

Comment on William Apgar's “Which Housing Policy Is Best?”

John C. Weicher

U. S. Department of Housing and Urban Development

William Apgar's paper represents a new stage in the “voucher/production debate.” Advocates of subsidized production programs have typically advanced two arguments: the poor live in bad housing that needs to be replaced, and “vouchers do not work in tight markets.” Apgar does not make these claims. He argues rather in terms of affordable housing and program costs, issues that have been stressed by those who favor tenant-based assistance.

Apgar claims that housing market conditions have changed since the early 1980s and have reduced the advantages of tenant-based assistance (vouchers and certificates) over new construction programs. The stock of affordable low-income housing is shrinking while the number of low-income families is growing. At the same time, the cost of building new housing is rising less rapidly than the rent on decent existing housing. Apgar raises the possibility that new construction may even be more cost-effective than tenant-based assistance, when the effects on families that do not receive subsidies are considered.

This is an unusual line of attack but is ultimately unpersuasive. Apgar presents no evidence that certificates and vouchers do not work well or that they are inferior to subsidized new construction projects — just some arguments that they *might* not work. In my judgment, Apgar misreads the current housing problems of the poor and overlooks the empirical evidence on cost-effectiveness. This comment will address each of these points.

The housing of low-income families

It may be useful to start with some basic information on the current housing conditions of very low-income households.

In 1983, Congress established priorities for housing assistance. Families and elderly individuals living in severely inadequate housing, or with rent burdens above 50 percent of income, were to

receive preference. Since then the Department of Housing and Urban Development (HUD) has regularly compiled information on the magnitude of these “worst-case needs” for very low-income renters, as well as on the housing conditions of all low-income renters who are eligible for assistance.

The evidence, summarized in Table 1, is clear. Excessive rent burden is by far the predominant housing problem among households with priority needs and all eligible families. Most low-income families live in basically decent housing but pay a high fraction of their income to do so. These families need financial assistance only to reduce their rent burden so that they can continue to live in their current homes and still meet the cost of other necessities. Fewer than 3 percent of very low-income renters live in severely inadequate housing that probably is not worth rehabilitating; another 10 percent live in housing that is moderately inadequate and probably could be rehabilitated.¹

Moreover, the trends in low-income housing conditions reinforce the relative importance of the problems: the number of eligible families in severely inadequate housing has been declining (down to less than 300,000 by 1987), while the number with a rent burden above 50 percent has been increasing or stable.

During the 1980s, there was significant progress in meeting the housing needs of low-income families. In 1981, some 2.2 million were receiving assistance; by 1987, the number was about 2.9 million. It is probably over 3 million now (1989 data will become available later this year). At the same time, the number of eligible families not being helped has been basically stable; it peaked at 7 million in 1983 and then declined slightly to 6.9 million. The total number of eligible families with priority needs grew from 2.6 million in 1974 to 3.8 million in 1983; the number has remained at that level since then. Rent burdens have been rising for the poor while quality of housing has been improving.

Obviously, despite the progress that has been made, more needs to be done. The simplest, most efficient way to meet the remaining priority housing needs is to expand tenant-based assistance programs as rapidly as budget pressures permit.

An actual shortage of housing that is available to low-income families should be manifested in either low vacancy rates or overcrowding. Neither is occurring. The vacancy rate among units renting for less than the Fair Market Rent (the maximum amount that HUD

Table 1. Housing Conditions of Very Low-income Families, 1974-87
(Households in Thousands)

	1974		1981		1987	
	Families & Elderly	Percent	Families & Elderly	Percent	Families & Elderly	Percent
Priority Housing Problems*	2,555	34%	3,338	37%	3,761	38%
Severely inadequate	852	11	674	7	270	3
Rent burden 50 percent plus	1,838	25	2,832	31	3,593	37
Moderately inadequate	169	2	244	3	465	5
Adequate and uncrowded	1,447	19	2,206	24	2,834	29
Other Housing Problems	2,253	30	2,318	25	2,162	22
Moderately inadequate	533	7	456	5	498	5
Rent burden 30 to 49 percent	1,665	22	1,878	21	1,811	18
Overcrowded	440	6	490	5	344	4
No Housing Problems	1,256	17	1,267	14	990	10
In Assisted Housing	1,367	18	2,220	24	2,910	30
Total	7,430	100%	9,143	100%	9,822	100%

Source: Tabulations of the Annual and American Housing Surveys, HUD/Policy Development and Research (PD&R), June 1990

Note: Numbers and percentages do not add to subtotals and totals because households may have more than one type of problem (e.g., both crowding and rent burden).

*"Priority problems" are gross rent above 50 percent of income or severely inadequate housing.

will pay on behalf of a low-income family) was about 7 percent as of 1987; some 1.5 million vacant units were being offered for rent — far more than the 300,000 severely inadequate units that were being occupied. About 660,000 low-income families were overcrowded (living with more than one person per room); 378,000 of these had priority problems.

Apgar reaches a different conclusion — claiming that there is a shortage of housing for the poor — because he looks at low-income housing problems from a different perspective. He focuses on the housing stock, not on the people. He is concerned about a decline in the number of low-rent housing units. He views them as “lost” to the low-income inventory. But most of these units remain in existence; what has happened is that their rents have increased. Low-income families may still be living in them, with a higher rent burden. Those families need rental assistance, not another place to live.

Changes in housing market conditions

Apgar’s second point is that changes in construction costs and rents have reduced the cost advantage of tenant-based assistance. Construction costs have risen more slowly than rents since 1979, so the traditional disparity has narrowed. Where new construction used to cost the government twice as much as existing housing on a per-household basis, by 1986 the differential was about 65 percent.

