1275 First Street NE, Suite 1200
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

December 7, 2021

Vouchers Can Help Families Afford Homes, With Little Impact on Market Rents

By Will Fischer

The Housing Choice Voucher program is highly effective at helping people with low incomes afford rent, but it only reaches about 1 in 4 eligible households due to funding limitations. The Build Back Better (BBB) legislation that passed the House would add about 300,000 new vouchers, which is an important step to reduce homelessness, overcrowding, housing instability, and racial disparities in housing opportunities. Some have suggested that providing rental assistance to more families will drive up rents by increasing demand for housing or enabling landlords to overcharge, offsetting a large part of the benefit. Research on previous voucher expansions has found that vouchers have little overall impact on market rents, however, and the voucher program has safeguards that limit the amount landlords can charge.

The additional vouchers provided through BBB would be expected to have only a limited impact on rents overall, for four main reasons:

- **Most vouchers help current renters afford decent, stable housing rather than creating new renter households that fill up additional units.** Most households that receive a voucher — about two-thirds in one study — already rent their own housing unit (but typically pay very high shares of their income in rent), so the voucher doesn't increase the number of households demanding units in the market.
- **Rental markets can absorb some additional voucher households just as they absorb other new renters.** BBB would fund about 60,000 added vouchers a year over five years. If one-third of those vouchers provided homes to people who were previously homeless or doubled up, that would amount to 20,000 additional units a year, or just 0.04 percent of the nation's total number of rental units. Rental markets have tightened during the COVID-19 pandemic, but in most parts of the country they could still absorb this modest number of new households, just as they absorb other new renters such as young adults leaving their parents' homes.
- **BBB provisions expanding housing supply would help absorb vouchers, especially in tight markets.** In areas with a limited supply of rental units and low vacancy rates, vouchers are still effective and urgently needed. But voucher expansion should be accompanied by steps to increase the supply of housing, which can expand the housing choices available to voucher holders and others and counter any impact on market rents. BBB includes measures to do that

in two ways: by encouraging states and localities to ease regulatory barriers to building housing, and by subsidizing development of affordable housing. The development subsidies alone are estimated to fund hundreds of thousands of affordable rental units, substantially more than is needed to offset the added demand from the bill's voucher expansion.

- **The voucher program has safeguards that limit landlords' ability to charge above-market rents in units rented to voucher holders.** Voucher payment standards, which cap subsidies at levels based on moderate rents in the local market, provide a check against excessive rents. A family using a voucher may rent a unit with a rent above the payment standard, but it must pay 100 percent of the excess rent itself, so it has the same incentive as an unassisted household to avoid paying more than a unit is worth. In addition, before a family can rent a unit with a voucher, the voucher agency must certify that the rent is reasonable compared to rents charged for similar unassisted units.

Vouchers Are a Highly Effective Way to Help Families Afford Housing

The Housing Choice Voucher program assists 2.3 million low-income households, usually by helping them to rent units of their choice in the private market. These households — most of them seniors, people with disabilities, and workers earning low wages — pay 30 percent of their income for rent. Vouchers cover the remaining cost, up to a subsidy cap (called a payment standard) based on typical market rents for modest housing in the local area.

Rigorous research shows that vouchers sharply reduce homelessness, housing instability, and overcrowding, which have been linked to serious adverse effects on families' health and children's development. Vouchers can also give families greater choice about where they live; when vouchers enable families to move to lower-poverty neighborhoods, research has found, children in those families earn more as adults and are substantially more likely to attend college. In addition, by reducing rental costs, vouchers leave low-income people with more resources for other basic necessities such as food or medicine.[1] Furthermore, because homelessness and other problems that vouchers address greatly affect people of color due to a long history of racial discrimination, vouchers can also significantly reduce racial disparities.[2]

The state and local housing agencies that administer vouchers use nearly all the funds they receive,[3] but due to funding limitations vouchers and other federal rental assistance only reach about 1 in 4 eligible households. As a result, most agencies that administer vouchers have long waiting lists

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[1] Will Fischer, Douglas Rice, and Alicia Mazzara, "Research Shows Rental Assistance Reduces Hardship and Provides Platform to Expand Opportunity for Low-Income Families," Center on Budget and Policy Priorities, December 5, 2019, https://www.cbpp.org/research/housing/research-shows-rental-assistance-reduces-hardship-and-provides-platform-to-expand.

