

The Home, Neighborhoods, and Cities

Raphael W. Bostic
University of Southern California

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The United States faces daunting challenges in trying to emerge from the deep economic recession in which it is currently mired. The conditions faced by the nation's metropolitan areas provide significant barriers to improvement but also offer a unique opportunity to make lasting changes in how urban areas are conceived and how investments flow through them. In this new outlook, housing and mortgage markets will play a central role in facilitating the changes that will transform the neighborhoods of today into the hope of tomorrow.

This essay reflects upon these opportunities in the context of how housing might shape the evolution of neighborhoods and cities. This broad evolution will involve developments in areas well beyond housing, and so the points of intersection between housing and these other sectors will be the focus. The discussion begins with a review of how cities evolve, including a consideration of the role that neighborhoods have played, and notes in a broad generalization that the United States features two types of cities. Using this framework, a number of key issues of the future are briefly discussed and analyzed, and challenges of developing a unified policy approach are noted. The essay closes with some recommendations as to how housing policy can be structured to facilitate advancement in both types of cities.

Historical evolution of cities and neighborhoods

To think about the city and urban neighborhood of tomorrow, it is useful to consider yesterday's city and urban neighborhood and their dynamic elements. Urban scholars have long studied the emergence of cities and a consensus has emerged that

economics, geographic amenities, and political support (and boosterism) all play central roles.

Large literatures in economics have demonstrated the importance of production factor availability and movements, productivity, and agglomeration economies for the development of cities. Neoclassical economic models highlight the importance of factor prices, productivity and factor utilization on urban growth, with convergence emerging as a key dynamic.¹ With free flow of information and trade and relatively easy mobility, regions should converge in terms of productivity and factor utilization. In addition, technological complementarities between capital and labor should also drive population and investment flows. Other traditional factors are also important. For example, human capital clearly plays an important role, both in terms of labor productivity and firm formation (Glaeser, et al. (1992)). In addition, comparative and competitive advantages, such as easy access to key natural resources, can also improve a city's and region's fortunes (Porter, 1990).

Beyond these traditional factors, agglomeration economies also have been shown both theoretically and empirically to be important determinants of urban growth. Following Bostic, Gans and Stern (1997), one might collapse the large literature on these economies into three broad mechanisms: urbanization, localization, and specialization. Championed by Jane Jacobs, among others, urbanization economies arise from demand spillovers that occur because many different industries operate in close proximity to each other.² Localization economies represent within-industry spillovers created by concentration of an industry's activities in one location, which enhances and amplifies

¹ Bostic, Gans and Stern (1997), Solow (1956), Barro and Sala-i-Martin (1992), King and Rebelo (1993), among others.

² Jacobs (1969, 1984), Krugman (1991), Henderson (1988).

worker expertise and creativity. The significance of specialization is a constant in economic theory, and urban growth is no different. In this instance, a city or region's economies are driven by a single industry or related sectors. While there is little theoretical consensus about the merits of specialization – some argue it promotes growth (Mokyr (1990) and Henderson (1988), for example) while others argue its risks outweigh the benefits (Jacobs (1969) – the existence and persistence of specialized cities such as Detroit and Pittsburgh suggest it is an important phenomenon worthy of inclusion.

However, production is not the only source of appeal for urban areas. Local amenities can also play a significant role. For example, a key driver in the growth of Los Angeles was its favorable weather, which made it a haven for many with health problems (Abel, 2006). These amenities can also drive industries, such as tourism, that can be powerful economic engines in their own right.³ Hence, we see entertainment centers such as Las Vegas, Orlando, and (to some extent) New Orleans that support significant populations and levels of economic activity that make them important urban centers.

Finally, the human element has consistently played a key role. The economic literature has highlighted the important place of policy and regulatory schemes in shaping, incentivizing, and at times restricting economic activity (Green and Malpezzi (2003)). Other literatures have focused on planning and more political elements of urban growth and development (Hall (1998), Logan and Molotch (1987), Pagano and O' Bowman (1995), among others). In addition, historical records consistently demonstrate the importance of publicity and promotion for the success of urban areas.

