

RETHINKING LOCAL AFFORDABLE HOUSING STRATEGIES: LESSONS FROM 70 YEARS OF POLICY AND PRACTICE

II. RENTAL HOUSING ASSISTANCE

The provision of affordable rental housing for low-income families through government-sponsored programs has a long history in the United States. Beginning during the Great Depression, the federal government significantly expanded its role in rental housing production, both to create employment and to replace slum housing. Over the next 70 years, rental production programs first expanded and then decreased significantly, changing dramatically in both scale and approach. Today, approximately 4.9 million rental housing units are subsidized by the federal government under one or more of a complicated array of production programs (Millennial Housing Commission 2002). During the 1960s, concerns about the adequacy of the supply in many locations as well as about the cost, financial viability, and quality of federally subsidized housing led to the creation of what is now the Housing Choice Voucher Program, which provides tenant-based subsidies to mitigate the costs of private market rental housing. During the 1980s, the focus of federal housing policy shifted from supply-side production programs to demand-side rental assistance. Approximately 1.6 million households now receive vouchers (Millennial Housing Commission 2002).

The challenges confronting housing policymakers at all levels have changed dramatically over the past seventy years. In 1950, when implementation of new federal rental assistance programs was just getting under way, more than a third of the nation's housing units were seriously dilapidated or lacked complete plumbing. Nearly one-fifth were overcrowded. The nation's postwar prosperity fueled the production of new housing and dramatically improved the condition of rental housing. By the end of the 1970s, the vast majority of American households were living in decent quality housing with a sufficient number of rooms. But increases in the cost of housing had outpaced the incomes of lower wage earners, and unaffordable housing cost burdens had become far more prevalent, especially among low-income households (Struyk, Turner, and Ueno 1987). This trend persisted, with rent levels rising faster than the wages for low-skilled and entry-level jobs throughout most of the 1980s and 1990s (Joint Center for Housing Studies 2002). As of 1999, about nine of every ten rental housing units nationwide were deemed physically adequate, but four of every ten renter households paid more than a third of their monthly income for rent. And among very low-income households, seven of ten paid unaffordable rents (Millennial Housing Commission 2002).

In today's housing market, affordability is the primary problem confronting low-income renters. Although some still live in substandard or crowded units, most simply cannot afford to pay private market rent levels. And without subsidies, property owners cannot build and operate housing at rent levels that low-income households can afford (U.S. Department of Housing and Urban Development [HUD] 2001a). When low-income households have to devote more than 30 percent of their monthly income to housing, the consequences are potentially devastating. They may not have enough money left to pay for food, health care, or child care, and a missed paycheck or an unanticipated emergency may push them into homelessness.

It is not surprising therefore, that along with the emergence of affordability as the primary housing problem among low-income renters, the nation witnessed an explosion in the number of homeless people during the 1980s and 1990s. A 1999 estimate indicated that more than 700,000 individuals nationwide were homeless on any given night, and that at least 2 million people experienced at least one episode of homelessness in a year (National Coalition for the Homeless Fact Sheets). Although most analysts now agree that a majority of homeless people face multiple problems, including mental illness and drug or alcohol addiction, the scarcity of low-cost housing means that they are forced onto the street or into shelters; in the past, many poor individuals and families with these problems would have been able to find low-cost (though possibly substandard) housing (Rossi 1989; Burt 1997; U. S. Conference of Mayors 2001).

The following sections review the long history of rental housing assistance programs in America as policymakers attempted to address evolving market conditions and housing problems. We then assess the performance of different program types with reference to the seven goals of affordable housing policy.

A. Rental Housing Programs in the United States

The history of rental-assistance programs in the United States encompasses both significant accomplishments and failures. A short summary of this history will help to provide a framework for better evaluating rental housing assistance in the 21st century. Throughout this discussion, we define “rental production programs” as government-sponsored programs that are intended to expand the *supply* of housing for low- and moderate-income households through the construction or rehabilitation of housing units by public authorities or private developers.³ These programs produce houses or apartments that are earmarked for occupancy for low- or moderate-income residents. In contrast, “demand-side rental programs” supplement what low-income households can afford to pay for housing that is already available from the private market. Typically, when we refer to demand-side programs we focus on Housing Choice Vouchers (formerly known as the Section 8 program), although we also discuss some state and local demand-side programs.

The history of government-sponsored rental production in the United States involves a complex web of programs operated and funded by different levels of government, including federal, state, and local. These programs differ markedly on many levels—in program goals, rules and regulations, funding mechanisms, management and monitoring, and even in the populations they serve. Government’s role in producing rental housing for the poor changed dramatically during the 20th century. Until the 1930s, the federal government essentially left housing production up to the

³ Further, we make a distinction between “public housing” and other “publicly assisted housing.” The first is financed, constructed, and managed by agencies of local government with federal regulation and support, while the latter is produced, maintained, and managed by private developers, either for-profit or nonprofit, but in some way is assisted financially by the government.

free market. By the time of the Great Depression, most poor people in America's cities lived in crowded, unsafe, and unhealthy "slum housing."

1. *The Public Housing Program.*

The first significant shift from the government's laissez faire policy came with the United States Housing Act of 1937, which intended to "remedy the unsafe and unsanitary housing conditions and the acute shortage of decent, safe, and sanitary housing for families of low income" by creating the federal Public Housing Program. Public housing, which is still in operation today, receives funding primarily through the federal government and is managed and operated by local autonomous bodies called public housing authorities (PHAs). The 1937 act called for production of only a modest number of public housing units. But after World War II, the severe housing shortage led to enactment of the Housing Act of 1949, which called for the production of 135,000 new units of public housing over five years. The production of public housing continued expanding throughout the 1960s. During this period, a combination of federal cost ceilings and local opposition to sites outside of low-income areas led many urban PHAs to build large high-rise developments that were concentrated in poor and minority neighborhoods (Massey and Denton 1993). As discussed further below, many of these developments became severely distressed—physically, financially, and socially—and were demolished or slated for demolition a generation later. By 1972, the federal government had financed nearly 1.2 million public housing units. Since then, the public housing stock has grown only slightly, and today there are approximately 1.3 million public housing units nationwide (Millennial Housing Commission 2002).

Initially, public housing was intended to provide decent and affordable rental accommodations for families with limited incomes. The federal government financed the construction of these units, but tenant rents were expected to cover operating and maintenance costs. By the 1960s, however, it became clear that many needy households could not afford the rent levels that were necessary to cover costs. Therefore, the federal government limited the public housing tenants' rent contributions to 25 percent of their income⁴ and began supplementing the housing developments' rental income with annual operating subsidies. Subsequently, the federal government has also funded PHAs to modernize the aging public housing stock.

2. *Private-sector production programs in the 1960s and 1970s.*

Beginning in the late 1960s, in addition to expanding public housing production, the federal government sought to stimulate the production of affordable rental housing by the private market. A series of federal programs evolved to offer a combination of financial incentives that made it profitable for private developers to build housing for low-income occupancy. Ultimately, these incentives included below-market financing, federal income tax incentives, and annual operating subsidies. In exchange for financial assistance, private developers agreed to set aside units for low-

⁴ In the 1980s, this affordability standard was increased to 30 percent.

income households either in the form of capped rents or rent contributions based on income. These production programs proliferated throughout the 1960s and 1970s, adding approximately 900,000 units to the subsidized rental stock (Struyk, Turner, and Ueno 1987).⁵

Although private-sector rental production programs were successful in adding units to the affordable housing stock, serious concerns began to surface in the 1970s about their high costs and about their quality and long-term financial viability. By 1975, HUD had taken over the mortgages for 2,900 rental properties containing 282,000 units and foreclosed on 1,700 properties (141,000 units) (Struyk, Turner, and Ueno 1987). Moreover, there was a growing awareness that the primary housing problem facing poor families and individuals was no longer the *availability* of decent quality housing units, but *affordability*. This contributed to a shift in the focus of federal housing policy from the production of low-rent housing units to tenant-based subsidies—or vouchers—to help low-income households afford the cost of decent housing in the private market. During the 1980s, federally subsidized rental housing production for low-income households was virtually eliminated.⁶

3. Tenant-based assistance emerges.

In 1974, Congress launched the Section 8 Existing Housing Program (now the Housing Choice Voucher Program). Conceived as a market-based solution to the problem of unaffordable rental housing and the concentration of assisted housing in largely poor and minority neighborhoods, the program has grown dramatically since its inception. Recipients choose a house or apartment available in the private market and contribute about 30 percent of their income toward rent, while Section 8 pays the difference up to a locally defined “payment standard.” When families first receive a voucher, they are responsible for finding a house or apartment that meets the program’s housing quality standards with a landlord who is willing to participate in the program.⁷ Once they find a qualifying unit, they can begin receiving housing assistance.

