DISCUSSION 23

MAKING VOUCHERS MORE MOBILE

Expanding Neighborhood Choices for Voucher Tenants Using Small Area Fair Market Rents

by Robert Collinson

Since the Housing Act of 1949 set out the goal of "a decent home and suitable living environment for every American family," federal low-income housing policy has targeted the dual aims of improving both the physical housing-unit quality and the neighborhood environment for low-income families. The housing choice voucher program is expressly designed to give low-income families the choice of a better neighborhood environment.

The disappointing fact is that, on average, the voucher program doesn't actually move families to less impoverished or substantially safer neighborhoods. There are a number of explanations for why this is the case: landlords discriminate against voucher holders; rental housing in safe, low-poverty neighborhoods can be scarce; voucher holders may lack information about units in these neighborhoods; or they may elect to stay close to family or friends in poor neighborhoods. Another important explanation is that vouchers simply don't pay enough to help most low-income tenants afford rental units in nicer neighborhoods. Tenants in the voucher program are required to pay 30 percent of their income as rent and the government pays the rest, up to a subsidy ceiling (a Fair Market Rent, or FMR) that is usually set at the 40th percentile of metro-area or countywide rent.[1] Thus, the amount the government supplements is the same for both relatively expensive and relatively cheap neighborhoods *within* a metro area. Vouchers cover the cost of rent for 68 percent of rentals in poorer neighborhoods, but just 15 percent of rentals in wealthier neighborhoods.

Recently, HUD has proposed expanding an exciting demonstration targeting this latter challenge. Known as Small Area Fair Market Rents (Small Area FMRs), the policy replaces a single voucher subsidy ceiling that applies across all neighborhoods in a metro area with a subsidy maximum tied to the typical rent within each zip code. This allows the voucher to be large enough to pay for more expensive rents in higher-rent zip codes while cutting the maximum subsidy in low-rent communities.

In a recent study with Peter Ganong, I examined the effects in Dallas of Small Area FMRs, which have been in effect since 2011, and found that voucher holders in Dallas moved to measurably better neighborhoods after the implementation of Small Area FMRs, relative to a control group of voucher holders in neighboring Fort Worth.[2] Tying the Fair Market Rent to zip-code rents led voucher families in Dallas to move to less impoverished neighborhoods with substantially lower violent crime levels.[3] Using an index of neighborhood quality that incorporates crime, poverty, single-parenting, school quality, and employment, we found that voucher holders moved to neighborhoods that were 0.23 standard deviations higher in quality—equal to about one-third the Hispanic-White gap in neighborhood quality and one-quarter of the Black-White gap in the Dallas metro area.

We contrast this with an existing policy of raising the FMR across all neighborhoods from the 40th to the 50th percentile of metro-area rents.[4] This policy fails to move voucher holders to high-quality units or neighborhoods. When the FMR is raised across all neighborhoods, voucher holders don't appear to take their vouchers to better neighborhoods. Instead, they search in the same neighborhoods, either to improve their odds of leasing-up at all (only about two-thirds of families issued vouchers successfully lease-up through the program) or to find units with more space or amenities. In contrast, Small Area FMRs level the odds of finding a unit in high- and low-quality neighborhoods, encouraging families to search for units in higher-quality areas where their voucher "goes further."

Identifying cost-effective strategies to improve the neighborhood environments for voucher families—particularly those with young children, who are likely to benefit most from low-poverty neighborhoods—is critically important for the voucher program. Some concerns remain about negative consequences of FMR reductions in low-rent neighborhoods: will voucher families simply occupy worse-quality units in low-rent neighborhoods, or will they occupy the same units but shoulder more of the rent (or will voucher tenants find acceptable units at all)? These are legitimate concerns that should be tracked closely. However, in many markets, voucher tenants already occupy units well below the FMR, so these tenants may be relatively unaffected by reductions in FMRs.[5] The effectiveness of Small Area Fair Market Rents may vary by housing market conditions and population groups (such as the disabled and the elderly); both are areas that warrant further research. But Small Area FMRs can be a critical tool to enable voucher families to find units in less impoverished neighborhoods where children and adults can realize the benefits of safer streets and better schools.

