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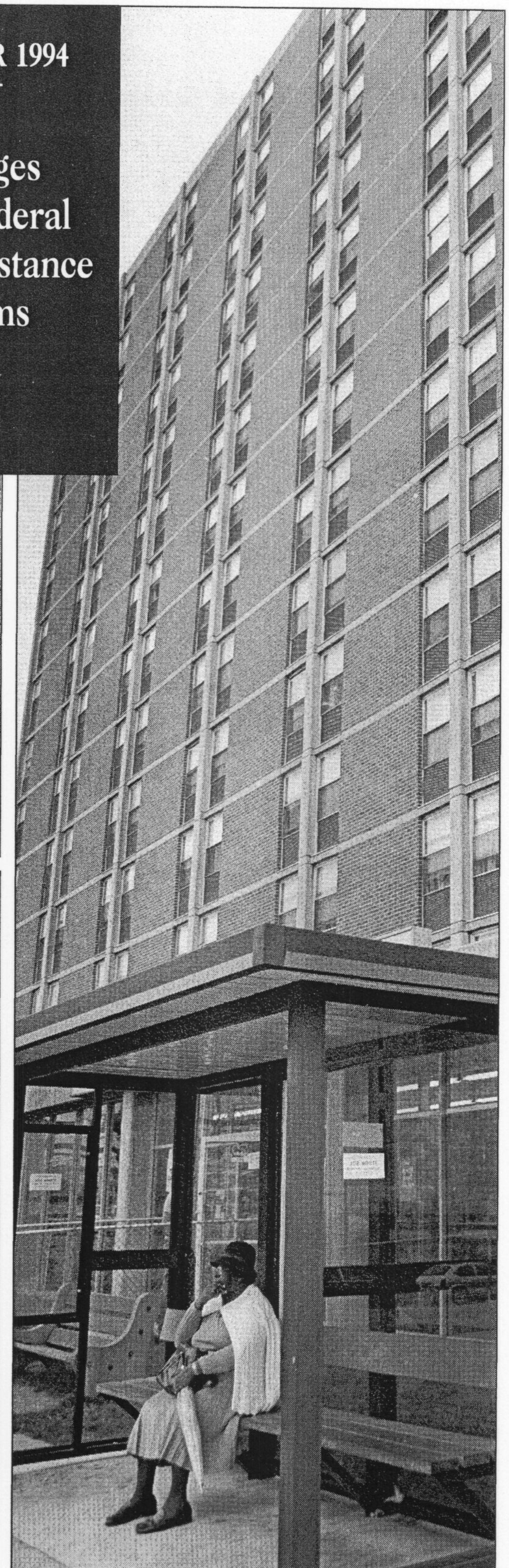
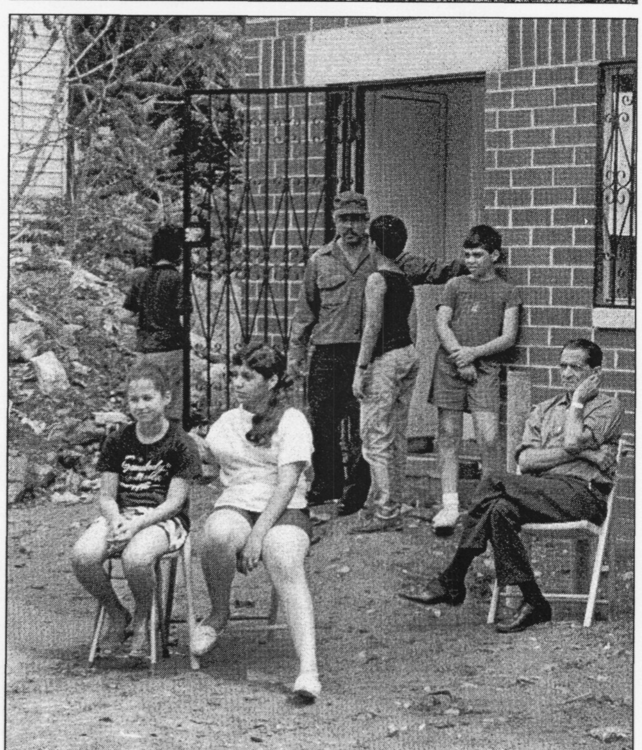
The Challenges Facing Federal Rental Assistance Programs





THE CHALLENGES FACING FEDERAL RENTAL ASSISTANCE PROGRAMS

The Congress of the United States
Congressional Budget Office

NOTES

Numbers in the text and tables of this report may not add to totals because of rounding.

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Preface

The federal government helps low-income renters meet their housing needs through a variety of programs and policies. But tight budgets and questions about the effectiveness of the current system in dealing with those needs have brought calls for a better understanding of the nation's housing situation. In response to a request from the Senate Committee on the Budget, this study explores the housing and economic conditions of low-income renters and examines how those conditions differ for recipients of federal housing aid and nonrecipients. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective, impartial analysis, the study contains no recommendations.

Carla Pedone of CBO's Health and Human Resources Division prepared the study under the direction of Nancy Gordon and Bruce Vavrichek. Computer support was provided by Eric Guille. Several people outside of CBO, including Stuart M. Butler, Jill Khadduri, Edgar O. Olsen, and John C. Weicher, offered useful comments on earlier drafts. Within CBO, James Baumgardner, Debbie Clay-Mendez, Julia Jacobsen, and Brent Shipp provided valuable assistance. CBO gratefully acknowledges the cooperation and assistance of the Bureau of the Census in making available a confidential version of the 1989 American Housing Survey without compromising the privacy of individual households.

Leah Mazade edited the text of the study, and Christian Spoor provided editorial and production assistance. Sharon Corbin-Jallow prepared drafts of the manuscript. Kathryn Quattrone prepared the study for publication.

Robert D. Reischauer
Director

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Summary

Last year, the federal government spent over $22 billion to provide housing assistance for about 4.7 million renters with low incomes. In contrast to federal entitlement programs, however, rental aid has never been provided to all of the households that qualify for it. Indeed, last year only a fraction of eligible households received rental aid. And many of the households that were eligible for aid but did not receive it experienced significant housing problems: they paid large shares of their incomes for housing, or they lived in physically inadequate dwellings or unsatisfactory neighborhoods. Even some of the households that received assistance had those problems.

In the past two decades, the Congress has nearly doubled the number of households that receive rental assistance. But more recently, the stringent limitations on all discretionary spending and the increasing competition for funds within the housing area itself have noticeably slowed the expansion of aid. In particular, more and more of the available resources are going toward preserving the number of outstanding commitments for assistance and restoring the quality of subsidized housing units that were built decades ago.

These developments, coupled with broader interest in comprehensive welfare reform, argue for reassessing the effectiveness of current rental assistance programs in addressing the housing needs of renters with low incomes. Several issues are examined in this study. For example, how successful are current housing programs in alleviating housing problems? Are some more effective than others? Do the current criteria that establish priority for aid among eligible households identify those that need assistance the most? And how could the government do more with the same or a smaller amount of resources?

The Declining Affordability of Rental Housing

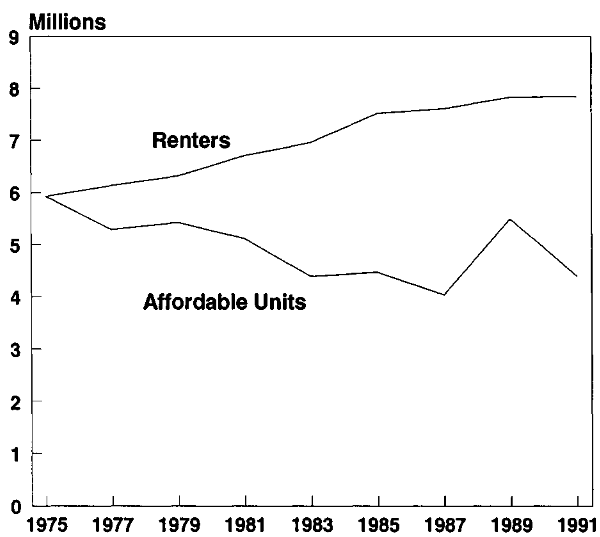
The past 15 years or so have witnessed a significant increase in the share of income that households spend for rental housing. For many households, that phenomenon may reflect their choosing to live in bigger or better-quality housing and is no cause for concern by policymakers. But for some households with low incomes, the larger share of income that they pay for rent may indicate a lack of housing options: they may prefer to live in cheaper units but cannot find them.

Between 1975 and 1991, rents paid by households increased faster than incomes within broad segments of the rental housing market and especially among renters with low incomes. Overall, the share of income that the typical renter would have had to spend to rent the typical housing unit increased from 22 percent in 1975 to 27 percent in 1991. A relatively poor renter, one with income at the 25th percentile of the income distribution (the income level just exceeding that of 25 percent of all renters), faced a steeper hike: renting a unit with rent at the 25th percentile of the rent distribution would have consumed 39 percent of that renter's income in 1991, compared with only 30 percent in 1975.

For this study, the Congressional Budget Office (CBO) defined housing costs as affordable to households with lower incomes if costs did not exceed 30 percent of income (the standard used in most federal housing programs today). Under that definition, a sizable gap has developed between the number of relatively poor households and the number of housing units they can afford. In 1975, about 6 million renter households in the United States had incomes that fell in the lowest quarter of the income distribution of renters. A nearly equal number of housing units rented for 30 percent or less of the income of the household at the 25th percentile of the income distribution of renters. By 1991, the two measures were no longer balanced (see Summary Figure 1). The formation of new households and changes in the rate of home ownership had increased the number of households in the lowest quarter of the income distribution of renters to about 8 million. But the number of rental units affordable to that group fell to about 4.4 million units, resulting in a shortfall of over 3 million units.

Several factors help to explain the decline in housing affordability for renters with low incomes. On the income side, the well-documented decrease in the real (that is, inflation-adjusted) incomes of households in the bottom part of the income distribution limited their purchasing power. Between 1975 and 1991, renters' real household incomes fell by roughly 5 percent at the 25th percentile of their income distribution. In comparison, the median level of income for renter households did not change much, and income at the 75th percentile of the income distribution of renters increased by about 7 percent. Demographic changes help to explain the decrease in income among relatively poor renters--for example, the proportion of households headed by single mothers increased.

Summary Figure 1.
Shortfall of Units Affordable to Renters in the Bottom Quarter of Their Income Distribution, 1975-1991



SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey and American (formerly, Annual) Housing Survey. Data are for odd years only.

NOTES: Units are defined as affordable if they rent for 30 percent or less of the income of renters at the 25th percentile of their income distribution.

The data exclude renters who paid no cash rent and renters living in single-family homes on 10 acres or more.

In contrast to the relatively modest change in the real incomes of renters during the period, inflation-adjusted rents increased by over 20 percent at the points in the rent distribution corresponding to those noted above for the income distribution. A substantial share of that increase (estimates range from 35 percent to almost 90 percent for a unit with median rent) was due to improvements in the quality of rental housing; the remainder was the result of pure price increases. Thus, the element of choice probably played an important role in explaining why many relatively poor households were spending more for housing than they used to.

Several forces explain the increases in rents in different parts of the rent distribution during various periods. Over the 1970s, rents at the low end of the distribution were driven up faster than other rents because many low-rent housing units were abandoned or demolished. High rates of inflation in utility costs helped to push up rents throughout the distribution.

During much of the 1980s, rents overall increased more rapidly than in the 1970s but particularly at the high end of the rental scale. That trend was the result of both demand and supply factors. On the demand side, a sharp increase in the number of renter households fueled by a decline in the rate of home ownership among young households boosted the demand for higher-quality rental units and put upward pressure on rents. On the supply side, developers of multifamily apartment buildings responded to the increase in demand but also to certain provisions of the Economic Recovery Tax Act of 1981. Those provisions increased the profits to be made from constructing rental housing. The large amount of new construction did not bring rents down at first; rather, it increased vacancy rates in rental housing. At the same time, the addition of so many new units (which were probably more expensive than the average existing ones) together with the loss of large numbers of rental units built before 1940 (which probably had below-average rents) worked to push up the rent distribution.

After 1987, real rents began to decline. That movement can be partially explained by the decrease in the rate of household formation and persistently high vacancy rates.

How Federal Housing Aid Affects Low-Income Renters

Federal housing assistance appears to be fairly successful in achieving its basic goals of reducing housing costs and improving housing conditions for assisted households. Overall, the incidence of most housing problems is considerably lower for households that receive aid than it is for eligible households that do not receive it. But for some recipients, the aid does not eliminate all of their housing problems. And there are questions about whether assistance is targeted toward the neediest renters.

What Subsidies Do Recipients Get?

The federal government provides two basic types of rental assistance. For more than 70 percent of recipients, the aid is "project based"; that is, recipients live in a publicly or privately owned housing unit that has been designated for use by assisted households. The subsidies for that type of aid are tied to the units, not to the people who live in them. The remaining recipients receive "household-based" aid. That assistance comes in the form of either certificates or vouchers that provide recipients with subsidies to rent lower-cost housing units of their own choosing in the private rental market.

Both types of assistance are generally designed to reduce what recipients spend for housing to 30 percent of their income. However, some recipients end up paying more than that share. Households that receive vouchers, for example, pay more than 30 percent of their income if they rent units that cost more than a locally determined standard amount called the fair market rent. Nonetheless, recipients of housing aid are better off than their counterparts who do not receive it because they have more resources to meet their needs for housing and other items.

Who Is Eligible for Aid and Who Receives It?

Eligibility for rental housing assistance depends on a household's level of income and varies by household size and geographic location. In 1989, the most recent year for which the detailed data used in this study were available, about 4.1 million households received assistance from the federal government in meeting their housing needs. Under the program rules in effect in 1994, almost 14.5 million additional households would have been eligible for aid; that is, their incomes were sufficiently low to qualify them. Not all of the households that were eligible, however, applied for aid, whereas many of those that did apply were placed on waiting lists because sufficient aid was not available.

Eligible households that are not receiving aid can be classified into three groups that roughly correspond to the preference they receive for housing aid under current program rules. That classification is based on the level of a household's income compared with the median income in its locality, the household's size, and the condition of its housing. The first two groups from which federal aid recipients are chosen consist of "very low income households." Those households have incomes that do not exceed a certain threshold--which, for four-person households, is 50 percent of the area's median income. In 1989, 8.5 million households were in that category (see Summary Table 1).

Because not enough aid is available to serve all households in the very low income category, certain of those households receive priority for aid. Those that pay more than half of their income for rent or live in severely substandard units are classified as very low income households "with priority." The households in that group are placed at the top of the waiting list if they apply for aid. In 1989, the group with priority included about 4.5 million households. The 4 million "other" very low income households generally are next in line if they apply for aid.

The third group of households eligible for housing aid--the group with the lowest priority--is households classified as "low income." In the case of households with four people, that means incomes between 50 percent and 80 percent of the median income in the area. Under current law, only a limited proportion of available aid may go to the 6 million households in the low-income group.

Households without children constitute a majority of recipients of federal housing aid and of nonrecipients with priority. Elderly renters without children account for nearly 40 percent of all households that receive housing aid; of priority nonrecipients, however, they represent only about 20 percent. In contrast, nonelderly households without children constitute approximately 20 percent of recipients but 40 percent of nonrecipients with priority. That group is especially diverse, ranging from disabled people with low incomes to young students with temporarily low incomes.

Households with children make up the remaining 45 percent of subsidized renters and about the same share of eligible unsubsidized households, both with and without priority. Roughly two-thirds of those

Summary Table 1.
Subsidized and Unsubsidized Renters, by Demographic Group and Priority for Housing Assistance, 1989

		Unsubsidized			
		Very Low Income			
Demographic Group[a]	Subsidized	Priority	Other	Low Income	Higher Income
		In Thousands			
All Households	4,070	4,570	3,972	6,023	12,994
		As a Percentage of All Households			
Elderly, Without Children	37	20	22	12	7
Nonelderly, Without Children	18	39	31	46	63
One or Two Children	33	28	31	33	25
Three or More Children	12	13	16	9	5
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations based on a special version of the 1989 American Housing Survey.

NOTES: See Box 3 in Chapter 3 for definitions of household groups and their priority status.

The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

households with children are small families (one or two children). The remaining households have three or more children.

What Are the Incomes and Housing Costs of Subsidized and Unsubsidized Renters?

In 1989, recipients of federal housing assistance had an average income that was 22 percent higher than the average income of very low income households that did not receive aid. Such a result is not necessarily surprising. Part of the difference could have resulted from increases in the incomes of recipients after they began receiving aid. Another cause of the difference could be that some recipients of aid entered housing programs before the current rules for assigning priority went into effect.

When the average incomes of the four demographic groups of renters discussed above (elderly and nonelderly households without children and small and large families with children) were considered separately, sizable differences between recipients and very low income nonrecipients were evident for only two groups--small families and childless households headed by nonelderly people. Some of the difference for the latter group may have been due to a relatively large share of single people among very low income nonrecipients. Single people tend

Summary Table 2.
Average Annual Income and Monthly Housing Costs of Subsidized and Unsubsidized Renters, by Demographic Group and Priority for Housing Assistance, 1989 (In dollars)

		Unsubsidized				
		Very Low Income				
Demographic Group[a]	Subsidized	All	Priority	Other	Low Income	Higher Income
Average Annual Household Income						
Elderly, Without Children	7,400	7,089	6,063	8,156	16,305	33,839
Nonelderly, Without Children	12,135	7,240	5,624	9,588	17,241	40,182
One or Two Children	11,071	8,859	6,325	11,464	20,773	42,267
Three or More Children	10,659	10,311	7,095	13,360	24,860	44,557
All Households	9,874	8,127	6,098	10,461	19,000	40,497
Average Monthly Housing Cost						
Elderly, Without Children	208	329	432	223	431	536
Nonelderly, Without Children	257	364	420	283	404	540
One or Two Children	247	381	442	318	472	580
Three or More Children	223	402	459	347	522	597
All Households	232	367	433	291	441	553

SOURCE: Congressional Budget Office based on a special version of the 1989 American Housing Survey.

NOTES: See Box 3 in Chapter 3 for definitions of household groups and their priority status.

The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

to have relatively low incomes but generally could not receive aid in 1989 because they were not eligible for it unless they met certain conditions, such as being disabled. (With a change in the law, they became eligible in 1990.)

Perhaps more surprising is the large difference in income between households that received subsidies and nonrecipients with priority for aid. The average income of subsidized households was about $10,000 compared with about $6,000 for nonrecipients with priority (see Summary Table 2). A similar pattern existed for all four demographic groups.

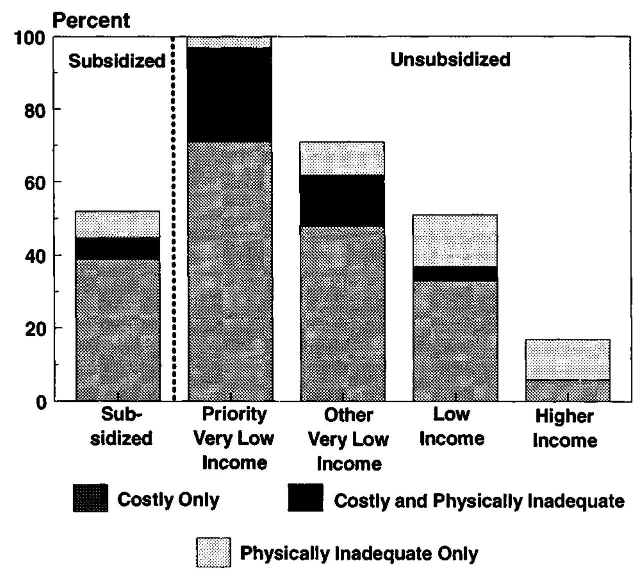
As expected, housing subsidies significantly reduced the cost of housing for recipients compared with the market rents that unsubsidized households paid. At about $230 per month, the out-of-pocket housing costs of recipients of aid in 1989 were just over half those of nonrecipients with priority and 20 percent below those of other very low income nonrecipients. Among the demographic groups of renters, the differences between recipients and nonrecipients were biggest for elderly households and large families.

Among nonrecipients of federal housing assistance, households that qualified for priority for aid had much lower incomes than very low income households without priority. In addition, they paid much higher rents. For elderly households with priority, the large share of income spent for rent stemmed mainly from the relatively high rents they paid--perhaps because they had remained in units that they could afford more easily when their incomes were higher. But for the priority group of large families, relatively low incomes played a more significant role in explaining the large share of income they spent for rent.

What Are the Housing and Neighborhood Problems of Subsidized and Unsubsidized Renters?

Housing aid reduces the incidence and severity of housing problems for recipients, but it does not eliminate them for all such households. In 1989, roughly half of the households that received subsidies still experienced one or more of the housing problems considered in this analysis: living in a relatively costly unit (one that costs more than 30 percent of a household's income), living in a physically substandard unit (as defined in the text of this analysis), and living in a crowded unit (one with more than two people per bedroom). In comparison, more than 80 percent of unsubsidized very low income households that did not receive subsidies experienced such problems. Because the above list includes both high costs for housing and substandard units, all renters in the priority group have housing problems by definition. In addition, their problems are more serious than the problems of unsubsidized renters in the other groups.

Summary Figure 2.
Percentage of Subsidized and Unsubsidized Renters with Housing Problems, by Priority for Housing Assistance, 1989



SOURCE: Congressional Budget Office based on data from a special version of the 1989 American Housing Survey.

NOTES: See Box 2 in Chapter 3 for definitions of housing problems and Box 3 for definitions of household groups and their priority status.

Physically inadequate units are substandard or crowded, or both.

The data exclude renters who paid no cash rent.

Somewhat surprisingly, 45 percent of aid recipients in 1989 reported that they still paid more than 30 percent of their income for housing (see Summary Figure 2). That outcome is only partially explained by the nature of housing programs. Recipients of housing vouchers (one of the types of household-based aid) are allowed to spend more than 30 percent of their income for housing--and many do. Moreover, many recipients pay out of pocket for utility costs because the allowances for utilities that are not covered through the landlord in many instances fall short of the utilities' actual cost. However, in some cases the apparent high ratio of rent to income is probably the result of erroneous survey responses: some respondents to the survey CBO used to generate these statistics may have misunderstood the questions, underreported their income, or overstated their housing costs.

By contrast, virtually all households with priority and over 60 percent of other very low income renters paid more than 30 percent of their income for housing. Paying a large share of income for rent was, in fact, the only problem faced by the vast majority of eligible but unsubsidized households. An exception to this result was large families, for whom the large shares of their income spent for rent in many cases were insufficient to get them adequate housing.

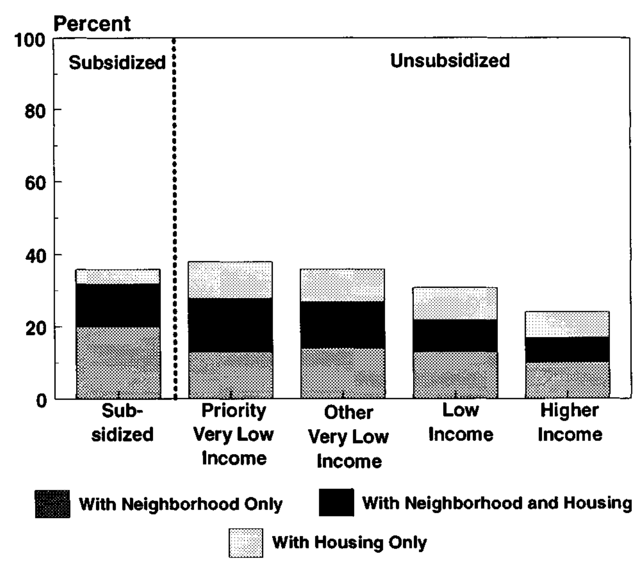
Housing aid reduced the incidence of inadequate housing among assisted households compared with unassisted ones with very low incomes. Overall, some 13 percent of subsidized households lived in substandard or crowded housing, less than half the share of unsubsidized very low income households that lived in such dwellings. But among large families, substandard or crowded housing was a major problem for both kinds of households. Over one-third of subsidized families with three or more children lived in inadequate units, as did more than half of their unsubsidized counterparts.

In terms of overall dissatisfaction with the conditions of their housing or their neighborhoods, very low income renters were similar, whether they received assistance or not (see Summary Figure 3). Altogether, about a third of both subsidized and unsubsidized households reported that either their housing unit or their neighborhood was unsatisfactory. In general, recipients of housing aid were relatively more likely than their unassisted counterparts to be satisfied with their units, but for assisted families with children, those units were more likely to be in unsatisfactory neighborhoods. Roughly 45 percent of that group reported dissatisfaction with their neighborhood, compared with about one-third of their unsubsidized counterparts.

Are There Differences in the Problems Faced by Recipients of Different Types of Housing Aid?

The majority of federal housing assistance today is provided in the form of project-based aid. But the current trend in new commitments of aid is toward greater use of household-based assistance, which households can use to rent units of their own choos-

Summary Figure 3.
Percentage of Subsidized and Unsubsidized Renters Dissatisfied with Their Neighborhoods or Housing Conditions, by Priority for Housing Assistance, 1989



SOURCE: Congressional Budget Office based on data from a special version of the 1989 American Housing Survey.

NOTES: See Box 3 in Chapter 3 for definitions of household groups and their priority status.

The data exclude renters who paid no cash rent.

ing from the nation's stock of privately owned housing. Household-based aid is considerably less costly to provide in the long run. In addition, it is portable and thought to be more effective in integrating low-income households into economically diverse neighborhoods. In tight housing markets, however, some households (especially large families) may have difficulty finding suitable units in the private rental stock.

The evidence is mixed on the incidence of problems faced by recipients of the two types of aid. Within each of the four demographic groups considered in this analysis, the incidence of substandard or crowded housing differed little between recipients of the two types of aid. By contrast, the recipients of project-based aid were generally much more likely than their counterparts who received household-based aid to report dissatisfaction with their neighborhood or their housing unit. The exception to that pattern was the elderly: those with project-based subsidies appeared somewhat less likely to be dissatisfied with their units than their counterparts with household-based subsidies.

Implications for Federal Housing Policies

Given the small share of eligible households that receive federal housing aid and the increasing competition for federal aid dollars, housing policymakers face two recurring questions. First, is the available aid now targeted toward those who are most in need? Second, could existing aid be reallocated to include more unassisted renters who need help? Much broader options could be considered in the context of a fundamental restructuring of the nation's welfare system. However, they are beyond the scope of this study.

Retargeting Federal Aid

Although housing aid is successful in reducing the incidence of certain housing problems, it is not necessarily targeted toward groups with the lowest incomes or groups with the highest prevalence of problems. The average income of aid recipients, though low, is considerably higher than the average income of nonrecipients with priority in all four demographic groups. In addition, a disproportionate share of all aid goes to elderly households. Yet housing and neighborhood problems are widespread among unsubsidized eligible families with children. Moreover, using a large ratio of rent to income to determine priority for aid gives preference to households that may have voluntarily chosen to rent relatively expensive but otherwise problem-free housing units. In effect, the current criteria penalize households that make ends meet by renting inexpensive units that are somewhat inadequate in quality or size, or located in undesirable neighborhoods.

The basic mechanisms for retargeting aid to new recipients would be to modify the criteria used to define the priority group of nonrecipients or to rearrange the rankings of subgroups within it. Definitions of the criteria that are currently used--namely, level of income, rent-to-income ratio, and quality of the housing unit--could be changed, or new criteria such as crowding or characteristics of the neighborhood could be added.