Since the early 1980s, vouchers have been the federal government’s primary tool for providing housing assistance to poor renters. Although HUD still administers the public housing program and continues to provide subsidies to privately owned units developed during the 1960s and 1970s, it no longer provides deep capital and operating subsidies to support the production and operation of rental housing for the poor. Moreover, as subsidy contracts with developers who participated in that earlier generation of production programs come to an end, many projects are

⁵ Most of these programs were targeted to urban areas and operated by HUD, but parallel programs were operated by the Department of Agriculture to produce rural rental housing, and by the Department of Defense to produce military housing.

⁶ Today, the original subsidy contracts for these projects are expiring, and owners are not required to renew. Some owners, particularly those with the most marketable properties, are opting out of the program, and raising rents to market levels. Eligible tenants in these properties receive vouchers, but often have to move to other neighborhoods to use them. In other cases, HUD may decide not to renew because rent levels are too high or the property is in disrepair.

⁷ Some recipients are able to remain in their original housing unit by convincing the landlord to accept subsidy payments from the Section 8 program.

being "vouchered out," with eligible tenants receiving a voucher in place of their subsidized unit. And, as discussed further below, some distressed public housing units are also being vouchered out, as high-density, severely distressed developments are demolished and replaced with lower-density, mixed-income housing.

4. *A new generation of federal production programs.*

Instead of directly subsidizing the production and operation of low-rent housing developments, the federal government now supports affordable housing production through a combination of state-allocated tax credits and block grants to state and local governments. These programs give state and local governments more discretion and flexibility about whether and where low-cost rental housing is needed. However, unless combined with other subsidy sources, they generally cannot guarantee long-term affordability for households at the lowest income levels because they do not provide annual operating subsidies to fill the gap between what poor households can afford and what it costs to operate and maintain decent housing.

Two programs are central. First, the Low-Income Housing Tax Credit (LIHTC)—established by the Tax Reform Act of 1986—transfers to the states annual allotments of tax credits, which they allocate to private developers who build or rehabilitate housing at low to moderate rent levels.⁸ The LIHTC program has become a primary source of new rental housing, producing an estimated 1.1 million units by 1999 (Millennial Housing Commission 2002; Keyes and Schwartz 1996). In 1990, Congress created the HOME program under Title II of the National Affordable Housing Act of 1990, with the goals of providing affordable housing and expanding the capacity of nonprofit housing providers. HOME is a block grant program that allocates federal funds by formula to state and local governments, which can use the money to finance the acquisition, construction, and rehabilitation of rental housing with locally designed grants and low-interest loans.⁹ By 2001, more than 586,000 HOME-assisted units had been funded throughout the country (Herbert et al. 2001). Many projects combine HOME funds with the LIHTC, sometimes adding other state and local funding sources as well.

Both HOME and LIHTC rely heavily on nonprofit organizations to develop and manage affordable housing. Although nonprofits played a role in the production programs of the 1960s and 1970s, they are increasingly seen as the primary developers of low-cost housing in many communities throughout the United States. Nationwide, about 13 percent of housing units receiving federal support have been sponsored by nonprofits (Walker 1993). Nonprofit housing developers are often locally based, with long-standing commitments to the communities in which they work, and

⁸ The LIHTC provides approximately a 9 percent credit for new construction and major rehabilitation expenditures over a 10-year period, based upon the development cost and the share of units that will be available for occupancy by low-income households. These credits can then be used to reduce the tax liability of the developer's organization, or they can be sold to investors.

⁹ HOME funds can also be used to support the construction or rehabilitation of homeowner housing and to pay for homeowner assistance, as discussed in chapter 3.

may be involved in other community development and social service activities as well. However, most operate on a fairly small scale, and not all communities are served by effective nonprofit developers. During the 1990s, the capacity of the nonprofit housing sector expanded substantially, and in some metropolitan areas these organizations now produce and maintain a fairly large inventory of affordable housing (Walker and Weinheimer 1998).

5. Transformation of public housing.

The 1990s also witnessed a new approach to public housing. Despite its success in providing shelter for America's poorest households, public housing had become a symbol of failure in low-income housing policy. In many cities, shoddy construction, lax maintenance, ubiquitous drug and gang problems, and concentrations of profoundly poor families—with attendant high rates of unemployment and welfare reciprocity—contributed to the creation of severely distressed neighborhoods. Moreover, the concentration of poverty in public housing was often accompanied by racial segregation. In their landmark work, *American Apartheid*, Massey and Denton (1993) argued that the construction of public housing created "a more permanent, federally sponsored 'second ghetto' in which blacks were isolated by class, as well as race." Indeed, many public housing developments were located in undesirable parts of the city, often isolated by natural barriers like rivers or man-made barriers like major highways.

Despite the visibility of its failures, most public housing did not match this negative image. In many communities (particularly those outside of big central-city jurisdictions), public housing was well-maintained and remained a vital and valuable asset. One study estimated that only 7 percent of public housing developments (15 percent of units) were troubled along four dimensions: social, physical, financial, and managerial (Epp 1996). Nonetheless, many public housing developments were in desperate need of rehabilitation. In 1989, Congress established the National Commission on Severely Distressed Public Housing to explore issues related to deterioration and to strategize about possible remedies.

Spurred by the commission's recommendations, Congress established the Urban Revitalization Demonstration—better known as HOPE VI—in 1992. The goals of the HOPE VI program were to revitalize public housing communities by integrating public housing into the larger community and creating housing environments that assist residents in becoming self-sufficient. Grants were competitively awarded to local housing authorities to fund both physical improvements (including renovations, demolition, and new construction) and community and supportive services for residents. By 2002, HUD had awarded a total of 405 grants, including 35 planning grants, 193 revitalization grants, and 177 demolition grants,¹⁰ totaling more than \$5 billion (HUD's HOPE VI website <http://www.hud.gov/offices/pih/programs/ph/hope6/index.cfm>). Although every HOPE VI

¹⁰ The demolition total does not include FY 2002 grant recipients, which had not been released as of April 2003.

project is unique, many are replacing high-density developments with lower-density town houses and garden apartments, mixing public housing units with market-rate rental housing and homeownership units, and substituting vouchers for some of the original public housing stock.

Critics of HOPE VI have raised concerns about the loss of subsidized housing stock and the number of public housing residents who will be allowed to return to the site (Buron et al. 2002; Keating 2000; Kingsley, Johnson, and Pettit 2001; Wexler 2001). Although most HOPE VI sites are not complete, so it is too early to tell what the outcomes for original residents will be, a recent study of residents relocated from eight of the earliest HOPE VI developments found that most are living in better housing in safer neighborhoods, but that a substantial proportion are struggling to meet basic needs that previously were covered in public housing. In addition, some long-term public housing residents face multiple barriers to self-sufficiency and may need supportive services in conjunction with housing assistance (Buron et al. 2002).

6. *Supportive housing programs.*

Beginning in the 1950s, some rental housing programs were targeted to people with special needs, including the frail elderly, people with disabilities, and homeless people. These programs deliver social services and other supports in conjunction with affordable housing, often serving people who might otherwise be unable to live independently (Glauber 1996). Though the primary focus of this chapter is rental assistance programs, a brief overview of supportive housing programs is provided. The first federal supportive housing program—Section 202 Supportive Housing for the Elderly—was enacted in 1952 to provide direct, low-interest loans to nonprofit organizations to develop housing for low- and moderate-income elderly and physically disabled people who did not qualify for public housing. Over time, the Section 202 program was expanded to serve people with a wider range of disabilities, including developmental disabilities and chronic mental illness, and to explicitly require the provision of supportive services. However, by the late 1980s, it became clear that elderly and disabled people often have very different needs and are not well served by living in the same developments (Applied Real Estate Analysis 1995). Therefore, the Section 811 program was established to serve disabled populations, while Section 202 focused exclusively on the elderly. As of 2000, the Section 202 program has produced a total of 65,000 housing units nationwide, and 18,000 units have been produced under Section 811.

Beginning in the 1980s, the growing population of homeless people on the streets of the nation's major cities led to the enactment of a series of federal programs attempting to meet the special needs of homeless families and individuals. As discussed earlier, the rising cost of rental housing and the loss of low-cost units, such as rooming houses and single-room occupancy hotels, meant that poor people who lacked family and social supports were increasingly likely to face episodes of homelessness. Many homeless individuals and families face multiple barriers to finding and sustaining themselves in housing, including mental illness, physical disabilities, and drug or alcohol addiction. Their circumstances vary tremendously, requiring different types and levels of

supportive services in conjunction with temporary shelter, transitional housing, or a permanent place to live.