[2] Alicia Mazzara, "Expanding Housing Vouchers Would Cut Poverty and Reduce Racial Disparities," CBPP, May 11, 2021, https://www.cbpp.org/blog/expanding-housing-vouchers-would-cut-poverty-and-reduce-racial-disparities.

[3] Over the last five years for which data are available (October 2016 to September 2021), agencies received $83.7 billion in voucher subsidy funds and spent $83.1 billion or 99.3 percent of that amount. These figures exclude agencies participating in the Department of Housing and Urban Development's (HUD) Moving to Work demonstration, which are permitted to shift voucher funds to other purposes. HUD, "Housing Choice Voucher (HCV) Data Dashboard," accessed December 3, 2021, https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/dashboard.

for assistance.[4] BBB includes $24 billion to expand the voucher program, enough to provide approximately 300,000 vouchers over five years to meet a portion of this unmet need.[5]

Research Shows Rental Markets Have Absorbed Previous Voucher Expansions Without Major Rent Increases

One concern sometimes raised about providing more vouchers is that they would push up rents by increasing demand for rental housing or enabling landlords to charge above-market rents. But research on past voucher expansions showed that they had little impact on rents overall. The first major study of this issue examined the Housing Assistance Supply Experiment, a 1970s demonstration that provided vouchers to all eligible households in two U.S. cities. It found no significant impact on market rents.[6] More recently, a 2015 study by economists Michael Eriksen and Amanda Ross looked at the last major voucher expansion, which added more than 200,000 vouchers nationally from 2000 to 2002. They also found that vouchers had no significant overall effect on market rents.[7]

Eriksen and Ross did find modest rent growth for some categories of units, but this was offset by reductions for other units. First, additional vouchers resulted in somewhat higher rents for units in the middle price range where voucher holders are most likely to rent, but reduced rents for lower-cost units. (Specifically, rents rose for units costing between 80 and 120 percent of the fair market rent, or FMR, which is used to determine voucher payment standards and which HUD sets each year at the 40th percentile of market rents for units of a particular size in the local area, but fell for units below 80 percent of the FMR). Second, rents rose modestly in rental markets (13 of the 94 metropolitan areas examined) where the supply of housing was most constrained — and where the measures to expand supply discussed below would be most important. But rents fell in other

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4 Sonya Acosta and Brianna Guerrero, "Long Waitlists for Housing Vouchers Show Pressing Unmet Need for Assistance," CBPP, October 6, 2021, https://www.cbpp.org/research/housing/long-waitlists-for-housing-vouchers-show-pressing-unmet-need-for-assistance.

5 The exact number of vouchers funded will depend in part on how HUD implements the expansion. Our estimate assumes that HUD will scale up the number of vouchers evenly over the five-year phase-in period and provide administrative funding equal to the full amount for which agencies are eligible under the current formula.

6 Lance C Barnett, "Expected and Actual Effects of Housing Allowances on Housing Prices," *Journal of the American Real Estate and Urban Economics Association,* Vol. 7, Issue 3, 1979.