Housing Choice Shouldn't Be at the Expense of Other Low-Income Renters

by Rachel Fee

HUD wants to expand its successful pilot for Small Area Fair Market Rents (SAFMR) to New York City. With promising outcomes in a Dallas demonstration program, HUD proposes new rules for New York City and other regions with high levels of voucher concentration to both encourage and enable voucher holders to move to areas of higher opportunity and lower poverty. Instead of a citywide Fair Market Rent (FMR), rents will be set by zip code. This "cost-effective" proposal will raise allowable rents in some zip codes and lower them in others to more accurately reflect housing submarkets within a region. This proposal is full of promise and may work well in some localities, but in a high-cost, extremely-low-vacancy city like New York, it could have disastrous consequences.

In New York City, our housing agencies estimate that roughly one-third of our 120,000 voucher holders' rental assistance payments would go down. HUD's proposal is made without a Section 8 budget increase, so housing "opportunity" for some low-income families will come at the expense of others. Families who choose to stay in their current homes in high-poverty areas, or those who are unable to move, will literally pay the price of higher rents for families using their voucher in more expensive neighborhoods. Half of impacted households are elderly and/or disabled, with an average annual income of less than $15,000; paying higher rent will surely affect the quality of life for these households. In a red-hot real estate market that has driven homelessness to all-time heights and a vacancy rate of 3.4 percent, classified at emergency level by HUD, finding an apartment at all will be a challenge, even in an only marginally lower-poverty neighborhood.

Within thirteen to twenty-four months, 36,000 families would be expected to move to a higher-income neighborhood or remain in place by negotiating a lower rent or paying more. A higher rent burden is the likely outcome for families who stay. The premise underlying HUD's policy proposal is that landlords will accept lower rents in high-poverty, low-rent neighborhoods so that tenant payments won't rise much when subsidy amounts fall. This is an unrealistic and risky assumption when rents are rising and vacancy rates are low, even in high-poverty neighborhoods, some of which are rapidly gentrifying. For movers, the new vouchers, set at 40th percentile rents, may have insufficient purchasing power in a tight rental market to open up new neighborhood options to families. Another problem with SAFMRs is that zip codes fail to delineate meaningful boundaries for housing submarkets in New York. While HUD's proposal may offer some flexibility for housing authorities to combine zip codes upon application, the geography of zip codes offers no comfort to affordable-housing advocates concerned by the immensely complicated process of finding an apartment using a Section 8 voucher with 176 rent levels (our number of zip codes).

Section 8 is a mobility program. When only one in five families use their vouchers to rent in low-poverty areas nationally, it is clearly not providing the mobility intended. In New York, vouchers are primarily concentrated in poor neighborhoods in Brooklyn and the Bronx. That must change. Giving low-income families more housing options, especially in high-opportunity neighborhoods with better schools, lower crime, access to employment, and transit, is what the program should do. But program improvements should not be achieved on the backs of low-income families who choose not to or are unable to move. Only with a significant budget increase, should HUD consider offering higher rent levels in New York City—not by zip code, but perhaps in high-performing school districts or other more meaningful boundaries.

Small Area FMRs: A Jump-Start to Affirmatively Furthering Fair Housing

by Demetria McCain

Robert Collinson concludes from his quantitative analysis that Small Area Fair Market Rents (SAFMRs) help housing choice voucher (HCV) families to find units in less impoverished neighborhoods where they can realize the benefits of safer streets and better schools. The on-the-ground experience of the Inclusive Communities Project's (ICP's) Mobility Assistance Program (MAP) in the Dallas area suggests that nothing could be more true. While Collinson highlights important research showing that Dallas movers accessed lower-poverty areas with better schools and less crime when SAFMRs came to town, his essay doesn't sufficiently emphasize the power of zip-code-based subsidies to combat racial segregation and affirmatively further fair housing.

