

## **Rental Housing Markets and Policies – Where Do We Go From Here?**

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From the late 1990s through about 2006, US housing markets experienced an unprecedented boom. Changes in both public policies and market mechanisms, including the expansion of subprime and exotic mortgage loans, substantially expanded the number of homeowners, while the number of renters remained flat. Although the challenges facing renters intensified over this period, they received little serious attention in the national policy debate. And federal rental housing programs fall seriously short of addressing needs.

This essay begins by summarizing what happened to the rental housing sector during the homeownership boom, including the failures of federal rental assistance policy, and then explores the implications of the current market meltdown. It proposes a new policy framework in which federal and state policies would work together to more effectively support and regulate rental housing. And the essay concludes by suggesting possible opportunities offered by the current crisis for significant steps toward this new policy framework.

### **What Happened to the Rental Sector During the Housing Boom?**

Roughly a third of US households rent, and most of these do so of necessity – because they lack the income, savings, or credit history to become homeowners. More than two thirds of renters have low incomes (defined as below 80 percent of the local area median) compared to only about a third of owners. For much of the 20th century, inadequate supply and deteriorated structures constituted America's dominant rental housing problems. But for at least the past 40 years, the primary problem facing renters has been affordability. By 2005<sup>1</sup>, only 5 percent of renters lived in overcrowded housing<sup>2</sup> and 11 percent lived in housing that was structurally inadequate, but almost half (45 percent) were spending more than 30 percent of their income on rent, a housing cost burden deemed unaffordable by federal standards (Turner and Kingsley 2008).

The fundamental problem is that rents were rising faster than incomes for a growing segment of the workforce in almost every part of the country. This trend was primarily the result of widening income inequality, with incomes rising much more slowly for low- and moderate-wage workers than for those in high-skill, high-wage jobs. Rising incomes at the top of the wage ladder put upward pressure on housing prices and rents, forcing them beyond the reach of workers in lower-wage jobs (Katz and Turner 2008).

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<sup>1</sup> 2005 is the last year for which comprehensive data on housing problems and needs are reported by HUD (see U.S. Department of Housing and Urban Development 2007a). A similar report with 2007 data is expected to be published in 2009.

<sup>2</sup> A household is considered overcrowded when the ratio of persons to rooms exceeds 1.0.

Further, in prosperous metropolitan areas, new housing construction failed to keep pace with employment and population growth (Joint Center for Housing Studies 2006). Local zoning laws, land use controls, and other regulatory barriers limited total housing production (especially rental production), raised the cost of new units, and constrained the production of modest, lower-cost units. As population grew in markets with constrained supply, the increased competition for housing caused prices and rents to rise even more rapidly (Katz and Turner 2008).

Metropolitan regions with weaker labor markets and slower population growth did not see such rapid price increases. However, unemployment was higher and wages were lower, making the housing affordability pinch just as severe for those at the bottom of the skill ladder. Even under weak market conditions, rents did not drop low enough to make housing affordable for households at the bottom of the income distribution (Katz and Turner 2008). Figure 1 illustrates this problem by showing the hourly wage a full-time worker would need to earn in order to afford the 2007 fair market rent<sup>3</sup> for a two-bedroom rental unit in selected states.

*Within* metropolitan markets, rental housing (particularly moderately-priced housing) is typically scarce in the communities where it is needed most. Historically, both jobs and affordable rental housing were concentrated in central-city locations. But over the last few decades, employment growth has become increasingly dispersed, while exclusionary zoning laws have limited the development of rental housing in many suburban communities (Pendall, Puentes, and Martin 2006).

The same regulatory barriers that constrain housing supply overall also severely limit the production of modest, higher-density rental housing in job-rich suburban jurisdictions. Many of these regulatory barriers reflect legitimate priorities, such as the safety and structural integrity of housing construction, preservation of wetlands and sensitive habitats, protection of open spaces for everyone to enjoy, and creation of amenities that enhance neighborhood quality. But some regulatory barriers are, in fact, intended to prevent lower-cost housing from being built in a local community, to exclude lower-income (and minority) households, and to maintain high property values for current residents (Downs 1994).