Nonetheless, shifting the current distribution of aid would not be an easy task. Directing more of the assistance toward a group of households that were poorer or that needed larger, and thus more expensive, housing units would raise expenditures per recipient. Increasing the proportion of aid going to families with children would have additional complications. In particular, much of the aid that elderly households currently receive is tied to small units in projects specifically constructed for them. Those units would not be suitable for families with children.

Helping More Unassisted Renters

Expanding the number of recipients of aid without increasing program costs would involve limiting the aid given to each household or using less expensive forms of housing assistance.

The federal government could reduce the subsidy per household in several ways. The large share of unaided households that now pay substantially more than 30 percent of their income in rent suggests that the government could require tenants in housing programs to contribute more toward their rent--for example, 35 percent of their income rather than the current 30 percent. Arguing against that option is the potential benefit of larger subsidies: concentrating limited federal resources on fewer families would enable them to make different choices that might help to improve their economic circumstances and eventually eliminate their need for federal assistance.

Lowering the maximum rents that the government subsidizes in household-based programs would also reduce the subsidies going to some assisted households. In contrast to the previous option, households could avoid paying more than 30 percent of their income for rent by living in housing units with rents below the new maximum. However, that option would generally decrease the number of housing units that those recipients could choose from. The exception is recipients with vouchers, who could choose the same units by paying more than 30 percent of their income in rent.

Yet another method to reduce the subsidy given to a particular household would be to limit the amount of time that a household could receive assistance. Not only do aid recipients now receive significant subsidies each year, but many assisted households continue to receive benefits over long periods. Limiting the duration of aid would allow available funds to be spread among a greater number of households with housing problems. But some households that were unable to better their economic situation within the time limit would either have to move or face a significant reduction in the income they had available for items other than housing.

Using less expensive forms of housing assistance could involve letting project-based subsidies expire and replacing them with household-based ones. Available information indicates that rents for certain housing units with project-based subsidies exceed by 35 percent the maximum rent that the government subsidizes in its household-based programs. Moreover, the evidence presented in this analysis suggests that with the exception of the elderly, recipients of household-based aid are less likely than recipients of project-based aid to be dissatisfied with their housing units or the condition of their neighborhoods. That pattern is apparent even though the incidence of substandard and crowded units is roughly the same for both types of aid among households of the same type.

Nevertheless, replacing project-based aid with household-based aid could mean the loss of a large number of housing units dedicated to low-income use. That loss could lead in turn to the displacement of the units' current occupants. And even if household-based aid was provided to them, some might have difficulty finding private landlords who were willing to participate in government programs.

Chapter One

Introduction

For more than half a century, the federal government has used a variety of approaches to provide housing assistance to renters with low incomes. Unlike federal entitlement programs, aid has never been provided to all of the households that qualify for it. Indeed, federal housing programs serve only a relatively small share of the households that are eligible.

Many households that do not receive subsidies but are eligible for assistance on the basis of their level of income face significant housing problems. More than half pay at least 50 percent of their income for housing or live in severely substandard or crowded dwellings. And subsidies do not necessarily guarantee complete relief. A sizable fraction of subsidized households also experience housing problems, even though housing assistance is specifically designed to reduce housing costs and improve housing quality.

The number of households that receive rental aid has risen steadily over the years. But efforts to continue that trend have been constrained recently by stringent limitations on federal discretionary spending and, increasingly, by competition for funds within the housing area itself. More and more resources are being channeled away from expanding the number of assisted households. In part, those funds now go to maintain the government's existing commitments to provide assistance and the quality of the stock of assisted rental housing.

These developments, coupled with broader interest in comprehensive reform of the nation's welfare system, may make this an opportune time to reassess the effectiveness of the current system in dealing with the housing needs of renters with low incomes. Particular questions to consider include whether the present system is helping the households that need assistance the most and whether there are ways to help more households with the same or a smaller amount of federal resources.

This study examines such topics from the viewpoint of reshaping federal policies for rental aid for the rest of the 1990s and beyond. It considers the scope of the major federal efforts to address the nation's housing needs and explores the growing "squeeze" on available funding to increase the number of renters receiving aid. It examines how and why the cost of rental housing has changed relative to renters' incomes over the past 20 years, resulting in what some people call a growing "affordability problem" for lower-income renters (see Chapter 2). The study also delves into the characteristics of federally subsidized renters and their housing and neighborhood conditions, as well as the characteristics and conditions of their unsubsidized counterparts who are eligible for aid--all key data for any reassessment effort (see Chapter 3). The Congressional Budget Office (CBO) based that part of the analysis on a specially constructed, confidential database that provides a unique perspective on the circumstances of subsidized and unsubsidized low-income renters. The final chapter discusses some of the implications of CBO's findings for federal policy.

Current Federal Approaches to Housing Aid

The federal government provides housing subsidies to both homeowners and renters. Those subsidies may be direct--that is, provided through federal spending programs. Or they may be indirect--provided through mechanisms such as provisions of the tax code and federal activities in the mortgage credit and insurance markets.

The principal goals of the direct spending programs have typically been to improve the quality of housing for renters and homeowners with low incomes and to reduce their housing costs. Other purposes have included expanding the housing options of groups with special needs such as the disabled, stimulating residential construction, promoting the preservation and revitalization of urban neighborhoods, and increasing the number of low-income homeowners. None of these programs have ever been provided as entitlements.

The focus of indirect federal support has predominantly been to increase home ownership. The beneficiaries of that kind of aid typically are better off financially than the people who benefit from direct expenditures. Moreover, it is generally available to anyone who meets the eligibility requirements.

Aid to Homeowners

By far the largest source of federal support for housing is the provisions in the tax code that lower the after-tax cost of home ownership and reduce the taxes that owners must pay when they sell their homes for a profit. Those types of support go mostly to middle- and upper-income homeowners. As a whole, the so-called tax expenditures for those purposes totaled an estimated $86 billion in fiscal year 1994. (All dollar amounts in this chapter are expressed in 1994 dollars unless noted otherwise.)

The federal government also helps moderate-income households to become homeowners by funding various mortgage insurance and mortgage guarantee programs. In fiscal year 1994, the Federal Housing Administration (FHA) insured an estimated $70 billion in new loans covering over 900,000 units. The Department of Veterans Affairs (VA) guaranteed an estimated $28 billion in new mortgages for nearly 300,000 veterans. Those activities create substantial contingent liabilities for the government--that is, liabilities that the government must make good on in the event of a default by the borrower. At the end of fiscal year 1994, the government's contingent liability for all outstanding mortgages of the FHA and the VA combined amounted to more than $400 billion.

Mortgages at below-market interest rates constitute another type of subsidy. This relatively modest amount of support goes to low-income homeowners, mostly through the Farmers Home Administration (FmHA) in rural areas. The FmHA supplies mortgage loans directly and also provides guarantees for loans made by private lenders. During fiscal year 1994, about 39,000 home buyers received $2.4 billion in new reduced-interest loans. The estimated cost of those subsidies over the length of the loans is $345 million. Those costs include subsidies for the lower rate of interest and the costs associated with any future defaults. By the end of 1994, an estimated 750,000 homeowners in total were benefiting from these reduced-interest programs.

Aid to Renters

The federal government provides the lion's share of rental aid through direct spending programs. Subsidies from those programs primarily benefit renters with low incomes and constitute a much smaller share of federal housing efforts than subsidies for home ownership. The Department of Housing and Urban Development (HUD) administers the major rental assistance programs, which provide the bulk of rental aid and are the focus of this study. Spending by those programs amounted to an estimated $22 billion in 1994 and went to about 4.7 million households. The FmHA reduced rents for another 0.5 million rural renters.[1]

Rental assistance can be either project based or household based (see Box 1). Both types of aid typically reduce a household's payments for rent to about 30 percent of income, with the government paying the remaining amount.

The major HUD programs that provide project-based aid are the public housing program and the

1. Expenditures for the FmHA programs cannot be compared directly with those of HUD's programs because of different bookkeeping practices under credit reform.

Box 1.
Types of Rental Housing Assistance

Households receiving federal housing aid are divided into two groups: those that receive project-based subsidies and those that receive household-based subsidies.

Project-Based Subsidies. Households that receive this kind of subsidy must live in certain publicly or privately owned housing projects that have been constructed or rehabilitated under various programs administered by the Department of Housing and Urban Development (HUD). The main programs are the following:

o *Public Housing*. Projects are built with federal funds but are owned and operated by local public housing authorities. Tenants typically pay 30 percent of their income for rent, and the federal government pays the remainder of the costs of operating the project.

o *Section 8 New Construction and Substantial Rehabilitation*. In this program, private entities build and own the projects. The federal government, however, agrees to subsidize rents for periods ranging from 20 to 40 years. Tenants typically pay 30 percent of their income for rent; the federal government pays the remainder.

o *Section 236*. Projects are built and owned by private entities, but the federal government supplies a variety of subsidies, including ones for mortgage interest, to keep rents affordable. Tenants may pay more or less than 30 percent of their income for rent, depending on their income and the particular type of subsidy that the project owner receives.

Household-Based Subsidies. Households that receive these subsidies may live in a unit of their choosing from among the stock of private rental units, provided that the unit meets HUD's standards for quality and occupancy. There are two kinds of household-based subsidies:

o *Section 8 Certificates*. The federal government pays the difference between the unit's actual rent and 30 percent of the tenant's income. Generally, the rent for the unit may not exceed the fair market rent, which is set at roughly the 45th percentile of local rents (adjusted for the number of bedrooms) of units that have turned over in the past two years.

o *Section 8 Vouchers*. The federal government pays the difference between a payment standard that is similar to the fair market rent and 30 percent of the tenant's income. If the actual rent exceeds or is less than the payment standard, the tenant pays the excess or keeps the difference.

Section 8 new construction and substantial rehabilitation program.[2] Because of high costs, the Congress has sharply curtailed the public housing program since 1983 and discontinued the Section 8 program, except for a small number of new commitments each year for units for elderly and disabled people. Nevertheless, because of the pattern of past funding, most people who receive federal rental aid today receive project-based subsidies.

Household-based aid is provided through the Section 8 certificate and voucher programs. One difference between these two types of programs is in the units that a recipient can rent with this assistance. A certificate recipient is generally limited to choosing from among units that rent for no more than the so-called fair market rent (FMR)--roughly the 45 percent mark, or "percentile," of the distribution of local rents of units that have turned over in the past two years. Voucher recipients face no such restrictions. Another difference is that certificate recipients receive no additional monetary benefits from choosing a unit that rents below the FMR. In contrast, voucher recipients who choose a unit that rents above or be-

2. For a more detailed discussion of federal housing assistance programs, see Congressional Budget Office, *Current Housing Problems and Possible Federal Responses* (December 1988).

low a payment standard (which is similar to the FMR) must pay or get to keep the difference between the actual rent and the standard. Since 1983, commitments for new aid have been primarily of the household-based kind.

Recently, the federal government has added some new approaches to reduce rents for people with low incomes. Those approaches include the low-income housing tax credit (LIHTC), which subsidizes the construction and rehabilitation of rental units through the tax system, and HUD's HOME Investment Partnerships program, which provides matching block grants to state and local governments to increase the supply and affordability of housing. Subsidies that those programs provide usually are not large enough by themselves to lower rents to 30 percent of a relatively poor household's income. The LIHTC program cost an estimated $2 billion in 1994. The HOME program received about $1.3 billion in 1994.

Recent Trends in Rental Housing Assistance

Traditionally, the Congress each year appropriates funds--as budget authority--for housing programs for two broad purposes: to fund new commitments to increase the number of assisted households and to support and renew existing commitments of aid. Funds for the first purpose are known as incremental aid; funds for the second are called nonincremental aid. Nonincremental aid extends the life of existing aid commitments, maintains or restores the quality of existing structures, or increases aid to current recipients.

A given year's appropriation of budget authority for housing gives rise to expenditures, called outlays, that generally occur over many years. In some housing programs, including all variants of the Section 8 programs, budget authority allows the government to make subsidy payments on behalf of households over periods that today range from 5 to 20 years. (Before 1983, those periods were as long as 40 years.) When those commitments expire, the Congress must appropriate new budget authority if aid is to be extended for subsequent years. (Figure 1 illustrates those patterns.)

In other housing programs, such as public housing, the Congress appropriates budget authority for grants to entities that construct and rehabilitate assisted rental housing. The outlays resulting from those grants also occur over a number of years because of lags in construction and rehabilitation. After construction is finished, additional budget authority may be needed each year to help pay for the operating expenses of the project (see Figure 1).

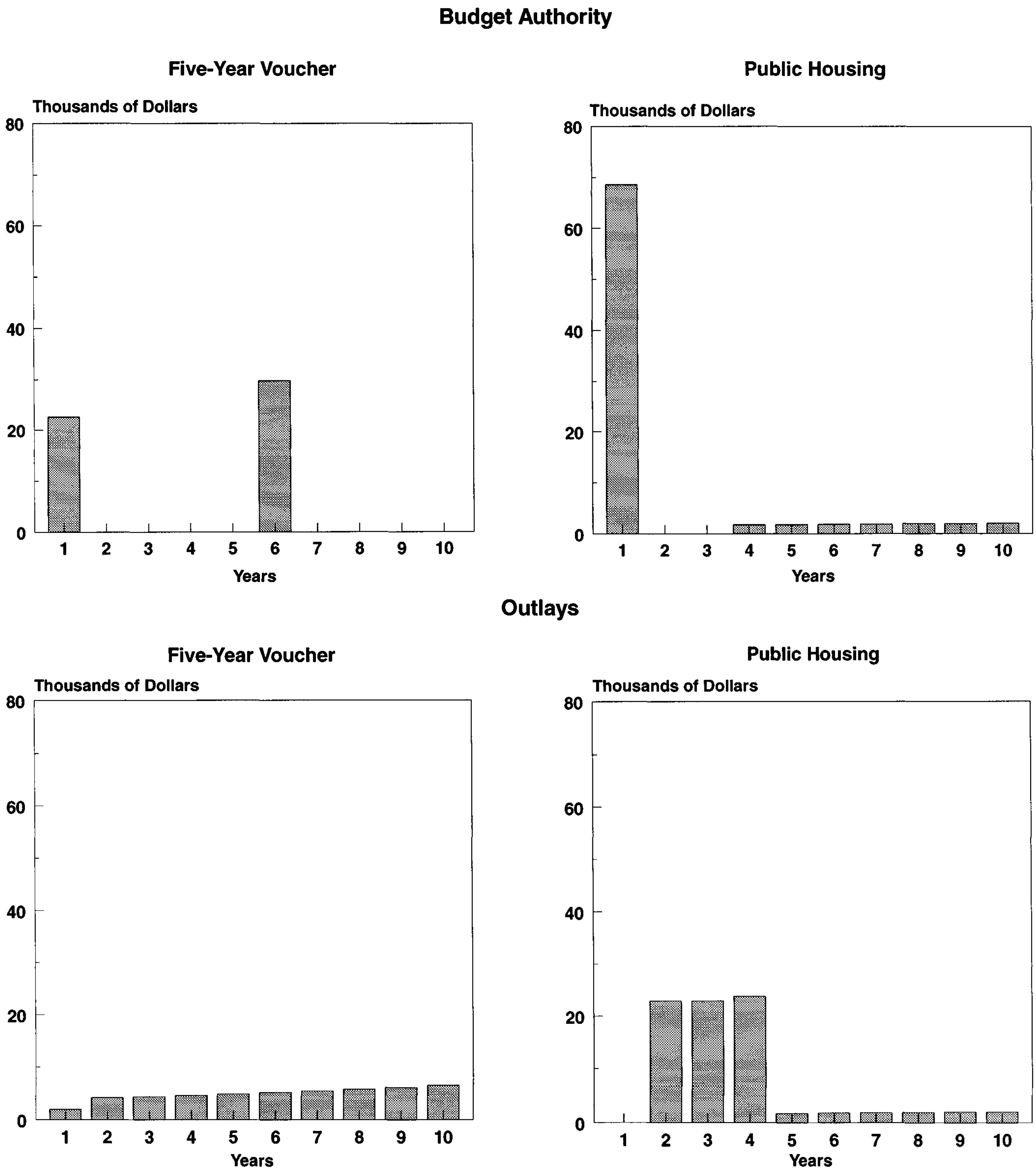
This pattern of long-term spending gives rise to a complicated relationship between the total number of assisted housing units, the outlays that support them, and the budget authority that creates them. It helps explain the apparently contradictory movements since 1977 of growth in the number of assisted households and outlays on the one hand and a decline in budget authority on the other.

Rising Numbers of Assisted Households and Outlays

Both the number of households that receive rental aid and the federal outlays for those subsidies have increased almost every year since 1977. The number of assisted households almost doubled between 1977 and 1994, rising from 2.4 million to 4.7 million (see Figure 2). Growth was generally more rapid during the first half of the period than during the second, however, because lower annual appropriations during the 1980s, among other things, sharply decreased the number of additional new commitments.

Outlays for rental assistance generally have also increased steadily since 1977. Real outlays (adjusted for inflation) more than tripled between 1977 and 1994, rising from $6.6 billion to over $22 billion (see Figure 3). That relatively rapid growth is due not only to increases in the number of assisted households but also to several factors that have raised the average real subsidy per assisted household. For example, during the early to mid-1980s, many newly constructed Section 8 units became occupied. Those units, funded from pre-1982 budget authority, required large rental subsidies, which contributed to the

Figure 1.
Illustrative Patterns in Budget Authority and Outlays to Provide Housing Aid to One Household for 10 Years Through a Voucher or by Building a Public Housing Unit



SOURCE: Congressional Budget Office.

NOTE: The figure is illustrative only. It is not meant to present the relative costs of the two programs.

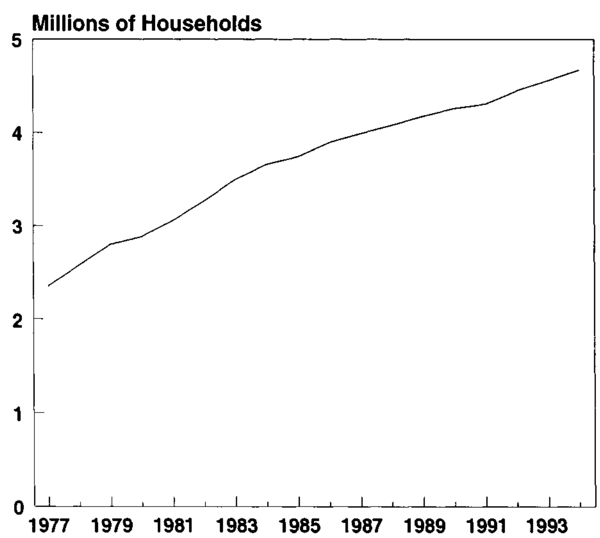
relatively high rate of growth in outlays during that period. In addition, the average rent in assisted units grew faster than tenants' incomes. That growth pushed up federal subsidies, which typically equal the difference between a unit's rent and 30 percent of the tenant's income.

Declining Annual Appropriations of Budget Authority

In contrast to outlays, annual budget authority for housing aid has decreased sharply in real terms since the late 1970s, when several new housing programs were first funded. Real budget authority fell from $69 billion in 1977 to $10 billion in 1989 (see Figure 4). Since 1989, however, the trend has changed: budget authority rose to $21 billion in 1992 and has remained fairly flat since then. For 1995, the Congress appropriated $17 billion.

As noted earlier, a major component of the decrease in budget authority during the 1980s was the decline in the number of additional new commitments funded each year--from more than 300,000 per year in the late 1970s to fewer than 60,000 by 1991 (see Figure 5). Other components of the decline in budget authority--which did not affect the number of assisted units--included a shift toward shorter commitments, cheaper forms of aid (by using existing housing rather than new construction), and, since 1987, changes in the method of financing new construction and modernization programs.[3] For ex-

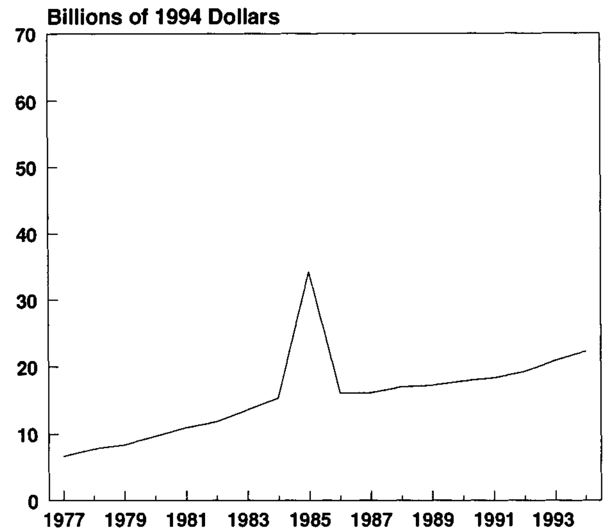
Figure 2.
Number of Households Receiving Rental Housing Aid, End of Fiscal Years 1977-1994



SOURCE: Congressional Budget Office based on budget documents of the Department of Housing and Urban Development.

NOTE: Figures for 1992 and 1994 are estimated.

Figure 3.
Outlays for Rental Housing Aid, Fiscal Years 1977-1994



SOURCE: Congressional Budget Office based on budget documents of the Department of Housing and Urban Development.

NOTES: The bulge in outlays in 1985 resulted from a change in the method of financing public housing that generated nearly $14 billion in one-time expenditures. Because of those expenditures, outlays for public housing since 1985 have been roughly $1.4 billion (in nominal dollars) lower each year than they would otherwise have been.

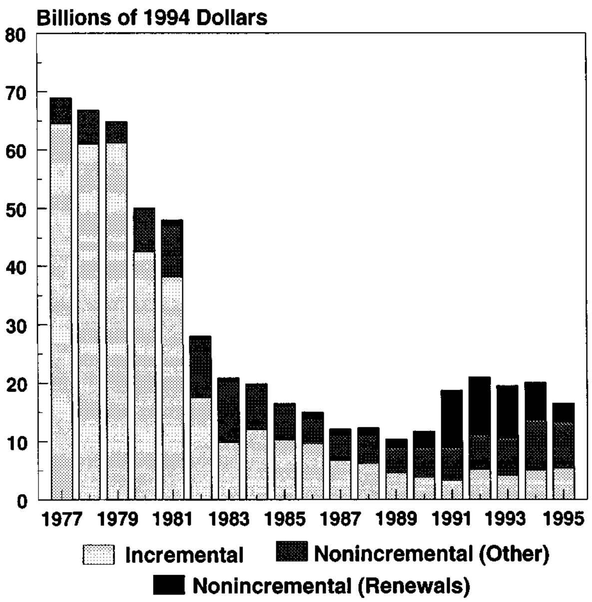
The figure for 1994 is estimated.

3. Before 1987, construction and modernization of public housing were financed over periods ranging from 20 to 40 years. Budget authority reflected principal and interest payments on that debt. Now those activities are financed with grants, which reduces the budget authority required by between 51 percent and 67 percent. In 1985, most of the outstanding debt incurred for public housing activities since 1974 was retired. That action caused the bulge in outlays shown in Figure 3 and has reduced outlays since that time by about $1.4 billion per year (in nominal terms). Similarly, before 1991, the construction of housing for elderly and disabled people was financed by direct federal loans coupled with 20-year Section 8 rental assistance, which helped repay those loans. Starting in 1991, grants replaced the loans, which reduced the amount of budget authority required for the rental assistance portion.

ample, reducing the length of commitments made under the Section 8 existing-housing program from 15 to 5 years decreased by about two-thirds the amount of budget authority needed in the short term to aid a given number of households. However, that budget authority must be renewed more frequently. As a result, the total resources required over the long term remain unchanged.

The overall decline in budget authority for housing aid and the relative growth of nonincremental aid have increasingly crowded out funds for additional commitments. For example, between 1985 and 1989, when real budget authority declined by 37 percent, nonincremental aid fell by only 6 percent, whereas incremental aid dropped by 55 percent. Since then, incremental aid has not changed much, but total budget authority has increased sharply, mostly because of the need to fund assistance commitments that are expiring.

Figure 4.
Budget Authority for Rental Housing Aid, by Type of Aid, Fiscal Years 1977-1995

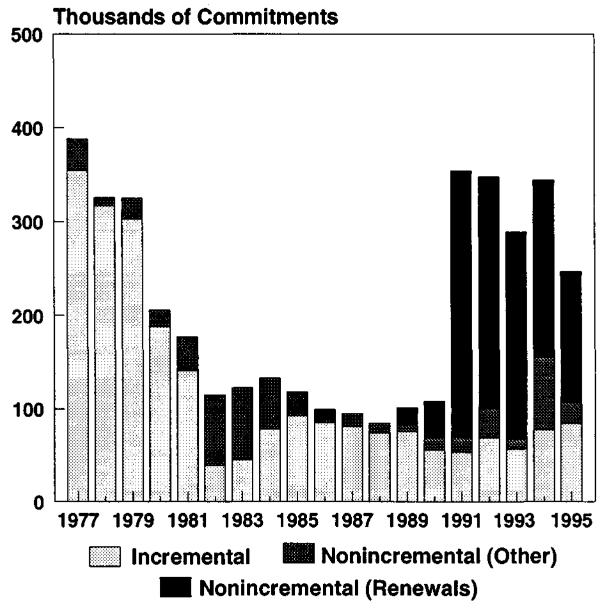


SOURCE: Congressional Budget Office based on budget documents of the Department of Housing and Urban Development.

NOTES: Incremental aid is aid that increases the number of assisted households. Nonincremental aid for renewals is aid that extends the life of current commitments of aid. It includes funding for amending contracts whose funds are exhausted before the end of the term of the contract. Other nonincremental aid includes, among other things, funding for aid tied to certain units that previously were assisted under a different program and funding for operating subsidies and modernization of public housing.

Figures for 1994 and 1995 are estimated.

Figure 5.
Annual Commitments of Rental Housing Aid, by Type, Fiscal Years 1977-1995



SOURCE: Congressional Budget Office based on budget documents of the Department of Housing and Urban Development.

NOTES: Commitments for any given year exclude housing units for which funds were deobligated, or canceled.

Incremental commitments increase the number of assisted households. Nonincremental commitments of aid for renewals extend the life of current aid commitments. Other nonincremental commitments include aid tied to certain units that previously were assisted under a different program.

Figures for 1994 and 1995 are estimated.

How Can the Trend in Outlays Be So Different from the Trend in Budget Authority?

The patterns in outlays and budget authority for rental aid diverge for several reasons. First, most outlays in any given year derive from past appropriations of budget authority. For example, throughout most of the 1980s, annual outlays grew despite decreases in budget authority because the funds appropriated in earlier years were being spent. (In fact, even if no budget authority had been appropriated, outlays would have continued to grow during that period as units funded with budget authority from previous years advanced through the processing pipeline and as average subsidies per assisted household increased.) But to the extent that the decreases in budget authority were associated with fewer additional commitments of aid, the drop in budget authority foreshadowed the ensuing decline in the rate of growth of outlays and the number of assisted households.

