. 4, 2015), available at <https://www.tapinto.net/articles/township-of-berkeley-heights-affordable-housing-p>.

⁴⁵ *Southern Burlington NAACP v. Twsp. Of Mount Laurel*, 336 A.2d 713 (1975).

considerable resistance by municipalities to construct affordable housing.⁴⁶ Not only do municipalities have an aversion to such housing, but they are actually incentivized to tailor development towards higher income individuals. Such developments will likely satisfy that the optimal economic use requirement of redevelopment that relies upon the exercise of eminent domain.

Exclusion by communities can be achieved through mechanisms that are less overt than zoning practices. Some argue that community building and development inherently requires some form of exclusion.⁴⁷ This is because the community, “requires some demarcation from the broader society, and thus some measure of practical and symbolic exclusion.”⁴⁸ Thus, exclusion of undesirable populations such as low-income households and minorities can also be achieved through amenities or through the built environment. One legal scholar addresses the idea of “exclusionary amenities”; these amenities are those that are included in developments (and thus subsidized by all community members) that are generally expensive and only appeal to certain demographic sub-groups.⁴⁹

City-Initiated Redevelopment in New Jersey’s Suburbs

Over the past decade or so, many suburbs have been revitalizing their downtown areas. These revitalization efforts are often both pushed for and supported by the state through the

⁴⁶ Thomas Ebersold, “A number of Milford affordable housing plans, and move on the way,” MILFORDMIRROR.COM (Apr. 10, 2015), available at <http://www.milfordmirror.com/44176/a-number-of-milford-affordable-housing-plans-and-more-on-the-way/>.

⁴⁷ Hanoch Dagan, *The Limited Autonomy of Private Law*, 56 AM. J. COMP. L. 809, 831 (2008).

⁴⁸ *Id.*

⁴⁹ Lior Jacob Strahilevitz, *Exclusionary Amenities in Residential Communities*, 92 VA. L. REV. 937 (2006).

Department of Community Affairs (DCA) Main Street New Jersey office.⁵⁰ As a result, much of the redevelopment in New Jersey's suburban downtown are retail and restaurant establishments that reflect the lifestyles and preferences of the middle to upper class.⁵¹ For example, Hopewell Borough received over \$1 million in federal funding which has been designated for revitalization purposes and the creation of a pedestrian-friendly business district.⁵² The town's mayor credits a coinciding boom in business-owner renovations to somewhat of a contagion effect, where one business owner's improvements inspire and incentivize other area business owners to make similar improvements.⁵³ Similar Main Street initiatives were undertaken in Highland Park, Vineland, Boonton, Bloomfield, Millville, and South Orange, New Jersey, as well as other municipalities across the state.⁵⁴ Other improvements to suburbs involve the creation of more sustainable and livable, such as Rutherford's development of bike-friendly roads.⁵⁵

⁵⁰ "Main Street New Jersey," State of New Jersey, Department of Community Affairs, available at <http://www.state.nj.us/dca/divisions/dhcr/offices/msnj.html> (last accessed 4/18/2015).

⁵¹ E.g., Jackie Goldman-Schatell, "Demolition begins for building of new structure to house upscale Dunkin' Donuts and more in West Orange," TAPINTO.NET (Apr. 28, 2015), available at <https://www.tapinto.net/towns/livingston/articles/demolition-begins-for-building-of-new-structure-t>.

⁵² Carmen Cusido, "Hopewell gets funds for facelift," NJ.COM (Oct. 26, 2009), available at www.nj.com/mercer/index.ssf/2009/10/hopewell_gets_funds_for_faceli.html.

⁵³ Cristina Rojas, "Hopewell Borough's downtown revitalization continues with store openings," NJ.COM (Apr. 4, 2015), available at http://www.nj.com/mercer/index.ssf/2015/04/hopewell_boroughs_downtown_revitalization_continue.html.

⁵⁴ See Department of Community Affairs, "Main Street New Jersey" for a map of New Jersey's Main Street Community sites, available at <http://www.state.nj.us/dca/divisions/dhcr/offices/msnj.html> (last accessed Sept. 10, 2015).

⁵⁵ Meghan Grant, "Rutherford awarded \$20,000 Sustainable Jersey grant for bike and pedestrian paths," NORTHJERSEY.COM, (Apr. 2, 2015), available at <http://www.northjersey.com/community-news/bike-path-gets-20k-boost-with-grant-1.1300990?page=all>.