The Emergency Food and Shelter Program, enacted in 1983, provided funding to local jurisdictions to help build emergency shelters. Subsequent programs, beginning with the Stewart B. McKinney Homeless Assistance Act of 1987, were designed to fund the development and operation of supportive housing environments, including transitional housing to help people prepare for independent living, and permanent supportive housing for people with long-term or chronic service needs (U.S. General Accounting Office [GAO] 2000; Urban Institute 2000a). These programs rely on local jurisdictions to plan and implement a continuum of supportive housing solutions, to meet the needs of different segments of the homeless population and to help families and individuals transition toward permanent housing (Fuchs and McAllister 1996). As of 2000, estimates indicate that the federal Emergency Shelter Grants program and the various McKinney Act programs have been used to support or create 70,000 beds (including emergency shelter, transitional facilities, and permanent housing) (Millennial Housing Commission 2002). In addition, localities across the country have used the LIHTC program, HOME and CDBG funds, and Housing Choice Vouchers, along with state and local funds, to produce and maintain transitional and supportive housing for people who have been homeless or are at risk of homelessness.¹¹

B. Performance of Rental Housing Production Programs

Chapter 1 outlined seven housing policy objectives that promote healthy families and communities. A comprehensive review of the research literature reveals that rental production programs have been successful in meeting some of these policy objectives while doing little to advance others. Moreover, the existing research suggests that, at their worst, some rental production programs may have exacerbated problems in low-income communities. It should be noted that research on the current generation of rental production programs is quite limited. Most of the existing research focuses on the subsidized production programs of the 1960s and 1970s; much less is known about the impacts of housing developed with Low-Income Housing Tax Credits and the HOME program, or about the performance of HOPE VI housing developments. Nevertheless, the existing research offers important lessons for today's rental production programs. The remainder of this section discusses each of the seven policy objectives, reviewing findings from the existing research literature on the effectiveness of rental housing production.

1. *Preserve and expand the supply of good-quality housing units.*

For the past 70 years, the main goal of rental housing production programs has been to expand the supply of affordable housing for low- to moderate-income households. At face value, the evidence indicates that rental production programs meet this goal. Today, approximately 3.3 million

¹¹ In some cases, nonhousing programs, such as state mental health programs, are combined with subsidized housing programs to finance needed supportive services.

units receive some type of federal subsidy. According to the Millennial Housing Commission (2002), 1.3 million of these units are public housing, 1.1 million receive LIHTC, and the remaining receive funding from a mix of other federal subsidy programs. In addition, estimates indicate that state and local governments have used funding from the HOME block grant program to produce almost 253,000 units of rental housing (Herbert et al. 2001). Due to the eligibility guidelines for these various programs, it is safe to say that most families who are now living in subsidized housing have seen dramatic improvements in their housing affordability and quality, as many were previously living in substandard housing or were severely rent-burdened.

However, to answer the question of whether or not rental production programs have expanded the supply of affordable housing, it is not sufficient to merely add up the number of housing units subsidized by rental production programs. A more sophisticated analysis should examine whether government incentives have encouraged private developers to increase the number of units above what they would otherwise have produced. Research conducted by HUD in 1974 suggests that most rental production programs were reasonably successful in expanding the housing supply beyond trends in production. The exact number of additional units is not certain, however. One estimate suggested that “for every 100,000 units subsidized during the 1960s and early 1970s, as few as 14,000 were net additions to the housing stock” (HUD 1976).

Although federal production programs have been successful in expanding the stock of affordable housing, they have by no means met the nation’s low-income housing needs. Most extremely low-income households today are underhoused, rent burdened, or living in substandard housing. According to the National Low-Income Housing Coalition, 5 million households that are eligible for housing subsidies do not receive them. Dolbear (2001) examined data available from the American Housing Survey and found that almost two-thirds of very low-income renters occupy units outside of their affordable range. Thus, production programs have been effective in expanding the stock of affordable rental housing but have not met more than half the need nationwide.

Programs that subsidize the production of affordable rental housing are not always successful in providing decent-quality housing. As discussed earlier, both public housing and privately owned subsidized housing developments have faced serious problems of financial mismanagement, physical deterioration, crime, and social disorganization. These problems are by no means inevitable, but their prevalence demonstrates that simply building low-cost rental housing is not sufficient. Managing low-income developments is very challenging, and owners need to have both the capacity and the resources to maintain and operate them effectively.

2. *Make housing more affordable and more readily available.*

The research literature indicates that rental production programs are successful in making rental housing more affordable. However, affordability is a relative term; the extent of affordability (affordable for whom) depends on how deep the subsidy is. Due to differences in program structure, funding, and regulations, subsidized units may not be affordable for the lowest-income households.

Public housing and housing developed under the subsidized private production programs of the 1960s and 1970s generally require eligible households to contribute a fixed proportion of their monthly income for rent (currently 30 percent). Long-term operating subsidies or rent supplements fill the gap between resident contributions and the actual cost of the housing. Thus, these programs make housing affordable to even the poorest households, guaranteeing that no residents pay excess rent burdens.

More recent programs (including HOME and LIHTC) do not include long-term operating subsidies. LIHTC produces housing at rent levels that are affordable for households with incomes between 40 and 60 percent of the area median. These units are not affordable for households with lower incomes without additional subsidies (Cummings and Dipasquale 1999). As a consequence, the rent burden for households in LIHTC projects appears to be slightly higher than for those in public housing. Approximately 50 percent of LIHTC households report rent burdens of 30 percent of gross income. However, 13 percent of LIHTC households have rent burdens of more than 50 percent, which qualifies by most definitions as “worst case housing needs” (Burton 2000).

All rental housing developed with HOME funding must be affordable to households with incomes at 65 percent of the area median, and (in projects with five or more units) at least 20 percent of the units must be affordable at 50 percent of the area median. A recent study finds that almost all HOME-financed units met these requirements. However, the average rent burden among households living in these units was 41 percent. More than half of all households living in HOME rental units (59 percent) were paying more than 30 percent of income for rent, with 19 percent paying more than 50 percent. Rent burdens tended to be high because most of the households occupying HOME-funded rental housing had very low incomes. Specifically, eight of every ten HOME renters had incomes at or below 50 percent of the area median (Herbert et al. 2001).

The federal government requires both PHAs and the owners of properties with permanent rent subsidies to collect and submit information annually about resident incomes and rent contributions. Therefore, for these programs, it is possible to track who is served and how affordable the housing is. LIHTC and HOME, however, do not provide permanent rent supplements and do not require property owners to routinely submit data on the incomes or rent burdens of all residents. As a result, much less is known about these programs’ long-term impact on affordability.

Except for public housing, supply-side programs do not produce housing that is *permanently* affordable. Privately owned subsidized developments that were financed in the 1960s and 1970s are now at the end of their 30-year contracts with the federal government. As these contracts expire, some property owners are converting their developments to market rents, while others are seeking new subsidy commitments from federal, state, and local agencies. The minimum affordability requirement for the LIHTC program is 30 years (Millennial Housing Commission 2002), and affordability requirements under HOME typically extend 20 years. At the end of this period, units will either require additional subsidies or be lost from the affordable stock.

3. *Promote racial and economic diversity in residential neighborhoods.*

Most publicly assisted units, particularly public housing units, are located in low-income neighborhoods, often contributing to the geographic concentration of poverty. Although most early rental housing production programs did not specifically aim to reduce economic or racial segregation, the Civil Rights Act of 1968 required HUD to “affirmatively administer the Department’s programs to further the policy of fair housing” (HUD 1976). The question is, then: Do rental-unit production programs encourage racial and economic integration? The answer depends on which programs are evaluated.

Before analyzing where public housing is located, it is important to identify the characteristics of public housing residents. A majority (51 percent) of public housing residents are black; 34 percent are white, and 11 percent are Hispanic. About three-quarters of the public housing population report household incomes of less than \$10,000 annually, and only 4 percent have incomes greater than \$15,000 a year. Most households rely on Social Security or other public assistance for income, and only 21 percent of residents are employed (Goering, Kamely, and Richardson 1994).¹² It is an understatement to say that public housing residents, as a group, represent a population in need.

It is especially troubling, then, that public housing has had the worst results when it comes to racial and economic dispersion. A national analysis of the location of publicly assisted housing revealed that 37 percent of public housing is located in census tracts that are greater than 40 percent poor. Private developments that are publicly assisted are far less concentrated in high-poverty neighborhoods. Approximately 11 percent of private developments are located in neighborhoods that are greater than 40 percent poor (Newman and Schnare 1997). Another national analysis, conducted a few years earlier, found that minority residents of public housing are disproportionately concentrated in higher-poverty census tracts. Specifically, 51 percent of African-American public housing residents live in high-poverty neighborhoods (more than 40 percent poor), compared with 13 percent of white public housing residents (Goering, Kamely, and Richardson 1994).