HUD's interest in expanding SAFMRs to other metros hinges, in part, on the expectation that they will enhance the ability of voucher holders to access housing in integrated neighborhoods in support of the agency's goal of affirmatively furthering fair housing.[6] Notably, Dallas Housing Authority's (DHA's) May 31, 2016 Resident Characteristics Report shows that 87 percent of its 15,749 voucher holders are Black, and a similar share existed in 2011, when SAFMRs came online. According to then DHA executive director Mary Ann Russ, more than five thousand DHA voucher holders moved to more integrated and opportunity-rich areas during the first three years the agency used zip-code-based subsidies.[7]

For many MAP families, if being called from the voucher waiting list was like winning the state lottery, accessing zip-code-based subsidies was like winning the Powerball. It was a ticket out of a high-poverty, racially concentrated neighborhood.

Despite outcries from landlords who worried they might lose their longtime above-market rents in high-poverty segregated areas, for families like Lamesa White's, the program change meant the world. Many MAP families regularly say they enjoy "the peace" after making the choice to move to lower-poverty locales; for Ms. White, it meant being able to leave an area where her child's classmate was shot the day her family moved.[8] The move led her to an environment that inspired her teenage daughter to attend college and provided a school with more one-on-one special education attention for her younger child.

While a small pool of families with DHA litigation-designated vouchers with enhanced rents (about 2,500) regularly reached low-poverty, moderate-income, high-opportunity communities before Dallas's SAFMR era, few regular HCV holders could access these neighborhoods. Some explain the concentration of regular voucher holders in high-poverty, segregated areas as the result of families' choices to live near what is familiar. However, when SAFMRs were introduced in Dallas, families showed strong interest in moving to different neighborhoods. About 82 percent of the approximately three thousand regular MAP relocation briefing attendees signed up in 2012 to hear more about MAP's counseling and housing search assistance for families interested in what would be beyond "the familiar." While all did not move that year to ICP-defined high-opportunity areas, in part because of some of the additional barriers that Collinson notes, the long sign-up sheets belie the notion that no one seeks integrative moves out of high-poverty segregated neighborhoods. For these families, zip-code-based FMRs mattered.

That said, implementation of SAFMRs acts as a floor, not a ceiling, for what housing program administrators should do to help families who wish to move out of racially segregated areas.

Comprehensive mobility counseling and policy improvements (within and outside the HCV program) can remove many barriers to fair-housing choice for voucher families. But these efforts go nowhere if the voucher's buying power remains strangled under a metro-area-wide FMR system. Collinson is correct. Expansion of SAFMRs is exciting. In fact, it could be the most important jump-start HUD and public housing authorities can take to meet their obligation to truly affirmatively further fair housing.

Supporting and Protecting Low-Income Residents Are Essential to Ensuring Successful SAFMR Implementation

by Diane Yentel

Almost 14 million people live in neighborhoods of concentrated poverty, and the number is growing, nearly doubling since the year 2000.[9] The impacts of this trend are felt most within communities of color. One in four poor black families and one in seven poor Latino families live in concentrated poverty, compared to one in thirteen poor white families.[10] The recent work by Raj Chetty and colleagues affirms the profound impact of place on the trajectory of our lives. On average, the years that a young child spends in a deeply poor neighborhood contribute to lifelong negative outcomes—lowering educational attainment, lifetime earnings, even life expectancy.[11] Given this knowledge, it is distressing that so many recipients of HUD-subsidized assistance live in neighborhoods of concentrated poverty.

Recent legal and policy developments may help to reverse this troubling pattern. In the summer of 2015, HUD published its long awaited Affirmatively Furthering Fair Housing rule, providing communities with tools, incentives, and an obligation to advance strategies that reduce disparities in access to opportunity. HUD's intent to expand the use of Small Area Fair Market Rents (SAFMRs) is another important and much needed step forward.

As Robert Collinson points out, SAFMRs are meant to make it easier for those in the housing choice voucher program to move out of areas of concentrated poverty. This change has the potential to provide voucher households easier access to lower-poverty neighborhoods with higher-quality schools, lower crime rates, and better access to jobs. His research indicates that they have accomplished this result in at least one area of the country.

