

# Aspects of the Housing Choice Voucher Program and the Impact of Small Area Fair Market Rents Ceilings: a British Perspective

Christine M. E. Whitehead  
London School of Economics

---

## Abstract

*This paper reviews three of the four symposium papers on the Small Area Fair Market Rents (SAFMRs) Demonstration Evaluation—those by Dastrup, Ellen, and Finkel; Geyer, Dastrup, and Finkel; and McClure and Schwartz. These are all based on the very detailed data made available by the U.S. Department of Housing and Urban Development (HUD) to enable initial evaluation of this initiative. Together, these articles provide impressive, detailed approaches to different aspects of the program: the experience of family households in the areas where SAFMRs have been introduced as compared with metropolitan-wide fair market rents (FMRs); the importance of race in determining who may or may not be expected to benefit from the initiative; and the evidence on whether the introduction of SAFMR has affected how long people stay in the voucher programme. Taken together the findings reflect three main issues:*

- 1 how even extensive datasets, while producing interesting results, can only cover some aspects of a full evaluation;*
- 2 all the initial findings are mainly about what would normally be called outputs—that is, what has happened as a result of the initiative, rather than outcomes—which, to the extent that the objectives of the policy are clear, must be about the impact on the welfare of those affected, both in terms of housing and opportunity; and*
- 3 whether, especially given the extent of locational segregation (between income groups as well as race and other household attributes), such an approach can be expected to generate significant changes in household decisions and outcomes.*

*Importantly, there is also no discussion of value for money from the point of view of government, which is often (usually) a major objective of such evaluations. Rather, success appears to be based on ensuring the money made available is used and used for the intended purposes.*

## Abstract (continued)

*This review has three main sections: my understanding of the demonstration project and more generally of the Housing Choice Voucher (HCV) programme; a discussion of the UK housing allowance programme for private tenants, which includes the use of rent caps determined for broad market areas with a note on other European examples; and an attempt, which may be overambitious given the enormous differences in approach between countries, to learn lessons in both directions.*

## The SAFMR Initiative in the Context of the Housing Choice Voucher Programme

The starting point for any such commentary must be that housing systems and institutional frameworks differ so greatly between countries that understanding someone else's system is a major issue, and understanding it from, in this case, a U.S. perspective, almost an impossibility. In this note, I have not tried to bring that level of understanding to my comments—but rather to identify what strikes me as important from a European and, more specifically, a UK perspective. In particular, this means remembering that a federal system will inherently operate in a very different manner from our over-centralised form of government in the United Kingdom which starts from a belief that policies should, in principle, be operated consistently across the whole of the country (although, of course, the outcomes will differ greatly). In other words, policy in the UK is often more about equity, while in the United States, it is more about choice.

The core idea of the SAFMR initiative is to increase the extent to which households with vouchers are enabled to live in better-quality areas measured in terms of income, schools, access to employment, and environmental quality. Under the traditional voucher scheme, FMRs are identified for the whole metropolitan area and, given spatial inequalities, the eligible properties are almost inevitably concentrated in poorer areas where rents fall within the bottom 40 percent for the whole area. A relatively small number of properties will be eligible in better-off neighbourhoods (even allowing for the fact that households may top up their payments, as long as their rents remain below 40 percent of their income) because the vast majority will have rents in the top 60 percent of the overall distribution (top 50 percent in some contexts). By breaking up the large area into several much smaller ZIP Code areas and applying the bottom 40 percent rule to each area, the potential supply of eligible housing in the more expensive areas must increase significantly. Equally, however, the numbers of potential units in poorer areas will decline—and the evidence presented in these article shows, unsurprisingly, that as a result, the total supply of eligible housing in the metropolitan area also will decline. Whether that matters significantly is not clear to the outsider, as that depends not on the number of eligible units but on the numbers of eligible dwellings that landlords are actually prepared to put into the scheme in relation to the number of vouchers (an issue to which I return in the UK context). All that I can be sure of from the analyses is that the ratio will differ between different metropolitan areas and between types of small areas—although a priori one would expect landlords in higher valued areas to be less prepared to make their properties available.