Further, the location of assisted and public housing in the United States mirrors racial segregation patterns. This is particularly true for the location of public housing, where there appears to be an inverse relationship between the percentage of African-American residents living in the census tract and the percentage of white residents in public housing. In other words, if there is a small percentage of African-American residents living in the census tract, it is more likely that there the composition of public housing residents will be majority white, and vice-versa (Goering, Kamely, and Richardson 1994).

¹² Employment rates among public housing residents increased during the second half of the 1990s due to strong economic conditions and the advent of welfare reform.

Housing supported by LIHTC also has a poor track record on this issue. Most LIHTC units are located in neighborhoods where a majority of the residents are minorities. Approximately 12 percent are located in neighborhoods where less than 20 percent of the neighborhood is minority; 39 percent are located in neighborhoods 21 to 79 percent minority, and almost half (49 percent) are located in neighborhoods with greater than 80 percent poverty rates (Burton 2000).

Though it is still too early to thoroughly assess the accomplishments of HOPE VI, one of the main program objectives is the economic integration of public housing developments. Advocates for the use of mixed-income housing feel that it can help eradicate many of the problems found in public housing (Ceraso 1995). Mixed-income housing may have a positive impact on crime levels, socially unacceptable behaviors, and unemployment by stabilizing a development through introduction of households with higher incomes (Brophy and Smith 1997). And, as discussed further below, low-income households who move to lower-poverty neighborhoods often experience very positive outcomes.

4. *Help households build wealth.*

The goal of rental production programs is to expand the availability of affordable housing and reduce housing costs for low- and moderate-income renters. These programs do not directly build wealth, although paying affordable rent levels may enable some households to accumulate savings. There are, however, some examples of programs that enabled residents of public housing to purchase their units. These programs have been met with mixed reviews.

Rohe (1995) examined the feasibility of converting public housing developments to limited-equity cooperatives in which tenants have ownership rights. The study focused on the experiences of three housing developments in Denver, CO, Paterson, NJ, and St. Thomas, VI, and identified several challenges with converting public housing to limited-equity cooperatives. These included the extent of renovations needed before transfer, prohibitions against involuntary relocation of tenants, the work of generating interest in the cooperatives, and the difficulty of financing.

Some of the challenges with converting public housing units to homeownership units may be due to the lack of interest from the residents. One study (Vale 1998) found that although residents are interested in owning their own homes, they are not, in most cases, interested in becoming owners of their public housing units. For most residents the "ideal of homeownership is seen as a mechanism for avoiding unwanted intrusions into personal domestic space." Further, and not surprisingly, there is a strong correlation between the condition of a resident's public housing unit and his or her interest in owning it. Respondents who favor ownership were significantly more likely to report involvement in the public housing community (e.g., participation in tenant meetings, etc.). Overall, there is limited resident support for recent proposals to sell public housing to its residents.

5. *Strengthen families.*

Subsidized rental housing can affect outcomes for families—either positively or negatively—in several ways. One common assumption is that living in assisted housing as a child increases the likelihood of dependence on government assistance as an adult. The evidence evaluating this assumption has been sparse, but Newman and Harkness (2002) found that living in public housing as a child (during the period 1968 to 1982) actually improved adult outcomes. Public housing residence was associated with higher employment and earnings and lower welfare reciprocity, after controlling for other relevant factors. The authors concluded that “poor adult outcomes of children who grew up in public housing are entirely attributable to their more disadvantaged family background characteristics, both observed and unobserved, not public housing itself.”¹³ They also suggest that “living in either privately-owned assisted housing developments or tenant-based housing assistance would be associated with even more positive long-term outcomes for children than public housing, since families [in these programs]...live in substantially better neighborhoods.” In addition, a recent analysis of school performance and behavioral outcomes of public housing children indicates that they were at only slightly greater risk than other children in poor families (Morris and Jones 2002).

Another hypothesis about the effects of public and assisted housing on families argues that federal eligibility requirements and rent rules may discourage residents from getting married, thereby weakening families. Federally assisted households are required to report their income annually, and their contribution toward rent is typically calculated as a percent of monthly income. These rules may create financial incentives for mothers to remain single and for fathers to live elsewhere. In addition, rules that exclude people with criminal records from public and assisted housing may also discourage parents from marrying and living together. Almost no rigorous research has been conducted to document the impact of assisted-housing regulations on marriage or cohabitation. Some supportive housing programs provide services specifically designed to help keep families together or reunify families that have been split apart (Hart-Shegos 1999; Ceraso 1996).

Beginning in the 1980s, HUD implemented several programs for public housing residents that are designed to help families become self-sufficient. Bogdon (1997) reviewed assessments of three major public housing self-sufficiency programs: Project Self-Sufficiency, Operation Bootstrap, and Family Self-Sufficiency. She concluded that residents who volunteered to participate in self-sufficiency programs made some progress toward self-sufficiency but were unlikely to become completely independent of all assistance programs. Further, because most of the participants were volunteers, they may have been more motivated to succeed than the average assisted-housing resident.

¹³ It is not clear if the results from this study can be applied to the residents living in public housing today. The authors warn that the characteristics of the study sample may be quite different from the families living in public housing today, who are more likely to be unemployed, very low-income, and dependent on welfare.

More recently, the Jobs-Plus demonstration is exploring the potential of targeting public housing developments with high-quality employment services and incentives in hopes of dramatically increasing employment and improving family well-being. Although this demonstration is still under way, early evidence indicates that most public housing residents have worked at some point in their lives, and that a majority are either working or looking for work. However, many only work part-time and the majority are employed in low-wage jobs with no fringe benefits. Poor health (among both parents and children) is the most common problem preventing residents from working (Martinez 2002).

The HOPE VI program, in its effort to transform severely distressed public housing projects, attempts to improve the lives of residents in conjunction with the physical redevelopment process. Although the effectiveness of these efforts varies considerably across sites, many HOPE VI projects have included the construction of new community centers, and integration of social services with job training and placement services to help residents prepare for work and achieve self-sufficiency. At least one site (Atlanta) includes a dramatically improved public school, serving children living in the public housing development and the surrounding community. And several sites appear to be achieving considerable success in engaging residents in decisions about community needs and strategies for addressing them (Naparstek, Freis, and Kingsley 2000).

A growing body of evidence suggests that, even in the absence of self-sufficiency or employment services, living in assisted housing may make it easier for welfare recipients to get and keep jobs (Zedlewski 2002; Sard and Waller 2002). However, the location of the assisted housing in relation to suitable employment opportunities also appears to play a critical role.

6. *Link housing to supportive services.*

As discussed earlier, some of HUD's rental production programs were explicitly designed to serve elderly or disabled households or both, and over the past 50 years, these households have come to represent a large proportion of the population living in assisted housing. For example, elderly and disabled households represent 48 percent of public housing residents, 74 percent of households in Section 8 project-based units, and 43 percent of those in Section 236 developments (HUD 1997).

An early evaluation of the Section 202 program found that it was successful in providing quality affordable housing for elderly households. The program produced housing that was "generally acceptable to tenants and to the communities that they are located in." Residents reported "high levels of satisfaction that translate into low turnover rates and long waiting lists." Further, the program reported very low loan default rates. More recent assessments of Section 202 housing stock suggest that a majority of these properties remain in "good physical condition" (Coalition on Human Needs 2003).

Despite these positive results, it is unclear how successful Section 202 has been in linking residents to supportive services. The research literature shows that there is significant variation in the quality of supportive services in these developments. For example, some developments provide a broad range of services that include transportation, community centers, activities, and access to on-site health care, while others fail to go much beyond housing (HUD 1997). Recent evidence suggests provision of services is increasing. In 1998, HUD conducted a survey of all Section 202 developments and found that 27 percent reported “providing some form of meal program or other supportive services for their residents.” The study also revealed that about 50 percent of all Section 202 developments have service coordinators on staff (HUD 1998).

Not enough is known about the overall efficacy of supportive housing for homeless families and individuals (Burt 1997). To a large extent, this is because few long-term evaluations have followed up to find out what happens to clients after they leave the supportive housing environment (Ceraso 1996). However, several recent studies have concluded that supportive housing can lead to improved outcomes for many vulnerable populations. For example, a literature review conducted by Culhane, Metraux, and Hadley (2001) found that supportive housing interventions for homeless individuals with mental illness not only have high rates of retention but also help reduce homelessness and improve housing stability among program participants. They also found that the use of supportive services translated into reduced use of hospital services, reduced length of stay in hospitals, and reductions in inpatient mental health services.

