Waste of a Scarce Resource

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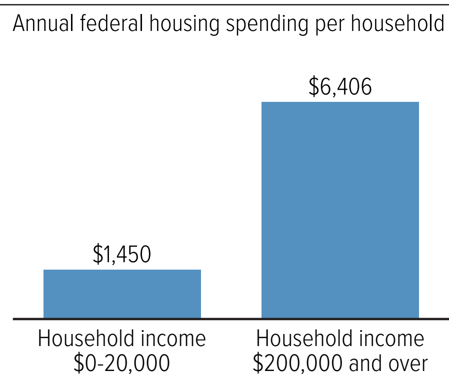
The public should not subsidize the rental costs of families with incomes between 80 and 120 percent of the Area Median Income (AMI), with a few limited exceptions. Instead, we should target scarce public funds to families who most need help affording a decent, stable home in a neighborhood that provides opportunities for them to thrive. That is not only fair but also smart public policy, because those are the investments that pay social dividends in the long run.

Current federal rental policies and programs rarely assist anyone with incomes between 80 and 120 percent of AMI, and federal homeownership tax breaks primarily go to households with incomes that are *more* than 120 percent of AMI (exhibit 1), although some policymakers propose to alter these rules. In 2014, 82 percent of the benefits from the mortgage interest deduction went to homeowners with annual incomes of more than $100,000 (Fischer and Huang, 2013).[1] Incomes at this level exceed 120 percent of AMI in most areas except some particularly high-cost coastal cities.

Exhibit 1

High-Income Households Get Four Times More Housing Benefits Than Low-Income Households



Notes: Reproduced from Center on Budget and Policy Priorities graphic. Data are for 2014. Data available for mortgage interest and property tax deductions and Housing Choice Voucher, Section 8 Project-Based, Public Housing, Housing for the Elderly (Section 202), and Housing for People with Disabilities (Section 811) programs. These represent about three-fourths of homeowner and rental spending.
Sources: Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2015–2019, Table 3; CBPP analysis of HUD program data; census data on number of households and cost burdens in each income group; Office of Management and Budget public budget database

[1] Joint Committee on Taxation estimates for 2014 show that homeowners with incomes of less than $50,000—the approximate national median income that year—received only 2 percent of the benefits from the mortgage interest deduction.

From an equity perspective, a case could be made for enabling *everyone* to receive assistance to meet housing costs, rather than providing such benefits primarily to those with the highest incomes (and the least need for help), as the government does now. Unless all families have access to such help—and subsidies are sufficient to enable even the lowest-income families to have stable housing—those who cannot meet their basic housing needs without a public subsidy should come first.

Moderate-Income Renters Rarely Pay More Than One-Half of Their Incomes for Housing

In 2014, less than 9 percent of renter households that paid more than 30 percent of their incomes for rent and utilities—the federal standard of affordable housing costs—had incomes of more than 80 percent of AMI. Just 1.5 percent of renter households that paid more than *50 percent* of their incomes for housing—about 157,000 households nationally—had incomes that high (exhibit 2). Moderate-income families have more disposable income than lower-income families to meet both basic needs and "extras." Unlike lower-income families, they are not forced to choose between keeping a roof over their heads and having enough to eat or paying for transportation to work.

In sharp contrast, more than 7 million extremely low-income households—those with incomes below the federal poverty line or 30 percent of AMI—paid more than 50 percent of their incomes for rent and utility costs in 2014. These families account for 70 percent of those facing severe cost burdens and 46 percent of those paying more than 30 percent of their incomes for housing. Also, nearly all families that are doubled up or homeless have extremely low incomes. Families with severe rent burdens are more likely to experience eviction, homelessness, and other serious housing-related hardship, which evidence has shown lead to long-term problems for children and adults (see, for example, Desmond, 2016).

Exhibit 2

Renters by Income and Housing Cost Burden

	Any Burden		Severe Burden		Moderate Burden		All Renters	
Income	**Households**	**Share (%)**	**Households**	**Share (%)**	**Households**	**Share (%)**	**Households**	**Share (%)**
ELI	8,911,931	44.7	7,231,326	70.1	1,680,605	17.4	10,575,511	25.1
> ELI < 60% AMI	7,071,730	35.4	2,631,002	25.5	4,440,728	46.1	9,639,172	22.9
60–80% AMI	2,205,150	11.1	292,632	2.8%	1,912,518	19.8	5,240,397	12.5
80–100% AMI	979,643	4.9	92,078	0.9	887,565	9.2	4,285,148	10.2
100–120% AMI	410,257	2.1	40,210	0.4	370,047	3.8	3,251,018	7.7
> 120% AMI	371,341	1.9	25,064	0.2	346,277	3.6	9,067,843	21.6
Total	19,578,711	100.0	10,287,248	100.0	9,291,463	100.0	32,991,246	100.0

AMI = Area Median Income. ELI = extremely low income.