Central cities, then, remain the primary source of affordable rental housing within most metropolitan regions. And the clustering of affordable rental housing in central-city neighborhoods has served to reinforce concentrations of poverty and exacerbate racial segregation. Although most poor Americans live in non-poor neighborhoods and the incidence of concentrated poverty declined in the 1990s, 7.9 million poor people still lived in “extreme poverty” census tracts as of 2000 (Jargowsky 2003).<sup>4</sup> These high-poverty neighborhoods suffer

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<sup>3</sup> Fair market rents are established by the Department of Housing and Urban Development based on the 40<sup>th</sup> percentile of gross rents for standard-quality units, and adjusted for size.

<sup>4</sup> It is likely that the number has increased in the years since, because of rising poverty rates nationwide.

from serious distress across a wide range of social and economic indicators, and families who live in them suffer as a consequence (Ellen and Turner 1997).

In sum, at roughly the midpoint of this decade, the rental housing sector was out of balance at multiple levels, including a nationwide housing affordability problem, insufficient housing supply in prosperous regions, a problem of housing location within metropolitan regions, and a neighborhood distress problem. And these problems have increasingly undermined other national priorities. Specifically, the unaffordability of rental housing for low- and moderate-wage workers belies the fundamental premise that full-time workers should be able to achieve a decent standard of living for themselves and their families. Shortages of affordable housing may undermine a region's economic productivity and growth by raising the costs of living, increasing traffic congestion and commute times, making it more difficult for employers to attract skilled labor, and ultimately discouraging them from investing in an area (Glaeser, Gyourko, and Saks 2005). The concentration of affordable housing in distressed inner-city neighborhoods traps low-income children in places where public schools are failing and life chances are limited. And the lack of affordable housing in job-rich locations contributes to environmentally and fiscally wasteful patterns of sprawl.

### **Federal Policy Has Fallen Short**

The federal government began funding the production of rental housing during the New Deal, and in the decades since, a complex tangle of federal programs has evolved to tackle the housing needs of low-income renters. Today, federal rental housing programs are numerous and confusing, their implementation is balkanized, and policy debates often focus on narrow technical issues. Although these programs are complex and costly, they fall woefully short of meeting the needs of low-income renters. They are ill-suited to the demographic, geographic, and economic trends we face today, in part because of the long-standing policy preference for homeownership (see DiPasquale 2009).

At their most basic, federal rental housing programs fall into three basic categories: 1) programs that provide deep, gap-filling rent subsidies, earmarked either for particular buildings or for individual households; 2) tax credits that produce new housing with moderate (below-market) rent levels; and 3) block grants that provide flexible support for local affordable housing initiatives.<sup>5</sup>

The most generous and reliable support for low-income households comes from federal housing programs that provide deep, gap-filling rent subsidies. These programs all pay the difference between a rent contribution that is considered affordable—currently set at 30 percent of monthly income—and the actual rent for a house or apartment. Families receive this kind of “gap-filling”

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<sup>5</sup> The federal government also provides funding to support emergency shelters, transitional housing, and permanent supportive housing for homeless individuals and families. These programs are not covered here. For an excellent overview, see National Alliance to End Homelessness (2007).

subsidy if they live in public housing (owned and managed by a local public housing agency) or in privately owned developments that have long-term subsidy contracts with the HUD. In both cases, the subsidy is “project based”—attached to the house or apartment; if the family moves, it loses its subsidy.

Production of these deeply subsidized rental projects occurred in two overlapping phases. During the first phase, extending from the 1930s through the early 1970s, the federal government contracted with local public housing agencies (PHAs) to build and manage properties, providing funds to cover both capital and operating costs.<sup>6</sup> In effect, these contracts required the PHAs to maintain the affordability of public housing units in perpetuity. During the second phase, extending from the 1960s to the early 1980s, the federal government executed contracts directly with for-profit and nonprofit housing developers, rather than with PHAs. The terms of contracts generally guaranteed subsidies and imposed affordability restrictions for up to 30-year terms.