Other research has also shown that supportive housing can be more cost-effective than having clients receive services from various state and local agencies. This was true in the New York/New York (NY/NY) Program, jointly funded by New York State and New York City, which created 3,600 community-based permanent housing units for homeless individuals with severe mental illness. Looking at NY/NY clients during a four-year span (two years before NY/NY placement and two years after), Culhane, Metraux, and Hadley (2001) found significant declines in the mean number of shelter days; use of state psychiatric hospitals, city public hospitals, inpatient services reimbursed by Medicaid, Veterans Administration hospitals, state prisons, and city jails; and days spent incarcerated. All told, the authors show a \$16,282 net reduction in health, corrections, and shelter use annually per supportive housing unit. Similar findings were realized in a study of supportive housing programs in Minneapolis. Hart-Shegos (1999) found that supportive housing programs in the Twin Cities were far less costly (showing a savings of 52 percent in one case) than services provided by public agencies (foster care, medical care, and other emergency services used by homeless families). A study of HUD’s Shelter Plus Care Program found that program grantees reported a reduction in the participants’ needs for services, including emergency room use, inpatient care in hospitals, substance abuse treatment centers, and jail time (Fosburg et al. 1997).

7. *Promote balanced metropolitan growth.*

The impact of rental production programs on metropolitan growth patterns largely depends on where subsidized units are located. The existing research literature suggests that communities

that are strategic about the location of affordable housing can contribute to balanced metropolitan growth by including a mix of affordability levels in communities throughout a metropolitan region, particularly in areas of job growth.

However, as discussed earlier in this section, most federally subsidized housing production has occurred in central cities rather than suburbs, and in low-income and distressed neighborhoods, not areas of job growth. Thus, subsidized production has generally contributed to the concentration of poverty in distressed city neighborhoods and has failed to expand the availability of affordable housing close to suburban jobs.

Often, subsidized housing production is seen as a tool for the revitalization of distressed central-city neighborhoods. One of the original goals of the public housing program was “slum clearance” and urban renewal, and community development corporations have a long history of building and rehabilitating affordable housing to improve poor neighborhoods. However, the evidence on the effectiveness of affordable housing as a tool for neighborhood revitalization is mixed. Unless housing production is accompanied by other improvements (schools, safety, retail outlets, and parks, for example), it is unlikely to spark neighborhood revitalization and may simply exacerbate the concentration of low-income households in distressed neighborhoods.

Though not the original intent of the program, spurring communitywide revitalization was incorporated as one of the goals of HOPE VI as the program matured (Urban Institute 2002). Unfortunately, though the program has been in place for over ten years, very little is known about its impacts on neighborhood outcomes (National Housing Law Project 2002). Some sites have been successful in developing new community institutions such as community centers, police and fire stations, and schools, and a few have seen considerable revitalization in the surrounding neighborhood (Urban Institute 2000b). It will be some time, however, before the full range of neighborhood impacts of the program is realized and reported.

C. Performance of Demand-Side Rental Assistance

Like subsidized production programs, demand-side rental-assistance programs have the potential to advance many, but not all, of the goals of affordable housing policy. In particular, because demand-side assistance gives recipients more choices about where to live, it has the potential to promote racial and economic diversity and may ultimately help communities promote more balanced metropolitan growth. However, the extent to which demand-side programs actually live up to this potential depends critically on how they are implemented locally. The remainder of this section reviews findings about how effectively demand-side rental-assistance programs achieve the seven policy goals.

1. *Preserve and expand the supply of good-quality housing units.*

Although demand-side housing assistance does not directly increase the supply of affordable housing, there is a hypothesis that a large-scale voucher program would increase the effective demand for market-rate rental housing by increasing the number of households able to afford a rental unit. Over the long term, suppliers would expand production in response to this increased demand. Early evidence from the Experimental Housing Allowance program, a precursor to the federal Section 8 program, found that even an entitlement housing voucher program would not affect aggregate demand by more than 2.8 percent, which was less than the rate of inflation for housing services. The evidence also showed no effects on average rent levels or the construction of new housing (HUD 1979). But the program did cause suppliers to improve the quality of existing housing. Specifically, landlords paid for repairs so their units would meet program standards. In the two study sites, the program decreased the number of substandard units by between 13 and 34 percent and increased the supply of decent units by between 3 and 9 percent (HUD 1979).

2. *Make housing more affordable and more readily available.*

Demand-side rental subsidies are specifically designed to address rental housing affordability problems. They reduce housing costs for recipients and enable them to afford better-quality units. Demand-side rental subsidies represent a more cost-effective mechanism for delivering affordable housing than production programs (HUD 2000). However, not all voucher recipients are successful in finding a housing unit where they can use this form of assistance, and some recipients continue to pay unaffordable rent burdens even with their vouchers.

A demand-side rental subsidy increases the share of existing rental units that are affordable to recipients. A voucher can be used in any qualifying unit up to a locally defined payment standard, which is defined to reflect the prevailing cost of decent-quality rental housing in the market. This provides participating families with access to housing beyond the existing low-cost housing stock. The evidence suggests that participants are able to reduce their housing cost burdens. Herbert studied the use of HOME program funds, which are sometimes used to support local voucher programs, and found that households who received tenant-based assistance paid 36 percent of their income toward housing, while those without subsidy paid 44 percent (Herbert 2001). Although the Section 8 voucher program generally sets the household's contribution toward rent at 30 percent, a GAO study found that housing cost burdens among Section 8 recipients averaged 36 percent. In fact, 32 percent of Section 8 households had housing-cost burdens greater than 40 percent of adjusted income. The study offered several explanations for these high cost burdens, including structural and climate differences between units, and the use of major appliances not calculated in paying for utility costs (GAO 1990).

Not all households that participate in a demand-side housing program are successful at obtaining housing. Program recipients are required to find a suitable housing unit and a landlord willing to participate in the voucher program. The most recent study of success rates in the Section 8

program concludes that the share of voucher recipients who are successful in finding qualifying units in large metropolitan areas is 69.2 percent (Finkel and Burton 2001). This represents a substantial decline from the last national estimate, which was produced in 1993, possibly because of a tightening of housing markets across the country. Success rates also vary across metropolitan areas, partly due to local housing market conditions, but also due to participating PHAs' policies and effectiveness.

Households that receive demand-side housing assistance are able to improve the quality of their housing. The Section 8 program requires that units rented through the program meet a minimum set of housing quality standards. Units are inspected before households can occupy them, and inspections occur periodically during a household's tenure. Evidence indicates that these policies lead to program participants occupying housing of a higher quality than unassisted renters do. In general, Section 8 voucher holders who are able to find units under the program end up in housing of a much higher quality than those who are unable to use their vouchers (Finkel 1994).

3. *Promote racial and economic diversity in residential neighborhoods.*

Demand-side rental subsidies give recipients more choice about where to live than do supply-side programs. Recipients do not have to live in a particular project to receive assistance, but can use their assistance in any qualifying unit in the nation. Furthermore, households can keep their vouchers if they need to move to a different unit to be closer to work or for any other reason. One of the statutory goals of the Section 8 voucher program is to promote neighborhood choice in order to deconcentrate poor populations. Although the evidence to date indicates that vouchers have contributed to the deconcentration of poverty and to racial and ethnic integration, there still appears to be considerable room for improvement. Factors such as the availability and location of qualifying housing, landlords' willingness to participate, the effectiveness of local program administration, and racial and ethnic discrimination have all been found to affect the success of a demand-side program.

Participants in demand-side programs are more likely to live in diverse neighborhoods than their counterparts in supply-side programs. Several studies demonstrate that Section 8 households are less concentrated in low-income neighborhoods than other low-income renters and participants in other housing programs. In a study of six metropolitan areas, Turner and Wilson (1998) found that, compared with public housing residents, voucher holders are less likely to live in high-poverty or majority-black neighborhoods. However, black and Hispanic Section 8 recipients are more likely to live in high-poverty neighborhoods than their white counterparts. Rolf Pendall (2000) compared the residential location of Section 8 voucher holders to other renters' locations and found that voucher recipients were more concentrated in census tracts with moderate to high poverty rates than public housing residents, but less so than other low-income renters. The racial makeup of Section 8 recipients proved a significant predictor of their concentration in low-income neighborhoods. Both Pendall (2000) and Cunningham, Sylvester, and Turner (2000) found that Section 8 recipients in the Washington, D.C., region were able to move to neighborhoods with lower poverty rates than their original neighborhoods. However, many program participants chose to rent units close to their

original neighborhood, with relatively few moving to job-rich locations in the region's western suburbs.

