



# Innovating to End Urban Poverty

## ALLEVIATING POVERTY THROUGH HOUSING POLICY REFORMS

Edgar O. Olsen, Department of Economics, University of Virginia, Charlottesville

In an environment of government fiscal austerity likely to last decades, reducing poverty requires identifying programs that can be reformed to increase their effectiveness without additional public spending.

Low-income housing assistance programs are ripe for such reforms, as most involve excessive spending relative to outcomes and the inequitable, ineffective distribution of assistance to poor families. In fact, program restrictions result in many eligible families not receiving assistance.

### CURRENT SYSTEM

The bulk of low-income housing assistance in the United States is federally funded. Most of the more than \$50 billion spent per year is devoted to rental housing and is either project based (attached to the dwelling unit) or tenant based (attached to a family or individual). The Department of Housing & Urban Development's housing voucher program is the second largest low-income program, serving about 2 million households and accounting for about 30 percent of households that receive assistance, but it is the only tenant-based program.

Project-based programs account for 70 percent of households receiving assistance. These programs fall into two broad categories: public housing and privately owned (private and nonprofit) subsidized housing. Both types

typically involve the construction of new units or significant rehabilitation of existing ones. Private subsidies are distributed through a variety of programs, the largest of which is the Internal Revenue Service's Low-Income Housing Tax Credit (LIHTC). Under these programs, in exchange for subsidies, private parties agree to provide housing meeting certain standards at restricted rents to eligible households for a specified number of years.

### CURRENT PERFORMANCE

Though performance of current programs has been studied, findings are far from complete. But enough is known, especially about the cost-effectiveness of programs, to detect shortcomings and recommend changes.

Project-based assistance is much more

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expensive than tenant-based assistance in providing equally good housing. The total cost of providing housing under HUD's largest program that subsidized the construction of privately owned projects is at least 44 percent more than providing comparable housing under the voucher program. The best study indicates even larger excess costs for construction of public housing. These and other studies point to the superior cost-effectiveness of tenant-based vs. project-based programs. Project-based assistance is not only highly cost-ineffective, but also needlessly restricts recipient choice. Both are arguments for phasing out project-based assistance in favor of tenant-based assistance, which could contribute greatly to poverty alleviation without increasing costs.

Shifting away from project-based assistance would also contribute to a more equitable distribution of resources by eliminating unjustifiable expenses. For example, \$500,000 per unit was spent to build housing for the homeless in San Francisco, where the median value of owner-occupied houses is \$558,000. The homeless in San Francisco could be more cheaply housed in the city's existing units, more than 6 percent of which are vacant. The same inefficiencies are repeated in markets across the country.

### PROPOSED REFORMS

The following reforms—to public housing, existing privately owned subsidized projects, active subsidized construction programs, and the housing voucher program—would serve the interests of taxpayers and the poor by offering more cost-effective housing assistance to a greater number of people.

- Public housing. HUD distributes more than

\$6 billion a year to public housing authorities across the country. In addition to this amount, housing authorities should be allowed to raise money by selling some of their projects without restrictions on future use or by charging market rents for units vacated by current public housing tenants, or both. This proposal would encourage the sale of projects in need of costly renovations and would require that they be sold to the highest bidder, which would raise additional funds for housing support. Tenants in sold projects would be offered a housing voucher or a unit in another public project, both of which are cost-saving alternatives to housing families in buildings that are the most expensive to maintain. The consequences of such far-reaching change should be studied in pilot cities. San Diego has already implemented such reforms to good effect, and Atlanta has started down the same path.

- **Existing privately owned subsidized projects.** Existing contracts with private owners should not be renewed. Current subsidies offered to private owners to get them to stay in the program should be redirected to tenant-based vouchers, and private owners should be forced to compete for the tenants' business. Under the current system, when an owner chooses not to renew a use agreement, tenants are offered a voucher or HUD pays the unit's market rent for as long as the tenant wants to stay. Tenants should get the same treatment if HUD chooses not to renew a use contract. Some argue terminating use contracts reduces the supply of subsidized housing, thereby narrowing the options for tenants. In fact, tenant choice increases because vouchers broaden their choice of housing.
- **Active subsidized construction programs.** New authorizations for LIHTC projects, the largest

active construction program, should be phased out by reducing authorizations by 10 percent to 20 percent a year. The tax credits themselves cost about \$6 billion in 2012, but state and local subsidies raise the public cost significantly. And the average income of occupants is well above the poverty threshold. The money would be better spent on expanding HUD's well-targeted and cost-effective Section 8 Housing Choice Voucher Program.

- **Housing voucher program.** Though HUD's program is the most cost-effective and equitable housing assistance offered, voucher amounts are excessive in some markets and should be lowered to offer slightly more modest housing to a greater number of families.

## CONCLUSION

Almost all people are currently housed, which is an argument against subsidizing the construction of new units. If one thinks housing is too expensive for low-income families, the cheaper solution is to subsidize their rent, which is accomplished by the HUD housing voucher program. For the few who have no housing, providing it via vouchers is more cost-effective than building new housing.

The most cost-effective program offers the same subsidy to identical recipients. Moving toward that program will focus more of the system's resources on the poorest families.

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