2부: 주거급여 도입과 주택정책

Housing Allowance
and Housing Policy

주제발표
Presentation 1

Abstract

The Design and Implementation of Housing Subsidies: Lessons from the United States

Stephen Malpezzi

Many countries around the world have been shifting housing subsidies from "supply side" programs such as publicly developed housing projects, to "demand side" programs (often called housing allowances, or housing vouchers) which pay part of the rent or other housing payment for low income or other targeted households.

The U.S. now has some 50 years' experience of demand side programs, including both national-scale programs; and focused, rigorously analyzed policy experiments. This presentation reviews the U.S. experience to examine, among other topics:

The relative merits of supply side and demand side programs; what lies behind the shift?

Lessons of implementation, including the design of the allowance; allocation rules; landlord participation; and tenant responses regarding housing consumption, mobility, and welfare.

Possible market spillover effects, including changes in rents and prices faced by unsubsidized households.

Interactions with other housing and other social programs.

How the U.S. system could be improved, in light of research results and policy experience.

요약

주거지원제도의 계획과 시행: 미국의 사례를 중심으로
_ 스티븐 말페지

세계적으로 주택관련 지원제도의 흐름은 공공주택 개발 등의 공급 중심 프로그램에서 주거 급여 또는 주택 바우처로 대표되는 수요 중심 프로그램으로 옮겨가고 있다. 주택 바우처제도는 저소득층 등 특정 계층의 주택 임대료나 기타 주거 비용의 일부를 정부가 보조하는 제도이다.

미국은 약 50년에 걸쳐 수요 중심의 주거지원 프로그램을 시행해 오고 있으며, 이 가운데에는 국가적 차원의 광범위한 프로그램 뿐만 아니라 대상을 한정하고 면밀한 분석을 거쳐 시행된 사회적 실험 정책들도 포함되어 있다. 이번 발표에서는 이러한 미국의 경험을 바탕으로 다음과 같은 주제들을 다루고자 한다.

- ㅇ 공급중심 주거지원정책과 수요중심 주거지원정책의 장점은 각각 무엇이며, 공급중심에서 수요중심으로의 변화를 이끈 동인은 무엇인가?
- ㅇ 주택바우처 제도 시행을 통한 교훈: 주거비보조의 제도적 틀, 보조금 산정 방식과 규칙, 임대인 참여, 주거소비와 이동성, 복지 문제에 대한 임차인의 반응 등
- ㅇ 주택바우처 제도가 주택시장에 미치는 파급 효과: 주택바우처 제도 비수급 가구가 부담하게 되는 임대료 및 주택가격 영향 등
- ㅇ 주택바우처 제도와 다른 사회복지 프로그램간의 상호작용 및 영향
- ㅇ 연구 및 정책 경험을 통해서 도출한 미국 주택바우처제도의 개선방향

WISCONSIN SCHOOL of BUSINESS

JAMES A. GRAASKAMP CENTER for REAL ESTATE

The Design and Implementation of Housing Subsidies: Lessons from the United States

September 28, 2014

Prepared for a seminar celebrating the 36th Anniversary of the Korea Research Institute on Human Settlements

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Today's presentation

- I am honored to join distinguished colleagues to present to the seminar held to mark the 36th Anniversary of the Korea Research Institute on Human Settlements.
- This presentation is a short version of a longer, more detailed presentation, available on request.

Today's outline

- Introduction to housing vouchers
- Vouchers in context: an overview of U.S. housing policy
- Housing vouchers in the U.S.
- Production efficiency
- Transfer efficiency
- Administrative efficiency
- Market effects
- Distribution
- Improving housing vouchers
- Concluding remarks

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Vouchers: some terminology

- In the U.S., *housing allowances* and *housing vouchers* are synonyms for monetary “demand side” housing subsidies, i.e. programs that subsidize a particular tenant, wherever they may live (within limits).
  - This is in contrast to “supply side” programs that subsidize a housing unit, i.e. a “bricks-and-mortar” program like public housing, tax credits for developers of low income housing, etc.
- Other synonyms for housing allowances exist, e.g. the UK’s *housing benefit*.