Early evidence suggests that Section 8 vouchers can be successful in helping public housing residents relocate to low-poverty neighborhoods. Kingsley, Johnson, and Pettit (2001) found that public housing residents who received Section 8 vouchers as a result of relocation through the HOPE VI program moved to neighborhoods that were less distressed than their original neighborhoods. However, the authors also found evidence of geographic clustering among Section 8 recipients in almost all of the 31 cities studied. Tracts where Section 8 recipients clustered tended to be minority neighborhoods with moderate poverty rates.

To date, vouchers appear to have been less effective in promoting racial and ethnic integration than in helping to deconcentrate poverty. Polikoff (1995) found evidence that voucher recipients were simply relocating to neighborhoods with similar racial characteristics. Specifically, 7,500 Section 8 voucher recipients in 19 public housing agencies were tracked and census data used to compare characteristics of their preprogram and postprogram neighborhoods. The level of minority concentration at the neighborhood level did not change when preprogram and postprogram locations were compared.

Relatively few voucher recipients make a significant change in where they live. For example, a study by Pope for the Metropolitan Washington Council of Governments (1995) found that 86 percent of Section 8 recipients stayed within the issuing jurisdiction. Cunningham, Sylvester, and Turner (2000) found that Washington-area voucher recipients relocated close to their original locations. There is considerable evidence that the housing search is more difficult for voucher recipients who attempt to move to a new neighborhood. In the most recent national study of Section 8 success rates, enrollees who wished to move to a new neighborhood were less likely to find housing than enrollees who chose to stay in the same neighborhood, even after controlling for other factors (Kennedy and Finkel 1994).

The quality of local program administration plays an important role in determining participant outcomes. Administrative practices at the local level affect the ability of voucher recipients to move to a new neighborhood. A poorly run program makes mobility more difficult for participants. Landlords are also less likely to rent to Section 8 participants if they perceive the program to be an inconvenience. In their guide to improving community relations in the housing choice voucher program, HUD states that there is no substitute for a well-run program. Community conflict is most likely caused by concerns about program administration (HUD 2001b). An exploratory study by Feins (1996) found differences in mobility depending on the method of Section 8 administration. Jurisdictions that had taken significant steps to reduce barriers to movement across jurisdictions (a process known as "portability") showed some evidence of deconcentrating Section 8 recipients.

Voucher recipients who receive mobility counseling as part of program administration may be more successful than those without such help. A mobility program offers housing search assistance,

usually with the goal of assisting households in moving to low-poverty areas. Turner and Williams (1998) argue that mobility counseling and search assistance programs make a difference in neighborhood outcomes for Section 8 recipients. Forty percent of families who received counseling through litigation-based programs have been successful in moving to target neighborhoods, and 48 percent of those counseled through HUD's Moving to Opportunity (MTO) program have been successful in moving to low-poverty neighborhoods.

Many landlords either lack information about the Section 8 program or find participation unattractive. Aspects of the demand-side rental programs may make them unappealing to some landlords in the private rental market. To rent to a Section 8 tenant, the landlord must submit to unit inspections and other paperwork that would not be necessary to rent to an unsubsidized tenant. Because landlords can refuse to rent to a Section 8 participant, many choose not to because of the inconvenience (Cunningham, Sylvester, and Turner 2000). If a large share of landlords refuse to participate in the program, the recipients' choice of units is limited to a Section 8 "submarket," undermining the potential benefits of demand-side assistance.

A recent study of landlord participation in the Section 8 program using data from the Census Bureau's Property Owners and Manager's survey found that 43 percent of affordable-unit owners would be unwilling to rent to Section 8 participants. Among both affordable and more expensive unit owners, three main reasons for not accepting tenants were given: potential problems with tenants, too many regulations, and too much paperwork (HUD 1997). This study also found that many landlords are unfamiliar with the Section 8 program. Less than one in six owners of single-family rental units was familiar with the Section 8 program, and fewer than one in six had received inquiries from Section 8 participants. Owners of affordable single-family units were less likely to be familiar with the program than owners of more expensive units. Based on focus groups with participating landlords, Kennedy and Finkel (1994) concluded that most participants ended up renting from the same set of landlords who are familiar with the Section 8 market and choose to rent to Section 8 recipients.

Some programs have been successful by recruiting landlords into the program or making the program appear more landlord-friendly. A Massachusetts effort to target tenant-based rental assistance to homeless individuals achieved a 95 percent success rate and placed 10,000 homeless or imminently homeless households in affordable apartments. The success of the program is attributed to landlord recruitment as well as multifaceted housing-search services. Landlord recruitment may also have had a spillover effect, making other landlords more willing to participate in the program (Sard 1994). San Diego, CA, and Birmingham, AL, increased their Section 8 lease-up rates through strategies aimed at getting landlords involved in the program. Both cities actively recruited property owners to participate in the program and created newsletters for participating landlords (Slavin 2001). Although these programs have not been evaluated for their effects on racial and economic diversity, their success in landlord outreach suggests that these are useful tools to aid in mobility efforts.

In some housing markets, the federally established Fair Market Rent levels may be too low to permit families access to many desirable neighborhoods. The subsidies that the voucher program provides to participating households are calculated as the difference between 30 percent of income and a unit's market rent—up to a local payment standard. Payment standards are governed by Fair Market Rents, set by HUD based on data for the local market area. Although current law gives local housing agencies considerable discretion in setting payment standards, Fair Market Rents may be a constraint in high-cost markets or in areas where rents are rising rapidly (Turner, Popkin, and Cunningham 2000).

Another explanation for voucher programs' limited effect on racial and ethnic diversity is that minority voucher recipients may prefer to remain in segregated neighborhoods where they have close ties to the community. In a study of Section 8 recipients in Alameda County, CA, David Varady and Carol Walker found that a significant number of participants chose to stay in their original neighborhoods. When surveyed on their choice of neighborhood, those who chose to stay cited strong neighborhood ties as their reason. Furthermore, one in five Section 8 recipients who had moved to low-poverty suburbs during the study period ended up moving back to their original inner-city neighborhood (Varady and Walker 2000). Other evidence also suggests that any attempt to promote racially integrated neighborhoods through a demand-side program is limited by personal preferences. Farley, Fielding, and Krysan (1997) analyzed the residential preferences of a sample of blacks and whites in four metropolitan areas, using several tests to evaluate preference for and comfort with neighborhoods of different racial makeup. The research found that although both blacks and whites prefer an ethnically mixed neighborhood, both groups are reluctant to move into a neighborhood without other representatives of their racial group. Only 35 percent of the black subjects were willing to move into an all-white neighborhood. If program participants hold these same preferences, they will be less likely to move to neighborhoods without significant representation of their own racial group.

Discrimination in housing markets also affects the ability of voucher recipients to obtain housing outside of high-poverty and high-minority areas. In the Experimental Housing Allowance Program, over a third of households seeking a new unit reported discrimination by age, gender, marital status, race, income source, number of children, or some combination of these characteristics (HUD 1979). More recently, Popkin and Cunningham (2000) conducted focus groups with successful and unsuccessful Section 8 recipients in Chicago and found that although some recipients reported overt racial discrimination, many said they avoided particular neighborhoods because they believed they would not be able to rent an apartment due to their race. Successful examples of mobility through a demand-side subsidy may be due to lower levels of discrimination in the region. Varady and Walker (2000) conducted their study of Alameda County, CA, because a high number of residents chose to take advantage of portability. The authors argue that the program's success may be due to greater acceptance of racial and economic diversity in the study area. Participants who moved to low-poverty neighborhoods may have faced less discrimination during their housing search than participants in other parts of the country may.

4. *Help households build wealth.*

Demand-side housing assistance programs have no track record of helping recipients build wealth. However, by making rents more affordable and increasing housing stability, they may enable some households to accumulate savings as well as provide evidence of financial responsibility by making regular rent payments.¹⁴

5. *Strengthen families.*

Demand-side rental programs have shown success in improving family health, with benefits including reduced rates of juvenile delinquency, improved educational achievement among children, and higher rates of employment for their parents. The primary reason for these changes is that relocating families from high-poverty neighborhoods to low-poverty neighborhoods often creates more positive family outcomes. Ellen and Turner (1997) reviewed existing empirical studies of neighborhood effects and concluded that they generally support the hypothesis that neighborhood environment plays a role in shaping long-term outcomes for families and children.

