Reflections on Demand Assistance in the Rental Sector: A European Perspective

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Abstract

Demand-side or demand assistance with housing costs is known as housing allowance, housing benefit, or rent rebate in advanced economies and as housing vouchers in the United States. This type of assistance, which is also called a subject or person-based subsidy, aims to safeguard access to housing by making it affordable for consumers whose income is insufficient to pay for their housing costs.

This contribution aims to contextualize the newest development in the United States housing voucher implementation: the use of Small Area Fair Market Rents (SAFMRs) rather than metropolitan Fair Market Rents (FMRs) in the determination of the tenant subsidy amount. Some possible outcomes of this change in the design of the instrument are reported in three articles in this issue of Cityscape*:*

(1) "The Effects of Small Area Fair Market Rents on the Neighborhood Choices of Families with Children" by Samuel Dastrup, Ingrid Ellen, and Meryl Finkel

(2) "Impact of Expanded Choice on Tenure in the Housing Voucher Program" by Judy Geyer, Samuel Dastrup, and Meryl Finkel

(3) "Small Area Fair Market Rents, Race, and Neighborhood Opportunity" by Kirk McClure and Alex Schwartz

This contribution summarizes these outcomes, after presenting a brief history of housing demand-side assistance schemes and their design characteristics. The contribution concludes by comparing different systems and the role played by demand-side assistance.

History in a Nutshell

In the second half of the 20th century, demand-side assistance schemes were introduced as complementary assistance systems to supply-side (object or brick-and-mortar) subsidy systems and

became important housing instruments in the housing policy tool box in many advanced welfare states (Kemp, 1997, 2007; Turner and Elsinga, 2005).[1] A manifold of reasons was put forward for the introduction, such as the desire to keep housing affordable in any situation of housing scarcity (Sweden), to be able to remove or lighten rent controls (Germany, the Netherlands), and to move to demand-side assistance (United Kingdom, United States).

Even though the latter reason might not have been the reason for its introduction, the shift away from production-oriented subsidization with which governments realized their public, social, or nonprofit housing (official name depends on a country's tenure system) became popular because of targeting. Demand-side subsidies operate as income- or means-tested instruments with a focus on lower to middle-income households. The subsidy type allows for adaptation of the subsidy amount when a household's resources change, while, as a typical example, tenants in public rental housing usually were not evicted once their income increased. Many expanding northwestern European welfare states welcomed this flexibility and decrease in their government budgets of the 1980s and 1990s (as in Britain, Germany, Sweden, and the Netherlands). The shift to demand-side subsidies frequently went together with a shifting discourse of governments from housing needs to housing affordability, and from housing as a good based on merit to housing as a commodity (Freeman, Kiddle, and Whitehead, 2000; Linneman and Megbolugbe, 1992; Whitehead, 1991).

The United States also shifted its policy from supply to demand subsidies based on the outcomes of an Experimental Housing Allowances Program (EHAP) that took 11 years (Gibb, 1995). The United States introduced the Section 8 Program, later renamed the Housing Choice Voucher (HCV) program (Priemus, Kemp, and Varady, 2005). At the time of writing, the HCV program is the largest housing assistance program that the U.S. Department of Housing and Urban Development (HUD) administers (Dastrup, Ellen, and Finkel, 2019).

Some Design Characteristics of Housing Demand Assistance: Tenure and Rent

One of the major design criteria for a demand subsidy is the main role it will serve. While in other countries demand assistance predominantly functioned as a safety net for tenants in the rental sector (the Netherlands and United Kingdom), tenants in the social rental sector (Belgium) or in the private[2] rental sector, as well as in the owner-occupied sector (Germany), the United States enforced a mobility objective[3] with the permanent introduction of the HCV program in 1987 (Reina and Winter, 2019). The expression "vouchering out" indicates that the voucher recipient is to move from a (possibly stigmatized) public rental dwelling to a suitable, decent-quality private rental dwelling in order to improve quality of life. The government ensures the quality by checking the dwelling against HUD's standard of housing quality (Priemus, Kemp, and Varady, 2005).

[1] The conceptual and geographic contextualisation in this text is largely based on insights developed in Boelhouwer and Haffner (2002); Haffner and Boelhouwer (2006); Haffner, Henger, and Voigtländer (2013); Haffner, Hoekstra, Oxley, and Van der Heijden (2009); Priemus and Haffner (2017); Van den Broeck, Haffner, Winters, and Heylen (2017).

[2] Officially, the rental sector in Germany is a private rental sector. The private rental units might be temporarily subsidized with a supply subsidy to improve affordability in comparison to market rents (Haffner, Hoekstra, Oxley, and Van der Heijden, 2009; Kofner, 2014).

[3] Only in the case of a terminated place-based voucher, the tenant in question will be able to receive a voucher to safeguard from displacement or from paying a higher rent (Reina and Winter, 2019).