A second reason that outlays and budget authority did not necessarily move in tandem was the change in how budget authority was divided among incremental aid and the various types of nonincremental aid. Outlays grow over time when appropriations are for incremental aid--which, by definition, increases the number of assisted households--or for the type of nonincremental aid that increases the subsidy per assisted unit (such as aid for repairs to housing projects). Before 1989, for example, outlays were growing fast in spite of dropping budget authority because budget authority was mostly for incremental aid. By contrast, appropriations for the type of nonincremental aid that merely extends the life of existing commitments prevent the drop in outlays that would occur if those commitments expired and the total number of assisted households fell. If the Congress appropriated budget authority solely to extend existing commitments, outlays would remain fairly flat over time. Starting in 1991, a large share of the new appropriations has been designated for that purpose. Therefore, the sharp increases in budget authority since that time are not reflected in equally sharp increases in outlays.

Future Costs of Continuing Nonincremental Assistance

Many of the housing programs administered by HUD have now reached the point where they need additional funding if the Congress wants to preserve the number and quality of the rental units that those programs assist. Budget authority would be needed for several purposes: extending the life of assistance contracts that have started to expire, providing incentives to owners of certain assisted housing projects to prevent them from dropping out of the federal programs, disposing of projects whose owners have defaulted on their federally insured mortgages, continuing operating subsidies in the public housing program, and reducing large accumulated backlogs of repairs of the stock of aging assisted housing (see Table 1).

Extending Assistance Contracts

By far the largest demand for nonincremental aid is for renewing assistance contracts under the Section 8 program. Since 1989, those contracts, which were funded in past years for periods ranging from 5 to 40 years, have started to expire.[4] To maintain the number of outstanding commitments, the Congress has provided funds to renew the contracts expiring in each year between 1989 and 1993 for five years. The 1994 and 1995 appropriations, however, were about $1 billion and $2.6 billion short, respectively, of the amounts requested by the Administration to renew all expiring contracts for five years. As a result, many of the contracts that expired in 1994 have been renewed for only four years, and many of those expiring in 1995 will be renewed for three years.

The first year in which a large number of contracts expired was 1991, when $7.9 billion (in nominal terms) was needed to renew them for five years. During the 1991-1995 period, annual requirements are in about the same range. Starting in 1996, though, the annual budget authority required to extend contracts for five years is estimated to jump to a range of $14 billion to $18 billion (in nominal terms) as the first cohorts of renewed contracts expire again and other contracts expire for the first time. In 1998, because of the recent shortfall in appropriations for

4. Many contracts run out of money even before their terms expire because it is very difficult to estimate up front how much money will be needed to provide subsidies over the long terms that many of these contracts have. In such cases, the Congress appropriates funds for so-called amendments to the contracts, which support the commitments until their terms expire.

Table 1.
Estimated Cost of Preserving the Stock of Assisted Rental Housing, by Type of Program, End of Fiscal Year 1994 (In billions of 1995 dollars)

Type of Program	Unfunded Backlog	Annual Need	Remarks
Extending Section 8 Assistance Contracts	0	21.6	Annual needs reflect average budget authority to renew with five-year vouchers one-fifth of all current Section 8 contracts, once they expire.
Providing Incentives for Private Owners to Stay in a Housing Program	1.6	0.7	Backlog reflects estimated funding needed for incentives when projects first become eligible for them. Annual needs reflect average budget authority needed to renew for five years one-fifth of all new Section 8 contracts provided as incentives, once they expire.
Disposing of Units Owned by HUD	a	1.2	Annual needs reflect average budget authority for disposing of backlog of units in HUD's inventory and those estimated to come into the inventory through 1999.
Operating Subsidies for Public Housing	0	2.6	Annual needs reflect total budget authority for covering the difference between operating costs and rent collections.
Repairing the Assisted Stock			
Public Housing	10.5 to 20.7	2.2	Annual needs reflect average budget authority for performing repairs, once the backlog has been eliminated.
FHA-Insured Multifamily Housing	1.1	a	Backlog is adjusted for estimated repair needs of projects that are included in the second type of program listed above.

SOURCE: Congressional Budget Office based on published and unpublished data provided by the Department of Housing and Urban Development.

NOTE: HUD = Department of Housing and Urban Development; FHA = Federal Housing Administration.

a. Estimate not available.

renewals, four cohorts will expire simultaneously, requiring an estimated $29 billion (in nominal terms) for new contracts with five-year terms. Eventually, if no additional commitments were made for Section 8 assistance, the annual cost of renewing the roughly 3 million contracts in force today would amount, on average, to about $22 billion per year.[5]

The Omnibus Budget Reconciliation Act of 1993 (OBRA-93) limits both budget authority and outlays for programs that receive annual appropriations through the year 1998. The act has certain provisions to accommodate the large demands for budget authority that the housing programs will generate.[6]

5. These large amounts of budget authority would not increase the number of assisted households, however, and would therefore increase total real outlays for housing aid only to the extent that average subsidies per assisted household rose faster than inflation. Indeed, if the expiring contracts were not renewed, the number of assisted households--and therefore outlays--would decline sharply.

6. OBRA-93 stipulates how the baseline for renewing expiring contracts is to be estimated.

Nevertheless, the provisions do not guarantee that funds will be made available perpetually to renew all contracts for five-year terms. The shortfalls in appropriations for 1994 and 1995 are evidence of that lack of guarantee.

Incentives for Private Landlords

The federal government has recently taken steps to ensure that private entities that provide rental units through certain federal housing programs will keep their projects available and affordable to households with low incomes rather than convert the units into rentals at market rates. Thus, owners of roughly 400,000 rental units are, or soon will be, eligible to apply for financial incentives. Under those incentives, owners can raise the rents in their projects, but the federal government will provide subsidies to keep the units affordable to tenants. The additional assistance is considered nonincremental aid because it comes on top of subsidies that the owners already receive. That mechanism increases the average subsidy per assisted tenant without increasing the number of assisted units.

In 1993, HUD estimated that owners of only about 132,500 units would apply for these incentives. Consequently, it would need a total of $3.3 billion (in nominal terms) to fund the first round of incentives as owners became eligible for them.[7] So far, about half of that amount has been appropriated. Renewing those contracts when they expired would require additional funds. For example, HUD estimates that the first round of five-year renewals of all of those contracts would cost $3.9 billion (in nominal terms).

In its estimate, HUD assumed that owners of the remaining units that are (in principle) eligible for incentives would not apply for them. Incentives are based on the rents those units can command on the open market. But those rents were estimated to be so low at present that the projects would not qualify for any additional subsidies, or at best, only a small amount. The owners of those units could, however, apply for them at a later date, when market conditions became more favorable. In that case, the actual funding needed would be greater than current estimates indicate.

7. This estimate includes five-year budget authority for Section 8 assistance to an additional 66,000 tenants who are not currently receiving it, plus amendments to cover increased rents for the remaining term (on average, three years) of Section 8 assistance already in force.

Disposing of Units That Are Owned by HUD

The FHA insures or holds mortgages on more than 15,000 multifamily rental projects that serve over 1.8 million families. Most of those families have low incomes. HUD has committed billions of dollars in federal housing aid to roughly 70 percent of the units in those projects to help make them affordable to households with low incomes.

In some cases, HUD is forced to foreclose on a defaulted loan that was originally insured by the FHA. Once that occurs, it tries to sell the property. But the law requires HUD to preserve a number of units in certain projects as affordable housing, typically by providing assistance tied to some or all of the units in those projects. (The law stipulates the share of units that must be preserved for low-income use under various circumstances.) Because HUD lacks the funds necessary to provide the assistance required by law when it sells a property, it has been unable to dispose of many of the foreclosed projects. Consequently, they have become part of the so-called HUD-owned inventory.

Those properties now pose a growing problem for HUD. The department's inventory has grown from 10,000 units in 1990 to almost 76,000 units at the beginning of fiscal year 1994. Last year, HUD estimated that selling those units over the 1994-1999 period, plus another nearly 90,000 units that are expected to face foreclosure between 1994 and 1999, would require a total of $6.3 billion (in nominal terms) of budget authority, of which $5.2 billion remains to be appropriated.

Public Housing Operating Subsidies

Since 1969, the Congress has paid operating subsidies to public housing authorities on behalf of tenants living in projects built under the public housing program. Those subsidies pay the difference between the projects' operating costs and rent collections. Although rental aid under the Section 8 programs has always been funded through multiyear contracts, operating subsidies for public housing have been funded one year at a time. Continuing that form of aid for the 1.4 million tenants who live in public housing would require about $2.6 billion per year.

Repairing the Stock of Assisted Housing

A large portion of the projects that have federal rental subsidies tied to them are reaching the age where they need substantial repairs to maintain or restore their quality. Most of those projects are in the public housing program. Although they are owned and operated by local public housing agencies, they depend on federal funds to meet their repair needs. A fair share of privately owned projects also lack the funds to carry out needed repairs.

Public Housing. The public housing program has been in existence since 1937. Many projects now require major work to restore their quality. Despite annual appropriations of about $2 billion or more since 1987 that have been specifically designated for modernizing public housing, there is still a large unfunded backlog of needed repairs.

At the end of fiscal year 1995, that unfunded backlog is estimated to be between $10.5 billion and $20.7 billion, depending on what modernization work is included in the calculation.[8] (Those figures take into account the budget authority appropriated for 1995.) In addition to the backlog, new repair needs accumulate each year as the public housing projects age. Funds to perform those repairs are estimated at $2.2 billion per year for items deemed mandatory.

Multifamily Housing with Federally Insured Mortgages. In 1989, an estimated 55 percent of FHA-insured multifamily properties had insufficient funds in their reserve accounts to cover the backlog of repair and replacement needs they had accumulated.[9] The amount of that unfunded backlog--the total backlog minus the funds available in replacement reserve accounts--averaged more than $1,400 per unit across the entire insured inventory.

Most properties have additional resources to help cover those requirements in the form of their annual net cash flows (revenues minus expenses). Nevertheless, for about 38 percent of all properties and more than half of the older assisted ones, those resources were not enough to cover both their repair backlogs and their operations, debt service, and other costs. For the most distressed projects in the assisted group as a whole, the average unfunded backlog amounted to more than $3,500 per unit. Eliminating the unfunded backlog for properties that lacked their own resources would require an estimated $1.3 billion for the entire FHA-insured inventory, including $1.1 billion for the assisted part.[10]

8. The estimates are based on Department of Housing and Urban Development, *Report to Congress on Alternative Methods for Funding Public Housing Modernization* (April 1990). The minimum estimate includes repair and replacement of existing architectural, mechanical, and electrical systems such as roofs, elevators, and paved areas. The maximum estimate includes the cost of needed additions or upgrades to bring projects up to code or ensure their long-term viability. Such items range from heavy-duty locks and energy-efficient windows to substantial structural changes in certain projects with serious design problems.

9. See Department of Housing and Urban Development, *Capital Needs Assessment: Multifamily Rental Housing with HUD-Insured (or -Held) Mortgages* (November 1992); and Abt Associates Inc., *Assessment of the HUD-Insured Multifamily Housing Stock: Final Report*, vol.1, *Current Status of HUD-Insured (or -Held) Multifamily Rental Housing* (prepared for the Department of Housing and Urban Development, September 1993).

10. CBO adjusted these figures downward somewhat to account for backlog needs that would probably be included in incentives for owners to keep their properties in assisted housing programs as discussed above. However, the estimates do not account for unfunded accrual needs because of a lack of information on those amounts.

Chapter Two

Trends in Affordability of Rental Housing

Considerable attention in recent years has focused on the affordability of rental housing for tenants. The concept of affordability means different things to different people. Most analysts agree that renters today, especially those with low incomes, spend much bigger shares of their financial resources on housing than renters did in the 1970s. But not everyone views that finding necessarily as evidence of declining affordability. For many households, the phenomenon may reflect a choice that a household has made to live in a better-quality (and thus costlier) unit. As such, it may not be a cause for concern. But for some households, especially those with low incomes, it may indicate a lack of choice: a household may be able to find only units that cost more than it would like to spend.

Among those who hold the lack-of-choice view, opinions differ about why renters with low incomes are paying relatively more now for housing than they did in the past. Some analysts attribute it primarily to a decline in the number of relatively inexpensive rental units, whereas others argue that it is mainly a function of low incomes--many renters have become too poor to afford the available units. The policy response in either case could be to give tenants vouchers to rent existing housing so that they can afford to pay the rents charged in today's housing market. Supporters of the argument that there are not enough inexpensive rental units commonly urge another response as well: they call on the federal government to subsidize construction of low-rent housing to boost the supply of dwellings that are affordable to lower-income renters.[1]

This chapter shows how the relative cost of rental housing has changed since 1975 and explores some of the underlying factors that contributed to that change. The analysis focuses on the cost of rental housing to the poorest 25 percent of all renters, hereafter referred to as "relatively poor" renters.

Measuring Affordability

This study defined affordability based on the ratio of housing costs to income. Any conclusion about whether households have an affordability problem depends on the particular standard used to measure it and is therefore somewhat arbitrary; a stricter standard, for example, results in a higher incidence of the problem. For this study, housing costs were considered affordable to renters with low incomes if they did not exceed 30 percent of income. That standard is widely used in the housing literature and is similar to the one that federal rental assistance programs use. Specifically, current law in most instances requires that subsidized households contribute 30 percent of their income--after certain adjustments--toward rent. (Before 1981, the standard was 25 percent.) Households that are eligible for assistance based on their low levels of income and that spend more than 50 percent of their income for rent are considered to have "worst-case needs." Those households have top priority for federal aid.

The Congressional Budget Office used gross rent as the measure of housing costs for unsubsidized tenants. Gross rent consists of the rent paid to the landlord (the so-called contract rent) plus any utility costs and property insurance paid by the tenant. For subsidized tenants, housing costs were defined as their

1. See, for example, William C. Apgar Jr., "Which Housing Policy Is Best?" *Housing Policy Debate*, vol. 1, no. 1 (1990); and National Housing Task Force, *A Decent Place to Live* (Washington, D.C.: National Housing Task Force, 1988).

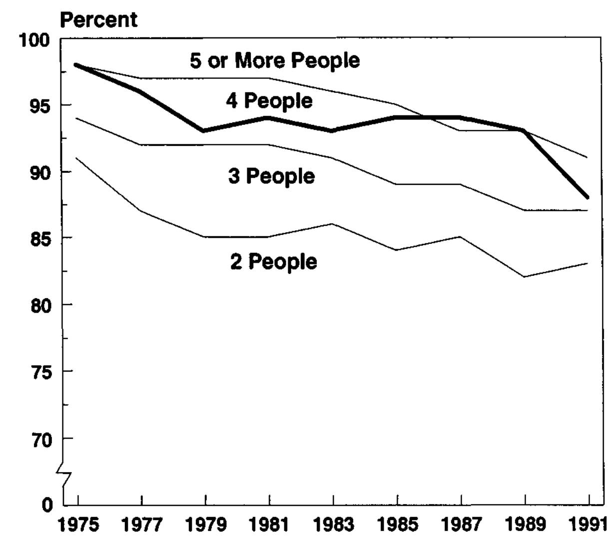
out-of-pocket expenditures rather than the amount received by the landlord. To measure the financial resources available to tenants, CBO used the concept of household income. The measure used in this chapter includes the income of everyone 15 years of age and older who lives in the housing unit, whether or not they are related to the primary family living there.[2]

Traditionally, researchers have used only the income of family members to gauge the affordability of housing, perhaps because those data are readily available in published sources. But a yardstick that excludes the income of people who live in the unit but who are not related to the householder understates the capacity of the household to pay rent. That underestimate leads in turn to an overstatement not only of the severity of any affordability problem at a given point in time but also of the increase in severity over time.

In particular, since 1975, the income of unrelated individuals has become increasingly important as a share of the total resources available to renter households, particularly smaller ones. For example, in 1991, the median *family* income for two-person renter households--that is, the level of income just exceeding that of half of all two-person renter households--was only 83 percent of that group's median *household* income, compared with 91 percent in 1975 (see Figure 6). For larger households, the difference between those two definitions of income is somewhat smaller, but it has also increased over time. These trends are probably attributable to a growing number of households with nontraditional living arrangements, such as unmarried couples or two or more roommates sharing rent.

Some caution is warranted when assessing affordability with the ratio of housing costs to income. First, the total amount of financial resources available to households with low incomes is difficult to measure accurately. Analysts know that the measures of income available in the Census Bureau surveys that CBO used underestimate the actual total income available to households, but the extent of that underestimate is hard to quantify. Those measures include only the cash income of individuals and exclude financial resources provided in kind by the government, such as food stamps and Medicaid. In addition, some evidence suggests that many people understate the level of their cash income in responding to Census Bureau surveys.[3] The total resources available to people with low incomes are therefore greater than the analysis below shows, making any affordability problem at a given point in time seem

Figure 6.
Renters' Median Family Income as a Percentage of Their Median Household Income, by Size of Household, 1975-1991



SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey. Data are for odd years only.

NOTES: Household income includes the income of all household members, whether or not they are related to the householder (a person named on the lease). One-person households are not shown because family income equals household income by definition.

The data exclude renters who paid no cash rent.

2. The Bureau of the Census conducts two surveys that provide information on household income: the Current Population Survey (CPS) and the American (formerly, Annual) Housing Survey (AHS). The CPS has excluded the income of 14-year-olds since 1979; the AHS includes it. CBO used the AHS for its in-depth analysis of housing conditions in 1989 (see Chapter 3). However, it used the CPS for measuring trends in income because the CPS estimates are considered more complete and more consistent over time than those of the AHS.

3. See, for example, Bureau of the Census, *Money Income of Households, Families, and Persons in the United States: 1992*, pp. C-12 to C-13.

worse than it really is. However, if the discrepancy between actual income and measured income is more or less consistent over time, that particular data problem is less troublesome for analyzing trends in affordability.

The second cautionary note concerns whether it is appropriate to use the same yardstick--30 percent--to measure affordability for all households. Arguably, that method could overstate or understate the extent of any affordability problem for certain households because it does not account for differences in their characteristics. For example:

- It does not account for the size of the household. A large household with the same income as a smaller one has less money per person remaining for other needs (such as food and clothing) after paying 30 percent of its income for rent.[4]

- It does not adjust for the level of the household's income. For example, paying 30 percent of income for rent leaves a poorer household with fewer resources than a household with somewhat higher income would have to cover other basic needs that presumably require a certain minimum level of expenditures.

- It does not account for variations in the taxes paid by different types of households with different types of income.

- It does not adjust for the level of a household's assets such as savings accounts--only the returns on assets (for example, interest or dividends) are included in figuring income. Of two households paying the same rent, the household with the lower income but some assets would appear to have less affordable housing costs than the household without assets but with a somewhat higher income. In actuality, the household with the assets may have less difficulty paying its rent.

4. In figuring a household's income on which to apply the 30 percent, housing assistance programs make an adjustment for the number of minor children by reducing annual income by $480 per child. That adjustment decreases a household's rent by $12 per month per child and effectively reduces the percentage of gross income contributed toward rent to less than 30 percent.

Making adjustments in the measure of affordability to account for these problems is difficult and was not attempted here.[5]

Third, although the growth over time in the ratio of housing costs to income (as documented below) suggests a decline in affordability, especially for people with low incomes, it does not shed any light on the part played by people renting better housing. Therefore, the subsequent analysis attempts to quantify the extent to which declining affordability is a product of improvements in the quality of the typical rental unit.

Declining Affordability

Since 1975, rental housing has become more expensive relative to income for tenants in all income groups but particularly for those with the lowest incomes. Two indicators point up this trend:

- the increasing share of income that households at various points in the income distribution would have to spend to afford units at the corresponding points in the rent distribution; and

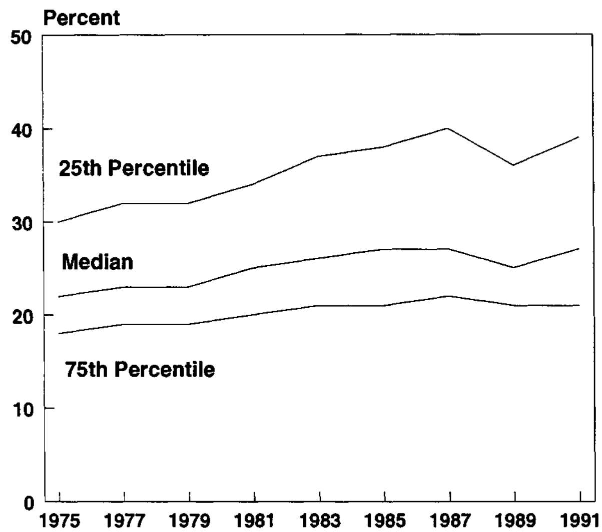
- the growing gap between the number of renters in the lowest quarter of the income distribution and the number of housing units with rents that they can potentially afford.

The Growth of Rents Relative to Income

For renters throughout the income distribution, the cost of housing relative to income increased fairly steadily between 1975 and 1987. By 1989, it had

5. For one approach that tries to address some of these problems, see Michael E. Stone, *One-Third of a Nation: A New Look at Housing Affordability in America* (Washington, D.C.: Economic Policy Institute, 1990).

Figure 7.
Rent as a Percentage of Household Income of Renters, by Income Level, 1975-1991



SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey and American (formerly, Annual) Housing Survey. Data are for odd years only.

NOTES: Each line indicates the percentage of income that renters at a given percentile of their income distribution would have had to spend for a unit with rent at the corresponding percentile of the rent distribution. Household income includes the income of all household members, whether or not they are related to the householder (a person named on the lease).

The data exclude renters who paid no cash rent.

dropped a little, but by 1991 it had risen again.[6] For instance, the share of household income that a renter with the median income would have to spend for a unit with the median rent increased from 22 percent in 1975 to 27 percent in 1991 (see Figure 7). The increases were greater for households with income at the 25th percentile of the income distribution. In 1975, such households already would have had to pay a larger share of their income--30 percent--for a unit with rent at the equivalent percentile of the rent distribution; by 1991, that share had increased to 39 percent. Even for the household whose income was at the 75th percentile of all renters' incomes, the share paid for a unit with rent at the 75th percentile increased from 18 percent to 21 percent.

For the poorest renters in particular, the increase in the cost of housing relative to their income has manifested itself as a shortfall in potentially affordable units.[7] (Those units are defined here as units that rent for 30 percent or less of the income of renters at the 25th percentile of their income distribution.) In 1975, the 5.9 million renters in the lowest quarter of the income distribution coincidentally just equaled the number of units that rented for 30 percent or less of the income at the 25th percentile (see Figure 8). By 1987, the number of relatively poor renters had grown to 7.6 million, but the number of units potentially affordable to them that year had fallen to 4 million. In other words, a shortfall of 3.6 million units had developed. Between 1987 and 1989, the gap narrowed somewhat, but by 1991 it had widened to 3.4 million units.

The Situation Facing Relatively Poor Renters

On the one hand, the figures given above may overstate the actual problem facing relatively poor renters because their incomes are underestimated (as described earlier). Correcting that shortcoming in the data would bring down the ratios of rent to income (displayed in Figure 7) and shift up the number of units potentially affordable to relatively poor renters (shown in Figure 8). On the other hand, there are two reasons that those indicators understate the actual share of income paid for housing by many of the renters in the bottom quarter of the income distribution. First, many of the cheapest units are not available to them (see the discussion below). Second,

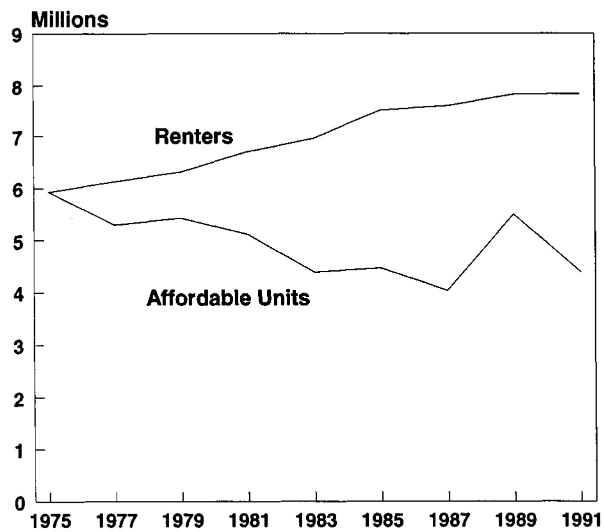
6. Part of the apparent improvement since 1987, however, is the result of an improved methodology adopted by the Census Bureau to correct for households that overestimate their utility costs.

7. These results are supported by a recent study that focused on the increasing shortfall of units affordable to renters with incomes below 30 percent of the median income in their locality. See Kathryn P. Nelson, "Whose Shortage of Affordable Housing?" *Housing Policy Debate*, vol. 5, no. 4 (forthcoming). For other discussions of the increasing shortage of affordable housing, see, for example, Edward B. Lazere and others, *A Place to Call Home: The Low Income Housing Crisis Continues* (Washington, D.C.: Center on Budget and Policy Priorities and Low Income Housing Information Service, December 1991). See also the annual reports produced by the Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing* (Cambridge, Mass.: Joint Center for Housing Studies of Harvard University).

many of the cheap units that they do occupy rent for more than 30 percent of the income of the poorest among them. For those two reasons, the rent-to-income ratios for some relatively poor renters are likely to be substantially larger than those shown in Figure 7, and the numbers of units affordable to those renters are likely to be smaller than those shown in Figure 8.

Many of the lowest-cost units are not available to households with the lowest incomes because households with higher incomes occupy them. In 1991, for example, relatively poor households occupied only 69 percent of the units renting for no more than $250. (That figure was the level of rent equal to 30 percent of the income of a household at the 25th percentile of the income distribution that year; see Table 2.) The remaining 31 percent of the cheapest units were occupied by households with higher incomes.

Figure 8.
Shortfall of Units Affordable to Renters in the Bottom Quarter of Their Income Distribution, 1975-1991



SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey and American (formerly, Annual) Housing Survey. Data are for odd years only.

NOTES: Units are defined as affordable if they rent for 30 percent or less of the income of renters at the 25th percentile of their income distribution.

The data exclude renters who paid no cash rent and renters living in single-family homes on 10 acres or more.

Table 2.
Units Occupied by Relatively Poor Renters and Units Potentially Affordable to Them, by Household Income of the Actual Occupant and Location, 1991

Characteristic	Units Occupied by Relatively Poor Households	Units Potentially Affordable to Relatively Poor Households
	In Thousands	
All Units	8,039	4,400
	As a Percentage of All Units	
Household Income of Actual Occupant		
Not more than 25th percentile	100	69
26th-50th percentile	0	19
51st-75th percentile	0	9
More than 75th percentile	0	4
Geographic Location		
In metropolitan areas		
Central cities	53	49
Suburbs	27	20
Subtotal	80	70
Outside metropolitan areas	20	30
Region of the Country		
Northeast	22	20
Midwest	26	28
South	33	38
West	20	13

SOURCE: Congressional Budget Office based on the Census Bureau's 1991 American Housing Survey.

NOTES: The data exclude renters who paid no cash rent.

Relatively poor renters are households with annual household incomes of $10,000 or less, the income at the 25th percentile of the income distribution of renters. Potentially affordable units are units renting for 30 percent or less of $10,000, which is equivalent to $250 per month.

The total number of units occupied by relatively poor renters shown in the table is somewhat greater than the number of renters shown in Figure 8 because a substantial number of households reported that their income just equaled $10,000 in 1991. In addition, population counts from the 1990 census are used as a benchmark for all table numbers. Consequently, those numbers differ somewhat from their counterparts in Figure 8, which use the 1980 census as a benchmark to make them consistent with previous years.