There is no immutable relationship between the costs of different types of programs, and it is certainly to be expected that the cost advantage of tenant-based assistance will fluctuate from time to time. But it is not likely ever to disappear, except for short periods of time. The cost of new construction is effectively an upper bound on the rent of existing housing. If existing rents rise above new construction costs, that is a signal to builders, and they will act. Moreover, new construction for the poor is, in practice, built to higher standards than the existing private stock, even if the same quality of housing could be built to rent for the same amount as the existing stock does. It might be possible to provide new housing much more cheaply than now by relaxing building codes and zoning restrictions; such desirable action would result in a temporary cost advantage for new construction, but only until the existing housing stock could be adapted to the new quality standards.

The cost-effectiveness of new construction and vouchers

Apgar fails to make more than a theoretical case for the cost-effectiveness of new construction. His analysis of direct program costs comes to the conclusion that tenant-based certificates and vouchers are still cheaper than new construction, although the difference is narrowing. He argues that offsetting pecuniary externalities *might* exist, not that they *do*. There is, in fact, little evidence that externalities matter.

Apgar also raises the possibility that tenant-based assistance can drive rents up throughout the low-income market, and new construction can drive rents down. Neither is supported in the literature. Concern with rent inflation was first expressed when the Experimental Housing Allowance Program started in the early 1970s. In fact, entitlement housing allowances in Green Bay, Wisconsin, and South Bend, Indiana, did not generate any measurable rent inflation in either location. Moreover, there is virtually no sign that rents are driven up even for families actually receiving housing assistance, in either EHAP, the Section 8 Certificate Program, or the voucher. The voucher demonstration report is the latest study to touch on this subject. It finds little evidence of inflation in either the Voucher or the Certificate Program.

The effect of new subsidized production programs on rent levels depends on whether the programs increase the stock of low-income housing. This topic has been systematically investigated in three studies, by Swan, Murray, and Weicher and Thibodeau.² Only Murray found any evidence that subsidized production generated any overall stock increase, and only for conventional public housing. Murray attributed this outcome to capital market segmentation: public housing was financed by government borrowing, while programs such as Section 236 were financed through the mortgage market. My own judgment is that the financial markets are increasingly integrated, and any net incremental housing production resulting from public housing will be smaller now than it was 15 to 25 years ago.

As a matter of public policy, it seems unlikely to me that Congress and the Administration would favor a program that provides assistance to a relatively small number of households, in a form that does not directly address their main housing problem, on the basis of small, difficult to measure external benefits.

Conclusion

Although Apgar refers to a “continuing voucher debate” since the 1983 policy decision to terminate Section 8 New Construction in favor of tenant-based assistance as the main policy for helping the poor, it is not clear what debate he has in mind. In fact, he cites very few papers that have been written since 1983. This is consistent with my own review of the literature in 1987; there is very little recent work besides the HUD-funded Abt evaluation of the Voucher Demonstration Program. Apgar’s peroration, calling for an end to the futile debate, seems to be attacking straw men; in fact, the debate has died down in the research literature.

Finally, Apgar’s focus is narrow. While he advocates “flexible programs that offer appropriate choices to state and local decision makers,” he omits any reference to the low-income housing tax credit program, created in 1986 as part of the tax reform act. This program is providing \$3 billion worth of tax credits to be allocated to production, rehabilitation, or (through 1989) as state governments see fit (within broad guidelines). He also ignores the rental rehabilitation grant, created in 1983 as a kind of tenant-based rehab program, that has assisted the rehabilitation of over 100,000 privately owned units. Perhaps these programs can be improved, but they certainly are intended to maintain and increase the stock of decent affordable housing, in nontraditional ways.

Most fundamentally, Apgar treats housing in isolation. The housing policy problem of the 1990s is likely to be much more than just a housing problem: it is also the problem of the underclass. What is needed is a way to combine housing and other low-income programs with incentives to enable the poor to take control of their lives, break the cycle of poverty, and thereby reduce the concentrations of the poor in the oldest and largest cities. That is the goal of the HOPE (Homeownership and Opportunity for People Everywhere) initiative developed at HUD under President Bush and Secretary Kemp. The goal is to use housing as part of a broad antipoverty strategy.

Building more of the projects that have become bywords for despair is obviously not the solution. Apgar certainly does not specifically advocate large-scale new construction of the public housing type — he seems to favor the exceptionally expensive Section 8 New Construction model, that primarily served the low-income elderly — but that is what his recommendations are likely to become if they are adopted.

Author

Dr. John C. Weicher is assistant secretary for Policy Development and Research at the U.S. Department of Housing and Urban Development. The opinions expressed in this comment are his own and not necessarily those of the department.

Endnotes

1. Eligibility for assistance is not limited to very low-income families; those with incomes between 50 and 80 percent of median are also eligible, but admission is restricted. Also, eligibility is not limited to the poor; nationally, the income cutoff of 50 percent of median income is equivalent to about 135 percent of the poverty line. When attention is focused on the subset of eligible households who are defined as poor, the same patterns exist.
2. Craig Swan, "Housing Subsidies and Housing Starts," *AREUEA Journal* 1 (Winter 1973): 119-40; Michael Murray, "Subsidized and Unsubsidized Housing Starts: 1961-1977," *Review of Economics and Statistics* 65 (December 1983): 590-97; John C. Weicher and Thomas G. Thibodeau, "Filtering and Housing Markets: An Empirical Analysis," *Journal of Urban Economics* 23 (January 1988): 21-40.