Another design characteristic involves the criteria that determine the level of subsidization. A tenant's income will play a role, next to household size and composition (for example, age in Sweden and the Netherlands; Boelhouwer and Haffner, 2002; Haffner and Boelhouwer, 2006; Haffner, Henger, and Voigtländer, 2013; Priemus, Kemp, and Varady, 2005).[4]

Furthermore, the type of rent that is being considered can influence the amount of demand assistance in two ways. In the *ex post assistance* (Gibb, 1995), demand assistance is linked to actual rent paid (the Netherlands; Boelhouwer and Haffner, 2002; Haffner and Boelhouwer, 2006). *Ex ante assistance*, like the HCV program in the United States, implies notional rent, a standard, or reference rent that the subsidy calculation is based on. From a welfare-theoretical perspective, the idea would be that using a notional rent rather than actual rent allows an optimum in consumer choice.

Germany and the United Kingdom were examples of countries which operated both types of systems at the same point in time (Haffner, Henger, and Voigtländer, 2013; Walker and Niner, 2012; see below). While the United Kingdom worked[5] with median area market rents for demand assistance (called Local Housing Allowance or LHA) in the private rental sector, Germany applied six region types[6] (absolute rent levels) across the country for determining the standard for rent that was to be taken into consideration for the calculation of the demand subsidy in the rental sector. In both cases, the notional rents were adapted to property size.

The United States used to set metropolitan FMRs that HUD designated to metropolitan areas (Dastrup, Ellen, and Finkel, 2019; Priemus, Kemp, and Varady, 2005). Payment standards are set by public housing agencies (PHAs) generally between 90 and 110 percent of FMR (Geyer, Dastrup, and Finkel, 2019). A voucher ceiling is or may also be applicable.

Problems with the HCV program implementation, including the concentration of voucher holders in low-opportunity areas, led to an overhaul of the calculation of the FMRs and the change from metropolitan-wide FMRs to SAFMRs. FMRs set at a lower geographic level would be more closely related to actual rents in ZIP Code areas and would therefore increase supply of voucher-eligible dwellings in more expensive ZIP Code neighborhoods and areas (Dastrup, Ellen, and Finkel, 2019; McClure and Schwartz, 2019). Such a change would allow voucher holders better access to these high-opportunity areas. As these areas are associated with access to better amenities and services, they allow better economic opportunities for the voucher holder. Furthermore, SAFMRs would be expected to counter any rent overcharging of voucher holders. Desmond and Perkins (2016) identified this "voucher premium" in Milwaukee, WI, areas where market rent was lower than FMR.

In 2012, the change to SAFMRs from metro FMRs took place, when HUD launched a SAFMR Demonstration Evaluation Project in five PHAs, which were randomly selected (Dastrup, Ellen,

[4] As the years of the references show, the examples are not always state of the art, but may be, as is largely the case for the Netherlands and Germany. Since late 2013, the United Kingdom has been rolling out Universal Credit which combines several means-tested benefits (Goering and Whitehead, 2017).

[5] For the United Kingdom, Walker and Niner (2012) indicated that the government proposed to replace the median rent with the 30th percentile rent in the private rental sector.

[6] It is not clear how these regions are determined.

and Finkel, 2019). In 2011, two PHAs had already started with SAFMRs bringing the total up to seven PHAs.[7] From late 2016 on, SAFMRs became optional for all metropolitan PHAs and were aimed to be set as obligation for the PHAs in 24 metropolitan areas in October 2017. This was delayed until April 2018, however, as the Trump Administration attempted to delay the mandatory implementation for 2 years to give PHAs more time to prepare for the conversion (McClure and Schwartz, 2019).

Evaluation of Small Area Fair Market Rents

The implementation of SAFMRs in a couple of PHAs and not in others functions as an opportunity to treat the impact measurement of the policy change as a natural experiment. Dastrup, Ellen, and Finkel (2019) and Geyer, Dastrup, and Finkel (2019) both took the opportunity to apply an experimental methodology—the difference-in-differences (DiD) specification—in their evaluation of the introduction of the SAFMRs demonstration program in five plus an additional two 2011 PHAs (see previous section). DiD compares the outcomes of PHAs that applied SAFMRs with those that did not apply SAFMRs in order to identify "the winners and losers" of the policy change. The three articles listed above all present a quantitative assessment of the impacts of the SAFMR introduction, which are now briefly summarized.