That mismatch is due in part to geographical factors. Renters in the lowest quarter of their income distribution are more concentrated in metropolitan areas than are the units with rents that they could potentially afford--80 percent versus about 70 percent. Similarly, 20 percent of relatively poor renters live in the western part of the United States, but only 13 percent of the affordable units are located there. The South, by contrast, has a smaller share of the nation's poorest renters than it has of the units affordable to them--33 percent versus 38 percent.

Table 3.
Relatively Poor Renters Living in Potentially Affordable and Unaffordable Units, by Share of Income Paid for Rent, 1991

Share of Income Paid for Rent	Thousands of Renters	As a Percentage of Total
Renters Living in Potentially Affordable Units	3,034	38
More than 30 percent	1,588	20
More than 50 percent	554	7
Renters Living in Unaffordable Units	5,005	62
More than 30 percent	5,005	62
More than 50 percent	4,144	52
Total	8,039	100
More than 30 percent	6,593	82
More than 50 percent	4,698	58

SOURCE: Congressional Budget Office based on the Census Bureau's 1991 American Housing Survey.

NOTES: The data exclude renters who paid no cash rent.

Relatively poor renters are households with annual household incomes of $10,000 or less, the income at the 25th percentile of the income distribution of renters. Potentially affordable units are units renting for 30 percent or less of $10,000, which is equivalent to $250 per month.

The total number of units occupied by relatively poor renters shown in the table is somewhat greater than the number of renters shown in Figure 8 because a substantial number of households reported that their income just equaled $10,000 in 1991. In addition, population counts from the 1990 census are used as a benchmark for all table numbers. Consequently, those numbers differ somewhat from their counterparts in Figure 8, which use the 1980 census as a benchmark to make them consistent with previous years.

Another reason for the mismatch between units and households is that in localities with rent control, households with relatively high incomes occupy a substantial share of the units that have those controlled rents. Such bargain rents induce very low rates of turnover, even as the incomes of the occupants grow over time. Thus, many households with low incomes have no access to those units and instead live in units with higher rents.

Yet even without such mismatches, most of the poorest renters would not have found units that they could afford. At best, about 55 percent of the poorest 25 percent of renters could have been housed in 1991 in the units affordable to a household at the 25th percentile of income. Because of the mismatches, only 38 percent actually were so housed (see Table 3). And even for that subgroup, the actual rents paid were generally so high relative to income that more than half of those renters spent over 30 percent of their income for rent. As a result, fully 82 percent of all renters in the bottom quarter of their income distribution paid more than 30 percent of their income for rent.

Factors Contributing to Declining Affordability

The decline over the 1975-1991 period in the availability of rental housing affordable to relatively poor renters stemmed from gross rents' increasing faster than those renters' incomes. That phenomenon was echoed in the rental market at large during virtually the entire period. For example, real gross rents increased by over 20 percent at the 25th percentile, at the median, and at the 75th percentile of the rent distribution (see Figure 9).[8] By contrast, real household

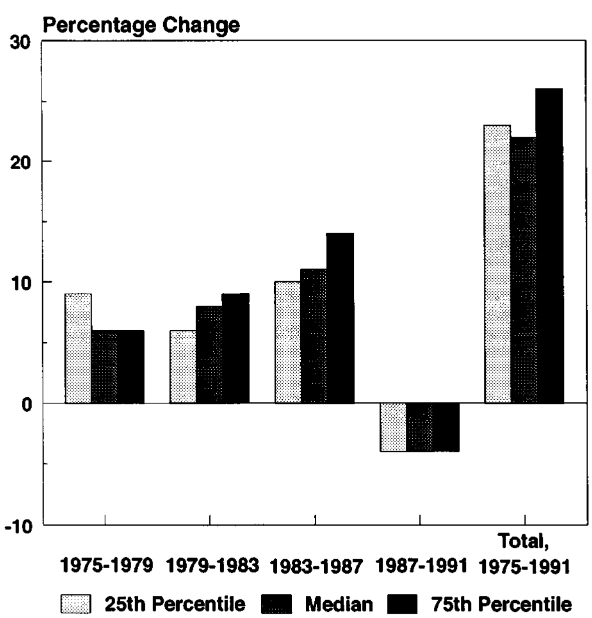
8. Both rents and incomes were adjusted for inflation by the CPI-U-X1 (a revised consumer price index for urban consumers).

incomes fell by 5 percent for renters at the 25th percentile, remained virtually the same for renters at the median, and increased by 7 percent for renters at the 75th percentile (see Figure 10). Only during the 1987-1991 period did incomes gain slightly relative to rents, and that gain actually came between 1987 and 1989 (see Appendix B, Table B-2). Over those two years, real incomes increased while real rents began to fall. The ensuing recession, however, eliminated those gains. Real rents generally continued to fall, but they dropped substantially less than did incomes.

Components of Change in Gross Rents

Trends in real gross rents are caused by pure price changes and changes in quality. The pure price change can be isolated by looking at how rents (adjusted for overall inflation) changed for a constant-quality unit--one with similar physical attributes (such as the amount of space and appliances) and a similar amount of fuels and other utilities consumed by the occupant. Any difference over time between the actual gross rent and the gross rent for a constant-quality unit is then attributable to a difference in quality.

Figure 9.
Trends in Real Gross Rent for Units with Rents at Various Levels of the Rent Distribution, 1975-1991

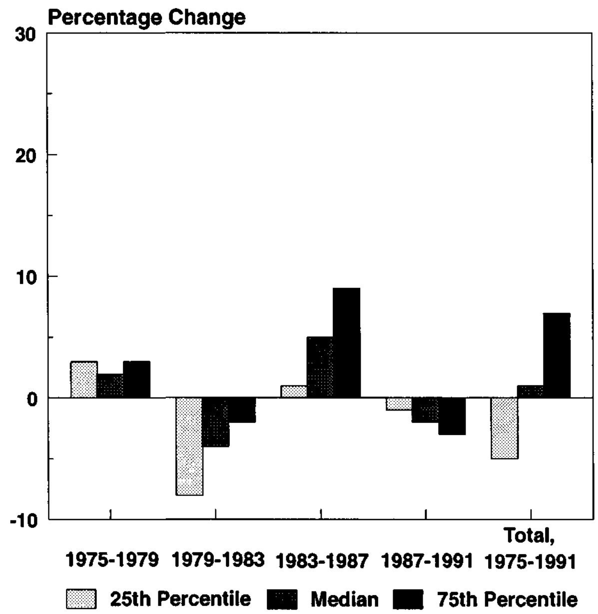


SOURCE: Congressional Budget Office based on data from the Census Bureau's American (formerly, Annual) Housing Survey.

NOTES: Gross rent is the rent paid to the landlord, plus any utility costs and property insurance paid by the tenant.

The data exclude renters who paid no cash rent and renters living in single-family homes on 10 acres or more.

Figure 10.
Trends in Real Household Income of Renters at Various Levels of the Income Distribution, 1975-1991



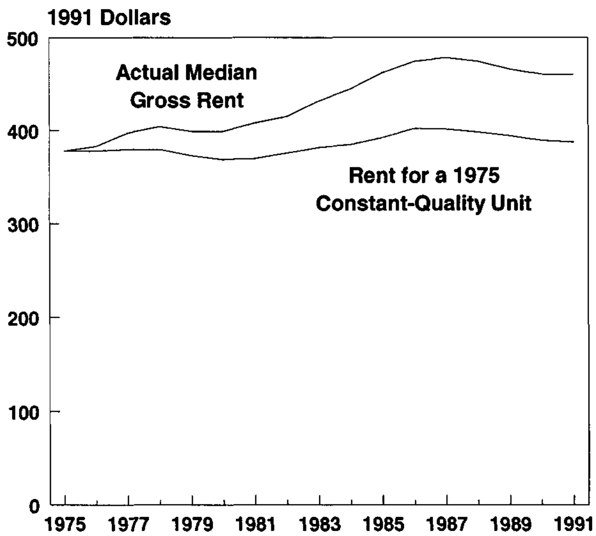
SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey.

NOTES: Household income includes the income of all household members, whether or not they are related to the householder (a person named on the lease).

The data exclude renters who paid no cash rent.

Pure Price Changes. The real gross rent of a constant-quality unit--one with characteristics similar to those of the typical unit in 1975--did not change much between 1975 and 1991. (The typical unit here means one with the median rent in 1975.) Real gross rent for a constant-quality unit fell from $378 (in 1991 dollars) in 1975 to $370 in 1981, increased to about $400 by 1987, and then dropped back to $387

Figure 11.
Actual Median Gross Rent and Gross Rent for a 1975 Constant-Quality Unit, Adjusted for Inflation, 1975-1991



SOURCE: Congressional Budget Office based on data from the Census Bureau's American (formerly, Annual) Housing Survey.

NOTES: Gross rent is the rent paid to the landlord, plus any utility costs and property insurance paid by the tenant. Actual gross rents are interpolated for even years since 1982.

A 1975 constant-quality unit is one with similar physical attributes (such as space and appliances) and a similar amount of fuels and other utilities consumed by the occupant as a unit with median rent in 1975.

The data exclude renters who paid no cash rent and renters living in single-family homes on 10 acres or more.

See Appendix B, Table B-3, for further details.

by 1991 (see Figure 11).[9] Those figures are based on Department of Labor indexes; they assume that changes in the cost of a constant-quality unit are adequately captured by those indexes. But the cost of a unit of truly constant quality has probably risen faster than indicated here because before 1988, the Census Bureau did not adjust the indexes for the loss of quality in the nation's housing that results from aging.

Two components of the gross rent for a constant-quality unit--the contract rent and any utility costs paid by tenants--took turns in helping to explain the pattern of change over the period. The drop in gross rents between 1975 and 1981 was caused by a decline in the real contract rent of such a unit, offset in part by an increase in the real costs of utilities. Between 1981 and 1984, the real cost of both contract rents and utilities rose, explaining the upturn in real gross rents of a constant-quality unit over that period. Between 1984 and 1987, real contract rents for a constant-quality unit continued to rise, but the real cost of utilities dropped sharply. Those opposing forces began to slow the growth in real gross rent somewhat. After 1987, both the contract rent and utility costs declined in real terms, causing the decrease in real gross rent for a constant-quality unit.

Increase in Quality. Between 1975 and 1991, the increase in the real cost of a unit with roughly the same quality as the typical unit rented in 1975 (as measured by the Labor Department's indexes) was fairly small. Therefore, a relatively large part of the overall increase in actual real gross rents that occurred over the period must be attributable to an increase in the quality of the typical rental unit. (In that context, increased quality may also reflect greater consumption of utilities.) In each year since 1975, the actual median gross rent in the United States has exceeded the gross rent of a constant-quality unit. The actual median gross rent (in 1991 dollars) rose from \$378 to \$478 between 1975 and 1987, and then fell to \$460 by 1991 (see Figure 11). Because the cost of a unit of true constant quality increased somewhat faster than is shown here, the share of the increase in rent attributable to increases in quality is somewhat smaller than Figure 11 shows.[10]

9. CBO estimated the median gross rent (in 1991 dollars) of a constant-quality unit by separately tracking median contract rents and estimated median utility costs. The median contract rent of a unit rented in 1975 was inflated with the consumer price index for residential rent. The median cost of utilities not included in contract rents in 1975 (approximated by the difference between the median gross rent and the median contract rent in 1975) was inflated with the consumer price index for fuels and other utilities. The two components were then added for each year, and those annual totals adjusted with the CPI-U-X1 to change the results into 1991 dollars.

10. Calculations that are based on an index in Joint Center for Housing Studies, *The State of the Nation's Housing, 1994*, suggest that the real cost of a rental unit of constant quality may have increased by 14 percent over the 1975-1991 period, once adjustments are made for the aging of the rental stock. According to that index, improvements in quality would have explained roughly 35 percent of the increase in actual real gross rents over that period, compared with 89 percent using the unadjusted indexes published by the Department of Labor.

That the physical quality of the rental stock was improving over the period is also apparent from increases in the proportion of units with relatively costly attributes. For example, rental units became steadily larger: the proportion of units with five or more rooms increased from 34 percent in 1975 to 41 percent in 1991, and the share of units with three or more bedrooms rose from 21 percent to 25 percent. Similarly, the proportion of rental units with two or more complete bathrooms increased from 7 percent to over 15 percent. The share of units with central air conditioning rose from 16 percent to 33 percent.

Why did households rent better-quality units even as their incomes generally stagnated? Part of the increase in quality between 1975 and 1981 might be explained by the fact that increases in the overall rate of inflation exceeded increases in the cost of a rental unit with constant physical quality. Rental housing was thus a bargain relative to other goods and services, and households bought more of it in the form of better units. Between 1981 and 1987, those trends reversed, but with real incomes increasing during at least part of that period, households could still afford to buy more of many commodities, including better rental housing.

Yet for many households with relatively low incomes, renting higher-quality housing may not have been a choice. Instead, it may have been a necessity: low-quality (and low-cost) rental units had disappeared as they were demolished by their owners or converted to higher-rent housing for households with higher incomes. The final section of this chapter presents some evidence for that hypothesis.

Factors Affecting Trends in Actual Gross Rents

The rent for a constant-quality unit and the average quality of rental units are both determined by the demand for and supply of rental housing. The demand for rental housing is influenced by such factors as the rate of formation of new households, the choice of whether people become homeowners or renters and the forces behind that choice, the relative cost of items other than housing that households purchase, and trends in income. The supply of rental housing is affected by a host of other factors that determine whether it is more profitable to invest capital in rental housing or in other sectors. Influencing that decision are the cost of maintaining and operating the existing stock of housing; the cost of new construction; land values; government regulations such as rent control, zoning, and housing codes; features of the tax code; and the cost of borrowing.

The impact of these factors on gross rents is complicated because many of the factors are themselves affected by rents or by each other. For example, high and rising rents may stymie household formation. The cost of home ownership also affects rents. When it rises relative to the cost of renting, many would-be home buyers become or remain renters. Those families tend to have higher incomes than the typical renter; as a result, the average level of income of renters tends to increase. Both of those effects--growth in the number of renters and their increased purchasing power--drive up rents.

Patterns of change in rents at the national level may at times simply reflect geographic shifts in supply and demand forces in the rental housing market. For example, if changes in job opportunities lead renters to move from expensive regions of the country to cheaper ones, the resulting shift in demand could reduce rent levels nationally--at least in the short run--even though none of the above-mentioned factors may have changed overall.

These different forces caused the trend in rents to vary among different segments of the rent distribution and different time periods (as was shown in Figure 9). During the 1970s, for example, the abandonment and demolition of low-rent housing helped to drive up rents at the low end of the distribution. High rates of inflation in utility costs helped to push up rents throughout the rent distribution.

During much of the 1980s, rents in the top half of the rent distribution increased more rapidly than in the late 1970s, and they rose particularly fast at the high end of the rental scale. That trend resulted from both demand and supply factors. Contributing on the demand side to the upward pressure on rents was a sharp increase in the growth of the number of renters, fueled by a decline in the rate of home ownership among young households. The growth in the number of households that were renting increased from 1.4

percent per year between 1975 and 1979 (an average increase of 376,000 households) to almost 2.4 percent per year between 1979 and 1987 (on average, 696,000 households). By contrast, over the same periods, the growth in the number of homeowners declined from 2.3 percent per year (or 1.1 million households, on average) to 1.6 percent per year (or 844,000 households). The growth in income among renters during the mid-1980s, which was partially attributable to would-be home buyers joining their ranks, boosted the demand for higher-quality rental housing, which in turn also pushed up rents.

On the supply side, the increase in demand brought the expected response from developers of unsubsidized multifamily apartment buildings. In addition, certain tax provisions of the Economic Recovery Tax Act of 1981 increased the profits to be made in constructing rental housing. As a result, new construction reached its highest levels since 1975--almost 408,000 units were built during 1986 alone, for example. Those relatively large infusions of new dwellings into the rental stock did not bring rents down immediately, however. Instead, vacancy rates rose in many segments of the rental market during the 1980s. Some analysts view that phenomenon as evidence that landlords react to an oversupply of housing, at least in the short run, by letting some units stand vacant rather than decreasing rents for all of their units.[11]

After 1987, real rents began to decline at all points of the rent distribution. On the demand side, the rate of growth of the renter population dropped to roughly 1 percent per year (an average of 360,000 households). The decline reflected both a significant slowdown in the formation of households in general and, starting around 1990, a reversal in the downward trend of the rate of home ownership. (That rate began to rise in response to lower sales prices for homes and lower interest rates.) As the economy went into recession after 1989, the overall decrease in real income may also have contributed to the downward trend in gross rents.

On the supply side, new construction of multifamily units declined sharply. Some of the factors producing this decline included a response to the Tax Reform Act of 1986, which made such construction less profitable; a decline in the financing available for construction, which was brought on by the crisis in the savings and loan industry; and persistently high vacancy rates in the nation's stock of rental housing.

Factors Affecting the Incomes of Renters

Over the 1975-1991 period, many of the same factors that affected trends in family income in general explain trends in the household incomes of renters. Macroeconomic conditions, demographic shifts in the composition of families, changes in government transfer policies, and trends in the number of wage earners in families all influenced income to some degree.[12] Unlike family income, household income was also affected by changes in the extent to which unrelated individuals with their own sources of income lived together or with other families. In addition, trends in the rate of home ownership contributed to diverging patterns of changes in income for renters versus homeowners. Some of the factors that affected the incomes of renters are discussed below.

Macroeconomic Conditions. The household incomes of renters did not change very much over the 1975-1991 period after adjusting for inflation, but the shifts that were evident among the various categories of income followed the upswings and downswings of the business cycle. To that degree, they were fairly similar to the changes that occurred in the incomes of homeowners (see Figure 12). From 1975 through 1991, the real income of renters at the 25th percentile of their income distribution hovered between $10,000 and $11,000; at the median, it varied from $20,000 to $22,000; and at the 75th percentile, it ranged between $33,000 and $37,000.

11. See, for example, Raymond J. Struyk, "Comment on William Apgar's 'Which Housing Policy Is Best?'" *Housing Policy Debate*, vol. 1, no. 1 (1990).

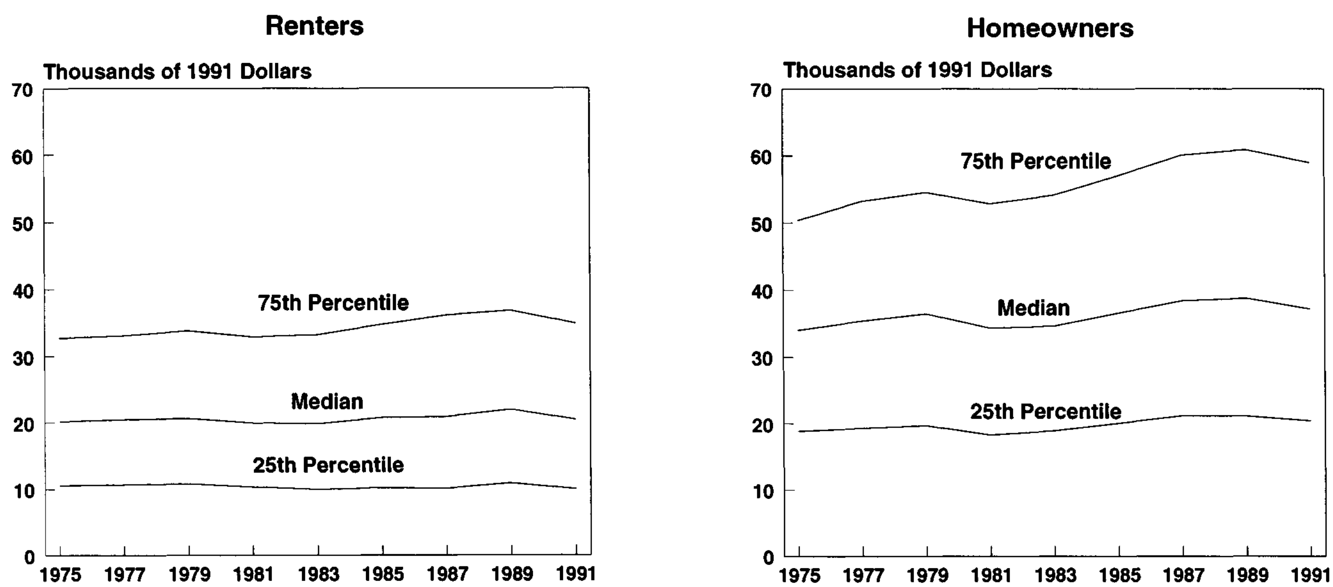
12. For a more detailed analysis, see Congressional Budget Office, *Trends in Family Income: 1970-1986* (February 1988).

The broad gains in real income that occurred for both renters and homeowners between 1975 and 1979--when the economy peaked--were followed by declines during the early 1980s. The incomes of renters at the 75th percentile of their income distribution and of homeowners at all levels had started to increase by 1983, as the economy began to expand. The incomes of renters at the median and 25th percentile of their income distribution did not start increasing until after 1983. In general, all groups of renters and homeowners enjoyed this growth in income through 1989. By 1991, the slowdown of the economy again was causing declines across the board.

Trends in the Rate of Home Ownership. It is difficult to ascertain whether or to what extent the well-documented drop in the rate of home ownership during the 1980s may have masked a less favorable trend in the incomes of typical renters than was actually observed. Some evidence points in that direction, however.

Overall, renters--and particularly the poorest renters--lost ground relative to homeowners between 1981 and 1987 in that the incomes of homeowners grew faster than those of renters (see Figure 13). One factor that may have contributed to that pattern is that would-be home buyers who became or remained renters had lower incomes than the average homeowner. Consequently, they did not drag down the income distribution of homeowners as they otherwise would have. But at the same time, the income distribution of renters was shifted upward to the extent that would-be home buyers had incomes higher than the average renter. That the incomes of homeowners and renters did not move in unison may indicate, therefore, that the increase in the incomes of renters resulting from the addition of would-be home buyers to their population was partially offset by decreases in income among typical renters.

Figure 12.
Real Household Income of Renters and Homeowners, by Income Level, 1975-1991



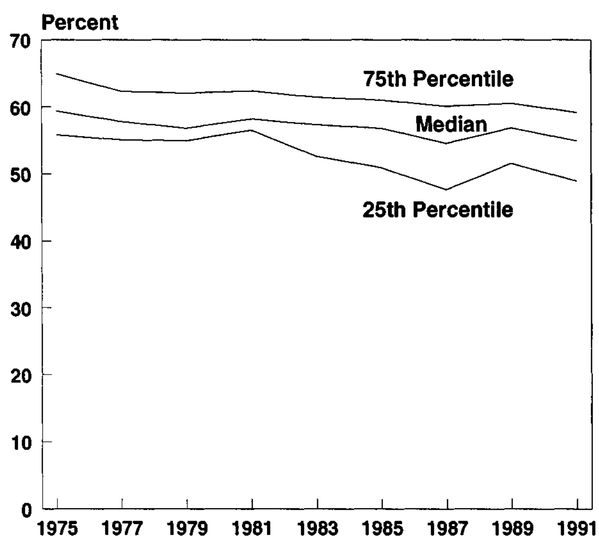
SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey. Data are for odd years only.

NOTES: Household income includes the income of all household members, whether or not they are related to the householder (a person named on the lease). The income levels for renters and homeowners correspond to the percentiles in their respective income distributions.

The data exclude renters who paid no cash rent.

Demographic Factors. Another reason for the relative flatness of the trend in income among renters is that the proportion of renters living alone typically rises during upswings in the economy, when household formation increases, and falls during downswings. Small households generally have much lower incomes than larger households; as a result, relative increases in their numbers will tend to pull down the overall income distribution, and relative decreases will tend to push it up. The proportion of renters who lived alone rose from 32 percent in 1975 to 36 percent in 1979--a peak in the business cycle. By 1983--a little after the business cycle hit bottom--it had declined to 34 percent. By 1987, however, the proportion had climbed back to 36 percent, only to fall somewhat, to 35 percent, in 1991, when the economy was in a recession.

Figure 13.
Renters' Household Income as a Percentage of Homeowners' Household Income, by Income Level, 1975-1991



SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey. Data are for odd years only.

NOTES: Household income includes the income of all household members, whether or not they are related to the householder (a person named on the lease). The income levels for renters and homeowners correspond to the percentiles in their respective income distributions.

The data exclude renters who paid no cash rent.

The impact of this change in the composition of renter households was tempered somewhat because the incomes of one-person households increased relative to those of larger households. For example, during the 1975-1991 period, the real median income of people living alone increased by 17 percent, compared with an increase of only 4 percent for two-person households and decreases of up to 5 percent for larger ones (see Appendix B, Table B-1).

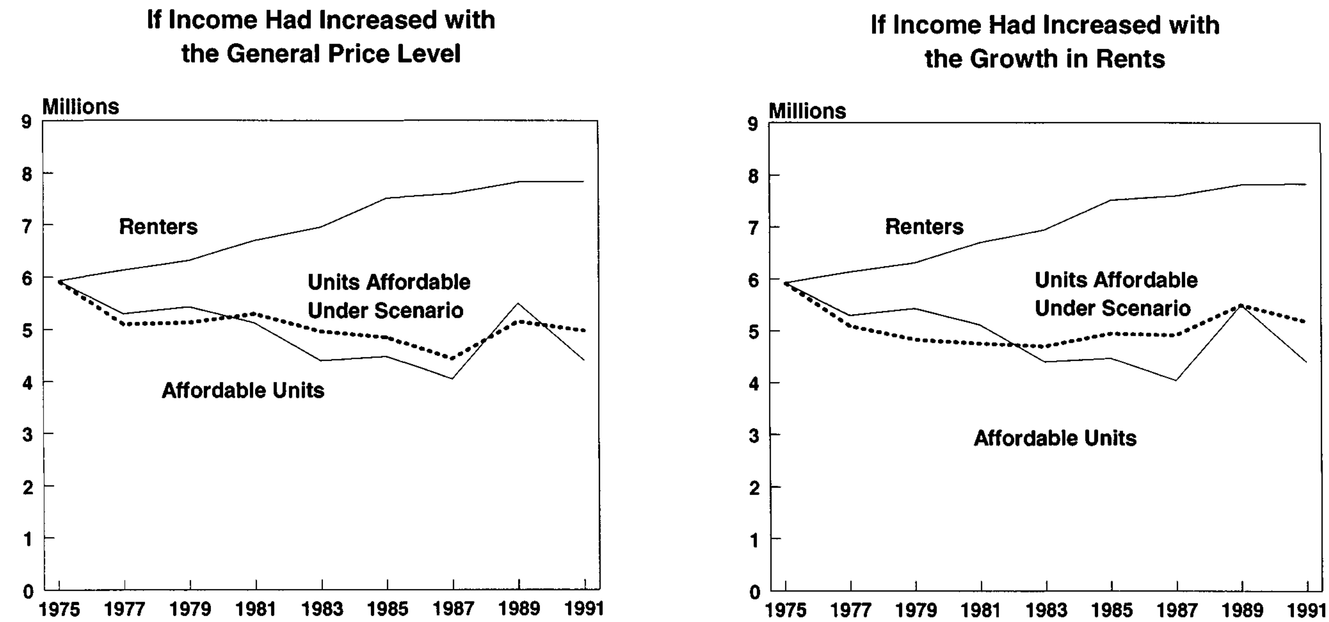
Other demographic factors that have kept the incomes of renters in the lower half of the income distribution from rising much include the well-documented increase in the proportion of the general population of households headed by single mothers or by relatively young people. Both types of households are more likely to be renters than homeowners. Because their incomes tend to be relatively low, the income distribution of renters is pulled down, independent of the changes in income of individual types of households.