³ Studies on this topic have been done at varying levels of aggregation. For a national level analysis, see Sequeira and Nunes (2008).

These boosters were extremely effective in sparking migration into the west during the pursuit of manifest destiny (Cronon (1991), for example).

Within metropolitan areas, neighborhoods constitute the essential building block through which these forces act. In early cities, neighborhoods progressed spatially in an essentially uniform pattern. At the center was a large urban center of employment, where the major industrial activity would occur. Radiating out from this center would be neighborhoods in which residential and commercial uses would often be relatively integrated. The large cities that emerged in the United States prior to 1950, including New England mill towns, steel and manufacturing cities in the Midwest, and port cities in the mid-Atlantic region, all featured this type of monocentric pattern.

Innovation in production technology and improvements in transportation efficiency associated with the creation of an interstate highway system and the embrace of an automobile-centered community reduced the need for cities to continue developing in a monocentric pattern. Rather, these developments allowed multiple locations in an urban region to have comparative spatial advantages, resulting in multiple centers of commerce and production. Cities showing considerable growth post-1950, such as Los Angeles, Phoenix, Salt Lake City, and Atlanta, tend to have this polycentric development pattern (Lee, 2007).⁴

The neighborhood in newer cities is simultaneously simpler and more complex than that of the monocentric city. On one hand, land uses in urban centers tend to be more segregated than in older cities. For example, zoning explicitly forbade the mixing of residential and other land uses in Los Angeles until quite recently and still does in

⁴ For example, Giuliano and Small (1991) identify 32 separate employment subcenters in Los Angeles County.

Pasadena, California.⁵ At the same time, once-peripheral suburban neighborhoods in polycentric cities represent economic centers in their own right (think Tyson's Corner, in northern Virginia). Neighborhoods then have independent relationships with each employment center and each source of an amenity. These multiple relationships lead to neighborhoods in polycentric cities to have different population demographics, transport patterns, and social dynamics (Giuliano and Small (1993), for example).

For example, a neighborhood equidistant from two subcenters is likely to attract residents who work in both subcenters, which will result in a different level of human capital if the subcenters specialize in terms of employment. Similarly, optimizing two-earner households will select the residential location based on potentially spatially independent employment prospects, which is likely to result in different decisions than if all the jobs are located in a single center.

Along with the emergence of polycentricity, another feature of these newer metropolitan areas has been their ever-expanding spatial reach. While New York spans 303.3 square miles, Phoenix, a city with about one-sixth the population, spreads over 474.9 square miles. Moreover, this spatial expansion is most pronounced among growing cities in the Sun Belt that are gaining population and jobs. The expanding nature of metropolitan areas means that suburbs will increase in importance. Indeed, a larger fraction of the nation's population lives in metropolitan areas, while fewer and fewer live in the central city (26.3 percent in 2000 versus 27.7 percent in 1990).⁶

As most growing metropolitan areas are now quite large spatially (or soon will be), we observe not only increasing pressure on transportation networks but also an

⁵ The Residential Accessory Services (RAS) Zone was established in Los Angeles in 2002.

⁶ Demographica.com.

increased possibility and importance of a spatial mismatch between jobs and residences (Boustan and Margo, 2009; Wang 2007). Such a mismatch has implications for household and community well-being, as persistent isolation from jobs could leave pockets of poverty that have been shown to be associated with high levels of social problems. In addition to the potential for a concentration of poverty in the urban core, population shifts mean that suburbs must now contend with problems such as poverty and crime that were previously thought to be problems that only the urban core needed to address (Cook and Marchant, 2006). Thus, similar to the case of neighborhoods, the new urban growth and development patterns suggest an increased complexity for suburbs.

The newer Sun Belt cities also differ from the older northern cities in terms of demographic dynamics as well. The old ethnic paradigm of black and white that dominates many northern cities has morphed in these new cities into a framework that includes a diversity of races and ethnicities. The interaction of class with these racial and ethnic identities increases the dimensionality of social interaction in these new cities and complicates attempts to build community and reach consensus of vision and hope.