Given the evidence that higher opportunity areas provide for long-term benefits for the development of children in low-income households, Dastrup and colleagues (2019) aimed to explore whether SAFMRs compared with FMRs allow voucher-recipient families with children to move to higher opportunity areas in the first 5 years after the introduction of SAFMRs. Dastrup and colleagues (2019) operationalized the benefits for the children in terms of poverty, school proficiency, employment access, and environmental quality in a composite indicator. Using repeated cross section regressions, the authors concluded that SAFMRs seem to deliver on their promises. In high-opportunity areas more supply of suitable units is created, while the share of families with children locating in better-opportunity areas also increased. These effects are larger for movers than for new voucher recipient households with children. Therefore, some PHA guidance would be welcomed, as well as landlord recruitment.

This all seems to be achieved without additional costs for the government, Dastrup, Ellen, and Finkel (2019) reported, implying that the savings achieved in low-opportunity areas compensate the increases in high-opportunity areas. On a metropolitan level, such an effect will depend on the composition of the rental stock and its distribution in the metropolitan area.

Also using data from the SAFMR demonstration project, Geyer, Dastrup, and Finkel (2019) examined the duration that an HCV recipient stays in the program. As in the previous paper, the outcomes of PHAs which continued operating with metropolitan FMR and those of the PHAs using SAFMR are compared, this time with a survival analysis. The authors found that the switch to SAFMR increases the program exit rate with a median of about 2 years (from a base of a median 11 years).

[7] PHAs have the possibility to protect voucher recipients whose SAFMR is lower than FMR (Geyer, Dastrup, and Finkel, 2019).

For working-age adults and households not living in high-rent areas at the time of the switch, the effects are found to be largest. For the latter outcome, authors suggested that households are leaving the program because of "a decrease in household resources," which would make it an unexpected outcome, particularly for those in moderate-income area. For those in a lower income area, voucher takeup might be considered less attractive than before, while the number of total available dwellings has also decreased.

Authors indicated running into difficulty in explaining their outcomes and attribute this to missing data and research. On exit reasons, they proposed to improve data collection, particularly, registering a set of reasons when exiting the HCV program.

McClure and Schwartz (2019) investigated the potential success of Black and Hispanic voucher-eligible recipients in accessing high-opportunity areas because these target groups often live in disadvantaged neighborhoods. They reasoned that because the SAFMR demonstration project outcomes are very much differentiated across PHAs, with only some showing change, they "simulated" a switch to SAFMR of all metropolitan areas with more than a population of 1 million. Given the switch, more dwellings in high-opportunity areas would increase supply there, while less supply would be created in low-opportunity areas. The question is: what is the balance?

McClure and Schwartz found that the new HCV-eligible units in high-opportunity areas would be mostly located in non-segregated areas, and the supply of these voucher-eligible dwellings would have decreased. Given the barriers that arise in practice for minorities to move into non-segregated areas, these outcomes lead the authors to conclude that introducing SAFMR in these larger metropolitan areas will not be a sufficient condition to solve segregation.

They proposed a counseling program along the lines of the successful Baltimore Housing Mobility Program (DeLuca, Garboden, and Rosenblatt, 2013).

From the three papers, it can be derived that the change is a re-allocation of the budget rather than an increase of assistance. As with any budget-neutral policy change, the shift from FMR to SAFMRs produces winners (families with children and others successfully moving to high-opportunity areas) and losers (Black and Hispanic minorities; lower and middle-income households; middle-aged adults).

The new way of calculating notional rents on a geographic lower level—ZIP Code level rather than metro-level—seems to be suitable to the aim of the HCV instrument of stimulating mobility toward higher opportunity areas, given the lower estimated supply of voucher-eligible rental dwellings in lower opportunity areas. Does such a result imply that the introduction of the SAFMR lays the groundwork for those who have better life chances already rather than helping those most in need of affordable and decent housing?

Notional Rent vs. Actual Rent Assistance: Final Observations

Considering means-tested demand assistance as more effective and more cost-efficient than supply subsidies was one of the reasons for many governments to make the shift from supply to demand support. The subsequent design choices were complex and impacts often remain difficult to

measure (Shroder, 2002). Concerns of safety net, income support, price deduction, and mobility all can play a role, as the above shows. Also, what is considered affordable for a household (Stone, 2006) goes beyond the discussion here[8] about actual rent versus notional rent.

From a social protection point of view, considering access to decent-quality housing as a human and social right, targeting would take the actual rent a tenant pays as starting point, and it would set housing allowance as an entitlement. This would allow for tailor-made solutions. Conditions will be attached to the receipt of such a subsidy in order to make it an effective and efficient instrument.