Gap-filling subsidies are also available in the form of federal housing vouchers, which allow families to rent regular homes and apartments on the private market. Again, a family contributes 30 percent of its monthly income and the federal government pays the rest, up to a locally determined maximum. Vouchers are unique among federal housing assistance programs in that they are “tenant based” rather than project based, allowing the recipient rather than the developer to decide where the low-income household will live. In principle, voucher recipients can even receive their assistance in one jurisdiction and take it to another as they search for housing that best meets their needs.<sup>7</sup>

The Low Income Housing Tax Credit (LIHTC) program provides up-front subsidies to developers of rental housing (or their equity investors) in return for a commitment to charge below-market rent levels. Rents for these units must be set at levels that are deemed affordable for households with moderately low income levels for the local area, and the units are set aside for residents at or below this income ceiling. All eligible residents pay the same rent; the LIHTC program does not require (nor does it provide sufficient subsidies to allow) every unit to be affordable for the family that lives in it.

Every year, the federal government also provides flexible support for local housing initiatives in the form of block grants. Specifically, the HOME program allocates federal dollars by formula to state and local governments, which can use the money to buy, build, or rehabilitate rental housing targeted to low- or moderate-income households. The Community Development Block

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<sup>6</sup> Initially, the federal government only provided funding for the capital costs of public housing. Operating subsidies were added in the 1960s when federal legislation (the Brooke Amendment) limited tenant rent payments to 25 percent of their income (later increased to 30 percent), and it became clear that these payments were not sufficient to cover the costs of operating public housing.

<sup>7</sup> PHAs are authorized to commit up to 20 percent of the tenant-based vouchers they administer to projects—in effect converting them into project-based subsidies.

Grant program provides formula funding to the same jurisdictions, and these dollars can be used to pay for infrastructure and community facilities (like parks, recreation centers, and street improvements) that support affordable housing development. Housing legislation recently passed by Congress includes a new Affordable Housing Trust Fund, which (beginning in 2010) will be distributed by formula to state governments primarily to support the development of rental housing that is affordable for very low income households.<sup>8</sup>

As of 2005, only 5.5 million renter households actually received assistance under these federal programs. That number represents just 23 percent of the 23.6 million that were eligible. Even among extremely low income renters, only 34 percent of those that are eligible receive housing assistance. An estimated 12.4 million renter households had incomes low enough to make them eligible and suffered from one or more serious housing problems, but received no assistance (Turner and Kingsley 2008).

In the years since the mid-1990s, the stock of housing with deep, gap-filling federal subsidies has declined substantially, while the number of households receiving vouchers has expanded, leaving the total number of renter households receiving gap-filling assistance essentially unchanged. Two factors have contributed to the loss of federally subsidized stock: the demolition of severely distressed public housing and the expiration of federal subsidy commitments to privately-owned rental properties.

The HOPE VI program, which provides funds to demolish severely distressed projects and replace them with attractive mixed-income developments, has built fewer new public housing units than were torn down and associated public housing initiatives have resulted in the demolition or sale of other deteriorated projects without replacement. The estimated result of these changes was a decline of about 140,000 public housing units between 1995 and 2007 (Sard 2008). At the same time, about 430,000 privately owned rental units with deep federal assistance were lost from the subsidized stock due to expiring subsidy contracts.

The number of households receiving vouchers grew substantially during the 1990s and through the early years of this decade, in part because PHAs received extra vouchers to relocate public housing residents displaced by HOPE VI. More recently, however, federal budget pressures have curtailed any further expansion of the voucher program. Altogether, the total number of voucher holders grew from 1.20 million in 1993 to 1.97 million in 2007. Taken together, growth in the voucher program over the past decade and a half has been almost completely offset by the loss of deep, project-based subsidies. The total number of households receiving deep, gap-filling assistance increased by only about 30,000 between 1993 and 2007 (Turner and Kingsley 2008).

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<sup>8</sup> Resources for this new Trust Fund would come from the profits of two government-sponsored financial intermediaries (Fannie Mae and Freddie Mac), and therefore will not be subject to annual appropriations. It is unclear how the recent federal takeover of Fannie Mae and Freddie Mac may affect this arrangement.

In contrast, the number of LIHTC units has grown rapidly since the program was launched in 1987. The stock of LIHTC units reached a total of 430,000 units in 1995 and then expanded to 1.53 million in 2005, more than compensating for the loss of units subsidized under the older federal programs (Turner and Kingsley 2008). But these LIHTC units, though an important source of affordable rental housing, do not fully substitute for the units that have been lost, because without the deep, gap-filling subsidy commitments their rents are often unaffordable for the lowest income households.