Though these distinctions – old/new, monocentric/polycentric, east/west – are necessarily stylized, they are perhaps a useful step along the way toward explicitly recognizing the need for more place-specific, context dependent planning. A key issue policy-makers, particularly at the federal level given its broad scope, must consider is how to assist and provide incentives to facilitate such efforts.

Looking to tomorrow

So, in thinking about urban future it is vital that one consider how the new and old urban models that exist in the United States operate and are likely to respond to policy incentives. To arrive at conclusions regarding the latter, key issues are how the “new” city works and whether it works differently from the older cities. A closely complementary question is whether new cities can work like old ones do, even if they do not presently.

This issue must lie at the heart of discussions of the future of urban America. Indeed, nearly every potential policy solution must be viewed through this “two city type” lens. We review many of these policy debates to highlight the issues and outstanding debates, raising questions about basic conceptions of the problems being addressed.

Smart Growth, sprawl, and compact development

Many urbanists view the spatial development patterns of “new cities” as having significant negative impacts. They argue that sprawling development patterns degrade social interactions, have negative environmental impacts, and contribute to obesity and other health problems.⁷ A more beneficial approach, in this view, is dense urban development that promotes communities in which most amenities are within walking distance. These communities increase the likelihood of interpersonal interaction, reduce harmful auto-based emissions and preserve habitat, and can lead to more healthy lifestyles that include exercise. Benefits of compact communities increase with the concentration of employment and direct linkages to employment centers.

⁷ SCSC (2001) is one powerful example.

However, the complexity of neighborhoods in newer cities and regions may limit the benefits of such development patterns or make the pedestrian lifestyle infeasible altogether. For example, in order to minimize aggregate commute time, two-earner households may prefer to live between employment centers, in locations where pedestrian-oriented amenities are unlikely to be. More generally, even if commute times are not the primary consideration, two-worker households often will face more complex location choice decision-making considerations, and so simple notions of jobs-housing balancing may not work. For these households, limiting options to only compact development patterns might actually impose extra costs.

These issues may increase in importance in coming months. The recession and recent high energy prices have caused many families and real estate developers to reconsider neighborhoods in or close to the urban core. How they respond will depend on the options for living and development they find there and how these relate to employment opportunities and amenities.

Mass transit investment

As cities and regions grow, one potential means for limiting negative externalities such as congestion is to improve mass transit. While there is general consensus on this point, there is less agreement on what type of mass transit should be promoted to achieve this goal. Much recent attention has been given to the development of light rail transit systems. Such systems work well when employment is concentrated in a small number of locations and there are well-defined transportation corridors.

In polycentric cities, though, light rail systems do not work as well. Because employment is dispersed, light rail systems are necessarily limited in the numbers of passengers they can serve. Consequently, light rail systems in polycentric cities will tend to lack efficiency and have a high cost per passenger. By contrast, other types of mass transit, such as busways, are likely to be more efficient (Biehler (1988), Moore II, Rubin and Lee (2000)). Busway systems can more effectively access smaller population and employment centers. In addition, they are better able to adapt to changing employment and residential patterns.

Race and ethnicity

The body of research on the role of race and ethnicity in urban growth and development is voluminous. In terms of housing, many have highlighted the prevalence and negative effects of discrimination and segregation on communities and families (Massey and Denton (1993), for example). There is considerable evidence showing that black families are consistently victims, though disparities may be shrinking somewhat. However, the evidence on discrimination and segregation for other races has been less consistent and definitive. For example, the recent HUD study on fair housing showed varying levels of discrimination by race, with some instances where no significant differences were observed. This suggests that discussions addressing neighborhood level discrimination and segregation in polyethnic cities will need to consider policy that is perhaps more nuanced than would be needed in monocentric cities.

Moreover, recent research has noted a long decline in the extent of racial segregation (Cutler, Glaeser and Vigdor (1999), Glaeser and Vigdor (2001)). By

contrast, there is little evidence of a reduction in income-based segregation. Some might interpret this as indicating that class consciousness has usurped race as the issue that should receive principal concern. If so, then concerns about the so-called underclass and mixed-income communities should rise to the fore.