In addition to revitalizing downtown areas, suburbs around the state have seen a number of new residential constructions. The majority of these new residential units have been (and continue to be) luxury rentals and condominiums geared towards young professionals⁵⁶ and have been constructed in places such as Bayonne,⁵⁷ Hopatcong,⁵⁸ Great Neck,⁵⁹ and West Orange.⁶⁰ Many of these new constructions are also a part of all-inclusive community developments which aim to bring city-like amenities and conveniences to the suburbs.⁶¹ The trend towards all-inclusive convenient community developments is reflective of changing preferences of both retiring baby boomers and millennials alike.⁶²

⁵⁶ See e.g., Kathleen Lynn, "NJ home-building starts off slowly in first quarter, NORTHJERSEY.COM (May 4, 2015), available at <http://www.northjersey.com/news/business/n-j-home-building-is-off-to-a-slow-start-1.1324886>. But see, Don E. Woods, "Vineland mayor's veto on 4 Corners Project Property was arbitrary and capricious, council president says," South Jersey Times (Apr. 29, 2015), available at http://www.nj.com/cumberland/index.ssf/2015/04/vineland_mayors_veto_on_4_corners_project_was_arbi.html (referring to the overturning of a veto on the development of a housing complex for senior citizens and people with special needs).

⁵⁷ Joseph Passantino, "Two are better than one," HudsonReporter.com (Sept. 9, 2015), available at http://hudsonreporter.com/view/full_story/26848217/article-Two-are-better-than-one--Residential-projects-set-to-debut-uptown-near-county-park-and-downtown-in-Bergen-Point-?instance=bayonne_top_story (describing new luxury developments in Bayonne geared towards urban young professionals).

⁵⁸ Greentree Development Group, "VIP List Growing for Brookland at Lakepointe, Luxury Lakeside Condos in Reinvented Hopatcong Borough," PRNewswire.com (Sept. 1, 2015), available at <http://www.prnewswire.com/news-releases/vip-list-growing-for-brookland-at-lakepointe-luxury-lakeside-condos-in-reinvented-hopatcong-borough-300135653.html>.

⁵⁹ Joe Nikic, "AvalonBay, Village of Great Neck agree to fire safety fixes," TheIslandNow.com (Sept. 3, 2015), available at http://www.theislandnow.com/great_neck/avalonbay-village-of-great-neck-agree-to-fire-safety-fixes/article_2fef61ea-5242-11e5-8d92-ebdce364ca8c.html (last updated Sept. 8, 2015).

⁶⁰ "Last opportunity to own in five-star community of Vizcaya, West Orange," NorthJersey.com (Aug. 28, 2015), available at <http://www.northjersey.com/real-estate/new-home-communities/friends-don-t-let-friends-miss-out-on-vizcaya-s-luxury-lifestyle-1.1399990>.

⁶¹ E.g., Christine Barcia, "Demographic swing changes housing plans," TRI-TOWN NEWS (May 7, 2015), available at http://tri.gmnews.com/news/2015-05-07/Front_Page/Demographic_swing_changes_housing_plans.html.

⁶² Id.

Single-Lot, Homeowner Redevelopment in New Jersey's Suburbs

Over the past thirty years, new housing construction across the nation, on average, has been directed towards affluent households and has perpetuated residential segregation.⁶³ However, moving to reclusive (and exclusive) outer-ring suburbs is not an option for many middle-income but long-tenured homeowners. These homeowners are often committed to their homes and their community and, as an alternative, can instead decide to use the equity that they have in their homes to increase their value through single-lot redevelopment.

Redevelopment by homeowners can take the form of either renovations or additions. Some research has explored correlates to homeowner improvement decisions. It is assumed that "...owners will [only] reinvest in their homes ... if the combined consumption and investments benefits of doing so exceed the costs."⁶⁴ One study noted the increases in interest rates positively affect the likelihood that a homeowner will renovate their property, and that the influence of this effect is stronger than that of the negative effect that increases income have on the same decision.⁶⁵ Other factors related to the probability of renovating are college attendance, and increased levels of housing disequilibrium (i.e., disparities and inequities in housing).⁶⁶

In order to understand single-lot homeowner redevelopment, one must first understand the benefits and options that come with being a homeowner. In the decision-making process,

⁶³ Rachel E. Dwyer, *Expanding Homes and Increasing Inequalities: U.S. Housing Development and the Residential Segregation of the Affluent*, 54 *Social Problems* 23 (2007).