7 Michael D. Eriksen and Amanda Ross, "Housing Vouchers and the Price of Rental Housing," *American Economic Journal: Economic Policy,* Vol. 7, No. 3, August 2015. One study found that vouchers raised markets rents substantially (Scott Susin, "Rent Vouchers and the Price of Low-Income Housing," *Journal of Public Economics,* Vol. 83, Issue 1), but assessments by other researchers have generally concluded that this finding resulted wholly or partly from weaknesses in the study's methodology and that it is more plausible that vouchers have little overall impact on market rents. For assessments that reached this conclusion, see: Marybeth Shinn and Jill Khadduri, *In the Midst of Plenty: Homelessness and What to Do About It,* Wiley-Blackwell, 2020, p 160; Edward L. Glaeser and Joseph Gyourko, *Rethinking Federal Housing Policy: How to Make Housing Plentiful and Affordable,* AEI Press, 2008, pp 117-118 and 182; Edgar O. Olsen, "Housing Programs for Low-Income Households," in *Means Tested Programs in the United States,* edited by Robert A. Moffitt, University of Chicago Press, https://www.nber.org/chapters/c10259.pdf, pp. 422, January 2003.

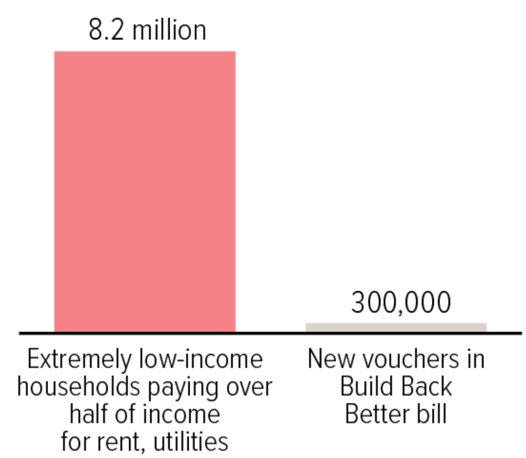
metropolitan areas.[8] These findings are consistent with the effects predicted by economists who have carefully assessed the voucher program and its role in housing markets.[9]

Most Voucher Holders Already Rent Homes but Struggle to Afford the Cost

Most households that receive a voucher — about two-thirds in one study — already rent their own housing unit (but typically pay very high shares of their income in rent), so the voucher doesn't increase the number of households demanding units in the market.[10] More than 8 million households with extremely low incomes (defined as those with incomes below the federal poverty line or 30 percent of the local median income, whichever is higher) have a rental unit but pay more than half of their income to rent it. (See Figure 1.) A large number of vouchers could be absorbed simply by helping those households.

FIGURE 1

Many Vouchers Could Lower Costs for Families Who Already Rent Housing



Note: Extremely low income = below the poverty line or below 30 percent of the area median, whichever is higher.

Source: CBPP analysis of 2014-2018 American Community Survey microdata; 2018 HUD area median income limits

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Some families use their vouchers in their current rental unit. This can greatly reduce the family's rent burden and ease hardship by enabling them to cover other necessities such as food or medicine and making it less likely that they will be evicted in the future.

Other renters use their vouchers to move from one unit to another, for example to relocate to a neighborhood that better matches their needs (such as one that is closer to a job opportunity for a parent or to a school they would like their child to attend), or from an overcrowded home to one that is large enough to accommodate all the family's members. Such moves are likely to reduce demand for low-end units that unassisted low-income families often occupy, while increasing demand for units closer to the middle of the market. But families that move don't increase the overall number of housing units demanded in the market, since their moves make room for other households to occupy the units they vacate. This limits their impact on overall market conditions and rents.[11]

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[8] The study categorized areas based on housing supply elasticities — that is, by how responsive the supply of housing in the area is to increases in housing costs — and found that rent rose in markets where the price elasticity of supply was lower than 0.83. Eriksen and Ross, p. 172.

[9] See Jerome Rothenberg *et al.*, *The Maze of Urban Housing Markets: Theory, Evidence, and Policy,* University of Chicago Press, 1991.

[10] Gregory Mills *et al.,* "Effects of Housing Vouchers on Welfare Families," prepared for Department of Housing and Urban Development Office of Policy Development and Research, September 2006, https://www.huduser.gov/portal//Publications/pdf/hsgvouchers_1_2011.pdf.