Notes: Excludes renters who do not pay cash rent or have zero or negative incomes. ELI = at or below 30 percent of AMI or federal poverty level adjusted for household size, whichever is higher. Any Burden = paying more than 30 percent of income for rent and utilities. Severe Burden = paying more than 50 percent of income for rent and utilities. Moderate Burden = paying more than 30 percent and less than 50 percent of income for rent and utilities.

Sources: Center on Budget and Policy Priorities analysis of 2014 American Community Survey; U.S. Department of Housing and Urban Development 2014 AMI limits

Comparing the incomes of households at 100 percent of AMI to the U.S. Department of Housing and Urban Development's (HUD's) Fair Market Rents (FMRs) helps explain why housing cost burdens among moderate-income households are so rare. In every metropolitan area and nonmetropolitan county in the country in 2016, a three-person household with income at 100 percent of AMI could rent a two-bedroom home using 30 percent or less of its income.[2] This finding does not mean that moderate-income renters can necessarily afford newly constructed or luxury units. By design, in addition to excluding substandard housing, FMRs exclude new construction and luxury housing because of the typically higher rents these properties command and their small share of the overall rental market. Subsidizing moderate-income renters so that they can afford such units is not an appropriate public policy goal.

Without public subsidy, the private market can add new units to the housing supply, although developers typically charge higher-than-average rents to cover development costs and often aim at the luxury market, in which profits are greatest (White, Wilkins, and Pinto, 2016). In markets with a shortage of rental units, new private-market developments typically reduce competition for moderate-cost rentals and may reduce prevailing rents overall, benefiting moderate-income renters. The reductions are likely insufficient to bring rents within reach of the lowest-income families. To encourage private, unsubsidized development, ensure that such development is feasible, and increase the supply of newly constructed units that moderate-income renters can afford, policymakers should reduce regulatory barriers that unduly hinder or increase the cost of new development. If needed, they also could adopt no-cost policy incentives, such as allowing taller or larger properties to be built if the owners make a share of the units available at lower rents.[3]

When Would Subsidies for Moderate-Income Renters Be Justified?

Spending scarce public funds to subsidize the housing costs of moderate-income renters would be justified in two circumstances (in addition to the theoretical possibility of universal housing assistance noted previously)—(1) when households' incomes increase while they reside in a subsidized unit, or (2) as part of a political compromise that yields more assistance for low-income households than otherwise would have been available.

Allowing families to remain in subsidized units when their incomes increase promotes stability and avoids creating a disincentive for families to increase their incomes.[4] In assisted housing programs that have income-based tenant rents, as federal programs typically do, subsidies phase out as incomes increase and cease when 30 percent of the adjusted household income exceeds the allowable unit rent. As a result, only 0.3 percent of Housing Choice Voucher participants and 0.1 percent of households in the Section 8 Project-Based Rental Assistance and related programs had

[2] In an unpublished analysis, the Center on Budget and Policy Priorities (CBPP) compared HUD's 2016 AMI limits for a household of three persons at 100 percent of AMI with HUD's 2016 FMRs for two-bedroom units.

[3] See White House (2016) for a brief summary of available strategies.

[4] Families typically must have incomes not exceeding 80 percent of AMI, and usually much less than that, to be admitted to the federal rental assistance programs.

incomes of more than 80 percent of AMI in 2015.[5] Subsidies do not always phase out in the same way in the public housing program, however, because rents are sometimes capped below market levels.[6] After HUD-IG (2015) found that a small number of public housing tenants had quite high incomes, Congress imposed a cap of 120 percent of AMI on continued occupancy in public housing, requiring housing agencies to evict families with sustained higher incomes unless they paid at least the FMR or the equivalent of the public subsidies provided for their units.[7] This resolution of the competing considerations is sensible, because these families are occupying a scarce public resource whether or not they are technically receiving a subsidy.