A factor that has helped prevent further erosion of the financial resources of renters--particularly the poorest ones--is the income contributed by unrelated people who share homes with each other or with other families. If the incomes of unrelated individuals had not been available to families, for example, the real incomes of renter households at the 25th percentile of their income distribution would have fallen by about 9 percent over the 1975-1991 period (see Appendix B, Table B-4). Instead, their household incomes declined at roughly half that rate. It is not clear, however, to what extent the increases in these nontraditional living arrangements stem from choice or from necessity in the face of increasing costs for housing. To the extent that people prefer privacy over shared living arrangements, such families may be worse off, even if the added income helps to make housing more affordable.

Why Has the Housing Gap Grown?

The growing shortfall since the 1970s of housing that is affordable to relatively poor renters has elicited a

Figure 14.
Change in the Shortfall of Units Affordable to Renters in the Bottom Quarter of Their Income Distribution Under Two Scenarios, 1975-1991



SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey and American (formerly, Annual) Housing Survey. Data are for odd years only.

NOTES: Affordable units are units that rent for 30 percent or less of the income of renters at the 25th percentile of their income distribution.

Increases in the general price level are measured by the CPI-U-X1 (a revised consumer price index for urban consumers). Growth in rents is measured by the consumer price index for residential rent.

The data exclude renters who paid no cash rent and renters living in single-family homes on 10 acres or more.

number of explanations of its causes. Some studies have claimed that a major part of the explanation is a decline in the financial resources of low-income people.[13] According to some observers, the limited number of additional federal commitments of housing assistance has also contributed to the problem. CBO's analysis has indicated, however, that although financial resources declined somewhat for the poorest 25 percent of renters, rapidly escalating housing costs--spurred in part by the inflation of rents and utility costs but also by increases in quality--were a more significant factor. To provide a different perspective on those observations, CBO examined three questions: How big would the housing gap have been if household incomes had kept up each year with overall inflation? How big would it have been if household incomes had kept up each year with increases in the contract rent of a unit with constant physical quality? And what would have happened if there had been no subsidized housing?[14]

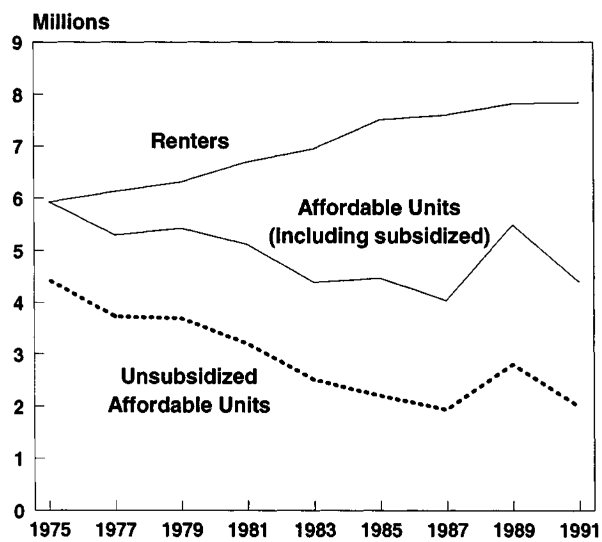
13. Several studies claim much larger declines in the financial resources of poor renters than those presented in this study. Some of those analyses (see, for example, Stone, *One-Third of a Nation*) used the unrevised consumer price index for urban consumers (CPI-U) rather than the CPI-U-X1 to adjust income for inflation. But before 1983, the CPI-U overstates increases in the cost of living and therefore makes households seem worse off than they really are. In addition, most studies use data on median family income from the American Housing Survey (see, for example, Joint Center for Housing Studies, *The State of the Nation's Housing, 1994*, Table A-1). Real family income from the AHS shows a precipitous decline between 1975 and 1983, followed by a sharp increase during the rest of the 1980s. Those findings contrast with the trend in median household income (a better measure of total available resources) from the Current Population Survey (a more reliable survey of income), which remains fairly flat over the 1975-1991 period (see Appendix B, Tables B-4 and B-5).

14. Estimates of the number of subsidized households presented in this section reflect primarily federal subsidies. However, data from the AHS--particularly those from earlier years--do not make reliable distinctions between households receiving federal versus other types of housing subsidies.

If, between 1975 and 1991, the household incomes of renters at the 25th percentile of their income distribution had increased each year at the same rate as the overall price level, the shortfall in affordable units would have been somewhat smaller, on average, during that period (see Figure 14). Under this scenario, the largest increase in the number of units that relatively poor renters might have been able to afford would have been an estimated 570,000 units in 1983. An increase of that size would have reduced the shortfall that year by 22 percent.

If household incomes had increased each year at the same rate that contract rents for a constant-quality unit increased, the shortfall in affordable units would also have been somewhat smaller, on average, than what actually occurred. However, the shortfall would have been larger in the late 1970s and smaller in the mid-1980s (see Figure 14). Under this scenario, the number of affordable units would have increased the most in 1987--by an estimated 870,000 units--reducing the shortfall that year by almost 25 percent.

Figure 15.
Shortfall of Units Affordable to Renters in the Bottom Quarter of Their Income Distribution, With and Without Subsidized Units, 1975-1991

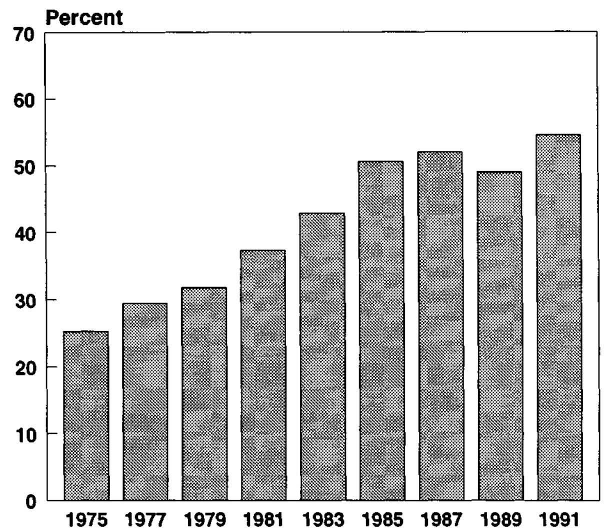


SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey and American (formerly, Annual) Housing Survey. Data are for odd years only.

NOTES: The data exclude renters who paid no cash rent and renters living in single-family homes on 10 acres or more.

Affordable units are units that rent for 30 percent or less of the income of renters at the 25th percentile of their income distribution.

Figure 16.
Percentage of Affordable Units That Are Subsidized, 1975-1991



SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey and American (formerly, Annual) Housing Survey.

NOTES: Affordable units are units that rent for 30 percent or less of the income of renters at the 25th percentile of their income distribution.

The data exclude renters who paid no cash rent and renters living in single-family homes on 10 acres or more.

Trends in rental housing assistance since 1975 have prevented the affordability problem from being worse. The number of unsubsidized units with housing costs affordable to renters with income at the 25th percentile of their income distribution fell by 2.4 million units--or 55 percent--between 1975 and 1991. That decrease, however, was partially offset by the addition of 0.9 million assisted units--an increase of about 60 percent (see Figure 15).[15] As a

15. As is the case with unsubsidized potentially affordable units, not all of these 0.9 million assisted ones are occupied by renters in this income category. Some were occupied by renters that were eligible for housing aid but that were not in the bottom quarter of their income distribution.

result, the total number of units in this rent category fell by only 26 percent between 1975 and 1991 (from 5.9 million units to 4.4 million units). These trends are reflected in the steady increase in the percentage of units that are affordable and that carry rental assistance--from 25 percent in 1975 to 55 percent in 1991 (see Figure 16).

The three scenarios considered here do little to explain the shortfall in affordable units that has developed. Because the growth in assisted units accommodated much of the growth in the number of relatively poor renters, the gap must stem primarily from the disappearance of unsubsidized low-rent units.

Where did those low-rent units go? First, many older units have been demolished. In 1975, for example, the nation's stock of rental housing included 11 million rental units built before 1940. By 1991, that figure had dropped to 8.6 million, a net decrease of 2.4 million such units. Landlords take those older units out of service when the rents they can command fall short of the cost of operating them or when the land on which they are situated can be used more profitably for other purposes (such as office buildings or parking lots). Those phenomena could stem, for example, from residential rents dropping as a result of declining demand for rental units in certain neighborhoods. Alternatively, rising demand for commercial applications could increase the value of land used for purposes other than residential use.

Second, some low-rent units may have become higher-rent units over the period--with or without being upgraded in quality--while relatively poor renters continued to occupy them. A rise in rents without an increase in quality could be caused, for example, by unusually high increases in maintenance and operating costs in areas with high rates of crime.

Third, some low-rent units were upgraded and became occupied by higher-income tenants at higher rents. That phenomenon--called the filtering up of a unit--commonly occurs in revitalizing urban neighborhoods that are becoming attractive to upwardly mobile young households. The 1980s were conducive to such events because, as shown above, the incomes of poorer households lagged increasingly behind those of higher-income households, which often compete for the same housing stock. At the same time, however, additions occurred in the low-rent stock because some higher-rent units deteriorated and became occupied by lower-income people at lower rents--a process known as filtering down. Some evidence suggests, however, that between 1985 and 1991, filtering caused a small net gain--23,000 units per year--in the number of units with relatively low rents.[16] That phenomenon was primarily due to gains in the South. By contrast, the Northeast lost 48,000 low-rent units per year to filtering.

16. See Joint Center for Housing Studies, *The State of the Nation's Housing, 1994*.

Chapter Three

The Characteristics of Subsidized and Unsubsidized Renters and Their Housing

The federal government now spends over $22 billion per year for low-income rental housing assistance. Yet many renters with relatively low incomes continue to pay large shares of their incomes for housing costs. Many of them live in units that are physically inadequate or in neighborhoods that they consider unsatisfactory. This situation occurs in part because most renters who are eligible for federal housing aid do not receive it, and many of those who do receive it continue to experience those same housing problems, although usually to a lesser degree.

This chapter examines the characteristics of subsidized and unsubsidized renters and the conditions of their housing. The analysis was made possible by an enriched database that allowed the Congressional Budget Office to explore several issues more accurately and in more detail than was previously possible. The goal of that exploration was to provide information to help answer policy questions such as the following:

- To what extent does housing aid reduce the incidence of recipients' housing and economic problems?

- Do the current criteria that determine a household's priority for housing aid identify households with the greatest need?

- Is there a difference in the extent to which different forms of housing assistance alleviate housing problems?

- Could policy initiatives to shift aid to less expensive household-based aid potentially improve the housing of all types of renters with low incomes, or might certain subgroups such as large families encounter difficulties in using that type of aid?

CBO defined housing problems for this analysis along a number of dimensions. Three of them can be measured objectively; two are subjective. The objective dimensions are affordability, the physical condition of rental units, and crowding. The subjective ones are the degree of satisfaction renters report with their housing unit and with their neighborhood. Evaluating the extent of these problems depends, of course, on the particular standards that are used to measure them. In that sense, any assessment is at least somewhat arbitrary.

In general, the standards used here to measure the objective problems are those used in federal housing programs today (see Box 2). As in Chapter 2, households with low incomes are considered to have an affordability problem if they pay more than 30 percent of their income for housing. To assess the physical condition of housing, CBO used an index developed by the Department of Housing and Urban Development that measures a host of structural defects.[1] CBO defined a unit as crowded if there were more than two persons per bedroom (a standard similar to the one used in HUD's housing

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1. This index produces overall estimates of the incidence of substandard housing that are comparable with those produced by an index developed and used in the past by CBO. The HUD index has the additional advantage of distinguishing between units that are moderately substandard and those that are severely substandard. For estimates of the number of substandard units in 1985 based on the CBO index, see Congressional Budget Office, *Current Housing Problems and Possible Federal Responses* (December 1988).

Box 2.
Definitions of Objectively Measured Housing Problems

This study analyzed three objectively measured housing problems. The first concerns the affordability of the housing unit to the renter. The other two pertain to the physical adequacy of the unit in terms of its condition and its space.

Relatively Costly Units. Relatively costly units are those for which renters pay more than 30 percent of their household income in housing costs. That amount is roughly what households that receive assistance pay out of pocket in most federal housing programs. Household income includes the income of all members age 14 and older, including those who are not related to the householder. Housing costs consist of rent payments to the landlord plus utility costs, if paid separately, and renter's property insurance, if any. (For subsidized households, housing costs include only their out-of-pocket expenses for those items.)

Substandard Units. Substandard units are units with moderate or severe defects, as defined in the American Housing Survey. A unit is judged to be severely substandard if it has any one of the following severe problems: (1) incomplete plumbing; (2) three or more breakdowns in the heating system within the past year; (3) no electricity or three specific problems with the electrical system (for example, exposed wiring); (4) five of six maintenance problems (for example, leaks, holes in floors, and peeling paint or plaster); or (5) four specific problems with public hallways (for example, no working light fixtures or loose or missing steps). A unit is judged to be moderately substandard if it has no severe problems but has any one of the following moderate problems: (1) three breakdowns in plumbing within the past year; (2) unvented heaters as the main source of heat; (3) three of the six maintenance problems noted in (4) above; (4) three of the four problems with public hallways noted in (5) above; or (5) incomplete kitchen facilities.

Crowded Units. Crowded units are units with more than two people per bedroom, a standard that is similar to the one used in rental assistance programs.

programs). The subjective dimensions were assessed using a rating scale. Households were judged to be dissatisfied with their housing units or neighborhoods if they rated them as a 5 or less on a scale of 1 to 10.

After a brief discussion of key definitions used in the analysis and some limitations of the data, the remainder of the chapter is divided into two parts. The first section focuses on the first two policy questions set out above by categorizing unsubsidized households according to their priority for receiving housing aid under current law. The second part focuses on the last two questions.

Background

The analysis in this chapter draws on data from a confidential version of the 1989 American Housing Survey (formerly, the Annual Housing Survey) that identifies renters who receive housing aid through various types of programs administered by HUD.[2] The analysis describes the characteristics and housing conditions of specific demographic groups of subsidized and unsubsidized renters and identifies those groups that have the greatest incidence of certain problems.

The first part of the analysis classifies households according to their eligibility and priority for

2. CBO acknowledges the cooperation and assistance of the Bureau of the Census in making these data available without compromising the privacy of individual households. A confidential version of the more recent 1991 AHS was not available at the time this study was undertaken, although the public-use version was. CBO included data from the latter in the analysis in Chapter 2. The public-use version of the survey asks households whether they receive housing subsidies, but those responses have been found to be unreliable. To identify households subsidized by HUD for the confidential version of the AHS, the Census Bureau matched records from the public-use survey with HUD data on program beneficiaries. For published tabulations of the confidential version, see Department of Housing and Urban Development, *Characteristics of HUD-Assisted Renters and Their Units in 1989* (March 1992).

receiving housing assistance.[3] Eligibility depends on the level of income of the household and varies by household size and geographic location. For example, in 1993, a household with four people in the Washington, D.C., metropolitan area qualified for assistance if its income did not exceed $30,300. In some nonmetropolitan counties in Mississippi and Arkansas, a household of the same size qualified if its income did not exceed $12,100.[4]

The second part of the analysis examines in more detail the housing conditions of subsidized and unsubsidized households with very low incomes, the primary target group of housing assistance programs today. It classifies rental units according to their cost relative to the local fair market rent.[5] HUD sets the FMR at roughly the 45th percentile of the range of market rents for units in a given geographic area that have turned over during the past two years. The department uses it in some federal housing programs as an upper limit on rents that may be subsidized. Comparing a unit's rent with the FMR indicates whether the rent is expensive relative to that of other units of similar size in the same geographic area. For example, in 1993, the FMR for a two-bedroom unit in the Washington, D.C., metropolitan area was $854 per month. The FMR for a similar unit in some nonmetropolitan counties in Mississippi and Arkansas was just below $290.

The reader should keep in mind several caveats regarding the AHS data in interpreting the results of this analysis. First, the confidential data classify some households as unsubsidized, although the households themselves reported that they received housing assistance.[6] Some of those households may have received subsidies from federal sources other than HUD--such as the Farmers Home Administration--or from state or local governments. Others simply may have misunderstood the AHS question on subsidy status.

Second, the total sample of households that the confidential data identify as subsidized is not large--fewer than 1,000 households. As a result, small differences in the characteristics of subgroups of that population may not be meaningful.

Third, as mentioned in Chapter 2, some households underreport their income in responding to Census Bureau surveys. That behavior leads to an overestimate of the number of households that are eligible for housing aid and an overestimate of the number of households with affordability problems. The overcount of eligible households is offset somewhat, however, by the fact that the AHS does not include homeless people, who are now generally eligible for federal housing aid.

Criteria for Assigning Priority for Assistance

Households qualify for federal housing assistance if they meet certain criteria for eligibility that are based on income. But that assistance is not an entitlement, and not enough funds are available to help all of those who are eligible for aid and who apply. The law has thus established additional criteria to assign priority to certain households on the waiting lists.

The criteria for targeting housing assistance have changed over time. In the 1980s, they tended to restrict assistance to groups in the lowest income brackets, but since 1990, they have become some-

3. For additional analyses of the housing needs of unsubsidized renters with priority for housing aid, see Department of Housing and Urban Development, *Priority Housing Problems and "Worst Case" Needs in 1989* (June 1991); and Department of Housing and Urban Development, *Worst Case Needs for Housing Assistance in the United States in 1990 and 1991* (June 1994). Those analyses are based on the public-use versions of the 1989 and 1991 AHS, respectively. Therefore, they cannot adequately distinguish between subsidized and unsubsidized households.

4. To determine a household's eligibility, CBO added data to the AHS that it obtained from HUD on local income limits for households of various sizes. For households whose metropolitan area was known, the area's income limit was used. For households with less precise geographic information, a weighted average of income limits in nearby areas was used.

5. CBO added FMR data that it obtained from HUD to the AHS.

6. Specifically, 18 percent of all very low income households that were not identified as receiving assistance from HUD programs reported that they received some type of housing aid.

Box 3.
Definitions of Household Groups Based on Their Priority for Rental Housing Assistance

Households can be classified into four groups that roughly correspond to the preference they receive for rental housing assistance under current program rules.

Very Low Income. Very low income households are households whose income does not exceed a certain threshold that depends on the size of the household. For a four-person household, that threshold is 50 percent of the area's median income. The threshold for a one-person household is 35 percent of the median income, and the threshold for an eight-person household is 66 percent. Households in this group by law receive the vast majority of aid commitments. Very low income households are further divided into two subgroups:

- *With Priority*. Conditions that qualify a household for priority status are paying more than 50 percent of income for housing, living in a severely substandard unit (including being homeless), or being displaced involuntarily, for example, by disasters such as floods or fires. Households meeting those conditions are at the top of local waiting lists for assistance. Local public housing agencies generally must reserve for them at least 70 percent of the project-based subsidies and 90 percent of the household-based subsidies that become available annually.

- *Other*. These households must generally compete for the remaining 10 percent to 30 percent of the subsidies that become available each year. The statute defines several conditions--for example, participation by a household in a job training program--that local housing agencies may consider in allocating aid.

Low Income. Four-person households whose income is between 51 percent and 80 percent of the area's median income are classified as low income. For households with one person, the range is between 36 percent and 56 percent of the median income; for those with eight people, it is between 67 percent and 100 percent. These households are eligible for rental assistance, but the law limits the proportion of overall commitments they may receive.

Higher Income. Higher-income households are those whose income exceeds the threshold for low-income status. In general, they are not eligible for rental assistance.

what broader.[7] The federal government targets assistance primarily toward households classified by law as "very low income." For households with four people, very low income means incomes that do not exceed 50 percent of the median income in their local area (see Box 3). Among those households, the ones paying more than half of their income for housing or living in severely substandard units receive priority for aid; they are referred to here as unsubsidized households "with priority," as distinct from "other" very low income unsubsidized households that are lower on the waiting lists.[8] Crowding and undesirable neighborhood conditions are not among the criteria that determine priority for housing aid.

Some housing aid is also available to households with incomes above the very low income threshold. Households with incomes between 50 percent and 80 percent of the area's median income (adjusted for the size of the household) are eligible for aid in certain housing programs. They are referred to here as low-income households. The law, however, restricts the share of assistance commitments that those households may receive. Higher-income households--those with incomes above 80 percent of the area's

7. For a more extensive discussion of trends in targeting assistance, see Kathryn P. Nelson and Jill Khadduri, "To Whom Should Limited Housing Resources Be Directed?" *Housing Policy Debate*, vol. 3, no. 1 (1992), pp. 1-55.

8. A third criterion for priority is being displaced involuntarily. However, CBO could not model that criterion in its analysis.

median income--generally are not eligible for housing aid. Nevertheless, a few of them live in subsidized housing, either because they moved up into that higher category after beginning to receive aid or because they live in one of a small group of projects in which the income cutoff for eligibility is 95 percent of the area's median income.

Before 1990, housing programs targeted aid primarily toward elderly households and households with children.[9] Single, nonelderly people generally received assistance only if they were disabled or met certain stringent conditions. Beginning in 1990, however, single individuals became fully eligible for aid, although the law continues to rank elderly or disabled individuals ahead of other single people.[10]

Characteristics of Subsidized and Unsubsidized Renters

Of a total of 31.6 million renters in the United States in 1989, 4.1 million received rental assistance through HUD programs. That left unserved 8.5 million very low income renters who would have been eligible for aid under 1994 program rules. More than half of those renters qualified for priority status for assistance.[11] Of the 4.1 million renters who received aid, 11 percent were classified as low income and another 7 percent as higher income. Consequently, HUD's programs served only about 28 percent of the 11.9 million very low income households. Those programs also served about 7 percent of the nation's 6.4 million low-income renter households and 2 percent of the 13.3 million higher-income renter households.

Demographic Characteristics

Households that received assistance differed substantially in their demographic traits from eligible households that received no housing assistance. The differences reflect historical patterns of federal targeting that have focused on the elderly and given low priority to single people. In fact, in 1989, most nonelderly single people were not even eligible for aid. As a result, subsidized households were almost twice as likely as unsubsidized ones with priority (37 percent versus 20 percent) to be headed by elderly people without children; they were half as likely (18 percent versus 39 percent) to consist of nonelderly households without children (see Table 4). Of the nonelderly households without children that received assistance, a substantial share probably consisted of households with disabled individuals. (It is difficult to estimate the extent of that share because the AHS does not identify such households accurately.) Households with children represented fewer than half of both the subsidized households and the unsubsidized households with priority.

Among the unsubsidized households, the demographic composition of the group with priority was similar to that of other very low income renters. Small points of difference were that the priority group was less likely than other very low income renters to have children present (41 percent versus 47 percent) and more likely to include nonelderly households without children (39 percent versus 31 percent).

Selected Household Characteristics

The fact that subsidized households differed systematically from unsubsidized ones was also reflected in the characteristics of the householder (one of the adults in the household whose name is on the lease). Not only were subsidized households the most likely to be headed by an elderly person in 1989, but they

9. Households are divided into four demographic groups for this analysis. Elderly households without children are those headed by a person age 62 or older with no children under age 18 present. Nonelderly households without children are headed by a person younger than age 62 and also have no member under age 18. Households with one or two children and those with three or more children (all under age 18) may be headed by a person of any age.

10. The law is silent, however, on whether (among very low income households) single people who have priority status (because of severe housing problems) but are neither elderly nor disabled should be ranked ahead of elderly or disabled people without priority status.

11. Although the priority group consists of households that meet the criteria for priority status, not all of them apply for aid and are on waiting lists for assistance. Conversely, some households on the waiting lists are classified as very low income but may not meet the criteria for priority status.

were the least likely to be headed by a young person --only 6 percent were under age 25 (see Table 5). In addition, they were the group with the least education; almost half had not completed high school. Households that received assistance were also most likely by far to be headed by divorced, separated, or widowed people (62 percent) and least likely to be headed by currently married people. Finally, subsidized households were more likely than any other group to be headed by women (75 percent), to receive welfare payments from the Aid to Families with Dependent Children or Supplemental Security Income programs (38 percent), and to belong to a minority group (54 percent).

Among unsubsidized households, the differences between households with priority and others with very low incomes can be partially explained by the relatively large share of childless, nonelderly households in the priority group. As a whole, households with priority were more likely than other very low income households to be headed by a person who was very young and who had some schooling beyond high school. In particular, 16 percent of renters in the priority group were less than 25 years old and 30 percent had some college education, compared with 12 percent and 20 percent of other very low income renters, respectively. Renters with priority were less likely to be currently married (19 percent versus 28 percent), more likely to be women, and more likely to be receiving welfare payments. The two groups were similar in racial composition, however.

Incomes

Housing assistance programs in 1989 served households that had higher incomes, on average, than all

Table 4.
Subsidized and Unsubsidized Renter Households, by Demographic Group and Priority for Housing Assistance, 1989

Demographic Group[a]	Subsidized	Unsubsidized: Very Low Income: Priority	Unsubsidized: Very Low Income: Other	Unsubsidized: Low Income	Unsubsidized: Higher Income
		In Thousands			
All Households	4,070	4,570	3,972	6,023	12,994
		As a Percentage of All Households			
Elderly, Without Children	37	20	22	12	7
Nonelderly, Without Children	18	39	31	46	63
One or Two Children	33	28	31	33	25
Three or More Children	12	13	16	9	5
Total	100	100	100	100	100

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTE: See Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

Table 5.
Characteristics of Householders in Subsidized and Unsubsidized Renter Households, by Priority for Housing Assistance, 1989

Characteristic	Subsidized	Unsubsidized: Very Low Income: Priority	Unsubsidized: Very Low Income: Other	Unsubsidized: Low Income	Unsubsidized: Higher Income
Thousands of Households					
All Households	4,070	4,570	3,972	6,023	12,994
Age (As a percentage of all households)					
Less than 25	6	16	12	12	9
25 to 34	23	30	32	40	44
35 to 61	33	34	32	36	41
62 or Older	38	20	23	12	7
Total	100	100	100	100	100
Education (As a percentage of all households)					
Less than High School	46	37	42	20	10
High School Graduate	36	33	38	42	33
Some College	13	18	14	22	23
College Graduate	5	12	6	16	34
Total	100	100	100	100	100
Marital Status (As a percentage of all households)					
Never Married	23	34	27	30	32
Married	15	19	28	35	41
Divorced, Separated, or Widowed	62	47	45	35	27
Total	100	100	100	100	100
Other Characteristics (As a percentage of all households)					
Female Head	75	62	54	43	33
Minority	54	42	42	34	22
Receiving AFDC or SSI	38	29	21	5	2

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: A householder is one of the adults in the household whose name is on the lease.

See Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

AFDC = Aid to Families with Dependent Children; SSI = Supplemental Security Income.