[11] Eriksen and Ross found that rents dropped more for low-end units than they rose for mid-market units. They note that this may be explained by owners' tendency to be slower to take housing units out of use when demand drops (as it does at the bottom of the market when voucher holders move out) than they are to provide more units when demand

Rental Markets Can Absorb Some New Households

Sometimes vouchers do increase the number of units needed, by enabling people who are doubled up or homeless to afford housing — outcomes that have powerful, positive effects on families and especially children. But rental markets have some capacity to absorb new voucher households just as they absorb other new renters, such as young people moving out of their parents' home. This capacity to absorb new renters could be different during implementation of the BBB voucher expansion compared to earlier expansions due to two offsetting factors: on the one hand, rental markets have tightened during the pandemic and vacancy rates are relatively low today on average nationally, but on the other hand the bill's expansion would be accompanied by the most ambitious federal effort in decades to increase the supply of housing.

Overall, the nation's rental markets could likely absorb the new households created by the bill's voucher expansion. Even with the recent tightening, the rental vacancy rate stood at 5.8 percent nationally in the third quarter of 2021, and 50 of the 75 largest metropolitan areas had vacancy rates above 5 percent (which is often used as a rule of thumb to identify tight rental markets) on average over the last four quarters for which data are available (from the last quarter of 2020 through the third quarter of 2021).[12] Moreover, the number of units needed would be small compared to the overall size of the rental stock. The bill would fund about 60,000 added vouchers a year over five years. If one-third of those voucher holders need an added unit, that would amount to 20,000 units a year, which is less than 1 percent of the number of units that are vacant and for rent today and just 0.04 percent of the nation's total number of rental units.

Measures to Expand Housing Supply Would Help Absorb Vouchers, Especially in Tight Markets

In tighter rental markets with low vacancy rates, it is more difficult for voucher holders and other households to find homes to rent. Vouchers are still effective in these areas and more vouchers are urgently needed,[13] and even markets with relatively low vacancy rates could likely absorb a number of new voucher households averaging around 0.04 percent of rental units. But it is also important to expand the housing supply, which would increase the housing choices available to voucher holders and other renters and counter the modest rent effects researchers have found from voucher expansion in tight markets.

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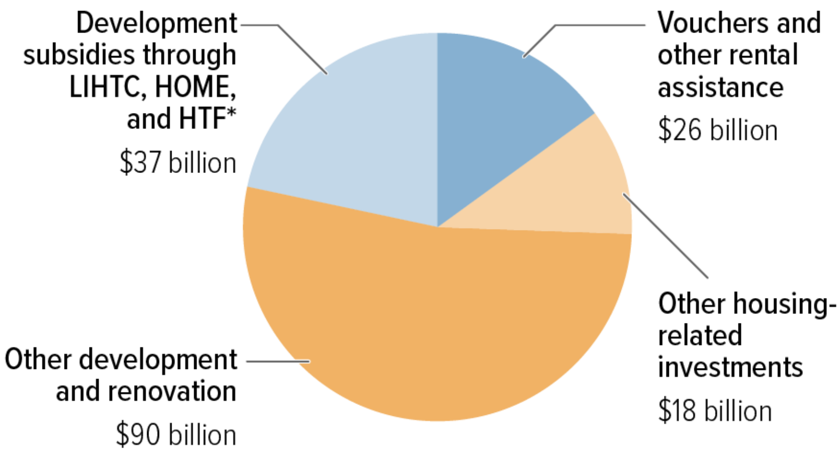
increases. As a result, rents and housing prices tend to drop more rapidly in markets and submarkets with declining demand than they rise in markets with growing demand. Eriksen and Ross, p. 174; Edward L. Glaeser and Joseph Gyourko, 2005, "Urban Decline and Durable Housing," *Journal of Political Economy*, Vol. 113, No. 2, pp. 345–75.