Rosenbaum and DeLuca (2000) evaluated family outcomes in a study of the Gautreaux program in Chicago. The program relocated Chicago housing project residents to other city neighborhoods or to suburban neighborhoods. Participants who relocated to middle-income white suburbs were more likely to have jobs than their counterparts placed in low-income black neighborhoods. Improved safety and greater availability of jobs were primary factors in suburban movers securing employment. Children of residents who relocated to the suburbs were less likely to drop out of school and more likely to enroll in college than their urban counterparts. In a follow-up study, Rosenbaum and DeLuca found that families who had moved to neighborhoods with high levels of education under the Gautreaux program had a lower level of welfare receipt.

Several more recent studies of voucher recipients also find evidence of neighborhood effects. Leventhal and Brooks-Gunn (2001) recently evaluated family outcomes in the MTO demonstration program. Under MTO, residents of high-poverty public housing developments who volunteered to participate were divided into three groups: experimental households, who were given vouchers to move into low-poverty neighborhoods; Section 8 households, who received a standard voucher and could move to any apartment of their choice; and in-place households, who remained in public housing. Parents and children in experimental households had better mental and physical health than their in-place counterparts. Parents in experimental households and Section 8 households also had less harsh parent-child relationships than in-place households. Ludwig, Duncan, and Pinkston (1999) found that among a sample of families in Baltimore, participants in the MTO programs had lower rates of welfare receipt than renters without subsidy. Section 8 grants

¹⁴ Note that Section 8 vouchers have recently been extended to low-income homeowners as well as renters, but no definitive evidence is yet available on the impact of using vouchers for homeownership.

were found to have little effect on welfare receipt. Similarly, MTO recipients stated that they had greater access to employment and training opportunities in their new homes.

Despite these successes, moving out of their original neighborhoods may put a strain on some families. In a study of the MTO program in Baltimore, Ludwig, Duncan, and Pinkston (1999) found that program participation may have increased the number of single-parent households. MTO families were also more likely to have adult children living in the home. A qualitative study of the MTO program (Popkin, Harris, and Cunningham 2001) found other challenges. Adults in participating households reported feelings of isolation in their new neighborhoods. Many participants maintained contacts with family and friends, but others commented that the distance made it difficult.

Families with demand-side rental subsidies can also reduce their welfare dependence. The Center on Budget and Policy Priorities (2000) highlighted two examples in which Section 8 programs are linked to a well-designed welfare reduction program. The Minnesota Family Investment Program helped reduce poverty as well as increase employment and marriage rates. Similarly, a study of households eligible to receive Job Opportunities and Basic Skills (JOBS) program services in Atlanta and Columbus found that employment and earnings gains were substantially larger among families in public or subsidized housing, compared with families not receiving such assistance (Martinez 2002).

The Operation Bootstrap program tied Section 8 assistance to a series of employment and support services to help families achieve economic independence. A study by Abt Associates (Frees et al. 1994) found that the program showed modest but noticeable progress toward employment, but did not significantly decrease reliance on public assistance. Similarly, Ong (1998) found in a study of single-parent households receiving Aid to Families with Dependent Children benefits in California that Section 8 recipients worked significantly more hours than either public housing residents or those in the private rental market.

6. *Link housing to supportive services.*

Demand-side rental subsidies may be less effective and costlier than project-based assistance when it comes to providing services to special populations. Such programs aim at dispersing populations throughout the private rental market. But when special services are linked to housing, a deconcentrated population leads to service-delivery costs that would not exist in a project-based development. Sard (2001), while arguing in favor of the effectiveness of housing vouchers in comparison to other housing programs, states that vouchers may not be the most cost-effective option in serving special populations. Similarly, in a 30-year overview covering the existence of the Section 8 program, HUD (2000b) identified this same weakness. Furthermore, the lack of suitable special-needs housing in the private rental market makes it harder to utilize a Section 8 voucher. In their analysis of the success rates of Section 8 users, meanwhile, Kennedy and Finkel (1994) found that being disabled or elderly or for some other reason requiring special-needs housing reduced the chance that a Section 8 recipient would successfully utilize their certificate.

There are several examples of situations in which demand-side rental assistance has been used in conjunction with supportive services. These programs have been successful, for example, when a special-needs recipient may move in and out of a supportive housing environment or may require temporary assistance as life needs change. In several instances, vouchers have been utilized in conjunction with educational and job search programs. The Housing Opportunities for Persons with AIDS program has been successful in helping low-income individuals who are HIV-positive retain their housing by supplementing what they can afford to pay for mortgage or rental payments. Furthermore, the Center on Budget and Policy Priorities (2000) found some evidence that the Section 8 program helped victims of domestic violence escape abusive living situations.

In a study of HUD-assisted housing for nonelderly disabled residents, Locke (2000) found that Section 8 assistance was popular among recipients, but it was difficult to obtain and use. In the 10 metropolitan areas surveyed, 15 to 25 percent of voucher holders were nonelderly disabled. An even larger share of households on the waiting list for assistance was disabled. Acceptable units are hard to find, especially in older cities where most of the housing is not wheelchair accessible. The same study provides examples of special tenant-based assistance programs that are tailored for disabled populations. Colorado, Michigan, and New Jersey have programs that connect Section 8 assistance with supportive services. In Colorado's program, the state housing agency coordinates with community organizations to provide support, community integration, and liaison between landlords and tenants.

The HOPE IV program was established as an experimental effort to link Section 8 assistance with funding for supportive services aimed at low-income elderly residents. The goal was to allow these residents to retain their homes despite their service needs. In their evaluation of the program, Ficke and Berkowitz (1999) found that there was an unmet need for services among current Section 8 tenants. Furthermore, many participating housing authorities had not considered the frail elderly to be a targeted service population. Many PHAs were unprepared for the level of service coordination that this population required. However, after an adjustment period, PHAs were successful in providing a cadre of services to the frail elderly population. In many cases, the adjustment required them to rethink their entire service delivery approach. HOPE IV participants were evaluated against a comparison group of Section 8 recipients who were not part of the program. A surprising finding was that the comparison group had service-delivery rates comparable to the HOPE IV participants in many categories. In several quality-of-life categories, HOPE IV participants scored higher than the comparison group. The results suggest, however, that elderly Section 8 recipients have access to existing services through other means.

7. *Promote balanced metropolitan growth.*

Demand-side rental subsidies have the potential to contribute to a balanced metropolitan growth policy in two ways. First, because vouchers are not site-based, recipients can move to neighborhoods that best meet their needs, including areas close to job opportunities. Thus, vouchers

can give low-income households access to suburban job centers, as long as moderate-cost rental housing is available in the communities. In addition, deconcentrating poverty helps to address the decline of inner-city neighborhoods. Concentrations of poverty not only undermine the health of inner-city communities, but may also contribute to sprawl by driving higher-income residents away. Goodman (1978) outlines a policy for attracting middle-class households into central cities while at the same time deconcentrating poor populations between the city and suburbs. Demand-side rental assistance is one component of this broader vision because it allows recipients to choose between urban and suburban areas.

However, as discussed earlier in this section, the effectiveness of vouchers in enabling poor households to move out of low-income and racially segregated neighborhoods depends on how these programs are implemented. In addition, relatively few suburban communities offer an adequate supply of rental housing that is within reach of a household with a voucher, and landlords in these communities may be particularly difficult to recruit into the voucher program. In at least one case, suburban voucher holders moved back into central cities to take advantage of better housing opportunities. Malaby and Lukermann (1996) evaluated the effects of an effort to ease cross-jurisdictional moves on the part of Section 8 recipients in Hennepin County, MN. In a surprising result, the researchers found that more tenants were moving into the central city than away from it. Among those moving into the central city, respondents cited lack of acceptable units elsewhere and need for larger housing units as reasons for the move.

In some circumstances, demand-side rental assistance may contribute to the stabilization or revitalization of housing in low-income neighborhoods by providing landlords with sufficient rent revenues to maintain and improve their properties. Benjamin, Chinloy, and Sirmans (2000) analyzed rental rates and revenue for a sample of apartment buildings in Washington, D.C. A multivariate regression showed that buildings with a policy of accepting Section 8 tenants had higher rental revenue than those that did not accept Section 8. Buildings that advertised the acceptance of Section 8 tenants, however, showed a decrease in revenue. The authors argue that advertising Section 8 acceptance appears to signal low quality. In recent years, serious concerns have been raised about possible detrimental effects of housing vouchers on neighborhoods. Although there is little systematic evidence that the federal voucher program is damaging the health of large numbers of urban neighborhoods, if many recipients are clustered in weak neighborhoods there is a risk of adverse neighborhood impacts (Turner, Popkin, and Cunningham 2000).