Although these findings raise significant issues not just about numbers but also about the objectives of the program and how the trade-off between access to affordable housing and access to particular types of area might be assessed, this is not the main research interest of any of the three papers. The Dastrup et al. paper concentrates on family household decisions and finds that there is a significant shift towards these higher value neighbourhoods which might, in principle, help the children gain access to better schools and the families to live in a better environment with greater opportunities. The Dastrup et al. paper stresses that even though significant numbers of families have moved to higher valued areas, there is little evidence that these potential opportunities have been taken up, and no positive evidence of better outcomes. The same is true of the Geyer et al. paper on length of stay in the programme—which shows large reductions in how long people remain in the program. At first glance—at least for someone taking an international perspective, where most housing allowances are available as of right to all eligible households—one would expect this to mean that the households are doing better and are thus able to fund their own housing. The authors made it clear, however, that in the U.S. context, most of those who leave the program end up with fewer resources. Thus, both articles stress that there are clear and significant changes in household behaviour directly related to the policy change—but that there is no evidence of welfare improvement.

Finally, the McClure and Schwartz paper on the implications of the introduction of SAFMRs for racial segregation uses the data in a rather different way to compare small areas within metropolitan areas and show that race is an important part of understanding these small areas and how they differ from one another. The findings suggest strongly that the small area approach will be likely to harm racial minorities as supply in lower priced areas where they normally live will be reduced, while, it is likely to be far more difficult for them to find accommodation in the higher income areas because these areas are mainly White-dominated, even when they are, to some degree, integrated.

Overall, the evidence presented suggests that the small-area approach will limit rather than expand choice for many households. On the other hand, evidence cannot yet be provided to show positive effects, such as more landlords coming forward or households achieving better schooling, jobs, and incomes. Overall, from an outsider's perspective, what looked like a sensible approach to expanding opportunity and one which does result in changing behaviour—especially among family households—probably ends up making the situation worse for larger numbers of households. Moreover, those who suffer are almost certainly, on average, at the poorer end of the scale. However, it is early to make an overall assessment and it may be that positive outcomes, especially for children, could take more time to emerge. More fundamentally, however, the negative results stem from the extent of segregation to be found in large metropolitan areas which cannot be effectively addressed by relatively limited policy initiatives of this kind.

## **The UK Approach to Housing Allowances in the Private Rented Sector**

In the United Kingdom, the question of how to develop housing-specific income support was part of the debate around the development of social security in general, initiated in the Beveridge

Report in 1942 (Beveridge, 1942). When Beveridge published his report on developing an effective post-war social security system, he recognised that the objective of ensuring that everyone would be able to achieve a reasonable standard of living through the national insurance system he was proposing was put at risk by rents—because of the extent to which the costs of minimally acceptable housing varied across the country. No other element of the necessities of life was seen as having variations that were significant enough to undermine his proposed nationally based system.

Beveridge therefore argued that a flat-rate benefit with an average allowance for housing (in line with his general principles) would leave people in more expensive homes below a subsistence level, once they had paid their rent, and people in cheaper homes with a surplus. The alternative—paying the actual rent as part of the insurance benefit—was seen as creating perverse incentives for people to move into more expensive accommodation just before they retired.

Throughout the post-war period until the early 1970s, the problem was addressed by holding rents down in both the public and private rented sectors. In the public sector rents simply had to cover the historic costs of provision less subsidies provided by central government across each local authority's stock of rental units. This applied to up to 30 percent of all dwellings in Great Britain and meant that the vast majority of tenants could pay their rent without significant difficulty. The vast majority of tenancies in the private rented sector were subject either to traditional rent controls put in place in 1917 or, to a “fair rents” regime put in place for new tenancies in 1965, which again made rents affordable for the majority of lower income tenants.