The end result of recent shifts in the size and composition of federal rental housing assistance has been a significant increase in the number of unassisted renters facing serious housing problems. Between 1999 and 2005, this number grew 7.7 percent, from 13.1 million to 14.2 million. And our best estimates indicate that two thirds of the low-income renters facing serious housing problems receive no assistance (Turner and Kingsley 2008).

Federal rental housing policy today is failing not only because of inadequate scale, but also because of long-standing locational patterns. Rental housing production programs have a long history of concentrating assisted units in inner-city neighborhoods—contributing to racial segregation and the concentration of poverty. In particular, the location of conventional public housing contributed substantially to the emergence of high-poverty (predominantly minority) neighborhoods. Evidence suggests that LIHTC production, as well as affordable housing financed with federal block grant funding continues to reinforce patterns of concentrated poverty in inner-city neighborhoods, though at lower levels than older public housing and assisted-housing programs (Freeman 2004; Herbert et al 2001; Walker et al 1998). And although the Housing Choice Voucher program offers considerably more location choice, both administrative barriers and market realities limit the extent to which voucher holders – especially minority families – are able to use their assistance to move to opportunity-rich locations (Devine et al 2003).

Federal policies provide virtually no incentives for states or localities to remove the regulatory and administrative barriers that inflate the costs of housing and constrain the production of moderately-priced rental units. HUD requires local and state governments that receive federal block-grant funding to conduct a process to identify and ameliorate local regulatory barriers and impediments to fair housing as part of the comprehensive housing affordability strategy within their consolidated plans (Turner et al 2002). However, current regulations do not impose any consequences if a local government fails to remove the barriers it has identified or if it fails to identify any barriers in the first place (Stowell and Shelburne 2004). In effect, therefore, the federal government looks the other way when local jurisdictions act in an exclusionary manner.

In addition to the problems of scale and location, some people argue that deep, gap-filling subsidies for the poorest renters effectively discourage work by “taxing” every additional dollar of income and by buffering the effects of a drop in earnings. But the evidence to support this

argument is mixed (Newman 2009). The Jobs-Plus Initiative rigorously tested the effectiveness of changing rent rules to encourage work (implemented in conjunction with high-quality work supports). Resident earnings rose significantly (compared with residents living in comparable public housing developments) due to a combination of higher employment rates and higher wages (Bloom, Riccio, and Verma 2005). A number of PHAs have recently experimented with changes in rent rules, occupancy requirements, and support services, but insufficient research has been conducted to rigorously assess the effectiveness of these efforts (Abravanel et al 2004).

### **What's Happening to Rental Markets Today?**

The foreclosure crisis and the larger economic downturn are more likely to intensify hardship than to offer relief for low- and moderate-income renters. Weak demand in the homebuying market may cause some owners (including new condominium developers) to rent out units that otherwise would have been for sale, increasing rental supply and potentially depressing rents. But at the same time, the collapse of credit markets reduces the availability of financing for new rental housing production, constraining supply, and a significant share of foreclosures are investor-owned rental properties. So it is unclear whether the supply of housing units actually available for rent will grow significantly. And the demand for rental housing is clearly on the rise, as would-be homeowners postpone their first home purchase and foreclosed homeowners become renters, at least temporarily (JCHS 2008).

Far less information is available about current conditions in rental markets than in home sales markets, so it is difficult to discern trends with much certainty. But the evidence to date is discouraging. The number of vacant units available for rent increased substantially between 2006 and 2007 (JCHS 2008), and multifamily vacancies are forecast to climb slightly through 2009 (NAR 2008). It is not clear, however, that rents will decline significantly. The Bureau of Labor Statistics estimates that rents in US cities climbed 9 percent on average between the January 2006 and January 2008 ([www.bls.gov/data/](http://www.bls.gov/data/)). And the National Association of Realtors projects rent increases of around 3 percent annually through 2009 for multifamily properties (NAR 2008).