D. Summary and Implications for Local Action

Despite significant limitations of the existing research literature, it offers useful guidance for housing policy advocates, policymakers, and practitioners. Rental assistance programs—including both subsidized housing production and demand-side assistance—clearly play a central role in any housing strategy. The accumulated research evidence shows that these programs can contribute to almost all of our policy objectives. However, the effectiveness of rental housing programs is not guaranteed. If they are poorly targeted or ineffectively implemented, these programs can actually

work against the goals of an effective housing policy. Exhibit 1 summarizes the findings presented in this chapter, showing what is known about the performance of both rental housing production programs and demand-side assistance programs for each of the seven policy objectives introduced in Chapter 1.

Exhibit 1: Rental Housing Assistance—Summary of Findings

	Rental Housing Assistance	
	Supply-Side Production	Demand-Side Vouchers
Preserve and Expand the Supply of Good-Quality Housing Units	Yes—rental stock has been expanded, though more units need to be produced	Somewhat—may encourage landlords to maintain existing housing
Make Housing More Affordable and More Readily Available	Yes—but affordability depends on size and duration of subsidies	Yes—primary goal of these programs is affordability; success depends on household’s ability to find units
Promote Racial and Economic Diversity in Residential Neighborhoods	Rarely—depends on where new units are located and who is eligible to occupy them	Possibly—if recipients can find units in diverse neighborhoods
Help Households Build Wealth	Generally not—though lower rents may lead to increased family assets	Generally not—though lower rents may lead to increased family assets
Strengthen Families	Possibly—but little literature exists to confirm program’s ability to strengthen families	Possibly—but less impact if units are located in distressed neighborhoods or occupancy rules discourage family unification
Link Housing with Essential Supportive Services	Sometimes—when units are designed in conjunction with effective supportive services	Generally not
Promote Balanced Metropolitan Growth	Rarely—depends on where the new units are built	Possibly—depends on recipients’ ability to find units in suburban areas and close to job opportunities

What are the implications for action of this substantial body of literature? First, it is critical to recognize that **federal policy continues to play a central role in shaping rental housing assistance strategies**. Despite devolution, decisions at the federal level largely determine the resources available for rental housing assistance and set the broad parameters within which state and local actors operate. Although the goal of federal housing policy has been consistently articulated as “a decent home in a suitable living environment for every American family,” Congress has never allocated sufficient funds to housing assistance to make this goal a reality. And over the past two decades, annual additions to the pool of available assistance have been small, resulting in

a widening gap between needs and resources. Thus, the options available to local policymakers in the area of rental housing assistance are constrained by the limited availability of federal resources. Some state and local governments allocate their own funds to rental housing assistance, but federal programs constitute by far the lion's share of resources available. In communities all across the county, these resources fall short of needs.

The literature also underscores that **affordability is the central challenge for rental-assistance policy**. In most housing markets, the overall supply of private rental housing is large enough to meet demand, and the vast majority of rental units are in decent condition. Although the problems of overcrowding and physically deficient housing should not be ignored, by far the most prevalent problem facing low-income renters is that they cannot afford prevailing rent levels.¹⁵ Even in weak housing markets, where vacancy rates are high and landlords are eager to find tenants, rents for decent housing in the private market are unaffordable at very low-income levels. Moreover, producing units that are affordable for households at the lowest income levels (where hardship is most prevalent) requires deep and long-term subsidy commitments. Tax credits, grants, and low-interest loans are not sufficient to guarantee rents low enough for extremely low-income households to afford.

This means that **building more rental units is not necessarily the solution to the housing problems facing low-income renters**, particularly given the scarcity of federal housing resources. Policymakers need to diagnose local market conditions intelligently to decide whether some types of rental housing are really in short supply, or whether the units are actually available but low-income renters simply need subsidy assistance to supplement what they can afford to pay for these units. Subsidizing the rents for existing units is much less costly than building new units and can help stabilize a faltering housing market, enable low-income households to compete in a tight market, provide struggling landlords with sufficient rent revenues to maintain their properties, and prevent rental units from deteriorating and dropping out of the housing stock.

In some circumstances, subsidizing the production of new rental housing units makes sense. If vacancy rates are low and rent levels are rising, if particular types of rental housing (like units with more than two bedrooms) are in short supply, or if large numbers of federally subsidized properties are transitioning to market rent levels, building new units may help address problems of affordability, crowding, and physical deficiencies. But without deep, long-term subsidies, new rental units will not necessarily be affordable for the households whose needs are most severe. Local policymakers may have to link vouchers or other demand-side rental subsidies with production programs like the LIHTC to ensure that the households with problems can afford to rent the new units.

Because unaffordability is the primary cause of housing hardship for low-income renters, **housing policymakers should explore strategies for building incomes as well as for**

¹⁵ Note that most renters living in physically deficient or overcrowded housing also pay unaffordable rent burdens (Millennial Housing Commission 2002).

subsidizing rents. At best, affordable housing can provide a platform on which poor households can stabilize their lives, obtain more education or training, find work, and build savings. Programs that deliver effective support services, child care, and job training in conjunction with housing assistance can help families improve their overall well-being and increase their incomes until they can ultimately afford to pay private-market rents.

Location plays a critical role in determining the effectiveness of rental-assistance programs. Historically, subsidized housing has been built in neighborhoods where poor people live, often increasing the supply of housing where demand is weakest, exacerbating the concentration of poverty and distress, and reinforcing patterns of racial and ethnic segregation. A growing body of research now indicates that living in a high-poverty neighborhood can undermine the well-being of families and children and that affordable housing alone cannot revitalize a distressed neighborhood. Local policymakers need to focus their attention on where affordable housing should be developed and whether low-income households have access to decent neighborhood environments.

Both supply-side and demand-side programs can play a role in a local rental-assistance strategy that takes location seriously. Using production programs to expand the availability of affordable rental housing in healthy neighborhoods (where it is scarcest) promotes economic and racial diversity and broadens opportunities for low-income households to live in neighborhoods that offer safety, good schools, quality services, and access to employment opportunities. At the same time, vouchers and other demand-side programs can be used to supplement what poor households can afford to pay for market-rate housing in neighborhoods of their choice. Some voucher recipients are likely to use their vouchers to remain in their current neighborhoods (in fact, many use their vouchers in the original rental units), reducing their rent burdens and increasing their landlords' capacity to maintain the property. Other recipients will use their vouchers to move to other neighborhoods, potentially contributing to racial and economic diversity and helping to break down concentrations of poverty.

But low-income and minority households often need help to gain access to the full range of affordable housing opportunities available. Limited information about unfamiliar communities, fear of the unknown, discrimination, and landlords' unwillingness to accept vouchers all create barriers to mobility and choice. If a voucher program is to live up to its full potential, local policymakers and administrators need to systematically monitor the availability of rental housing in neighborhoods throughout the region, actively promote landlord participation in the program, track the location choices of assisted households, and assist households in finding suitable units in neighborhoods that meet their needs. Moreover, if local production programs are expanding the supply of rental units in healthy neighborhoods, it is essential to make these units available to voucher recipients and other low-income households seeking better living environments. Thus, policymakers who understand their local housing markets can strategically coordinate the limited resources available for rental housing production, demand-side assistance, and supportive services to systematically advance the goals of affordable housing policy.

E. Priorities for Future Research

The existing research literature on rental-assistance programs clearly leaves important gaps in what we know. Over the past decade, far more research has focused on the performance of demand-side assistance than on the performance of the latest generation of supply-side strategies. Although individual case studies may document various strategies for combining funding sources and subsidy mechanisms to get affordable housing built, few studies rigorously assess the impact of these efforts on households or neighborhoods. As discussed earlier, this stems in part from the devolution of control over rental production. Programs that tie long-term federal operating subsidies to rental housing units have maintained detailed information about where these units are located, who lives in them, and how much the residents are contributing toward rent. This data makes it feasible to conduct extensive analysis on questions about affordability, diversity, family well-being, and neighborhood effects. State and local agencies that use federal tax credits or block grant funds to finance the development of rental housing are not required to maintain this kind of unit-level data. And, as HOPE VI replaces traditional public housing with mixed-income communities, data are only available for those units that continue to receive long-term operating subsidies. Thus, while devolution offers opportunities for locally crafted housing development strategies, it also creates new challenges for investigating the effectiveness of these strategies.

To fully assess the effectiveness of today's rental production programs, and to provide meaningful guidance to local policymakers, researchers will need to collect in-depth information on unit locations, costs, occupancy, and neighborhood conditions for developments in representative samples of markets. For example, a study of how rental housing developed under the HOME program is contributing to neighborhood diversity and revitalization would need information on the characteristics of residents and neighborhoods for HOME projects in different types of communities. This kind of data collection is costly and time-consuming, but without it, we can only determine how much rental housing has been produced, not how it contributes to the fundamental goals of housing policy.