By the mid-1970s, however, the position was changing quite rapidly with increasing rents in both the social sector and much of private renting. Legal decisions also meant that rents had to relate to dwelling attributes not to the individual circumstances of the tenant, which rules out income related as a way forward. It was in this environment that housing allowances were introduced.

The scheme, ultimately known as Housing Benefit, not only took account of individual household circumstances but meant that housing support was seen as a “residual” benefit taking the strain across the overall welfare system. The principles behind the as-of-right scheme were that (1) social security rules would determine the income necessary to cover basic needs for each type of household at the national level (that is, with no allowance for variations in costs across the country); (2) housing costs would be treated separately, because rents varied so greatly both spatially and between similar households; (3) all those who paid rent were eligible to apply for benefits; and (4) the rebate or allowance would cover the whole rent (and allowable service charges) where the claimant's income was equal to the basic needs allowance. Above that level, a proportion of every additional pound was withdrawn until income reached a point where the system presumed that the rent could be fully paid by the tenant.

Thus, under the scheme, all tenants obtained the minimum income required to meet the full range of essential needs; differences in housing costs were fully addressed so basic housing standards could be achieved; and the subsidy withdrawal rate above that level was designed to ensure some, limited, incentive to work or to work longer hours.

This approach, however, meant that Beveridge's concerns about the distortionary effects of households' private-rented-sector housing decisions were left unchecked, except to the extent that some basic limits on the size of the dwelling in relation to household needs were introduced. The assumption made was that people on low incomes had few housing choices, so the incentive to live in a more expensive dwelling or area was rarely implementable.

Over time, the Housing Benefit system enabled massive changes in the mix of subsidy provided by government shifting support away from supply subsidies in the social rented sector to income-related benefits (Hills, 2001; Gibb and Whitehead, 2007). In the 1970s, 85 percent plus of all financial support helped supply and the impact of income related benefits was therefore quite small. Now, however, £22 billion<sup>1</sup>—over 95 percent of a larger housing subsidies bill in real terms than in the 1970s - goes to Housing Benefit and its successor Universal Credit (Stephens et al., 2018). Thus the UK spends \$27 billion on income related housing assistance, while the United States with a population of around five times that of the UK, spends only \$35 billion<sup>2</sup> on housing assistance in total—including tenant-based rental assistance, public housing operating funds, and project-based rental assistance.

Even so, in the UK, especially since austerity became the norm in 2010, several policy changes have limited the availability of income-related housing support, changing the picture almost out of recognition. In the private rented sector, the restructuring started earlier, in 2008, under a Labour government with the introduction of a maximum Local Housing Allowance (LHA),<sup>3</sup> instead of the introduction of simply accepting the individual tenant's rent bill for appropriately sized accommodation. This approach has something in common with the U.S. system, in that it uses the distribution of rents for those not on benefits in "Broad Market Areas" (defined as where a person could reasonably be expected to live taking into account of access to facilities and services such as schools) to determine the maximum support for which tenants could be eligible given the appropriate-sized dwelling. The original rule was set at the 50th percentile of rents in the area, which in itself raised issues as to the balance between demand and supply; given that in some particularly poor areas, up to 90 percent of privately renting households would be in receipt of housing benefit. In these areas, large numbers of households are therefore given a choice between making up the gap from their other income or moving to somewhere they might be able to find accommodation within the cap. In 2011 when austerity was at its height, the Coalition government reduced the cap from the 50th percentile to the 30th so that this problem has become much more widespread (Wilson, 2013).

Further in 2015, the government introduced a 4-year freeze on LHA levels. This inherently means that as actual rents have gone up, those paying around or above the third decile set at the beginning of the freeze will not be compensated for any rent increases.

---

<sup>1</sup> As of July 2019, £1 equals \$1.22. £22 billion equals approximately \$26.8 billion.

<sup>2</sup> See <https://www.hud.gov/sites/dfiles/CFO/documents/3%20-%20FY19CJ%20-%20Dept.%20Summary%20-%20Budget%20Outlays%20-%20Updated.pdf>

<sup>3</sup> There had been demonstration projects from 2002 in what were called pathfinder areas before the national roll-out in 2008.