The second exception is pragmatic. In some circumstances, a set of policies that provides some assistance for moderate-income households may receive broader support from policymakers than one that assists only the lowest-income families. If a policy change or increased spending that will substantially benefit lower-income people who most need it can win the necessary support only by *also* covering moderate-income people with little or no need for assistance, it may be worth supporting.

Why Might Others Have a Different Point of View?

My view on this issue runs counter to the rising chorus of concern about the housing challenges facing moderate-income households, particularly in the highest-cost markets. Without question, the share of households with rent burdens has increased more among moderate-income households than lower-income households in recent years, but that is because such a large share of the latter have been rent-burdened for decades (JCHS, 2015).[8] Although the spread of housing affordability challenges to more moderate-income households may be newsworthy, however, it does not mean that their problems should be a higher public policy priority than the far deeper and greater challenges facing low-income families.

Complicating discussion of this issue is the lack of correspondence between the simple concept of "moderate income," based on a dollar range applied nationally, and federal housing programs' locally nuanced concept of a percentage of median income adjusted for household size. Some groups across the ideological spectrum have argued for public subsidies for moderate-income renters using data based on dollar income bands, without acknowledging that most of these renters who are cost-burdened are *already eligible* for federal programs (see, for example, Erickson, 2014; NMHC, 2016).

For example, the National Multifamily Housing Council used data about rent burdens among households with incomes between $35,000 and $50,000 as if this income band were equivalent to 60 to 100 percent of AMI (NMHC, 2016). That is not correct, however; of the 6.2 million renter households with incomes in this band in 2014, some 1.4 million lived in higher- income areas where

[5] CBPP calculated these percentages using 2015 HUD administrative data (unpublished analysis).

[6] Families in public housing have the option each year to pay a flat rent (which in some cases can be set below the market rent) rather than an income-based rent.

[7] Section 103 of the Housing Opportunity Through Modernization Act, Pub. L. 114-210, enacted July 29, 2016. HUD must issue regulations before this provision becomes effective. Only about 3,000 public housing households—0.3 percent of the total—had incomes above 120 percent of the AMI in both 2013 and 2014 (Fischer, 2016).

[8] In very tight markets, moderate-income households may also be on the losing end of competition for available rental units, particularly in more desirable locations (JCHS, 2015).

their incomes equaled 60 percent or less of AMI (or had very large families). Another 2.5 million lived in areas where their incomes were 60 to 80 percent of AMI, meaning that they—in addition to the 1.4 million households at or below 60 percent of AMI—were eligible for most federal rental assistance. Only those living in lower-income areas, where rents typically are also lower, would be ineligible for most of these programs.[9] As exhibit 3 shows, the large majority—86.8 percent—of these "moderate-income" households that have severe rent burdens qualify as "low income," because their incomes equal 80 percent of AMI or less, and typically are eligible for federal rental assistance.

Exhibit 3

Rent Burdens for Households With Incomes Between $35,000 and $50,000

Income Category	All Renters	Any Burden	Severe Burden	% of Severe Burden
ELI	14,029	12,025	4,098	1.0
+30–60% of AMI	1,405,171	926,388	225,043	54.4
+60–80% AMI	2,497,937	1,013,254	130,037	31.4
+80–100% AMI	1,875,352	421,253	41,138	9.9
+100–120% AMI	607,983	74,380	11,751	2.8
+120% AMI	107,406	8,381	1,695	0.4
All incomes	6,507,878	2,455,681	413,762	100.0

AMI = Area Median Income. ELI = extremely low income.

Notes: ELI = at or below 30 percent of AMI or federal poverty level adjusted for household size, whichever is higher. Any Burden = paying more than 30 percent of income for rent and utilities. Severe Burden = paying more than 50 percent of income for rent and utilities.

Sources: Center on Budget and Policy Priorities analysis of 2014 American Community Survey; U.S. Department of Housing and Urban Development 2014 AMI limits

Conclusion

Policymakers' priority should be to substantially increase the availability of rental vouchers and subsidized rental units for households who are already eligible for federal rental assistance but do not receive it because Congress provides funding for only one in four eligible households. They should not spread existing resources even thinner or direct additional resources to moderate-income households that rarely have severe housing needs.

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[9] For the federal Low-Income Housing Tax Credit, initial eligibility is capped at 60 percent of AMI, not 80 percent as in the major HUD rental assistance programs.

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