[12] We average four quarters of metropolitan area data because single-quarter metropolitan area data are less reliable due to small sample sizes. CBPP analysis of U.S. Census Bureau, Housing Vacancy Survey.

[13] For example, the housing agencies serving the cities of Boston, Los Angeles, New York, and San Francisco each put to use 99.4 percent or more of the voucher funds they received over the most recent five years for which data are available (October 2016 through September 2021).

FIGURE 2

Build Back Better Voucher Expansion Would Be Accompanied by Large Investments to Build and Renovate Housing



*Low Income Housing Tax Credit, HOME Investment Partnership, and Housing Trust Fund

Note: Chart shows impact on revenues from Low-Income Housing Tax Credit and Neighborhood Homes Tax Credit, outlays for improvements to the National Flood Insurance Program, and budget authority for all other housing programs. All data are for 2022-2031 and reflect the bill passed by the House of Representatives on November 19, 2021.

Source: Congressional Budget Office

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BBB seeks to increase the supply of housing in two ways.[14] First, the bulk of the $170 billion it provides for housing programs would go toward building or renovating housing.[15] (See Figure 2.) This would include a total of $37 billion for three major affordable housing development programs: the national Housing Trust Fund, HOME Investment Partnership, and Low-Income Housing Tax Credit — a sharp increase in funding for programs that together received $12 billion in 2021. These investments would fund over 800,000 affordable rental units according to one estimate.[16] (The increase in the rental housing supply would be fewer than 800,000 units, because some subsidies would be used to renovate existing housing or make buildings affordable that would have been built

[14] BBB also provides $530 million for services and landlord incentives to help families use vouchers in a wide range of neighborhoods.

[15] The bill would provide $128 billion for renovation and development, $26 billion to expand vouchers and other rental assistance, and $18 billion for other housing-related purposes.

[16] This estimate reflects the number of units that could be built through the bill's expansion of the Low-Income Housing Tax Credit (LIHTC) if the expansion is accompanied by proportional increases in funding available through housing subsidies typically used in combination with LIHTC. The authors conclude that this is a reasonable assumption given the large amount of funding provided in the bill for other housing programs such as the Housing Trust Fund and HOME Investment Partnership. Dirk Wallace and Peter Lawrence, "More Than $12 Billion in LIHTC Provisions and Nearly $6 Billion for Neighborhood Homes Tax Credits in Nov. 3 Draft of the Build Back Better Reconciliation Bill Would Finance Close to 1 Million Affordable Homes Over 2022-31," Novogradac, November 9, 2021, https://www.novoco.com/notes-from-novogradac/more-12-billion-lihtc-provisions-and-nearly-6-billion-neighborhood-homes-tax-credits-nov-3-draft.

anyway. But even a small share of the 800,000 units would be enough to offset the roughly 100,000 new households — 20,000 a year over five years — that could be created as a result of the voucher expansion.)

BBB also includes a new initiative to ease regulatory barriers to housing development, which play a central role in limiting housing supply in many areas. Most zoning policies and other housing regulations are developed at the local or sometimes state level. The Unlocking Possibilities Program initiative would provide grants to state and local governments to develop and implement plans to ease exclusionary zoning and other policies that limit housing development. The initiative could help encourage those governments to institute policies that make housing more abundant and affordable.

However, measures to expand the supply of housing will not be enough *on their own* to avoid pricing out people with incomes around or below the poverty line, who make up a large majority of households paying over half their income on rent. Households with incomes at that level typically can't afford rents high enough to cover even the ongoing cost of operating and managing rental housing.[17] As a result, even if subsidies cover the full cost of building housing or if regulatory changes led to the construction of many additional units, rents in the new units would generally be too high for the lowest-income families — unless those families also receive a voucher or other rental assistance. Thus, it is crucial that federal policymakers enact policies to *both* expand housing supply and provide many additional vouchers.