Austerity policies underlie many of these changes, but there is also an attempt to increase incentives to move to more inexpensive accommodation or locations. Importantly, the principle of ensuring that residual income is enough to pay for the other necessities of life has been undermined very significantly. Rather, it is now assumed that people have choice and, therefore, it is their own decision to use money for housing rather than other necessities.

A report by the Institute for Fiscal Studies (IFS) published in 2017 (Joyce et al, 2017), gives the best estimates currently available of how much some of these changes have impacted lower income tenants. They showed that in 2013-2015, among private renters in the bottom 40 percent of incomes, the fraction whose housing benefit does not cover all their rent has increased quite steadily, from 74 percent in the mid-1990s to 90 percent in the mid-2010s. The biggest change occurred among low-income working-age households with children, where it rose from 63 percent to 90 percent over the same period. IFS estimated that reforms since 2011 have cut the Housing Benefit entitlements of 1.9 million privately renting households, some two-thirds of low-income private renters.

Another issue is how these constraints impact landlord preparedness to let to those on housing benefit or its replacement Universal Credit. Many landlords say they will not let to beneficiaries—although government statistics continue to show that more and more landlords are actually letting to such households.

More generally, private renting is not regarded as a suitable tenure for families and vulnerable households because of the very limited security of tenure available. At a minimum, the lease can be as little as 6 months and landlords have the right to evict without reason. Yet the sector has doubled since the turn of the century so that it now houses around one in five households in Great Britain and one in four in London (Rhodes and Rugg, 2018).

## Comparing Housing Allowances in Europe

The Organisation for Economic Co-operation and Development (OECD) Affordable Housing Database (2016) provides an overview of housing allowances across OECD countries. Almost all such countries (except those in Eastern Europe) have at least one form of Housing Allowance, although in many countries they tend to be quite restrictive. Private tenants are the most likely group to be eligible and allowances are normally as of right for eligible households.

In most northwestern European countries, housing support has generally been developed that makes an allowance for housing costs within mainstream social security benefits. Housing allowance systems are based on the gap principle whereby, for a given income, the housing allowance meets a certain proportion of rent above a minimum contribution up to a maximum level. In circumstances where unmet housing costs take residual income below the social assistance minimum, the social assistance system itself often steps in (Kemp, 2007).

The biggest difference with the United Kingdom, however, is that most other European systems are more generous in that their more general welfare systems are based on a high proportion of earlier earnings. These higher benefits in countries such as Germany, Sweden, and France allow most

people to pay for their accommodation, with a top-up available if necessary. In part, this is possible because rents are generally a lower proportion of income in most of Europe (particularly Germany) except for areas of housing pressure. It is thus the case that a basic standard of residual income can generally be maintained because of these higher social security benefits, while enabling only a proportional approach to additional support.

In this context, it has suggested that the UK system, where social security payments are set at very low levels, means that it is inevitable that high proportions of housing costs must be covered (Griggs and Kemp, 2012). The system, while it looks generous taken on its own, is very much less so if instead one looks at housing benefit plus social security as a percentage of average income.

## **Lessons Across the Divide?**

The most obvious lesson from this short review is that the need for income-related housing-specific allowances is prevalent across countries with very different institutional and ideological frameworks. This is for the fundamental reason that housing costs are often a large proportion of income for poorer households and that welfare systems find it difficult to address large scale spatial variations in cost without an additional element of support. Yet in the main we do not address this problem by expecting people to move long distances to find affordable accommodation. So, one important question is how much choice the individual household is given to use the allowance in the way that they might wish as compared with the government trying to influence moves either to lower cost areas or to areas of opportunity.

One of the most important issues raised by SAFMR in the United States is around the importance of opportunity for a relatively small proportion of households with vouchers against housing availability for a much larger proportion. This suggests the need for more research into whether location can have such a positive effect as to make that choice worthwhile. The answer is clearly linked with the more general question of the scale of the benefits associated with mixed communities, which have been an important aspect of UK housing policy.