An example here is the Dutch system (Priemus and Haffner, 2017; Rijksoverheid, 2016). The level of assistance is dependent on household size, composition, age, income, and rent. Housing allowance does not subsidize the first band of the rent (about 200 euros in months' rent)[9], as it is assumed that this will be covered by other income; in the case there is no income from work or pension, this will be (implicitly) covered by state welfare income support or state pension. The next band of rent of almost another 200 euros is paid in full by the housing allowance. For the next band of about 200 euros, 65 percent of the band is subsidized by the housing allowance in order to prevent the overconsumption of housing services. Above that amount of rent only single heads of household and senior-headed households will receive 40 percent of subsidy for the band up to the maximum amount of rent that is eligible for housing allowance (about 700 euros was the cap for rent eligible for housing allowance). As an entitlement, about 38 percent (16 percent) of Dutch tenants (households) received housing allowance, and on average, housing allowance paid about 40 percent of their rent in 2014 (Rijksoverheid, 2016).

For such an actual-rent-based system, society and politics make several "paternalistic" assumptions, such as when the quality consumed must be considered "too much." In that case, the quality discount (subsidy only covering 65 and 40 percent, respectively, as explained in the previous paragraph) comes into play to prevent the overconsumption of housing services (see also Gibb, 1995; Kemp, 2000; Priemus, Kemp, and Varady, 2005). Furthermore, this type of housing allowance is associated with a potentially big poverty trap, as the implicit marginal tax rate amounts to 27 to 43 percent (2015) and to more than 90 percent for some recipients, if other income-based subsidies are considered in the Dutch case.

A voucher system on the other hand, allows the "self-sufficient" recipients to make their own choices. From an economics perspective, a household will not choose a dwelling because of subsidy maximization (moral hazard) but because of preferences for a certain dwelling. This allows the choice of a more expensive dwelling or a less expensive one without losing the right to the voucher. Such an *ex ante* subsidy goes together with subsidizing some form of FMR rather than the actual rent that a tenant pays. In this line of thinking, can the shift in the United States from FMR to SAFMR be considered a move from notional rent towards actual rent? If so, will it become afflicted with housing allowance types of undesired effect, like a moral hazard?

[8] This also applies to the topic of capitalization of demand assistance into rents as one of the possible undesired effects associated with demand assistance (see the example, Virén, 2012, for Finland).

[9] As of July 2019, 200 euros is equal to about $224 USD.

In the selection of countries at the beginning of this contribution, the choices and developments have variegated. Germany has implemented notional rents since the introduction of the scheme (Haffner, Henger, and Voigtländer, 2013; Kofner, 2007, 2014). For recipients of welfare income support, their housing assistance has been included in income support since 2005 and is based on actual rent, given suitable quality of the dwelling in relation to household composition (a move to a more suitable dwelling may be required). The housing allowance scheme remains serving those with an income from employment.

The United Kingdom made the opposite move from the one that Germany made, also implementing two types of demand assistance schemes in the end (Haffner, Henger, and Voigtländer, 2013; Stephens, 2005; Walker and Niner, 2012). As housing benefit was paid for out of welfare income support (called social security), and income support did not take housing costs into account, recipients of income support or households earning a comparable or lower income received housing benefit for 100 percent of actual rent and rent increases. Because of budgetary and overconsumption concerns, LHA was introduced in the private rental sector in 2008 after two rounds of experimenting that took place at the beginning of the century. LHA applies a notional rent to calculate the allowance, as explained above. Meanwhile for recipients of housing benefit, as in Germany, the number of rooms in the dwelling in relation to household size became important. As of April 2013, the number of rooms had to match household size, or the recipient was going to pay an under-occupancy charge, also known as the bedroom tax (Goering and Whitehead, 2017). This change implied that only when the dwelling was deemed suitable, actual rent and rent increases were paid in full by housing benefit.

In the Netherlands, academia has been promoting a shift from actual to notional rent practically in vain since the 2000s (Priemus and Haffner, 2017; Priemus, Kemp, and Varady, 2005). Only recently an intergovernmental advisory report included such a scenario for the first time. Such a scenario expected that the tenants would take responsibility upon introduction and the measure would help to reduce overconsumption and deliver government budget savings (Priemus and Boelhouwer, 2018). One of the questions that would need to be solved before the switch to notional rents from actual rents, is the matter of the first band non-subsidization. As explained above, this will be paid out of basic income support for citizens without any other or without "sufficient" other income paid for by the national government.

These examples show that demand-side housing assistance schemes are heavily interlinked with the welfare system in place in a country. Developments therefore differ across countries and are not necessarily converging as the examples show. Voucher-like systems with notional rents, like in the United States, are implemented, as are tailor-made schemes that subsidize actual rents. Some countries combine both types. An entitlement scheme, like in Germany, the Netherlands, and the United Kingdom, will be strong on horizontal equity. Academia generally support the notional rent scheme over and above an actual rent scheme. The housing market reality of the "new, global urban housing affordability crisis" will put equity and efficiency issues, as well as supply assistance, back on the agenda not only for those with the lowest incomes (Wetzstein, 2017: 3,160).

Acknowledgments

A big thank you goes to all the author's co-authors of publications on demand-side subsidization.

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