USING THE HOUSING WE HAVE

A Comment on "Making Work Pay Enough"

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The success of welfare reform has shifted many policy analysts' attention to providing incentives for former welfare recipients to remain in the labor force that they have recently joined. Toward that end, Gregory Acs and Margery Austin Turner want to ensure that working pays more than welfare. Acs and Turner offer proposals to assist low-income workers generally, and also specific proposals to provide them with housing assistance. My comments focus on the housing proposals. Acs and Turner recommend expanding the supply of modest housing through construction subsidies, with additional subsidies in high-cost areas, and a new, large household-based housing subsidy. I think these subsidies, while certainly well intentioned and carefully designed, are somewhat unnecessary and counterproductive.

The presumption underlying the construction subsidies is a purported shortage of affordable rental housing. In fact, we do not need to expand the supply of such housing. For most of this decade, the vacancy rate for rental housing has been at historic high levels—consistently over 9 percent since 2002, higher than it has been in the past 50 years, which is as far back as the data go. The traditional dividing line between a "tight" and a "loose" housing market is about 6 percent. The latest published rate, for the first quarter of 2008, is 10.1 percent, representing about 4.1 million houses and apartments, down modestly from the peak of 10.4 percent in 2004, but still very high even after a year of problems and foreclosures in the subprime home mortgage market. The vacancy rate is high for units that are affordable as well as higher-cost units, except for the very small fraction that rent for less than $300 a month (about 4 percent of the inventory). It is high for every size unit, from efficiencies to those with seven or eight rooms; it is high for every structure type, from single-family homes to units to large apartment buildings. Considering that most lower-income workers, like most lower-income households generally, are already living in decent housing, it is hard to see this situation as a shortage.

These are national data, and all housing markets are local. In 2007, 34 of the 75 largest metropolitan areas have vacancy rates above 10 percent; only 11 have rates below 6 percent. Most of these are on the west coast;

three are in the northeast (New York, Boston, and Albany). Almost every market in between has an above-normal vacancy rate and has had for a good five years. There is not a shortage of affordable *housing*; rather, there is a shortage of *affordability*—the ability to pay for it.[1]

The markets with low vacancy rates are also usually markets with relatively high housing costs. Acs and Turner would target their construction subsidies to high-cost markets. The problem with such as approach is that, as they point out, "in many circumstances, regulatory and market barriers stand in the way of increased construction of modest housing." Areas with high costs are typically areas with extensive regulatory barriers to affordable housing. They have chosen to be high-cost areas. HUD secretaries of both parties dating back to Patricia Roberts Harris have tried to cajole or coerce local governments to reduce their barriers. Construction subsidies would run counter to these efforts. While the federal incentive fund proposed by Acs and Turner offers incentives in the form of small grants to jurisdictions that have erected and then removed barriers, it sends a mixed message by offering nothing for jurisdictions that have not erected barriers in the first place.

By far the most ambitious proposal is the household-based refundable tax credit housing subsidy. Acs and Turner intend to help the working poor pay for modest, decent housing, a policy goal of 30 years' standing. But they tend to treat the fair-market rent (FMR) as a floor rather than an average, and thus set a high standard for affordability. The FMR is the median of the rent distribution; it is not the minimum rent for decent housing. The national average FMR was about $700 a month as of 2005; at that time, some 14.5 million decent-quality units were renting for less than $700.[2] The FMR varies with the cost of housing in the local market; the refundable tax credit would vary more widely, with families in the lowest cost markets receiving nothing. And, the credit offers no incentive for households to economize on their housing cost.

In addition, the refundable tax credit rises with income for the lowest income households and phases out for incomes of $40,000 to $60,000. Most subsidies, of course, fall with income. In the effort to minimize work disincentives, the refundable tax credit introduces a further complexity into the already complicated pattern of income and in-kind subsidies. The phaseout is also high: well above median household income ($48,000 in 2006) and approximately the median family income ($58,000). Until the present, housing subsidies have phased out at 80 percent of median income.

With these features, it is not surprising that the refundable tax credit is very expensive, as Acs and Turner recognize. They calculate it at $31 billion annually. This is almost two-thirds of total HUD outlays in fiscal year 2007, double the amount currently spent on tenant-based assistance (housing choice vouchers), and about $3 billion more than the total amount spent on low-income housing assistance.[3] It would be enough to provide vouchers for about 4.5 million additional households, serving about 40 percent of income-eligible households who do not now receive assistance.[4] If funds of this order of magnitude are available for housing assistance, they would be better employed in the form of vouchers, helping lower-income working families because they are lower income. The additional vouchers could be limited to the working poor, which would certainly provide a work incentive; or they could be available to all lower-income households. Recent research finds that vouchers have a minimal work disincentive (Abt Associates 2006, ch. 4).

Acs and Turner argue for expenditures of this magnitude by comparing them with the tax expenditure cost of the mortgage interest deduction, which is about five times the total cost of their proposals. This is a common but flawed comparison, and it is not relevant. The appropriate analytical framework for considering the mortgage interest deduction is to view the homeowner as a landlord renting to himself or herself. Rental property owners are able to deduce interest, property taxes, and other operating costs as business expenses; they are not considered tax expenditures. In the competitive rental housing market, the tax benefit from these expenditures is passed along to tenants. For homeowners, the same expenses, serving the same purposes, are treated as tax expenditures. If they were treated as business expenses, they would be a deduction for virtually all owner-occupants, not just those in a position to itemize. The real difference between owner-occupants and renters is that the owner-occupant does not have to report the rental value of the home as income, which is certainly a benefit. At the same time, the owner-occupant cannot deduct maintenance and other operating expenses, while the landlord can.[5]

The case for the refundable tax credit should be made on its own merits, in the context of low-income rental housing policy. In that context, the standard housing choice voucher is a better use of resources.

Notes

[1] This point was made long ago by Jane Jacobs, in a somewhat different but relevant context (*The Death and Life of Great American Cities*, p. 324).

[2] This is calculated from the 2005 American Housing Survey, table 4-13, excluding units with severe or moderate physical problems.

[3] These figures are taken from the HUD fiscal year 2009 Congressional budget justifications, available at http://www.hud.gov/offices/cfo/reports/2009/cjs/introduction.pdf.

[4] This estimate is derived from a HUD report to Congress, "The Number of Federally Assisted Units Under Lease and the Costs of Leased Units to the Department of Housing and Urban Development," providing data as of 2006.

[5] For a more detailed analysis, see Sosin and Litzenberger (1978), and Woodward and Weicher (1989).

References

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