Rent trends vary widely across markets, but appear to be rising at least as fast as incomes, even in the healthiest markets (like Washington, DC), and considerably faster than incomes in other markets. For example, according to the Bureau of Labor Statistics, rents in Detroit rose only 2 percent from 2006 to 2008, but median income declined 2 percent over the same period. And in Miami, rents climbed 16 percent while median income grew only 3 percent ([www.bls.gov/data/](http://www.bls.gov/data/); [www.huduser.org/datasets/il.html](http://www.huduser.org/datasets/il.html)). However, as DiPasquale (2009) shows in her commentary, industry data show that rents in large buildings have been falling over the last several years, suggesting that trends may differ across segments of the rental market (even in the same metropolitan area) and that industry forecasts may be unreliable.

Even if rising vacancies and falling incomes push rents down somewhat, it is unlikely that property owners will reduce rents far enough to significantly relieve affordability pressures for low- and moderate-income households. Based on past experience in weak markets and on the costs of operating rental housing, property owners are more likely to hold units off the market than to reduce rents substantially (JCHS 2008).

The number of households seeking rental housing will undoubtedly rise over the next several years. Foreclosed homeowners typically turn first to family and friends for temporary shelter, but then enter the rental market. And due to the current turmoil in the housing finance sector (as well as the larger economic downturn), many households that would under normal circumstances have purchased homes will remain renters instead. The Joint Center for Housing Studies anticipates significant short-term growth in the total number of renter households nationwide, a trend that is already evident in parts of the country where foreclosures started climbing earliest (JCHS 2008).

Increasingly, analysts and practitioners are recognizing that renters as well as homeowners are victims of the foreclosure crisis. A substantial share of high risk mortgage loans went to investor-owners of one- to four-unit residential properties. And these properties account for an estimated 20 percent of foreclosure actions (JCHS 2008). Renters generally receive less advance warning about impending foreclosure than do property owners and at least until recently, have been routinely evicted upon foreclosure, even if they have been paying their rent faithfully and are lease compliant (SmartMoney.com 2007). Because renters typically have lower incomes and wealth reserves than homeowners, they are more likely to face real difficulty finding replacement housing they can afford, and hence more likely to experience episodes of homelessness (Cunningham 2009).

The national financial and economic meltdown has also derailed the Low Income Housing Tax Credit – the primary source of moderately-priced rental production over the last decade and a half. The big financial institutions (including FannieMae and FreddieMac) that purchased tax credits no longer have resources available and no longer have excess income to shelter from tax liability. As a consequence, demand for credits has declined sharply, and their value has dropped, putting existing development deals at risk and reducing the number of affordable units likely to be produced over the next several years (Kimura 2009). New rental housing construction is also likely to be severely constrained by the overall lack of credit and uncertainties about underwriting standards (NCHS 2008, DiPasquale 2009).

So it is entirely possible that we will see excess supply at the high end of the rental market (including single-family homes), while more moderately priced rentals remain in short supply and lower income households continue to face severe affordability problems (JCHS 2008). As unemployment rises and wages decline, more and more renter households are likely to experience hardship. And when the economy finally recovers and housing markets stabilize,

the structural problems making rental housing unaffordable for too many of those who rely upon it will remain unabated.

### **A New Policy Framework**

To address these persistent, structural problems, we need a new policy framework that systematically corrects rental market imbalances and addresses the needs of low- and moderate-income renters. No single level of government can or should tackle today's rental housing challenges on its own. Federal, state, and local governments all have essential roles to play. But the federal government has to take the lead.

Only the federal government has the fiscal capacity to address the consequences of stagnant wage growth and income inequality nationwide. As long as incomes for a substantial segment of the population fall short of what it takes to cover the costs of adequate housing, state and local governments simply cannot afford to close the affordability gap for enough households. Therefore, federal policies should target the demand side of the housing affordability equation, ensuring that all households have sufficient income (or a housing voucher) to make minimally adequate housing affordable.

This could be accomplished through a combination of increases in the minimum wage, an expanded Earned Income Tax Credit or a supplemental tax credit pegged to local housing costs, and a substantially expanded Housing Choice Voucher program. Working together, a higher minimum wage and a refundable housing tax credit could substantially reduce the affordability problems facing low-wage working families, while also creating strong incentives for increased work effort and earnings over time (see Acs and Turner 2008).<sup>9</sup>

But households headed by elderly or disabled people—who cannot work—and families with children where adults are not working need housing vouchers. These vouchers should all be administered at a regional scale, not by individual, local jurisdictions (as the current Housing Choice Voucher program is). The current system of administration by local public housing agencies fragments the metropolitan rental market, making it difficult for low-income families, particularly minority families living in central cities, to know about and act on the full range of housing options that a voucher makes affordable (Katz and Turner 2000).