In spite of the co-mingling of race and class in the context of gentrification and other issues, the issue of race clearly remains one that ignites a great deal of passion from the public. The recent election of an African-American to the presidency introduces an interesting dynamic to this on-going conversation. It remains unknown how or whether this landmark event will transform collective views on race and ethnicity such that the ability to enact policies focuses on these topics changes in material ways. An additional issue that is particularly relevant for newer cities is whether any impacts will differ for people of different ethnicities. For example, will Obama's election affect how Latinos or Asians view race and the importance of race relations? Or will it serve to heighten an "us versus them" mentality in ways that exacerbate inter-ethnic tensions?

Health and health care

As the baby boomer generation approaches retirement en masse, another issue urban America will have to face is health and health care. In terms of development, policy makers will have to grapple with how to integrate health and health care into the built environment. There is already considerable evidence that health care is becoming more integrated into real estate in innovative ways. Sloane and Sloane (2002), for example, notes the significant introduction of health service providers in retail locations in the mall. Moreover, health care industries have significant economic potential. For

example, Bostic, Lewis, and Sloane (forthcoming) present evidence suggesting that hospitals are associated with agglomeration benefits. Thus, if managed properly, solutions in health care can benefit the growth and sustainability of neighborhoods and cities.

In terms of housing, very little attention has been given to how housing should evolve to meet the looming need of a large number of people entering retirement. There are many questions that are yet to be resolved. For example, what are the forms of housing that will be needed to accommodate the new senior population? With improvements in health and increases in life spans, housing will have to reflect a more active population that ages in place more gracefully. Policy researchers will have to consider whether the needs and preferences of this group provides opportunities that offer similar or quite different solutions depending on the urban context. Put another way, will senior communities look different in older monocentric cities than in Sun Belt polycentric cities? Going further, it might be the case that significant variation will be required within polycentric cities themselves. Much more is left to be done here.

The role of energy

The recent spike in energy prices and the subsequent change in behavior placed a powerful lens on the importance that energy can play on urban form. Implicit in this recent experience is the fact that relatively low energy prices have been instrumental in shaping urban form. In particular, they have facilitated the spatial expansion of urban areas as well as the intransigence of building standards and technologies.

The high prices for gas and oil (which have now subsided in the wake of the deep economic recession) sparked a debate on an appropriate national energy policy. Much discussion has emphasized national security, environmental effects, and industrial policy. What has been less discussed is how these policies will differentially impact welfare in older versus newer cities, which is likely given the very different spatial layouts of these city groupings. Further, given the large number of existing homes, exploration of the ways in which building technologies can be used to reduce energy dependence and the costliness of housing are particularly relevant in this context. The solution to this issue will be different for neighborhoods featuring varying mixes of physical structures (single-family detached, single-family attached, multifamily).

Recommendations

Given this complex urban context, policy must remain nimble and flexible. Thus, an effective housing policy will accommodate the needs and challenges of both the older and newer cities of the United States. All the recommendations for action are tailored with this in mind.

1. Housing policy must include incentives for more than traditional urban infill.

Across the nation, the vast majority of new housing is built in previously undeveloped or relatively undeveloped areas. This suggests a robust demand for such new housing. Indeed, the epicenter of the recent foreclosure crisis in many areas was in urban fringe areas featuring large tracts of new Greenfield housing, which suggests a robust public appetite for such housing.

While recognizing the potentially negative consequences of these types of developments, it is unreasonable to expect the demand for such housing will shrink considerably. Rather, planners and developers must seek to create environments that simultaneously mitigate negative features of these developments while at the same time acknowledging the realities and stresses of two-earner households living in polycentric cities. For example, there may be local configurations of housing and amenities such as schools, parks, and community centers that create the sense of community sought by smart growth advocates while still permitting significant commutes. Research should focus on identifying such solutions, and policy makers must make the findings of this research widely available to localities so that this knowledge can be incorporated into local decisions.