⁶⁴ Gyourko & Saiz 2004 at 239.

⁶⁵ Potepan 1989.

⁶⁶ *Id.*

homeowners can decide between a number of options, including: 1) move to a better home, 2) move to a lower quality/lower cost home, 3) improve their current home, or 4) do nothing.⁶⁷

One study found that changes in income and the age of the dwelling were positively associated with deciding to improve their home.⁶⁸ Minorities, older householders, and those who have lived in their homes for extended periods of time are more likely to decide to move to a lower cost home or to do nothing.⁶⁹ Higher housing costs are inversely related to improvement expenditures. However, differences in the effects of these variables are all dependent upon the definition of improvement and whether ‘improvement’ is defined to include maintenance.⁷⁰

At the aggregate level, individual decisions to renovate their homes have ‘positive’ net effects on the average housing price in the neighborhood, as well as maintaining the fabric of the community. For example, many middle-class, suburban families view education as the key to success. Consequently, the threat of their children coming into contact with lower-income and minority students in the school system may lead residents to take matters into their own hands. While local governments can take a number of measures to address neighborhood change – especially decline – the perceived imminence and severity may lead residents to take matters into their own hands. Municipal governments have the power to draw school district boundaries, and most communities follow a neighborhood school system. As such, one way to avoid contact is to keep ‘undesirable’ populations out of one’s neighborhood. Thus, even though individual homeowners may not be able to prevent the influx into a municipality on the

⁶⁷ Montgomery 1992.

⁶⁸ Id.

⁶⁹ Id.

⁷⁰ Id.

whole, they can influence the ability for lower-income populations to enter by improving their properties. This can lead to macro-level exclusionary effects of single-lot redevelopment.

Because housing expansions can have aggregate exclusionary effects, it is important to focus on single-lot redevelopment undertaken by homeowners. Renovations generally increase the value of an individual homeowner's home.⁷¹ In the aggregate, if all homeowners in a neighborhood were to renovate or expand their homes, the cost of the neighborhood would become prohibitive for both renters (since landlords will be able to demand more rent for the home) and lower- to moderate-income buyers for whom the price is simply out of reach. At the very least, municipalities aid in the incentivization of homeowners to maintain or improve their property through beautification ordinances. Some suburbs have even used these codes and ordinances governing abandoned properties and vacant lots to require deed-holders to maintain these properties.

Residents of suburban townships also fear that an increase in the availability of affordable housing will lead to increases in crime, an erosion of the tax base (and public school system), a decline in property values, and begin an onset of general decline. A recent study of the infamous Mount Laurel affordable housing development found no relationship between the project's development and crime, housing value, or tax rates – although this lack of effect was attributed to the management practices of the housing development itself.⁷² Nonetheless, this

⁷¹ Daniel P. McMillen & Paul Thorsnes. *Housing Renovations and the Quantile Repeat Sales Price Index*, University of Otago Economics Discussion Paper No. 0515, 2005, available at https://ourarchive.otago.ac.nz/bitstream/handle/10523/893/DP_0515.pdf (last accessed May 2, 2015).

⁷² Len Albright, Elizabeth S. Derickson, & Douglas S. Massey, *Do affordable housing projects harm suburban communities? Crime, property values, and taxes in Mount Laurel, NJ*, 12 CITY & COMMUNITY (2013).

does not abate the common belief in the inherent negative externalities of renter presence within neighborhoods.

Thus, not only are renters and low-income individuals stigmatized by homeowners and considered generally undesirable neighbors, they also lack the control of being able to shape the neighborhood. Unlike homeowners, renters often do not have the option to improve their dwelling or neighborhood as they have no actual financial stake in the dwellings in which they reside.⁷³ Lower income renters, in particular, are more likely to live in areas where the cost of housing is cheaper. They are also considerably more mobile than homeowners and thus may not have strong ties within a community. There is some evidence that heterogeneity amongst movers and stayers within neighborhoods leads to divergent patterns of residential mobility and income distributions.⁷⁴ The mobility of residents is also linked to changes in neighborhood characteristics and conditions; in particular, the stability of in- and out-movers from neighborhoods had the greatest influence on changes in neighborhood poverty rates.⁷⁵

Exclusion of minorities and poor residents from certain neighborhoods due to the aggregate effects of single-lot redevelopment can also perpetuate spatial discrimination. When searching for employment, individuals who live in better neighborhoods (measured by the

⁷³ Not only do renters not have any incentive to make improvement to the dwellings that they occupy, it is often in their best interest not to do so. If they were to improve the property in any way it is, at best, a sunk cost and, at worst, an exposure to liability by the homeowner for any consequences arising from such changes to the property. Even if the value of the property were to increase due to improvements, a rational property owner would then be incentivized to seek out tenants willing to pay higher rent for a now better property, thus not benefitting the renter who made the improvements.