If the federal government addresses the demand side of today's housing affordability crisis, state and local jurisdictions could take the lead on the remaining, supply-side challenges. Using both regulatory reforms and supply-side subsidies, states and localities should create incentives that induce private market actors (both for-profit and nonprofit) to produce and maintain rental housing that is affordable at moderate-income levels. For example, localities could eliminate regulatory barriers like large lot zoning and bans on multifamily housing, adopt inclusionary

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<sup>9</sup> Also see DiPasquale 2009 for a discussion of the relative federal tax treatment of owner and rental housing.

requirements that mandate some moderately priced units as part of every new housing development, and create local housing trust funds to help subsidize production costs.

Of course local political pressures will discourage many jurisdictions from taking steps to expand the availability of moderately-priced rental housing. And the federal government would have a strong interest in the effectiveness of state and local supply-side policies, because federal policies to boost purchasing power will ultimately be ineffective if the supply (and location) of housing in some markets is still artificially constrained. Therefore, the federal role with respect to supply-side policy must create strong incentives for states and local jurisdictions to reduce regulatory barriers that unnecessarily constrain market supply and inflate costs and produce affordable rental housing where it is most needed.

What combination of carrots and sticks could the federal government deploy to effectively guide state and local action? As a first step, the federal government should provide metropolitan planning organizations (MPOs) with federal funding (and technical assistance) and require them to prepare regional housing strategies that complement the regional transportation plans already mandated by federal law. These housing strategies would be designed to ensure that all communities in a metropolitan area, including those that are economically prosperous, participate in the production of housing that is affordable to families with a broad range of incomes (Katz and Turner 2008).

Within this new regional planning framework, cities and urban counties would continue to receive housing and community development block grants but would be required to deploy these resources in ways that further and are consistent with regional housing strategies. Metropolitan planning organizations would have the authority to certify compliance, and cities and counties that were found in noncompliance with these metropolitan strategies would be given a designated period of time to correct the identified deficiencies. Failing that, the jurisdictions would no longer be eligible to receive federal housing production funds. Conceivably, the federal government might even cut off (or reduce) transportation resources to regions with noncompliant jurisdictions (Katz and Turner 2008), although this penalty would likely generate fierce political opposition (see for example, Henderson 2004).

In order to induce more affordable rental production in suburban communities—many of which do not currently qualify for funding from either HOME or community development block grants—the federal government could offer a new incentive fund. Jurisdictions would be eligible to receive awards from this fund if they reduced regulatory barriers and expanded the supply of moderately priced rental housing within their borders. Another option would be to set a single national payment standard for all new vouchers in conjunction with a supplemental fund that local authorities would be required to use to “top up” vouchers to a level sufficient to cover the costs of adequate housing in the local market area. As other state and local policies brought local housing costs down and expanded the stock of moderately priced units, money from this

fund that was not needed to supplement federal voucher payments could be redirected to other, locally determined housing purposes (Katz and Turner 2008).

Finally, the formula for allocating LIHTC resources should be recalibrated to increase the availability of credits where new rental production is demonstrably needed. And LIHTC income limits and targeting incentives should be adjusted so as to discourage the concentration of more affordable housing in distressed neighborhoods and support both developments serving a broad range of incomes within revitalizing communities and developments that expand the availability of rental housing for low- and moderate-income households in opportunity-rich communities (Khadduri and Wilkins 2006; Khadduri 2009).

### Next Steps

Today's dire economic circumstances may create opportunities and impetus for significant progress toward a new rental housing policy framework. The subprime meltdown and widening foreclosure crisis demonstrates that homeownership is not for everybody and that a healthy rental market that offers stable and affordable housing options for those who are not ready to own is critical. In addition, the severity of the economic downturn provides a strong rationale for expanding the availability of vouchers to provide direct relief to struggling families and for preserving and upgrading the subsidized stock to create jobs and improve housing conditions. Finally, the conversion of condos and single-family homes to rental occupancy potentially expands the rental stock in desirable locations and creates opportunities for public agencies and non-profits to purchase foreclosed properties and maintain them as affordable housing when the market ultimately rebounds.