Clearly, a core issue in the U.S. model is around the extent of demand as compared with the supply meeting the cap in ZIP Code areas. The United Kingdom faces similar problems—that the cap means there simply are not enough dwellings in the area to match potential demand, so tenants face additional costs. This is also an area where more research on how households find suitable accommodation is needed.

There are several behavioural issues associated with these programmes, notably with respect to which households take up the opportunity—are they families at the upper margin of the eligible incomes, for instance? Another issue is around landlord response—are landlords as prepared to let to those on vouchers or housing benefit despite administrative costs as they are to poor households without vouchers? In the United Kingdom, landlords often state that insurance companies and mortgage providers require landlords not to let to those on benefits—although they may “protest too much.” More generally there are issues around the capacity to enforce quality standards given the incentives landlords face.

A final, very important, issue is why people leave the allowance/voucher programmes especially given the understanding, reflected in the Geyer et al. paper, that many are worse off when they leave. In the United Kingdom, the evidence is that the main reason for leaving is that family and particularly employment circumstances change for the better—although, we are very well aware of the instability of these circumstances, so many people return. Understanding exactly what happens in the U.S. context should be a high priority.

## Acknowledgements

The author thanks the *Cityscape* editors for the positive approach taken, especially to making the review more accessible to U.S. readers. The author also thanks this edition's other symposium authors for their valuable and interesting contributions to the debate on income related housing support.

## Author

Christine M. E. Whitehead is Emeritus Professor in Housing Economics at the London School of Economics and can be emailed at [c.m.e.whitehead@lse.ac.uk](mailto:c.m.e.whitehead@lse.ac.uk).

## References

- Beveridge, William H. 1942. *Social Insurance and Allied Services*. Cmd 6404. London, Her Majesty's Stationery Office.
- Dastrup, Samuel, Ingrid Ellen, and Meryl Finkel. 2019. "The Effects of Small Area Fair Market Rents on the Neighborhood Choices of Families with Children," *Cityscape* 21 (3): 19-47.
- Geyer, Judy, Samuel Dastrup, and Meryl Finkel. 2019. "Impact of Expanded Choice on Attrition in the Housing Voucher Program," *Cityscape* 21 (3): 71-88.
- Gibb, Kenneth, and Christine Whitehead. 2007. "Towards the More Effective Use of Housing Finance and Subsidy," *Housing Studies* 22 (2): 183-200.
- Griggs, Julia, and Peter A. Kemp. 2012. "Housing Allowances as Income Support: Comparing European Welfare Regimes," *International Journal of Housing Policy* 12 (4): 391-412.
- Hills, John. 2001. "Inclusion or Exclusion? The Role of Housing Subsidies and Benefits," *Urban Studies* 38 (11): 1887-1902.
- Joyce, Robert, Matthew Mitchell, and Agnes Norris Keiller. 2017. *The Costs of Housing for Low Income Tenants*. London: Institute for Fiscal Studies.
- Kemp, Peter, ed. 2007. *Housing Allowances in a Comparative Perspective*. Bristol, UK: Policy Press.



McClure, Kirk, and Alex Schwartz. 2019. "Impact of Expanded Choice on Attrition in the Housing Voucher Program." *Cityscape* 21 (3): 49-69.

The Organisation for Economic Co-operation and Development (OECD). 2016. *Affordable Housing Database*. Paris: OECD.

Rhodes, David, and Julie Rugg. 2018. *Vulnerability Amongst Low Income Tenants in the Private Rented Sector*. York, UK: Centre for Housing Policy.

Stephens, Mark, John Perry, Steve Wilcox, Peter Williams, and Gillian Young. 2018. *The UK Housing Review, 2018*. Coventry, UK: Chartered Institute of Housing.

Wilson, Wendy. 2013. *The Reform of Housing Benefit (Local Housing Allowance) for Tenants in Private Rented Housing*, Commons Briefing Paper SN04957. London, Parliament.

---