Table 6.
Average Annual Income and Monthly Housing Costs of Subsidized and Unsubsidized Renter Households, by Demographic Group and Priority for Housing Assistance, 1989 (In dollars)

		Unsubsidized				
		Very Low Income				
Demographic Group[a]	Subsidized	All	Priority	Other	Low Income	Higher Income
Average Annual Household Income						
Elderly, Without Children	7,400	7,089	6,063	8,156	16,305	33,839
Nonelderly, Without Children	12,135	7,240	5,624	9,588	17,241	40,182
One or Two Children	11,071	8,859	6,325	11,464	20,773	42,267
Three or More Children	10,659	10,311	7,095	13,360	24,860	44,557
All Households	9,874	8,127	6,098	10,461	19,000	40,497
Average Monthly Housing Cost						
Elderly, Without Children	208	329	432	223	431	536
Nonelderly, Without Children	257	364	420	283	404	540
One or Two Children	247	381	442	318	472	580
Three or More Children	223	402	459	347	522	597
All Households	232	367	433	291	441	553

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTE: See Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

unsubsidized very low income households combined. That outcome is not too surprising, given the finding reported above that some 18 percent of subsidized households had incomes that exceeded the threshold for very low income status.[12] The incomes of subsidized households were 22 percent higher, on average, than those of unsubsidized very low income households--$9,874 versus $8,127 (see Table 6). However, average incomes differed by substantial amounts only among nonelderly, childless households and among small families (by 68 percent and 25 percent, respectively). Those findings are mirrored in the relatively high proportions of the subsidized households in those two groups whose incomes exceeded the very low income thresholds: 29 percent of the nonelderly, childless group and 22 percent of small families, compared with only 8 percent of the elderly and 13 percent of large families.

That some subsidized households were found to be better off than the very low income group as a whole is to be expected as long as the law continues to grant eligibility for aid to people with higher incomes. Perhaps more surprising is how much higher --62 percent--the average income of subsidized households was compared with that of unsubsidized households with priority for aid. The large difference in average income between the two groups could raise some questions about the extent to which households being granted aid today are actually

12. At the same time, though, one-half of all subsidized renters had incomes below 25 percent of the area median, compared with 42 percent of all unsubsidized very low income households.

drawn from the priority list, especially because the pattern persisted for all four demographic groups. One explanation for these outcomes is that the incomes of the subsidized households may have increased after they started receiving subsidies.[13]

The particularly large difference in income between subsidized nonelderly households without children and their very low income unsubsidized counterparts does not necessarily imply that, before 1990, subsidies were targeted toward households with higher incomes in that group. The unsubsidized households include many single people who were previously not eligible for housing assistance but who tend to have relatively low incomes. Many of them are young, never-married people, perhaps still in college, who are likely to have low incomes only temporarily and may never apply for housing aid. Nevertheless, the relatively high incomes of their subsidized counterparts--many of whom are disabled --are somewhat surprising.

The large share of income being paid for rent, which gives most renters with priority their elevated status for housing assistance, is partially explained by their extremely low incomes. The average income of priority renters was 42 percent lower than that of other very low income renters. That pattern held firm for all types of households; the difference varied from 25 percent for elderly households to 47 percent for large families.[14] Thus, the criteria that the federal government uses to assign households priority for housing assistance identify a relatively poor group of households.

Housing Costs

Housing subsidies reduced the average cost of housing for those who received them to $232 per month (see Table 6). That amount was just over half of what renters with priority paid and four-fifths of what other very low income households paid. The relative benefit of the subsidies was greatest for the elderly and for large families: they paid less than half the amount paid by their counterparts with priority.

Among the unsubsidized, the very large share of income paid for housing in 1989 by most renters with priority is explained not only by their relatively low incomes but also by the fact that they lived in costly units. Rents for households in the priority group averaged nearly 50 percent higher than rents for other very low income households--$433 versus $291 per month. Elderly renters with priority paid nearly twice what other very low income elderly renters paid. In contrast, among large families, the difference in average rents between renters with priority and other very low income renters was only 32 percent. Thus, for the priority group of elderly renters, their affordability problem stems largely from relatively high housing costs, which may be holdovers from the days when their incomes were higher. For the priority group of large families, however, the affordability problem is more associated with relatively low incomes than with high rents.

Why did so many very low income renters pay so much in housing costs? For some renters with priority, those high rents could reflect a voluntary choice to live in relatively expensive units. In particular, some of those households may prefer to devote their limited resources to housing and consume less of other goods and services. Other households in the priority group may have low incomes only temporarily, as a result, perhaps, of a job loss or illness. Rather than move to a more affordable dwelling, such households may prefer temporarily to spend a large share of their income for rent, possibly drawing on whatever savings they might have.

13. In general, the government certifies the incomes of assisted households each year only to determine the rent they must pay. Rents for households receiving household-based subsidies will increase as their income rises, until 30 percent of their income equals the market rent that the unit commands. Only at that point does the subsidy disappear. Thus, in areas where FMRs are high relative to the income-eligibility thresholds for new applicants, current recipients will continue to receive subsidies even after their incomes have increased beyond those thresholds. Households that receive project-based subsidies and whose incomes exceed the eligibility thresholds are never evicted from the projects; their rents simply increase. Under some program variants, however, the rent that a tenant pays cannot exceed a predetermined maximum level specific to a particular project. Households that pay those maximum rents commonly pay less than 30 percent of their income.

14. Even after adjusting for geographic location and household size, renters with priority appeared to be very poor: 62 percent had incomes below 25 percent of the area median adjusted for household size. Among other very low income households, only 19 percent had incomes that low.

All of these hypotheses are consistent with the fact that a substantial share of renters in the group with priority for housing aid lived in units that were expensive in comparison with other units of similar size in their local market area. For instance, some 31 percent of renters with priority lived in units with rents greater than the relevant FMR for their size unit, a much higher proportion than the 8 percent of other very low income households that did so.

Other renters may have had little choice in the matter, however. They simply may have been unable to find cheaper units. That phenomenon is indicative of the overall shortfall of low-rent units discussed in Chapter 2. It also reflects the fact that many of the existing low-rent units are occupied by households with higher incomes and thus are not available to those with lower incomes. It could point as well to imperfections in the housing market--for example, discrimination--that restrict the access of some households to cheaper units in their localities.

Mobility

The relatively small rent-to-income ratios of many renters who received assistance undoubtedly help to explain their low rates of mobility. Overall, the mobility rates of renters are relatively high: in 1989, at the time of the AHS, 37 percent of all renters had moved into their current housing unit within the past 12 months (see Table 7). Among subsidized renters, however, only 21 percent had moved in that recently, compared with 42 percent of unsubsidized renters with priority and 36 percent of other very low income renters.

All demographic groups except the elderly showed similar mobility patterns. Mobility among the subsidized groups other than elderly renters hovered around 25 percent, which was typically a little more than half the rates of their priority counterparts. For the elderly, however, mobility rates were much lower in general--only 13 percent of all elderly renters moved in a given year. The rates were similar for all elderly renters, whether or not they received assistance.

Thus, the overall low rate of mobility of subsidized households is due in part to the relatively large share of households in that group that are headed by elderly people. The remaining variation in mobility between renters who are subsidized and renters who are not must be explained by factors

Table 7.
Percentage of Subsidized and Unsubsidized Renter Households That Moved into Their Current Units During the Past 12 Months, by Demographic Group and Priority for Housing Assistance, 1989

Demographic Group[a]	Subsidized	Unsubsidized: Very Low Income Priority	Unsubsidized: Very Low Income Other	Unsubsidized: Low Income	Unsubsidized: Higher Income	All
Elderly, Without Children	12	15	12	11	17	13
Nonelderly, Without Children	26	47	45	46	41	42
One or Two Children	28	51	41	42	36	39
Three or More Children	24	44	38	44	36	38
All Households	21	42	36	40	38	37

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTE: See Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

other than income and demographics. Part of the explanation could be that, in general, households that receive subsidies tied to particular apartments would lose those subsidies if they relocated. In addition, households receiving subsidies that are portable (certificates or vouchers) may have limited choices of where to live.[15] Not all landlords wish to participate in government programs.

The Economic, Housing, and Neighborhood Problems of Subsidized and Unsubsidized Renters

In general, if the goals of housing programs are being met, one would expect to find relatively few subsidized households that paid more than 30 percent of their income for rent and few that lived in substandard or crowded conditions. In contrast, every priority household by definition will have at least one of those problems. Moreover, any problems with affordability or substandard conditions that occur among other very low income households will, again by definition, be less serious than those experienced by households in the priority group. The shares of income spent for housing by other very low income households will not exceed 50 percent, and units will be at most moderately substandard. Problems with crowding and neighborhoods are not criteria for priority, however. They could affect households with and without priority equally.

Objectively Measured Housing Problems

Although housing assistance programs reduce the incidence and severity of housing problems, they fall short of eliminating them, according to the American Housing Survey. In 1989, roughly half of the subsidized households in each of the four demographic groups experienced one or more of the housing problems considered under this heading (see Box 2 on page 30). In terms of affordability, households receiving assistance spent an average of 34 percent of their income for rent; at least 39 percent of the households in each of the four groups paid more than the 30 percent standard (see Figure 17). In terms of other types of housing problems that can be objectively measured, from 7 percent to 38 percent of the various groups of subsidized households lived in either substandard or crowded housing units.

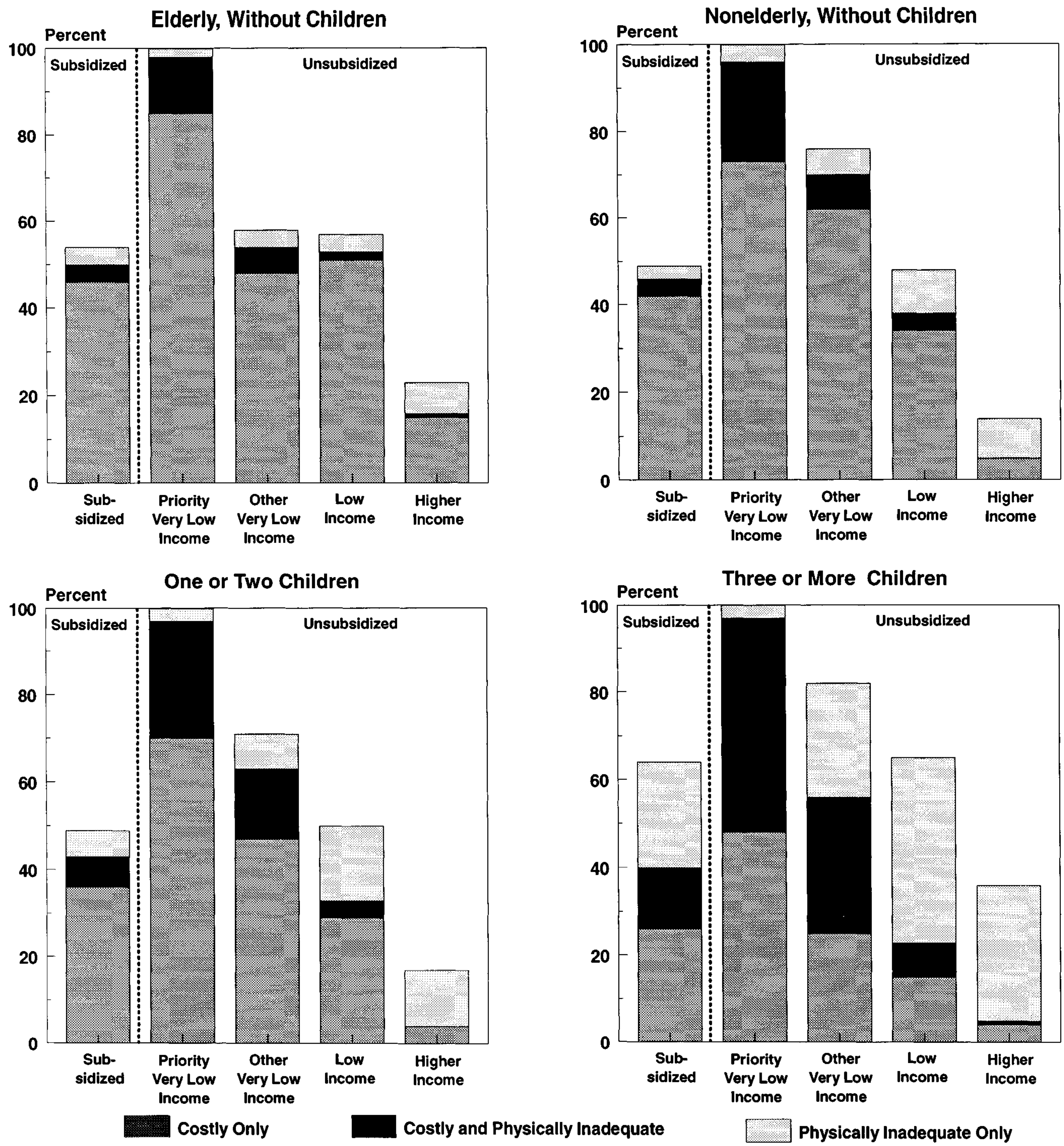
The characteristics of certain housing assistance programs can only partially explain why the housing costs of so many subsidized households exceeded 30 percent of their income. For example, recipients of housing vouchers may (and many do) pay more than 30 percent of their income for housing if they rent relatively high-cost units. In addition, the allowances that some programs provide for utility costs that are not included in rent payments to the landlord are known to fall short of what many subsidized households actually pay for utilities. Those additional costs raise total payments above 30 percent of income. Nevertheless, some households may simply have misunderstood the AHS's questions on income and housing costs.[16]

Unsubsidized households with very low incomes were considerably worse off along these objectively measured dimensions than were subsidized households. All unsubsidized households with priority had (by definition) one or more housing problems, as did between 60 percent and 80 percent of other very low income households. Affordability was by far the most common difficulty; virtually all priority renters and 54 percent or more of other very low income renters in the four demographic groups paid more than 30 percent of their income for housing. The more serious nature of this problem for renters with priority was reflected in the fact that they spent an average of 73 percent of their income for housing, compared with 34 percent for other very low income renters.

15. Mobility rates among households with household-based subsidies (28 percent) were substantially higher than rates among households with project-based subsidies (19 percent).

16. As previously mentioned, some households underreport their incomes. In addition, some assisted households may report the rents their units command rather than their out-of-pocket payments, despite special efforts made in the AHS to prevent that problem. See Department of Housing and Urban Development, *Characteristics of HUD-Assisted Renters*.

Figure 17.
Percentage of Subsidized and Unsubsidized Renters with Housing Problems, by Demographic Group and Priority for Housing Assistance, 1989



SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: Elderly households are those headed by a person age 62 or older. Children are household members age 18 or younger. See Box 2 for definitions of housing problems and Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

Physically inadequate units are substandard or crowded, or both.

Affordability was, in fact, the only problem faced by the vast majority of very low income unsubsidized households in all demographic groups except large families. For them, problems of inadequate housing were also very common. Well over half of unsubsidized large families with very low incomes lived in either substandard or crowded units. And for the majority of those families, the problems of inadequate housing were combined with paying a large share of their income for rent.

Households with children were more likely to live in physically inadequate housing than households without children--among both subsidized and unsubsidized groups. For significant shares of families with children, inadequate housing meant living in crowded conditions; among childless households, inadequate housing meant living in substandard units (see Figure 18). The prevalence of crowding in units occupied by large families was especially notable and was a problem even for low- and higher-income large households. The cause could be a general shortage of large rental units. Alternatively, some large families may not view the sharing of a bedroom by three children as a problem.

Housing assistance reduced the incidence of substandard housing for all types of households that received it, compared with their unsubsidized counterparts in the priority group. It put most groups of subsidized households effectively on a par with their unsubsidized counterparts in all other income categories. Yet for large families, the impact of assistance was minimal: 23 percent of subsidized households with three or more children lived in substandard units, compared with 28 percent of their priority counterparts. With the problem of crowding, however, housing assistance was quite effective for those large families. Only one in five of assisted large households lived in crowded conditions, compared with up to half of their very low income unassisted counterparts.

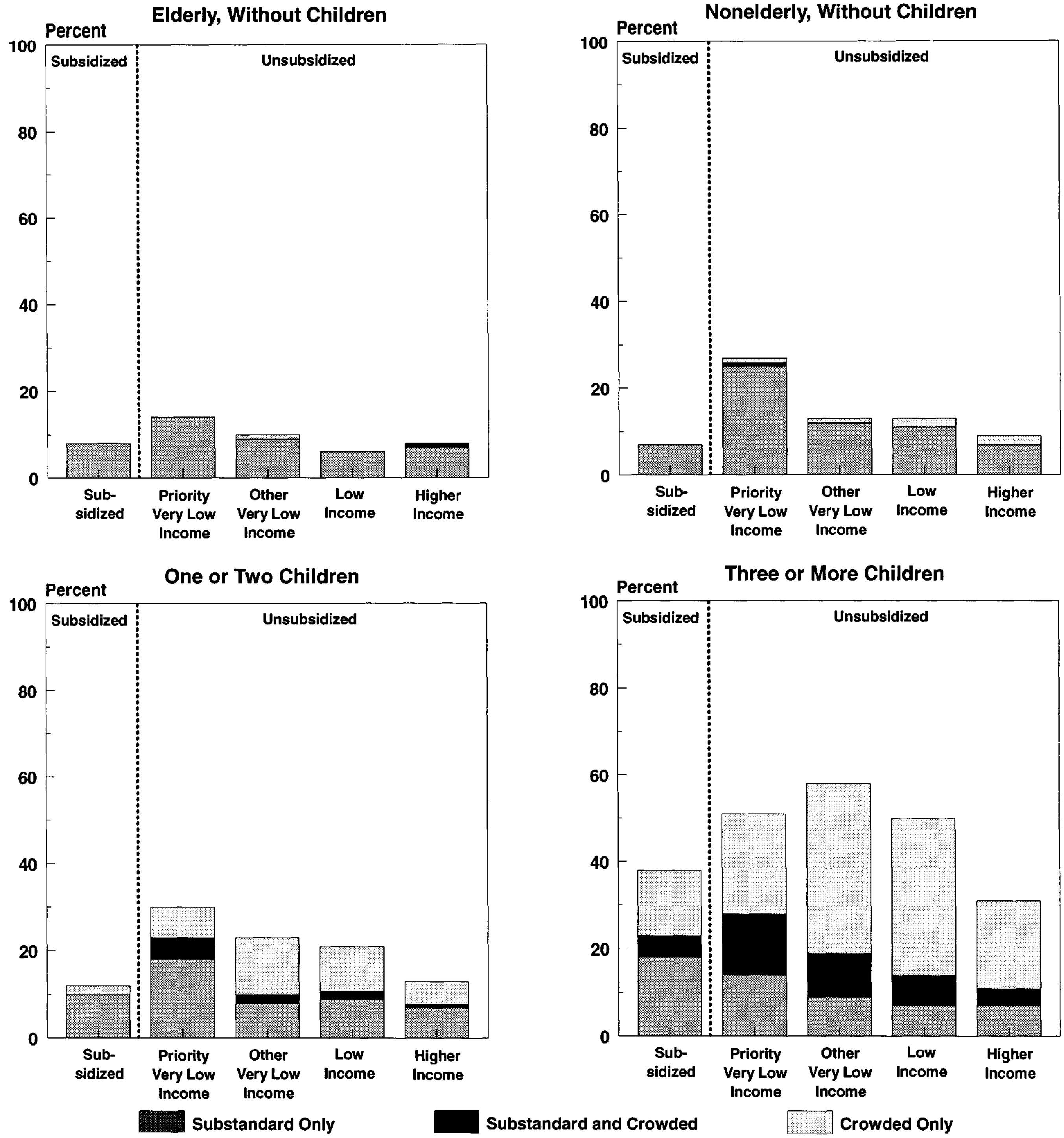
Subjectively Measured Problems with Housing and Neighborhood Conditions

The proportion of households that rated their housing or their neighborhood condition as unsatisfactory varied much less among income groups than might be expected given the variation in the prevalence of inadequate housing. Overall, subsidized households were about as likely as very low income ones that did not receive subsidies to rate their housing or their neighborhood condition as poor (see Figure 19). And those groups were only somewhat more likely than higher-income renters to express dissatisfaction with those conditions. A possible explanation for that result might be that people with lower incomes had lower expectations for their housing situation and consequently gave higher ratings to a given unit or neighborhood than people with higher incomes would have given.

Within each category of income, households with children were the demographic group most likely to report dissatisfaction with either their neighborhood, their housing unit, or both. Fully half of both subsidized and unsubsidized very low income families with three or more children reported those difficulties, compared with roughly 20 percent of the elderly.

Recipients of housing aid were relatively more likely to be satisfied with their units, but for assisted households with children, those units were more likely to be in unsatisfactory neighborhoods. In particular, of the renters who reported problems, those who received assistance were generally less likely than unsubsidized very low income households to express dissatisfaction with their housing unit. That pattern is consistent with the relatively lower incidence of crowding and substandard housing among subsidized households (discussed above). However, among households with children, those with subsidies were more likely than their counterparts without subsidies to rate their neighborhood as poor. No such difference was evident among childless households.

Figure 18.
Percentage of Subsidized and Unsubsidized Renters with Physically Inadequate Housing, by Demographic Group and Priority for Housing Assistance, 1989

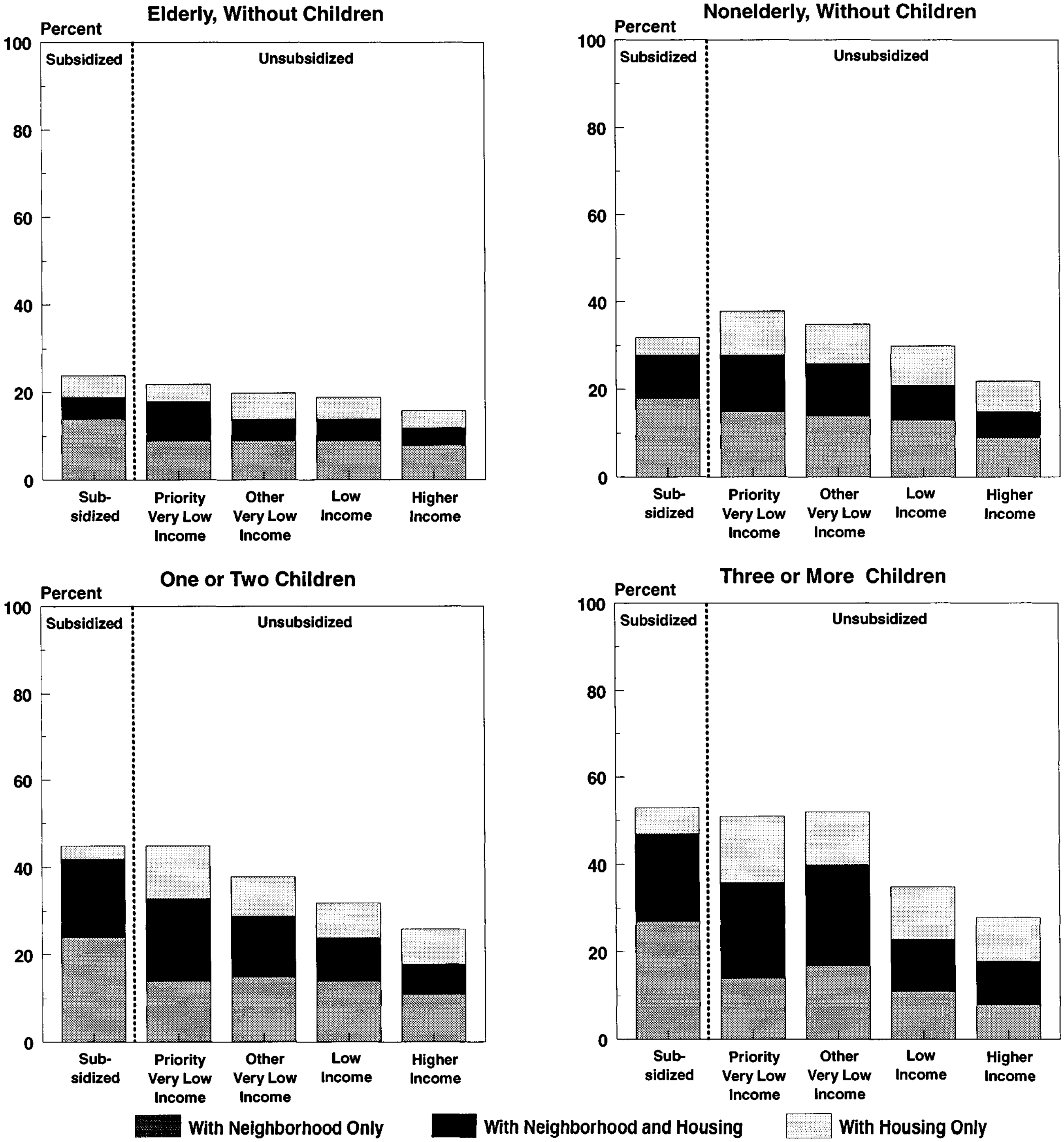


SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: Elderly households are those headed by a person age 62 or older. Children are household members age 18 or younger. See Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

Physically inadequate units are substandard or crowded, or both. See Box 2 for definitions.

Figure 19.
Percentage of Subsidized and Unsubsidized Renters Dissatisfied with Their Neighborhoods or Housing Conditions, by Demographic Group and Priority for Housing Assistance, 1989



SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTE: Elderly households are those headed by a person age 62 or older. Children are household members age 18 or younger. See Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

Housing Problems of Very Low Income Households by Type of Housing Assistance and Rent Level

Thus far, this analysis has combined the recipients of housing aid. It has made no distinction between households that receive so-called project-based assistance, which requires them to live in specifically designated projects, and those with household-based aid, which allows renters to live in units of their own choosing, provided those units meet certain standards. Considering the housing outcomes of the recipients of each type of aid can illuminate some of the potential advantages and disadvantages of the two kinds. In addition, comparing the recipients of household-based subsidies with households having similar incomes but living in units with rents below the local FMR--that is, within HUD's rental guidelines for that type of program--can indicate whether and to what extent those subsidies improve other housing outcomes besides lowering costs. And contrasting the housing outcomes of unsubsidized very low income households that pay rents below the FMR with the outcomes of those whose rents are above it shows whether renting relatively expensive units tends to improve housing conditions for this group. If so, one might argue that the high housing costs of at least some of those households represent a voluntary choice. Such a finding might call into question the practice of making high housing costs a main criterion for priority for federal housing aid.

Of the 4.1 million rental units that HUD subsidized in 1989, 3 million were in projects specifically constructed for use by assisted households. The remaining 1.1 million units were in the existing stock of private rental housing. There, aid was tied to the household rather than to the unit itself. Of the 28 million unsubsidized units in the United States, 16.4 million, or close to 60 percent, had rents that were no greater than the local FMR.[17] Those rents were sufficiently low that the housing units could be made affordable to very low income households if the federal government provided subsidies.

The Mismatch Revisited

The survey data produced further evidence of the mismatch between households and rental units that they could afford (see Chapter 2). Many of the units that were potentially affordable to very low income households were occupied by households with higher incomes. For subsidized renters, the mismatch was greater among households with project-based subsidies than among those with household-based aid: nearly one in five units in subsidized projects was occupied by a household with income above the very low income threshold, compared with one in seven units that had its rent subsidized through household-based aid (see Appendix C, Table C-6). That finding reflects in part the stricter targeting rules that apply to household-based programs.

The mismatch was more apparent among unsubsidized rental units. One in three of the lower-rent units was occupied by a higher-income household, whereas one in six of the higher-rent units was occupied by a household with very low income. Mostly because of high rents, more than 80 percent of the very low income households in the more expensive units qualified for priority for housing aid, compared with 46 percent of those in the lower-rent units. However, if the households living in those expensive units were given household-based aid, they would have to pay more than 30 percent of their income for rent (or use that aid to move to a lower-cost unit).