Safeguards Limit Rents in Voucher Units

A further factor limiting vouchers' impact on rents is a set of programmatic safeguards designed to prevent vouchers from paying more than a unit would be worth on the unsubsidized market. This is important, because in theory owners could overcharge for units even if, for the reasons described above, the number of available units is adequate to absorb the new households created by vouchers.

Voucher payment standards, which cap subsidies at levels based on moderate rents in the local market, provide a check against excessive rents. A family using a voucher may rent a unit with a rent above the payment standard, but it must pay 100 percent of the excess rent itself, so it has the same incentive as an unassisted household to avoid paying more than a unit is worth.

In addition, before a family can rent a unit with a voucher, the voucher agency must certify that the rent is reasonable compared to rents charged for similar unassisted units. Agencies vary in how they conduct these reviews, and some are likely more effective than others, but they appear to have a significant impact on the rents voucher holders pay. One indication of this is that many landlords charge voucher holders rents well below the payment standard, even though the voucher rather than

[17] The average extremely low-income renter household had an income of $11,139 in 2018. Government programs and private-sector owners and lenders often consider housing affordable if it costs no more than 30 percent of household income, which for this household works out to $280 a month for rent and utilities. Many households, including those most at risk of homelessness, have much lower incomes and can afford even less in rent. But in 2019 the average market rental unit's operating cost was $520 a month (and over $580 when the owner pays for utilities), according to National Apartment Association data. Paula Munger and Leah Cuffy, "Strong Performance to Close Record Economic Expansion: 2020 NAA Survey of Operating Income and Expenses in Rental Apartment Communities," National Apartment Association, October 2020, https://www.naahq.org/sites/default/files/2020_ies_exec_summary_final.pdf.

the tenant would pay the full rent up to 100 percent of the payment standard. In 2018, 49 percent of voucher holders paid rents below 95 percent of the payment standard.[18]

Policy changes in recent years are likely to make payment standards even more effective at preventing owners from charging more than a unit is worth.[19] But even without those improvements, research indicates that the voucher program's existing safeguards — while not perfect — play a substantial role in curbing above-market rents[20] and that overpayments under the program are modest.[21]

[18] Just 18 percent of voucher holders paid rent between 95 and 100 percent of the payment standard, while another 33 percent paid more than 100 percent of the payment standard and consequently covered the excess rent themselves. These figures include contract rent and utilities allowances for households with tenant-paid utilities. Data exclude housing agencies participating in the Moving to Work Demonstration. CBPP analysis of HUD administrative data.

[19] HUD has in recent years expanded use of small area fair market rents (SAFMRs) to set voucher payment standards. SAFMRs are based on rents in a particular ZIP code and therefore better reflect neighborhood rents than traditional FMRs, which are based on rents in an entire metropolitan area or county. Research shows that SAFMRs are more effective at limiting overpayments in the lower-rent areas where most voucher holders live. A 2016 HUD rule required voucher agencies in 24 metropolitan areas to use SAFMRs and allowed agencies in other metro areas to voluntarily adopt them. Center on Budget and Policy Priorities, "A Guide to Small Area Fair Market Rents," May 4, 2018, https://www.cbpp.org/research/housing/a-guide-to-small-area-fair-market-rents-safmrs; Robert A. Collinson and Peter Ganong, "How Do Changes in Housing Voucher Design Affect Rent and Neighborhood Quality?" *American Economic Journal: Economic Policy*, Vol. 10, No. 2, May 2018.

[20] ORC/Macro, "Quality Control for Rental Assistance Subsidies Determination," U.S. Department of Housing and Urban Development, June 20, 2001, p. ES-iv, https://www.huduser.gov/portal/Publications/pdf/qualitycontrol.pdf,.

[21] Edgar O. Olsen, "Does HUD Overpay for Voucher Units, and Will SAFMRs Reduce the Overpayment?" *Cityscape,* Vol. 21, No. 3, 2019, p 100.