⁷⁴ Robert J. Sampson & Patrick Sharkey, *Neighborhood selection and the social reproduction of concentrated inequality*, 45 DEMOGRAPHY 1 (2008).

⁷⁵ Claudia Coulton, Brett Theodos, & Margery A. Turner, *Residential mobility and neighborhood change: Real neighborhoods under the microscope*, 14 CITYSCAPE (2012).

compositions of whites and wealth) are more likely to receive a call back from an employer.⁷⁶

The locational effect on employer call-backs holds across applicants of races.⁷⁷The well documented effects of spatial discrimination on employment chances of minorities and low-income residents are just one byproduct of New Jersey's current redevelopment trends.

Implications

Suburban community (re)development and single-lot homeowner redevelopment often have an exclusionary effect, which affects both the composition and characteristics of communities. However, we cannot fully account for the effect without also tracking single-lot homeowner redevelopment. Currently, there is no state-wide system tracking such information, but it is important to do so as the implications of this type of development - in conjunction with community (re)development – on inequality resonate at the individual, municipal, and metropolitan levels. For one, redevelopment geared towards a property's best economic use may lead municipalities to prioritize upscale, luxury development while overlooking the necessities and lifestyles of lower-income populations. This is of particular concern giving the increased cost of inner-city living that is prohibitive for many individuals. Being priced out of inner-cities and nearby suburbs can push these populations to outer-ring suburbs and exburbs can lead to spatial mismatch between many jobs and workers that should be of concern not just to municipalities, but metropolitan areas and states as well.

As previously discussed, homeownership is an important part of American society in terms of personal fulfillment, wealth building and access to opportunities. There are many

⁷⁶ Marianne Bertrand & Sendhil Mullainathan, *Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination*, 94 Am. Econ. Rev. 991, 1003 (2004).

⁷⁷ Id.

incentives for individuals to own their own homes, and homeownership is greatly subsidized and promoted. However, homeownership is still not accessible to many low-income individuals, many of whom belong to racial and ethnic minority groups. As such, many of these individuals are de facto excluded from many of New Jersey's suburban communities due to the sheer unavailability of rental housing. Coordinated city council redevelopment often leads to redeveloping suburban areas that consist of high-end rental properties while aggregate effects of single-lot homeowner redevelopment leads to increasing neighborhood property values. When combined with individual preferences, low-income and minority populations are functionally excluded from both rental and buyer markets.

Without access to affordable, quality housing (both within cities and) inside many home-ruled suburbs, low-income and minority populations can be disproportionately pushed into other municipalities in the metropolitan area, which are often already house their disproportionate share of these populations. This thus reinforces both racial residential segregation processes as well as places an increased financial burden on the distressed tax base of many of these municipalities. For example, one study has found that increased concentrations of black residents correspond to increased demands for municipal public goods.⁷⁸ From a development perspective, the state must step in to incentivize municipalities to develop income-inclusive communities.

Incentivizing municipalities to take on their 'fair share' of low-income residents within the state can work to deconcentrate poverty within the state, thus helping to ameliorate

⁷⁸ Jeremy R. Levine & Carl Gershenson, *From Political to Material Inequality: Race, Immigration, and Requests for Public Goods*, 29 SOCIOLOGICAL FORUM 607, 618-21 (2014).

metropolitan inequality. It can also decrease the financial stress not only on poverty-stricken, declining suburbs within the state, but also on state resources which must come to the aid of these municipalities. To do this, New Jersey must incentivize municipalities to work together collaboratively on both growth and development strategies and the provision of public goods, as there is some evidence that regions that are more equitable and less segregated are better equipped to handle sustained regional growth.⁷⁹ It must perhaps mandate and instate regional planning boards to oversee any development and effects of renovations. It is only in these ways can the state begin to manage suburban redevelopment and mitigate any overall exclusionary effects on low-income and minority populations.

⁷⁹ Chris Benner & Manuel Pastor, *Brother can you spare some time? Sustaining prosperity and social inclusion in America's metropolitan regions*, 52 URB. STUDIES 1339 (2015).