Demographic Characteristics of Very Low Income Renters

The AHS data show that about 3.4 million very low income households received housing aid in 1989 (see

17. HUD sets FMRs at the 45th percentile of rents for unsubsidized units that have turned over during the past two years. The fact that more than 45 percent of all units--including those that have not turned over--have rents below the FMR is to be expected, because landlords tend to increase rents when units turn over. The 60 percent figure probably overstates somewhat the proportion of units with market rents below the FMR because it includes some units whose tenants reported receiving housing subsidies.

Table 8.
Subsidized and Unsubsidized Very Low Income Renter Households, by Demographic Group and Type of Subsidy or Rent Level, 1989

	Subsidized		Unsubsidized	
Demographic Group[a]	Project Based	Household Based	Up to FMR[b]	More than FMR[b]
	In Thousands			
All Households	2,450	917	6,788	1,754
	As a Percentage of All Households			
Elderly, Without Children	46	26	21	19
Nonelderly, Without Children	16	14	34	42
One or Two Children	27	42	30	27
Three or More Children	10	18	15	12
Total	100	100	100	100

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTE: See Box 1 for definitions of types of subsidies and Box 3 for a definition of very low income renters. The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

b. The fair market rent (FMR) is the maximum rent in a geographic area that the Department of Housing and Urban Development subsidizes in some of its programs.

Table 8). Of those households, the majority (2.5 million) received project-based aid, with those subsidies going disproportionately to elderly households. Among the recipients of household-based aid, households with children received the bulk of the assistance. Those results reflect the relatively large number of subsidized projects that have been built specifically for elderly and disabled households, in part because such projects have traditionally encountered less resistance from the local community than those designated for households with children.

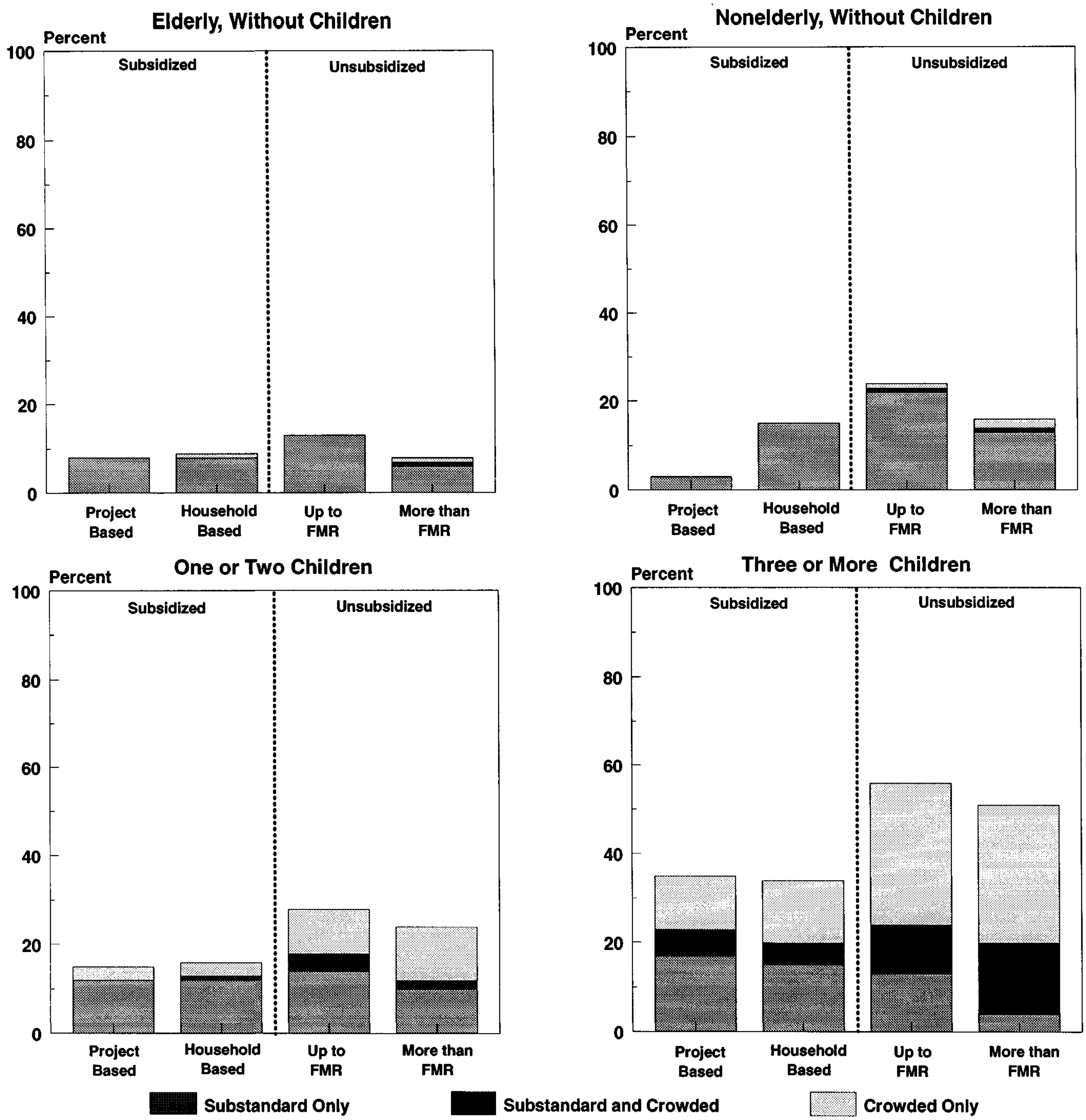
The data show relatively little variation in the demographic composition of very low income households occupying unsubsidized low- and high-rent units. However, households with children were somewhat more likely to live in relatively inexpensive units, and nonelderly, childless households were more likely to live in higher-priced units.

Objectively Measured Housing Problems of Very Low Income Renters

As a whole, households with project-based subsidies had a somewhat lower incidence of substandard or crowded conditions than did those with household-based aid (12 percent versus 17 percent), but that difference is somewhat misleading. Among the various demographic groups of recipients, that pattern occurred only among nonelderly households without children (see Figure 20). For the remaining groups, the incidence of substandard or crowded housing differed little between recipients of the two types of aid.[18] The main reason for the lower incidence of

18. These results hold true even after controlling for numerous household, housing, and location characteristics. See Sandra J. Newman and Ann B. Schnare, "Last in Line: Housing Assistance for Households with Children," *Housing Policy Debate*, vol. 4, no 3 (1993), pp. 417-455.

Figure 20.
Percentage of Subsidized and Unsubsidized Very Low Income Renters with Physically Inadequate Housing, by Demographic Group and Type of Subsidy or Rent Level, 1989



SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: Elderly households are those headed by a person age 62 or older. Children are household members age 18 or younger. See Box 1 for definitions of types of subsidies and Box 3 for a definition of very low income renters. The data exclude renters who paid no cash rent. Physically inadequate units are substandard or crowded, or both. See Box 2 for definitions.

The fair market rent (FMR) is the maximum rent in a geographic area that the Department of Housing and Urban Development subsidizes in some of its programs.

housing problems among recipients of project-based aid was the disproportionately large share of elderly households that live in those types of units. The elderly were unlikely to encounter physical housing problems no matter where they lived.

Recipients of both project-based and household-based subsidies were less likely to have housing problems than were their unsubsidized counterparts. That outcome was especially relevant for recipients of household-based aid. Like their unsubsidized counterparts, they lived in the private rental stock. But their subsidies allowed them to choose units that had higher rents and that generally were more suitable to their needs.[19] In particular, as noted earlier, 17 percent of very low income renters with household-based subsidies lived in substandard or crowded housing. That figure compares with 27 percent of renters living in unsubsidized, lower-rent units and 21 percent of renters living in unsubsidized, more expensive units. Household-based subsidies were especially effective in allowing households with children to rent units of a size appropriate to their needs in the private stock. For example, although 43 percent of large families in unsubsidized, lower-rent units lived in crowded conditions, only 19 percent of those receiving household-based aid did so.

The differences in physical housing conditions between unsubsidized households that rented relatively expensive units and similar households renting cheaper units were minimal. In general, paying high rents slightly increased the likelihood of getting a better-quality unit but did little in terms of obtaining units with sufficient space.

Subjectively Measured Housing and Neighborhood Problems of Very Low Income Households

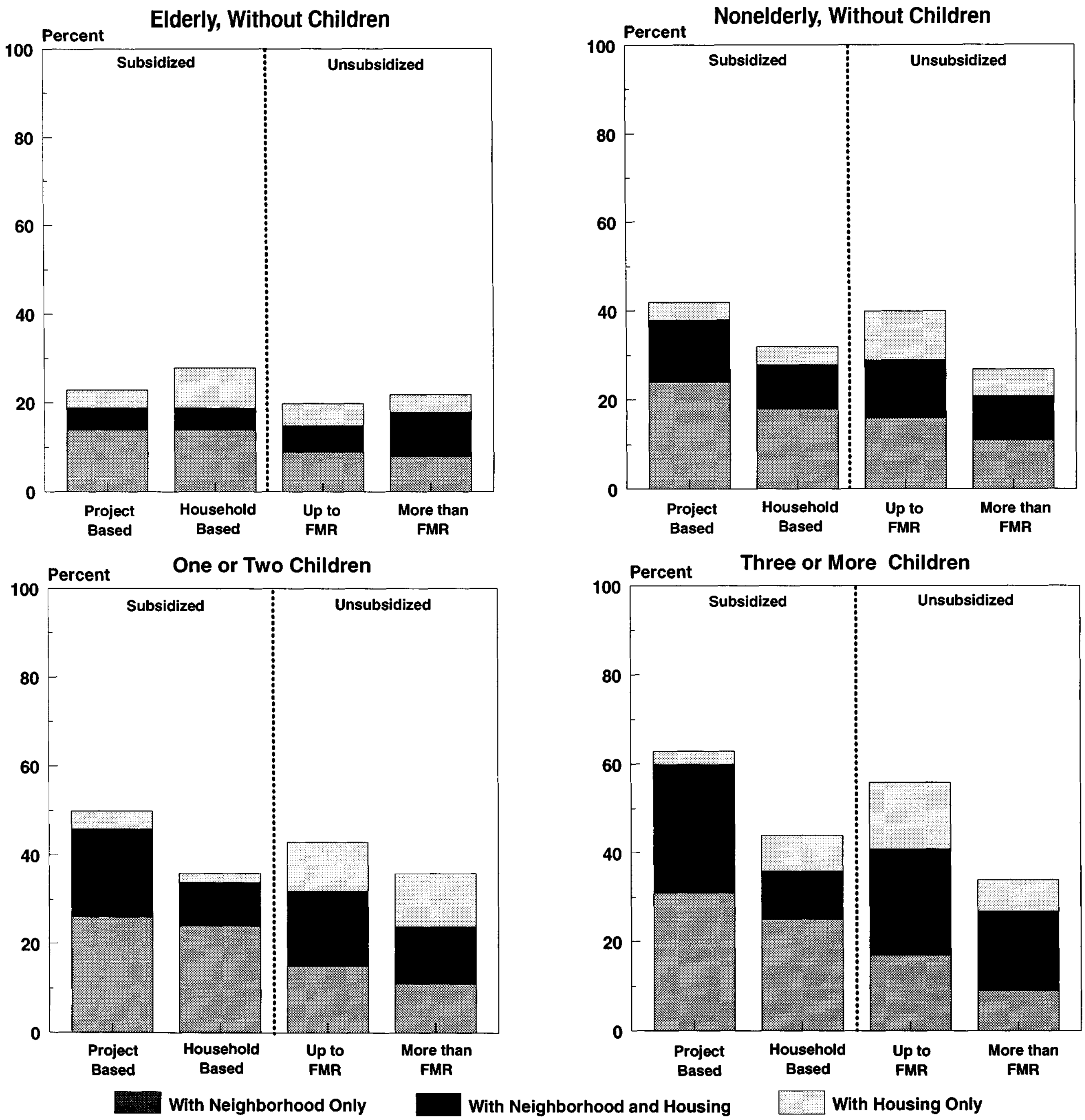
The above findings showed a remarkable similarity in the incidence of objectively measured housing problems between households receiving the two types of subsidies. By contrast, households receiving project-based subsidies generally were more likely to be dissatisfied with their housing unit or with their neighborhood than were recipients of household-based aid (see Figure 21). The exception to that pattern was elderly households: the data suggest that those with project-based aid were somewhat less likely to be unhappy with their units than those with household-based aid.

Household-based aid generally increased the likelihood of finding satisfactory units for all groups of very low income renters compared with their unsubsidized counterparts who lived in units renting below the FMR. The elderly were, again, an exception to that pattern. For example, 19 percent of the large families with household-based aid rated their unit as poor compared with 39 percent of their unsubsidized counterparts in lower-rent units. However, for none of the demographic groups did household-based aid affect the likelihood of finding more satisfactory neighborhoods.

As discussed earlier, paying higher rent did not alleviate substandard or crowded housing conditions very much among very low income renters who received no assistance. It did, however, buy greater satisfaction with both their housing and their neighborhoods. Overall, 29 percent of unsubsidized households that occupied higher-rent units expressed dissatisfaction with their unit or their neighborhood compared with 39 percent of households that occupied lower-rent units. Those patterns were consistent for all types of households except the elderly ones, for whom rates of dissatisfaction did not differ much. The biggest improvement that came with paying higher rents occurred among large families. Their satisfaction rose with respect to both their unit and their neighborhood: overall ratings of "poor" dropped from 56 percent to 34 percent. Those results are consistent with the hypothesis that living in expensive units constitutes a choice for many households with priority status.

19. Research shows that households with Section 8 certificates tend to live in units with rents that are very close to the FMR. But almost half of the households with vouchers live in units with rents above the FMR.

Figure 21.
Percentage of Subsidized and Unsubsidized Very Low Income Renters Dissatisfied with Their Neighborhoods or Housing Conditions, by Demographic Group and Type of Subsidy or Rent Level, 1989



SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: Elderly households are those headed by a person age 62 or older. Children are household members age 18 or younger. See Box 1 for definitions of types of subsidies and Box 3 for a definition of very low income renters. The data exclude renters who paid no cash rent.

The fair market rent (FMR) is the maximum rent in a geographic area that the Department of Housing and Urban Development subsidizes in some of its programs.

Chapter Four

Policy Implications

Policymakers who deal with housing assistance face recurring issues: ensuring that available aid is directed toward those people who are most in need and developing strategies to help more eligible, unassisted renters in an era of fiscal stringency. This chapter briefly examines some implications of the study's findings for those two issues. Other, much broader issues could also be considered in the context of a fundamental reform of the nation's welfare system. They are, however, beyond the scope of this study.

Targeting of Aid

At present, not all federal housing aid goes to the households with the lowest incomes. Although most recipients of aid have very low incomes, almost one in five has an income that is above 50 percent of the median income in the renter's geographic area. In particular, three of the four groups of subsidized households considered in Chapter 3 (nonelderly renters without children, families with one or two children, and families with three or more children) have incomes that are, on average, more than 50 percent higher than those of their unsubsidized counterparts who qualify for priority for aid. The difference in average income between households that receive assistance and those that are on waiting lists may actually be somewhat smaller, however, because some of the poorest of the unsubsidized households have low incomes only temporarily and may never apply for aid.

Another aspect of the housing aid picture is the uneven patterns of distribution among different types of households. A disproportionate share of federal aid goes to households headed by an elderly person, whereas families with children are served roughly according to their incidence in the very low income population. Yet a much larger share of eligible, unsubsidized households with children--especially those with three or more children--have one or more housing problems. Nonelderly households without children receive a small share of aid relative to their incidence in the eligible population. That disproportion is due in part to the large number of single people in that group; until 1990, they were ineligible for housing aid unless they met certain conditions such as being disabled.

Shifting the current patterns of distribution would not be an easy task.[1] Directing assistance to a group of households that were poorer or that needed larger (and thus more expensive) rental units than the group currently being served would increase the government's expenditures per recipient. Shifting aid to families with children would be complicated by the fact that aid now received by elderly households is typically tied to small units in projects constructed specifically for them.[2] The share of households with children that received aid could be increased--for example, by directing to them any current commitments of household-based aid that turned over annually or any new funding for incremental aid. Other options, such as the ones discussed in the next section of this chapter, would spread existing aid among

1. For a wider-ranging discussion of options to change federal rental assistance programs, see Congressional Budget Office, *Current Housing Problems and Possible Federal Responses* (December 1988).

2. That aid would be amenable to being retargeted toward larger households only if the Congress wanted to undertake a major restructuring of housing programs--essentially terminating project-based aid.

a greater number (and possibly different groups) of households.

Changing the way housing aid is distributed might also require changing the rules that programs use for establishing priority among the households on waiting lists. Current rules give priority to applicants with the most severe housing problems, which are defined in terms of the affordability and physical condition of their housing units. For the vast majority of households with priority, their only problem is high housing costs relative to income. The current rules, in effect, penalize households that make ends meet by renting inexpensive units of somewhat inadequate quality or size, or in undesirable neighborhoods, rather than renting more expensive units that they cannot afford. The data in this study show that renters in the priority group are, indeed, among the poorest in the nation, and those results hold firm for households with and without children. Yet the large ratios of housing costs to income for many of them may be a matter of choice in that in 1989, almost one-third of them were occupying units that rented for more than the local fair market rent. Although those renters, in paying such high rents, spent large shares of their incomes for housing, they were more likely to be satisfied with both their unit and their neighborhood.

In view of such findings, applicants for housing assistance could be assigned priority solely on the basis of their low income rather than by ratios of rent to income. At the same time, to increase work incentives among unsubsidized households, those with an employed adult could be given priority over those without one. That alternative is consistent with the Administration's proposal in this area.[3]

Eliminating the rent-to-income ratio as a criterion is not without drawbacks, however. Households that are forced to live in expensive units, because the cheaper ones simply are not available to them or are not turning over in their area, would be placed at a disadvantage. Moreover, using employment as a criterion for priority does not guarantee that the adult would remain employed after being admitted to an assistance program.

Another way to change the mix of households with priority would be to add measures of the condition of a unit's neighborhood and of crowding to the definition of "severely substandard" housing. Such a change would shift more of the aid to large families, who are much more likely than others to have those types of problems. Giving priority to households that live in neighborhoods with multiple problems would improve their chance of moving to better neighborhoods (that offer better employment and educational opportunities). Some advocates of fair housing are concerned, however, that a federal "standard" for crowding could be used by landlords to discriminate against families with children in renting to unsubsidized households.

Helping More Unassisted Renters

The large number of unsubsidized households experiencing one or more of the housing problems that this study analyzed lends support to arguments for helping more unassisted households. One approach would be to make concerted efforts to reduce government regulations that drive up market rents for all households. A 1991 study found that regulatory barriers such as exclusionary zoning, permit approval processes, and local building codes raised the cost of housing as much as 20 percent to 35 percent in some communities.[4] Federal initiatives to reduce those barriers could consist of removing federal rules and regulations and providing incentives to states and local governments to do their share--for example, by making the removal of state and local regulations a condition for federal housing assistance. Further consideration of that type of approach, however, is beyond the scope of this study.

3. The proposal was part of the Administration's 1995 budget request but was not described in any detail. It would encourage private owners of assisted housing projects and public agencies that administer housing programs to give preference to families who derive income from earnings.

4. See Advisory Commission on Regulatory Barriers to Affordable Housing, *"Not in My Backyard": Removing Barriers to Affordable Housing* (1991).

Another approach would be to increase the number of assisted households. The federal government could accomplish that--without spending more federal resources for housing aid--by cutting the subsidy per assisted household. Alternatively, the government could help more households over time by limiting the time during which a given household may receive aid, thereby increasing the turnover of housing assistance.

Reducing Subsidies per Household

The federal government could reduce the average subsidy it pays per household in several ways. Three options are considered here: shifting to cheaper forms of housing assistance, increasing the share of income that assisted households must contribute toward their rent, and lowering the maximum rent that the government will subsidize (which would, in effect, raise out-of-pocket expenditures for housing for many assisted households).

Shift to Cheaper Forms of Housing Assistance. In many cases, the costs of assisting households with subsidies that are tied to privately owned projects exceed the costs of assisting the same households with household-based subsidies. Costs are higher because rents in many projects that have had project-based assistance tied to them for many years exceed the maximum rent that the Department of Housing and Urban Development subsidizes under its household-based assistance programs--that is, the local FMRs for units of comparable quality.

More than a million long-term, project-based Section 8 contracts are set to expire over the coming years. Unprecedented opportunities thus exist to let some or all of that project-based aid expire and replace it with household-based subsidies.[5] The rents charged by landlords of the projects could rise or fall, depending on the rents that the projects could command in the open market. Affected households could choose to use their assistance to move elsewhere or to stay in their same units.

The government could maximize its potential savings per household if the type of aid it provided to households that chose to stay in the project combined the current voucher and certificate programs. Specifically, if the project's new rent exceeded the local FMR, households would pay the difference out of their own pockets, as in the current voucher program. If the new rent was below the FMR, the savings would go to the government, as in the current Section 8 certificate program.

Estimating the potential savings from this option is difficult because of incomplete data. The information that is available for certain Section 8 new construction and substantial rehabilitation projects suggests that current rents in those projects exceed FMRs, on average, by 35 percent. That implies that in 1995, the government could realize savings of at least $2,400 per household. Once all of the current contracts had expired, annual savings would reach about $2 billion (in 1995 dollars), which could aid about 450,000 additional households.[6]

Besides potentially increasing the number of assisted households, shifting from project-based to household-based aid would have other effects. It would probably increase the number of tenants who were satisfied with their neighborhoods and their housing units, because they would have the option of moving if they were not. Moreover, landlords would know that their tenants had that option, which would increase the incentives for landlords to maintain their projects adequately. At present, the virtual guarantee that projects will be subsidized in perpetuity takes away those incentives. (Landlords know that their units will always have occupants, even if they are dissatisfied ones.)

Shifting toward household-based aid could also help turn over aid from households with relatively high incomes to poorer ones, if that was desired. Household-based assistance automatically phases out once income rises high enough that 30 percent of it equals the lesser of two amounts: the rent of the unit that the household occupies or the local FMR.[7] In

5. This particular option does not deal with project-based aid in the form of public housing. Shifting from project-based to household-based subsidies in the public housing program is an option as well. But it raises a host of issues that are beyond the scope of this study.

6. This estimate assumes that savings of $2,400 per household could be realized for all of the roughly 800,000 units assisted through the Section 8 new construction and substantial rehabilitation program.

7. For vouchers, the limit is the payment standard--roughly, the FMR.

that event, the commitment of assistance is freed up for another eligible household, and the now unsubsidized family has the choice of remaining in the unit that it occupies at the time. Under current funding rules, however, freeing up a commitment of project-based assistance would require that the current occupant vacate the unit.

Shifting away from project-based assistance also eliminates another dilemma peculiar to that form of aid--a dilemma that makes it difficult to target funds toward households with the lowest incomes. Projects with large concentrations of very poor households are often without "role models" (working households that are somewhat better off). As a result, renters consider such projects less desirable environments than projects that have households with more varied incomes. Yet encouraging the latter kind of project means subsidizing households with somewhat higher incomes to encourage them to move in or to remain there, once their incomes rise. Indeed, as noted in Chapter 3, in 1989 one in five households receiving project-based subsidies had incomes above the very low income threshold.

Arguments against replacing project-based contracts with household-based ones take several forms. The loss of guaranteed subsidies might increase the likelihood that landlords of projects that lost a large share of their tenants (because those tenants chose to use their subsidies to move elsewhere) would default on their federally insured mortgages. Such a consequence could be considered counterproductive if it generated outlays by federal insurance funds that substantially exceeded the savings over time from shifting to household-based aid.

In addition, available evidence suggests that the market rents that some projects can command exceed the FMR. Yet household-based subsidies would only cover the difference between the FMR and 30 percent of the tenants' incomes. Thus, tenants in those projects would face the choice of spending more than 30 percent of their income for rent or moving to a cheaper unit that suited their needs. Even though some 60 percent of the nation's stock of unsubsidized housing rents for less than the FMR (see Chapter 3), finding such a unit could be difficult in some tight housing markets, especially for large families. In general, losing a large number of units that were earmarked for assisted households would increase the amount of time households spent searching for suitable dwellings whose landlords were willing to participate in other assistance programs.

Increase the Contribution by Subsidized Tenants to 35 Percent of Income. This option takes into account the finding that the majority of very low income renters who do not receive assistance spend well over 30 percent of their income for housing. The savings generated by increasing what subsidized households pay--to 35 percent of their income--could be used to aid more households. This option would yield savings of roughly $1.6 billion if it was fully implemented in 1995. Those funds could assist about 400,000 additional households with vouchers or certificates.

One advantage of this option is that it would treat all subsidized tenants the same because it could be implemented across all types of households and programs, including the Section 8 and public housing programs. Lowering the subsidy would also make participation less attractive to households with higher incomes and would thus improve the targeting of aid toward a lower-income group. In addition, it would decrease the uneven treatment of subsidized and unsub-sidized renters, many of whom have been shown to be poorer than subsidized ones.

Along with these advantages, however, comes the hardship that this option would bring to the poorest of the assisted households, who would find it difficult to increase their contribution. It could also cause some higher-income renters to leave assisted housing projects in areas of the country where unassisted housing of similar quality would now be cheaper. As a result, concentrations of households with very low incomes would increase in some projects, possibly making them less desirable living environments. Finally, spreading federal resources more thinly across a larger number of households might reduce the chances that affected families would improve their economic circumstances and eliminate their need for federal aid.

Reduce the Maximum Subsidized Rent. Another way to reduce subsidies per household would be to lower the maximum rent that the government subsidizes. For example, the Administration proposed in its 1995 budget to lower the FMRs for the Section 8 existing-housing program from the 45th percentile of local rents paid by recent movers to the 40th percentile. HUD estimates that such a change would decrease the average FMR by 3 percent, which would amount to a reduction in subsidies averaging about $210 per household in 1995. Lowering the FMRs for all current tenants would free up roughly $300 million in 1995. Those savings could be used to assist about 66,000 additional households.

Lowering the FMRs in the Section 8 existing-housing program would have an advantage compared with raising the share of income contributed by all subsidized households. Affected households would have the choice of moving into cheaper units and continuing to pay only 30 percent of their income, if they so desired. Although the proportion of subsidized renters who paid more than 30 percent of their income for rent would be likely to increase above the current level, their out-of-pocket expenditures would remain much below the amount that the average unsubsidized renter with priority now pays.

A disadvantage of reducing the FMRs is that it would decrease the number of housing units that subsidized households could choose from without paying more than 30 percent of their income for rent.[8] That result, as opponents to this option argue, would run counter to current initiatives to help inner-city households move to areas with better opportunities to advance economically. But lowering the FMR somewhat might not affect choice a great deal, given that in 1989, about 60 percent of the unsubsidized rental housing in the nation rented for less than the current FMR. The ultimate impact of the option on a local basis would depend on the proportion of owners of this part of the housing stock who were willing to participate in these programs and on the rate at which units turned over.