2. The system of housing finance must serve all metropolitan areas.

In order for neighborhoods to best serve their urban communities, impediments to transactions that distort demand must be removed. For families living in high cost and expensive markets, the largest impediment has been a lack of access to the conforming secondary market. Because conforming secondary markets provide pricing and liquidity relief for much of the country, this lack of access has exacerbated the high cost of housing and dampened demand for ownership product (Hendershott and Shilling (1989), Cotterman and Pearce (1996), Passmore, Sherlund, Burgess (2005)).

In late 2007, the Congress relaxed the high cost market conforming loan limit, moving it from \$425,000 to up to \$729,000 in high cost markets through the end of 2009. The goal was to increase mortgage liquidity in those markets in the wake of the shutdown of the jumbo and other mortgage secondary markets following the subprime

market meltdown. Loans falling into this “mid-conforming” range enjoyed lower interest rates than jumbo mortgages, though the spreads were not as great as many anticipated (and remain relatively narrow). This bolstering of the market has helped in dealing with mortgage market instability, although not sufficient on its own to solve enduring problems.

Policy makers should continue to facilitate access to a conforming mortgage market for residents of high cost markets. Ordinarily, this would fall under the purview of the government-sponsored enterprises Fannie Mae and Freddie Mac. Given the uncertainty surrounding the ultimate fate of these companies, perhaps the more important item is to ensure that the ultimate structure of the secondary market include provisions that allow for a conforming loan limit structure that acknowledges the higher cost of housing in some markets.

3. Provide incentives, ease regulatory barriers, and promote technologies to facilitate the rehabilitation of existing housing structures.

A reality of the urban core is that it is largely built out. Given this, if the core is to be redeveloped, how we deal with existing structures will play an important role in the scope and success of redevelopment. Rehabilitated buildings generally involve more risk during the construction process because there may be problems with the structure that go undetected until construction begins and higher on-going operating costs. Thus, the rehabilitation of existing housing and commercial structures is often shunned by many developers.

However, evidence suggests that rehabilitation is less costly than new construction in many instances (Rosenthal and Listokin, 2009). If rehabilitation methods

could be improved and risks minimized, many existing buildings could be repositioned and redevelopment could conceivably take on a broader scale and scope. This could also perhaps serve to change the mix of housing produced and shift the balance more towards infill development (see recommendation 1).

To this end, policy makers should expend effort to enhance the appeal of rehabilitation along multiple dimensions. Incentives such as subsidy grants and low-cost loans might be proposed (less likely in the current economic environment). Requirements for environmental impact reports might be waived or significantly reduced for existing buildings within specified urban zones. Technology that provides detailed x-ray-type snapshots of a building's physical structure might be identified and brought to scale. These and other policies should be considered to leverage existing development capital and maximize its impact in redeveloping urban areas.

Of course, there are barriers to implementing all of these options. For example, politics works strongly against waiving environmental impact reports for some projects. Such a policy would likely be interpreted by local cities as a loss of local control and the ability to weigh in on issues, such as potential traffic increases, that can affect quality of life. Thus, effectiveness for all of these options will require considerable creativity and political courage.

4. Incorporate energy considerations into housing development in a meaningful way.

The next decade promises to represent a watershed in terms of United States energy policy. In order for urban areas to fully embrace and leverage the nation's broad new policy direction, energy – how it is used and demanded – must be explicitly considered in every aspect of housing policy. Three dimensions merit particular attention.

First, policy should explore ways to reduce the energy requirements for all housing. This will reduce the day-to-day cost of housing and should translate into improved affordability across the board. Examples of projects that have been successful in this pursuit exist (Colorado Court in Santa Monica, CA, for example), and they can serve as models for future building. In the Colorado Court case, existing building standards actually presented obstacles to implementing some of the most significant green aspects of the building (U.S. Department of Energy, 2004; Farbstein, et al., 2004). So there is an important role for policy-makers to identify these regulatory barriers and find ways to circumvent them.

Second, policy should be developed to ensure that housing minimizes the carbon footprint of each structure in order to increase environmental quality. Standards established by the LEED rating scheme currently serve as the benchmark for green building across the nation. However, some aspects of the ratings do not ensure that buildings reduce their carbon footprint to the maximum amount given a particular rating (points for covered bicycle racks for 15% of occupants match points for providing low emitting and fuel efficient vehicles and preferred parking for 3% of occupants for example).⁸ The standard for green building should be refined so that ratings are commensurate with carbon footprint impact. Logistically, this will necessarily be an interagency effort, which poses serious coordination and consensus building challenges.