Still, to ensure that SAFMRs achieve the intended outcome, other policy improvements are needed at the federal, state, and local levels to address remaining obstacles for underresourced families to live in higher-cost neighborhoods. Many voucher households that wish to move may be limited by very low rental vacancy rates. Others may face financial barriers to moving, such as an inability to afford a security deposit or moving costs. High-quality mobility counseling may be necessary for voucher holders to successfully locate and retain homes in new neighborhoods. Landlords may reject vouchers, particularly in high-demand locations, because of limited program knowledge, unwillingness to wait while the housing authority schedules inspections, or outright housing discrimination. Expansion of "source-of-income" protections is needed; only a handful of communities proposed to transition to SAFMRs offer such protections. And retrofitting more affordable units to be accessible for elderly or disabled tenants may be necessary for them to successfully move to another community.

At the same time, we must ensure that SAFMRs don't harm those voucher holders who choose to remain in their communities. Some may want to remain close to social and other networks. They may be better able to find housing units of the size or structure that best suits their families' needs in current neighborhoods. Others who are elderly or living in households without children may choose neighborhoods for qualities other than schools, transportation, or access to child care. For the residents who stay in low-rent/higher-poverty communities, the change to SAFMRs may mean reduced voucher subsidies, which can result in increases to their share of rent payments and increased housing instability (though HUD's rule provides protections for sitting tenants).[12] Lowered voucher subsidies may drive some landlords who currently accept vouchers to leave the program, resulting in displacement of current voucher households and a further reduction in homes affordable to people who need them the most. In these cases, strong tenant protections accompanying SAFMRs are necessary, including exempting current voucher holders from lowered payment standards for as long as they remain in the same unit and phasing in the changes over an extended period of time.

Ultimately, supporting and protecting voucher participants will be essential to ensuring successful SAFMR implementation and to truly creating new opportunities for low-income people.

Notes

1. The rent ceiling, known as the "payment standard," is determined locally by public housing authorities, but it must be between 90 and 110 percent of the Fair Market Rent, which is determined by HUD and is typically set at the 40th percentile of a metro rent distribution. Tenants may rent units above the payment standard, but must bear the cost of each additional dollar above the ceiling.
2. Robert Collinson and Peter Ganong, "How Do Changes In Housing Voucher Design Affect Rent and Neighborhood Quality?," *American Economic Journal: Economic Policy* 10, no. 2 (2018):62–89. Note that this paper uses a special tabulation of American Community Survey data to calculate the fraction of units below a metro 40th percentile rent within each census tract. Census tracts with median rents of 150 percent of the FMR or greater have only 15 percent of their rental stock renting below the 40th percentile of the metro distribution.

3. The median number of zip codes in a metro area is thirty-seven, and the average number across all core-based statistical areas (CBSAs) is greater than sixty.
4. This equivalent to an across-the-aboard increase of approximately 11 percent.
5. Using data from the mid-2000s, Collinson and Ganong estimate that 60 percent of voucher tenants rent units below FMR.
6. Fed. Reg. 39222 (2015).
7. Mary Ann Russ, presentation at the Dallas Fair Housing Symposium, April 30, 2014.
8. Binyamin Appelbaum, "Vouchers Help Families Move Far from Public Housing," *New York Times*, July 7, 2015, http://www.nytimes.com/2015/07/08/business/economy/housing-program-expansion-would-encourage-more-low-income-families-to-move-up.html.
9. Paul Jargowsky, "Architecture of Segregation," Century Foundation, August 9, 2015, http://apps.tcf.org/architecture-of-segregation.
10. Jargowsky, "Architecture of Segregation."
11. Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," National Bureau of Economic Research Working Paper No. 21156, 2015, http://www.nber.org/papers/w21156.
12. Housing authorities have leeway to delay new payment standard for sitting tenants. Further, HUD will limit the decrease in SAFMR to no more than 10 percent from prior year. Housing authorities are also allowed to set different payment standards for disabled tenants, and HUD may approve exception payment standards for certain ZIP Codes.