Limiting the Duration of Assistance

Over time, the federal government could help more households that are not currently subsidized by limiting assistance for households not headed by an elderly or disabled person to a fixed number of years--say, five--for any given household. The full amount of assistance could be provided, for example, for three years and then phased out over two years. Currently, rates of turnover for housing assistance are very low, as evidenced by the low mobility rates among households with project-based subsidies (see Chapter 3). For instance, in 1989, only 15 percent of large families with very low incomes and project-based subsidies had moved into their current unit during the previous year. That low percentage contrasted with the more than 40 percent of their unsubsidized very low income counterparts.

By increasing the turnover of aid, this option would reduce the time eligible households spent on waiting lists. It would also, over time, spread the existing aid among more households. Consequently, it would reduce the uneven treatment of households in similar circumstances. It would also facilitate any desired change in the groups that received assistance, because more commitments for new households would become available in any given year. Moreover, this option would increase the incentive of members of subsidized households to find jobs. That feature would make it consistent with other initiatives now being considered within the context of welfare reform and housing policy. Such initiatives include, for example, limiting the time over which Aid to Families with Dependent Children is provided. In the area of housing policy, they include disregarding a larger portion of earned income in determining a household's contribution to rent and limiting annual rent hikes for people whose income rises when they become employed.

Yet such an option would be difficult to implement across the board unless the Congress overhauled the funding mechanisms for housing programs as well. Under the option, the rent for a household with a project-based subsidy that had become ineligible for assistance would be raised to the level of the market rent. But current funding practices do not permit the subsidy that would be freed up to go to a new household in the form of household-based aid. Therefore, households with project-based subsidies would have to vacate their units, once their assistance ran out, to make room for new occupants. Some policymakers might find such displacements

8. Allowing certificate holders in the Section 8 program, like voucher holders, to pay more than 30 percent of their income in rent--by paying the difference between the FMR and the market rent--would require a change in the statute.

undesirable, even if the household was economically able to afford a different unit.

In addition, dealing with households that at the end of five years were unable to better their economic circumstances would force difficult decisions, no matter what kind of subsidy they received. Those households would either have to move or face a significant reduction in the income they had available for items other than housing. In particular, some families with children might be unable to pay their rent after losing their assistance and might have to be evicted. Under such rules, private landlords could become reluctant to participate in assisted housing programs.

Appendixes

Appendix A

Supplementary Tables to Chapter One

This appendix presents tables containing the data used in constructing the figures in Chapter 1.

Table A-1.
Number of Households Receiving Rental Housing Aid and Outlays for That Aid, Fiscal Years 1977-1994

Fiscal Year	Number of Assisted Households (Thousands)	Outlays (Millions of 1994 dollars)
1977	2,350	6,623
1978	2,580	7,744
1979	2,797	8,346
1980	2,886	9,639
1981	3,057	10,907
1982	3,266	11,830
1983	3,497	13,641
1984	3,659	15,369
1985	3,743	34,255
1986	3,895	16,134
1987	3,992	16,152
1988	4,079	16,997
1989	4,174	17,244
1990	4,256	17,844
1991	4,307	18,287
1992	4,446[a]	19,245
1993	4,559	20,964
1994[b]	4,671	22,320

SOURCE: Congressional Budget Office based on budget documents of the Department of Housing and Urban Development.

NOTE: The bulge in outlays in 1985 resulted from a change in the method of financing public housing that generated nearly $14 billion in one-time expenditures. Because of those expenditures, outlays for public housing since 1985 have been roughly $1.4 billion (in nominal terms) lower each year than they would otherwise have been.

a. This figure is estimated because the published data for that year are unreliable.

b. Figures for this year are estimated.

Table A-2.
Budget Authority for Rental Housing Aid, by Type of Aid,
Fiscal Years 1977-1995 (In millions of 1994 dollars)

		Nonincremental		
Fiscal Year	Incremental	Amendments and Renewals	Other	Total
1977	64,608	91	4,359	69,058
1978	61,008	85	5,701	66,794
1979	61,313	81	3,516	64,909
1980	42,570	59	7,514	50,144
1981	38,124	927	9,033	48,084
1982	17,592	437	10,111	28,139
1983	9,967	529	10,446	20,942
1984	12,113	334	7,505	19,952
1985	10,325	452	5,714	16,491
1986	9,720	1,118	4,245	15,083
1987	6,749	1,058	4,363	12,170
1988	6,257	1,162	4,941	12,360
1989	4,617	1,454	4,315	10,386
1990	3,939	2,713	5,168	11,819
1991	3,328	9,812	5,625	18,765
1992	5,144	9,691	6,152	20,988
1993	4,209	8,921	6,397	19,526
1994[a]	5,042	6,260	8,747	20,049
1995[a]	5,482	3,199	7,851	16,531

SOURCE: Congressional Budget Office based on budget documents of the Department of Housing and Urban Development.

NOTE: Incremental aid is aid that increases the number of assisted households. Nonincremental aid for renewals is aid that extends the life of current commitments of aid. It includes funding for amending contracts whose funds are exhausted before the end of the term of the contract. Other nonincremental aid includes, among other things, funding for aid tied to certain units that previously were assisted under a different program and funding for operating subsidies and modernization of public housing.

a. Figures for this year are estimated.

Table A-3.
Annual Commitments of Rental Housing Aid, by Type of Aid,
Fiscal Years 1977-1995

		Nonincremental		
Fiscal Year	Incremental	Renewals	Other	Total
1977	354,413	0	34,000	388,413
1978	317,026	0	9,000	326,026
1979	303,075	0	22,000	325,075
1980	187,892	0	18,000	205,892
1981	141,308	0	36,407	177,715
1982	39,522	0	76,216	115,738
1983	45,566	0	77,496	123,062
1984	78,539	0	54,774	133,313
1985	92,846	0	25,654	118,500
1986	85,556	0	14,459	100,015
1987	81,333	0	14,296	95,629
1988	74,636	0	10,583	85,219
1989	75,959	18,804	6,875	101,638
1990	56,049	39,771	12,908	108,728
1991	53,820	284,522	16,770	355,112
1992	68,927	246,886	32,572	348,385
1993	57,389	221,465	10,317	289,171
1994[a]	78,004	188,219	78,647	344,870
1995[a]	84,466	140,141	22,426	247,033

SOURCE: Congressional Budget Office based on budget documents of the Department of Housing and Urban Development.

NOTES: Commitments for any given year exclude housing units for which funds were deobligated, or canceled.

Incremental commitments increase the number of assisted households. Nonincremental commitments of aid for renewals extend the life of current commitments of aid. Other nonincremental commitments include aid tied to certain units that previously were assisted under a different program.

a. Figures for this year are estimated.

Appendix B

Supplementary Tables to Chapter Two

This appendix presents tables containing the data used in constructing most of the figures in Chapter 2. It also contains additional information that is referenced in the text of Chapter 2.

Table B-1.
Median Household and Median Family Income of Renters, by Household Size, 1975-1991 (In 1991 dollars)

Year	One Person	Two People	Three People	Four People	Five or More People	All
			Median Household Income			
1975	12,617	24,169	24,063	25,272	23,062	20,234
1977	13,976	24,654	23,932	24,928	23,622	20,497
1979	14,329	25,538	24,150	24,985	23,119	20,715
1981	14,621	24,203	22,994	23,397	21,874	19,978
1983	14,826	23,864	22,610	23,645	20,896	19,863
1985	15,239	25,186	23,403	24,603	22,122	20,781
1987	14,866	25,536	23,957	25,281	22,576	20,934
1989	15,850	26,701	25,245	26,514	23,320	22,052
1991	14,731	25,208	23,434	23,921	22,748	20,460
			Median Family Income			
1975	12,617	21,923	22,732	24,690	22,631	19,257
1977	13,976	21,559	21,900	23,826	22,895	19,150
1979	14,329	21,580	22,182	23,336	22,355	19,210
1981	14,621	20,587	21,222	22,004	21,130	18,593
1983	14,826	20,580	20,467	21,931	20,043	18,372
1985	15,239	21,078	20,786	23,022	20,916	19,088
1987	14,866	21,725	21,364	23,846	21,082	19,223
1989	15,580	21,884	22,076	24,653	21,743	20,005
1991	14,731	20,929	20,279	21,099	20,686	18,685
			Family Income as a Percentage of Household Income			
1975	100	90.7	94.5	97.7	98.1	95.2
1977	100	87.4	91.5	95.6	96.9	93.4
1979	100	84.5	91.9	93.4	96.7	92.7
1981	100	85.1	92.3	94.0	96.6	93.1
1983	100	86.2	90.5	92.8	95.9	92.5
1985	100	83.7	88.8	93.6	94.5	91.9
1987	100	85.1	89.2	94.3	93.4	91.8
1989	100	82.0	87.4	93.0	93.2	90.7
1991	100	83.0	86.5	88.2	90.9	91.3

SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey.

NOTES: Household income includes the income of all household members, whether or not they are related to the householder (a person named on the lease).

The data exclude renters who paid no cash rent.

Table B-2.
Trends in Real Gross Rent and Real Household Income of Renters at Various Levels of Their Rent and Income Distributions, 1975-1991

	Monthly Gross Rent			Annual Household Income		
Year	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
			In 1991 Dollars			
1975	267	378	494	10,542	20,234	32,717
1977	287	397	517	10,646	20,497	33,136
1979	291	399	523	10,854	20,715	33,855
1981	293	408	538	10,349	19,978	32,965
1983	309	431	570	9,963	19,863	33,238
1985	327	462	614	10,195	20,782	34,799
1987	341	478	647	10,106	20,934	36,124
1989	328	466	640	10,918	22,052	36,860
1991	327	460	621	10,013	20,460	34,902
			Percentage Change			
1975-1977	7.5	4.9	4.6	1.0	1.3	1.3
1977-1979	1.5	0.7	1.1	2.0	1.1	2.2
1979-1981	0.8	2.2	3.0	-4.7	-3.6	-2.6
1981-1983	5.4	5.5	6.0	-3.7	-0.6	0.8
1983-1985	5.7	7.3	7.7	2.3	4.6	4.7
1985-1987	4.3	3.5	5.5	-0.9	0.7	3.8
1987-1989	-3.5	-2.6	-1.1	8.0	5.3	2.0
1989-1991	-0.4	-1.2	-3.0	-8.3	-7.2	-5.3
1975-1991	22.7	21.7	25.6	-5.0	1.1	6.7

SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey and American (formerly, Annual) Housing Survey.

NOTES: Gross rent is the rent paid to the landlord plus any utility costs and property insurance paid by the tenant.

Household income includes the income of all household members, whether or not they are related to the householder (a person named on the lease).

All data exclude renters who paid no cash rent. The data on gross rents also exclude renters living in single-family homes on 10 acres or more.

Table B-3.
Trends in Actual Median Gross Rent and Gross Rent for a 1975 Constant-Quality Unit, With and Without Adjusting for Depreciation, 1975-1991 (In 1991 dollars)

		Gross Rent for a 1975 Constant-Quality Unit	
Year	Actual Median Gross Rent	Not Adjusted for Depreciation Before 1988	Adjusted for Depreciation in All Years
1975	378	378	378
1976	383	378	382
1977	397	380	387
1978	404	380	391
1979	399	373	386
1980	399	369	383
1981	408	370	387
1982	415	376	397
1983	431	382	408
1984	444	385	413
1985	462	392	424
1986	474	402	439
1987	478	401	439
1988	474	398	438
1989	466	394	436
1990	460	389	432
1991	460	387	431

SOURCE: Congressional Budget Office based on data from the Census Bureau's American (formerly, Annual) Housing Survey and from Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing, 1994* (Cambridge, Mass.: Joint Center for Housing Studies of Harvard University, 1994).

NOTES: Actual gross rents are interpolated for even years since 1982. The Congressional Budget Office estimated the gross rent (in 1991 dollars) of a constant-quality unit by separately tracking median contract rents and estimated median utility costs. The median contract rent of a unit rented in 1975 was inflated with the consumer price index for residential rent. The median cost of utilities not included in contract rents in 1975 (approximated by the difference between the median gross rent and the median contract rent in 1975) was inflated with the consumer price index for fuels and other utilities. The two components were then added for each year, and those annual totals were adjusted with the CPI-U-X1 (the revised consumer price index for urban consumers) to transform the results into 1991 dollars.

Gross rent is the rent paid to the landlord plus any utility costs and property insurance paid by the tenant.

A 1975 constant-quality unit is one with similar physical attributes (such as space and appliances) and a similar amount of fuels and other utilities consumed by the occupant as a unit with median rent in 1975.

The data exclude renters who paid no cash rent and renters living in single-family homes on 10 acres or more.

Table B-4.
Trends in Income of Renters, by Data Source, Definition of Income, and Level of Their Income Distribution, 1975-1991 (In 1991 dollars)

Year	CPS Household Income	CPS Family Income	AHS Family Income	AHS Family Income as a Percentage of CPS Household Income	AHS Family Income as a Percentage of CPS Family Income
			25th Percentile		
1975	10,334	9,856	9,641	0.93	0.98
1977	10,484	9,872	9,685	0.92	0.98
1979	10,646	9,941	9,433	0.89	0.95
1981	10,237	9,472	8,878	0.87	0.94
1983	9,747	8,975	8,570	0.88	0.95
1985	10,042	9,316	9,047	0.90	0.97
1987	9,942	9,179	9,749	0.98	1.06
1989	10,663	9,776	9,846	0.92	1.01
1991	9,899	9,014	8,724	0.88	0.97
			Median		
1975	19,948	19,015	18,903	0.95	0.99
1977	20,329	19,029	18,965	0.93	1.00
1979	20,469	19,046	18,405	0.90	0.97
1981	19,741	18,438	17,233	0.87	0.93
1983	19,567	18,129	16,957	0.87	0.94
1985	20,521	18,911	18,303	0.89	0.97
1987	20,648	18,996	19,462	0.94	1.02
1989	21,814	19,796	19,907	0.91	1.01
1991	20,274	18,498	18,000	0.89	0.97
			75th Percentile		
1975	32,489	31,251	31,088	0.96	0.99
1977	33,097	31,473	31,229	0.94	0.99
1979	33,610	31,501	29,513	0.88	0.94
1981	32,696	30,705	29,107	0.89	0.95
1983	32,925	30,689	30,145	0.92	0.98
1985	34,494	32,012	30,749	0.89	0.96
1987	35,836	33,034	32,146	0.90	0.97
1989	36,466	33,425	32,648	0.90	0.98
1991	34,648	31,598	30,000	0.87	0.95

SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey (CPS) and American (formerly, Annual) Housing Survey (AHS).

NOTES: The figures in the table include renters who paid no cash rent because the published AHS data include them. Thus, incomes based on the CPS that are shown here differ somewhat from those shown elsewhere in this study.

Household income includes the income of all household members, whether or not they are related to the householder (a person named on the lease).

Table B-5.
Trends in Income of Homeowners, by Data Source, Definition of Income, and Level of Their Income Distribution, 1975-1991 (In 1991 dollars)

Year	CPS Household Income	CPS Family Income	AHS Family Income	AHS Family Income as a Percentage of CPS Household Income	AHS Family Income as a Percentage of CPS Family Income
			25th Percentile		
1975	18,891	18,634	18,023	0.95	0.97
1977	19,340	19,031	18,717	0.97	0.98
1979	19,753	19,350	18,947	0.96	0.98
1981	18,311	17,916	17,416	0.95	0.97
1983	18,937	18,554	17,374	0.92	0.94
1985	20,030	19,605	18,963	0.95	0.97
1987	21,217	20,713	19,928	0.94	0.96
1989	21,192	20,620	20,100	0.95	0.97
1991	20,446	19,953	19,000	0.93	0.95
			Median		
1975	34,065	33,781	32,717	0.96	0.97
1977	35,453	35,100	34,481	0.97	0.98
1979	36,467	35,973	33,682	0.92	0.94
1981	34,328	33,727	32,954	0.96	0.98
1983	34,631	34,174	33,366	0.96	0.98
1985	36,578	35,912	34,725	0.95	0.97
1987	38,388	37,727	36,216	0.94	0.96
1989	38,802	38,080	36,308	0.94	0.95
1991	37,232	36,347	34,500	0.93	0.95
			75th Percentile		
1975	50,394	50,028	52,825	1.05	1.06
1977	53,193	52,838	52,612	0.99	1.00
1979	54,554	54,064	51,336	0.94	0.95
1981	52,841	52,194	51,504	0.97	0.99
1983	54,093	53,398	52,691	0.97	0.99
1985	56,998	56,210	56,038	0.98	1.00
1987	60,084	59,279	58,582	0.97	0.99
1989	60,863	60,010	60,153	0.99	1.00
1991	58,938	57,971	57,500	0.98	0.99

SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey (CPS) and American (formerly, Annual) Housing Survey (AHS).

NOTE: Household income includes the income of all household members, whether or not they are related to the homeowner.

Appendix C

Supplementary Tables to Chapter Three

This appendix presents tables containing the data used in constructing the figures in Chapter 3.

Table C-1.
Subsidized and Unsubsidized Renters, by Demographic Group and Priority for Housing Assistance, 1989 (In thousands)

Demographic Group[a]	Subsidized	Unsubsidized: Very Low Income: Priority	Unsubsidized: Very Low Income: Other	Unsubsidized: Low Income	Unsubsidized: Higher Income
Elderly, Without Children	1,489	899	864	709	883
Nonelderly, Without Children	744	1,804	1,242	2,764	8,192
One or Two Children	1,357	1,266	1,232	1,999	3,255
Three or More Children	480	601	634	551	664
Total	4,070	4,570	3,972	6,023	12,994

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTE: See Box 3 in Chapter 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

Table C-2.
Percentage of Subsidized and Unsubsidized Renters with Housing Problems, by Problem and Priority for Housing Assistance, 1989

		Unsubsidized			
		Very Low Income		Low	Higher
Problem	Subsidized	Priority	Other	Income	Income
		Thousands of Renters			
Total	4,070	4,570	3,972	6,023	12,994
		Living in Relatively Costly or Physically Inadequate Units (As a percentage of the total)			
No Problem	48	0	29	49	83
Costly Only	39	71	48	33	6
Costly and Substandard or Crowded	6	26	14	4	0
Substandard or Crowded Only	7	3	9	14	11
Total	100	100	100	100	100
		Living in Physically Inadequate Units (As a percentage of the total)			
No Problem	87	71	77	82	89
Substandard Only	10	19	10	10	7
Substandard and Crowded	1	4	2	1	1
Crowded Only	3	6	11	7	3
Total	100	100	100	100	100

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTE: Physically inadequate units are substandard or crowded, or both. See Box 2 in Chapter 3 for definitions. See Box 3 in Chapter 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

Table C-3.
Percentage of Subsidized and Unsubsidized Renters with Housing Problems, by Demographic Group and Priority for Housing Assistance, 1989

		Unsubsidized			
		Very Low Income		Low	Higher
Problem	Subsidized	Priority	Other	Income	Income
	Elderly, Without Children (As a percentage of the total)				
No Problem	47	0	42	43	77
Costly Only	46	85	48	51	15
Costly and Substandard or Crowded	4	13	6	2	1
Substandard or Crowded Only	4	2	4	4	7
Total	100	100	100	100	100
	Nonelderly, Without Children (As a percentage of the total)				
No Problem	51	0	25	53	86
Costly Only	42	73	62	34	5
Costly and Substandard or Crowded	4	23	8	4	0
Substandard or Crowded Only	3	4	6	10	9
Total	100	100	100	100	100
	One or Two Children (As a percentage of the total)				
No Problem	51	0	29	50	83
Costly Only	36	70	47	29	4
Costly and Substandard or Crowded	7	27	16	4	0
Substandard or Crowded Only	6	3	8	17	13
Total	100	100	100	100	100
	Three or More Children (As a percentage of the total)				
No Problem	37	0	17	35	64
Costly Only	26	48	25	15	4
Costly and Substandard or Crowded	14	49	31	8	1
Substandard or Crowded Only	24	3	26	42	31
Total	100	100	100	100	100

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: See Box 2 in Chapter 3 for definitions of housing problems and Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

Table C-4.
Percentage of Subsidized and Unsubsidized Renters with Physically Inadequate Housing, by Demographic Group and Priority for Housing Assistance, 1989

		Unsubsidized			
		Very Low Income		Low	Higher
Problem	Subsidized	Priority	Other	Income	Income
Elderly, Without Children (As a percentage of the total)					
No Problem	92	85	90	93	92
Substandard Only	8	14	9	6	7
Substandard and Crowded	0	0	0	0	1
Crowded Only	0	0	1	0	0
Total	100	100	100	100	100
Nonelderly, Without Children (As a percentage of the total)					
No Problem	93	73	87	87	91
Substandard Only	7	25	12	11	7
Substandard and Crowded	0	1	0	0	0
Crowded Only	0	1	1	2	2
Total	100	100	100	100	100
One or Two Children (As a percentage of the total)					
No Problem	87	70	76	79	87
Substandard Only	10	18	8	9	7
Substandard and Crowded	0	5	2	2	1
Crowded Only	2	7	13	10	5
Total	100	100	100	100	100
Three or More Children (As a percentage of the total)					
No Problem	62	48	42	50	68
Substandard Only	18	14	9	7	7
Substandard and Crowded	5	14	10	7	4
Crowded Only	15	23	39	36	20
Total	100	100	100	100	100

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: Physically inadequate units are substandard or crowded, or both. See Box 2 in Chapter 3 for definitions. See Box 3 in Chapter 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

Table C-5.
Percentage of Subsidized and Unsubsidized Renters Dissatisfied with Their Neighborhoods or Housing Conditions, by Demographic Group and Priority for Housing Assistance, 1989

		Unsubsidized			
		Very Low Income		Low	Higher
Problem	Subsidized	Priority	Other	Income	Income
Elderly, Without Children (As a percentage of the total)					
No Dissatisfaction	77	78	80	80	83
Neighborhood Only	14	9	9	9	8
Neighborhood and Housing	5	9	5	5	4
Housing Only	5	4	6	5	4
Total	100	100	100	100	100
Nonelderly, Without Children (As a percentage of the total)					
No Dissatisfaction	67	62	65	70	77
Neighborhood Only	18	15	14	13	9
Neighborhood and Housing	10	13	12	8	6
Housing Only	4	10	9	9	7
Total	100	100	100	100	100
One or Two Children (As a percentage of the total)					
No Dissatisfaction	55	55	62	68	73
Neighborhood Only	24	14	15	14	11
Neighborhood and Housing	18	19	14	10	7
Housing Only	3	12	9	8	8
Total	100	100	100	100	100
Three or More Children (As a percentage of the total)					
No Dissatisfaction	47	49	48	65	72
Neighborhood Only	27	14	17	11	8
Neighborhood and Housing	20	22	23	12	10
Housing Only	6	15	12	12	10
Total	100	100	100	100	100

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: See Box 3 in Chapter 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

Table C-6.
Subsidized and Unsubsidized Renters, by Type of Subsidy or Rent Level and Priority for Housing Assistance, 1989

Priority Status	Subsidized: Project Based	Subsidized: Household Based	Unsubsidized: Up to FMR	Unsubsidized: More than FMR
In Thousands				
Very Low Income	2,450	917	6,788	1,754
Low Income	344	84	3,984	2,039
Higher Income	215	60	5,626	7,368
Total	3,010	1,060	16,398	11,160
As a Percentage of All Households				
Very Low Income	81	87	41	16
Low Income	11	8	24	18
Higher Income	7	6	34	66
Total	100	100	100	100

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: See Box 1 in Chapter 1 for definitions of types of subsidies. See Box 3 in Chapter 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

The fair market rent (FMR) is the maximum rent in a geographic area that the Department of Housing and Urban Development subsidizes in some of its programs.

Table C-7.
Subsidized and Unsubsidized Very Low Income Renters, by Demographic Group and Type of Subsidy or Rent Level, 1989 (In thousands)

	Subsidized		Unsubsidized	
Demographic Group	Project Based	Household Based	Up to FMR	More than FMR
Elderly, Without Children	1,130	237	1,430	333
Nonelderly, Without Children	399	130	2,302	743
One or Two Children	670	382	2,024	474
Three or More Children	251	167	1,033	203
Total	2,450	917	6,788	1,754

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: See Box 1 in Chapter 1 for definitions of types of subsidies. See Box 3 in Chapter 3 for a definition of very low income renters. The data exclude renters who paid no cash rent.

Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

The fair market rent (FMR) is the maximum rent in a geographic area that the Department of Housing and Urban Development subsidizes in some of its programs.

Table C-8.
Percentage of Subsidized and Unsubsidized Very Low Income Renters with Physically Inadequate Housing, by Demographic Group and Type of Subsidy or Rent Level, 1989

	Subsidized		Unsubsidized	
Problem	Project Based	Household Based	Up to FMR	More than FMR
Elderly, Without Children (As a percentage of the total)				
No Problem	92	91	86	92
Substandard Only	8	8	13	6
Substandard and Crowded	0	0	0	1
Crowded Only	0	1	0	1
Total	100	100	100	100
Nonelderly, Without Children (As a percentage of the total)				
No Problem	97	85	77	84
Substandard Only	3	15	22	13
Substandard and Crowded	0	0	1	1
Crowded Only	0	0	1	2
Total	100	100	100	100
One or Two Children (As a percentage of the total)				
No Problem	85	85	73	76
Substandard Only	12	12	14	10
Substandard and Crowded	0	1	4	2
Crowded Only	3	3	10	12
Total	100	100	100	100
Three or More Children (As a percentage of the total)				
No Problem	65	66	45	49
Substandard Only	17	15	13	4
Substandard and Crowded	6	5	11	16
Crowded Only	12	14	32	31
Total	100	100	100	100

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: See Box 1 in Chapter 1 for definitions of types of subsidies. Physically inadequate units are substandard or crowded, or both. See Box 2 in Chapter 3 for definitions. See Box 3 in Chapter 3 for a definition of very low income renters. The data exclude renters who paid no cash rent.

Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

The fair market rent (FMR) is the maximum rent in a geographic area that the Department of Housing and Urban Development subsidizes in some of its programs.

Table C-9.
Percentage of Subsidized and Unsubsidized Very Low Income Renters Dissatisfied with Their Neighborhoods or Housing Conditions, by Demographic Group and Type of Subsidy or Rent Level, 1989

	Subsidized		Unsubsidized	
Problem	Project Based	Household Based	Up to FMR	More than FMR
Elderly, Without Children (As a percentage of the total)				
No Dissatisfaction	76	73	79	78
Neighborhood Only	14	14	9	8
Neighborhood and Housing	5	5	6	10
Housing Only	4	9	5	4
Total	100	100	100	100
Nonelderly, Without Children (As a percentage of the total)				
No Dissatisfaction	59	68	60	73
Neighborhood Only	24	18	16	11
Neighborhood and Housing	14	10	13	10
Housing Only	4	4	11	6
Total	100	100	100	100
One or Two Children (As a percentage of the total)				
No Dissatisfaction	50	64	57	65
Neighborhood Only	26	24	15	11
Neighborhood and Housing	20	10	17	13
Housing Only	4	2	11	12
Total	100	100	100	100
Three or More Children (As a percentage of the total)				
No Dissatisfaction	37	57	44	66
Neighborhood Only	31	25	17	9
Neighborhood and Housing	29	11	24	18
Housing Only	3	8	15	7
Total	100	100	100	100

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: See Box 1 in Chapter 1 for definitions of types of subsidies. See Box 3 in Chapter 3 for a definition of very low income renters. The data exclude renters who paid no cash rent.

Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

The fair market rent (FMR) is the maximum rent in a geographic area that the Department of Housing and Urban Development subsidizes in some of its programs.

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