Finally, policy makers must identify and promote methods for using energy most efficiently used at a scale broader than the individual building. In some instances, this will involve how energy is used and conserved within a development such as a master

⁸ Items SS 4.2 and SS 4.3 in U.S. Green Building Council (2005).

planned community. In other cases, the focus will be how housing plans and layouts influence commuting and commerce travel.

In all three cases, policy-makers will need to be mindful of the economics of green development. Many of the most efficacious development features in terms of green impact are currently not profitable to incorporate into housing. This reality means that resources should be devoted to improve production technologies so as to allow the best green features to be implemented in a cost-effective fashion.

5. Policies beyond the scope of but related to housing must be incorporated into the housing policy discussion.

As described above, housing is but one element of the complex web that comprises urban areas. Consequently, housing interacts with and its effectiveness influenced by other policy areas. Housing policy must recognize this explicitly and “housers” must weigh in when policies in these other areas are being formulated. Two examples that will be particularly relevant in the next decade will be transportation and broader community development

5.a. Transportation efficiency must serve the urban core and peripheral subcenters.

Housing’s effectiveness and appeal varies with the extent to which it facilitates access to employment and amenities. This access is directly a function of the quality of the regional transportation network. If, then, housing in its many modes is to be effective, then transportation must successfully link housing to these other activities.

As discussed earlier, the transportation needs for neighborhoods in monocentric and polycentric cities are likely to differ in important ways. In particular, neighborhoods in monocentric cities will require a linear system that points to the urban core whereas

those in polycentric cities will likely need a more distributed transportation network. Policy must therefore provide incentives for cities to critically assess their underlying spatial layout and pursue the strategy that best fits its structure. This will necessarily result in different solutions for different cities, and will likely lead to the consideration of solutions such as busways more often than currently occurs.

In addition, the likely infusion of considerable capital into infrastructure development suggests that the relationship between infrastructure and housing should be better understood and capitalized upon where possible. For example, transit-oriented development incentives could be put in place to fully leverage the significant investment already made to particular locations. Currently, the extent to which these are leveraged varies widely, both within and across metropolitan areas.

5.b A comprehensive approach to community development should be pursued.

Finally, a key element of every successful neighborhood is that it provides its residents with the mix of community assets and amenities that produces a high quality of life. Thus, policy must strive to restore struggling neighborhoods and design new neighborhoods so that all neighborhoods achieve a significant level of vibrance. Particular areas of focus should include (in no particular order) improving levels of human capital, social capital, citizenship, empowerment, entrepreneurship, and institutional depth. As with the transportation and energy issues, success in this endeavor will require support and coordination from many fields beyond housing.

The Obama Administration – Hope for a New Direction

Given then-candidate Obama's campaign theme of change, one can be hopeful that as President he will be open to considering the new approach to housing, neighborhoods, and cities presented here. Many of the issues highlighted here are on the Obama Administration's urban agenda. Importantly, though, the recognition of two types of cities in America in crafting policy is a departure from the more common "one size fits all" approach that has often been a hallmark of federal policy. Thus, policy development should take on a different tenor.

Flexibility to accommodate this policy framework will require considerable creativity, experimentation, and innovation on the part of policy-makers and practitioners. In pursuing interdisciplinary solutions to these issues, coordination across agencies will be critical. Central to this will be the ability of the new Office for Urban Policy in the White House to not only bring together the key players across the various federal agencies but also find ways to facilitate their working together efficiently and effectively. In addition, ultimate success will necessitate a strong talent for communication, as the success stories must be made known generally so that they can be replicated in many contexts. These represent significant hurdles, but the change in Administrations has stoked much energy and excitement in the housing community. One hopes this talent and energy can be harnessed to produce lasting changes in housing policy that contribute to the growth and stability of thriving housing, neighborhoods, and cities.

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