But we have to be smart about how we capitalize on these opportunities. It would be all too easy to move quickly and thoughtlessly, locking in old policy mistakes for another generation. For example, investments in public housing renovation and retrofitting should be directed toward projects in healthy or revitalizing neighborhoods, not those in distressed and dangerous neighborhoods served by failing schools. Acquisition of foreclosed properties should similarly be targeted to opportunity-rich neighborhoods, and should not be used to create projects that are 100 percent subsidized. And NIMBY pressures cannot be allowed to exclude moderately priced rentals from suburban jurisdictions and other opportunity-rich communities.

The new administration obviously must focus on the urgent challenges facing homeowners and mortgage lending institutions and on reforms that better protect both over the long term. But to achieve the balanced housing policies and markets that we need, the federal government should also give high priority the five near-term rental policy objectives.

**1. Expand demand-side help for low-income renters.** The Housing Choice Voucher Program is a proven tool enabling very low-income renters to afford decent housing in neighborhoods of their choice. This program should be significantly expanded -- by

100,000 incremental housing vouchers annually. At the same time, the purchasing power of all low-income workers should be supplemented by increases in the Earned Income Tax Credit and Child Care Credit.

**2. Maximize mobility and choice for housing voucher recipients.** The implementation of the voucher program should be strengthened so that it more effectively promotes the goals of both affordability and location choice. In particular, HUD should create incentives for the PHAs in a metropolitan region to work together to address the administrative and market barriers that discourage families from using vouchers to move to high-opportunity areas. And any new vouchers should be accompanied with heightened performance standards that require PHAs to actively encourage families to use their vouchers in safe neighborhoods that offer good schools and reasonable job access (Khadduri 2009 offers specific suggestions for how this might be accomplished).

**3. Expand the supply of moderately-priced rental housing in opportunity-rich areas.** The LIHTC program should be modified to facilitate the use of tax credits for the acquisition of existing (foreclosed) properties. At the same time, LIHTC rules should be adjusted so that credits can be effectively used to produce (or acquire and operate) both mixed-income housing in distressed communities and affordable housing in opportunity-rich communities (see Khadduri 2009 for detailed recommendations). In conjunction with these LIHTC reforms, the federal government should create a new incentive grant program that rewards suburban jurisdictions for expanding the supply of moderately-priced rental housing.

**4. Provide funding and capacity-building support for acquisition and management of foreclosed properties.** The new Neighborhood Stabilization Program, which provides flexible funding to help local governments respond to the foreclosure crisis should be expanded, and HUD should provide more guidance and support to local governments and their nonprofit partners so that they can strategically acquire foreclosed properties (particularly those in neighborhoods that are safe and fundamentally healthy) and maintain them as affordable rental housing. This will require not only money but capacity-building support, including funding and technical assistance for regional nonprofit housing corporations, some of which would be new nonprofit entities, while others would evolve from existing community development corporations.

**5. Strategically preserve the remaining assisted stock.** HUD should develop a plan for preserve (and upgrading) most of the remaining public and assisted housing stock over the next five years. The recently passed economic recovery package will fund the first phase of this effort. However, projects located in severely distressed neighborhoods (with high levels of crime and violence and failing public schools) should not be upgraded. Instead, they should be replaced by buying or building properties in safe, healthy locations and transferring the long-term public housing operating subsidies to these replacement properties.

For most of the last decade, rental housing markets and the challenges facing renter households have been neglected by federal policymakers. As a consequence, longstanding problems of rental housing affordability, locational disparities, and poverty concentration intensified during the housing market boom. The current foreclosure crisis and economic downturn do little to resolve these stubborn and systemic problems. But if federal policymakers take the initiative to re-envision rental housing policy, addressing failures on both the demand and supply sides of the market, the U.S. could significantly reduce housing hardship among low-income working families, improve school outcomes for poor and minority children, and begin taming sprawl and its environmental damage.

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