Vouchers: some terminology

- The first permanent, nationwide housing allowance program in the U.S. was the Section 8 Existing Housing Certificate program, so some authors refer to “Section 8 Existing” and/or “Certificates” to distinguish these housing allowances from other programs (including other Section 8 programs which are not vouchers, e.g. programs that focus on the construction of new housing).
- Originally, “Housing Voucher” was used to refer to a new housing allowance, run in parallel with Section 8 Existing, with some different rules.
- Later, Section 8 Existing and the original Housing Voucher program were merged and the rules converged. These are now called “Housing Choice Vouchers” (or HCV); many of us simply refer to “vouchers.”
- **Following the practice of most U.S. housing economists, in this presentation we’ll use “voucher” as both a generic term for any housing allowance, and to refer to the HCV program.** The difference will be clear from the context.

Some acronyms

- HUD: U.S. Department of Housing and Urban Development, the national housing agency.
- PHAs: Public Housing Agencies; there are about 2000, i.e. most municipalities have their own PHA.
- HCV: Housing Choice Vouchers, the current U.S. voucher program.
- FMR: Fair Market Rent, a standard rent (dollar amount) that HUD computes for each county.
- LI: Low income households (roughly, less than 80 percent of area median income).
- VLI: Very Low Income households (roughly, less than 50 percent of area median income).
- ELI: Extremely Low Income households (roughly, less than 30 percent of area median income).
- EHAP: The Experimental Housing Allowance Program, a large social experiment that has heavily influenced HUD program design, and methods of housing program evaluation.
- MTO: Moving to Opportunity, a more recent social experiment testing the mobility effects of variants on the voucher program, and their effects on households.

"Percent of Rent" Vouchers

- The Percent of Rent style of voucher is perhaps the simplest, calculated as:

  V = aR
- where *R* is the rent paid for the unit;
- and the parameter *a* is the share of rent that is subsidized.
- An obvious variation is to set a ceiling on V.
- Percent of Rent vouchers were tested in EHAP but are otherwise not found in the U.S.
- In EHAP tests, a varied between 0.2 and 0.6.

"Housing Gap" Vouchers

- In a simple "housing gap" formulation, the household's voucher is calculated as:

  $$V = C - bY$$

  where C is the administratively determined cost of an adequate housing unit in the market;

  Y is the household's income;

  and b is the fraction of household income that is deemed appropriate to devote to housing.
- Variations involve allowing C to vary as the rent paid (denoted R); this R might have a ceiling (to limit spending) and/or a floor (to ensure some minimum housing consumption).
- The parameter b is sometimes referred to as the degree of taper in the subsidy, and is also, in another sense, the implicit tax rate of the program (as a household's income increases, the subsidy is reduced by b times the increase in income).

U.S. Housing Choice Vouchers are "Housing Gap"

- The formula for current U.S. vouchers is:

  $V = R - bY$; *subject to* $R<C$

  where $b = 0.30$;

  and C is the so-called "Fair Market Rent."
- If households choose to spend more than C, they may; but they are responsible for the additional rent.
- (In since-repealed rules for "Section 8 Certificates," households were not allowed to occupy units if $R>C$, even if they were prepared to pay the difference.)
- This program design is similar to a negative income tax if the subsidy is designed to vary with some local cost of living index.

Basic design parameters for vouchers

- Payment formula: housing gap, or percent of rent?
- Rent definition
  – Include utilities, other payments/services?
- Rent standard (e.g. Fair Market Rent)
  – Adjust for household size/composition?
  – Vary by city?
  – Can household choose to exceed the standard if they pay the additional cost themselves?
- Fraction of income household required to spend on rent
  – Implies the degree of subsidy taper as income increases (implicit tax rate).

Basic design parameters for vouchers

- Target population
  – Income target?
  – Income ceiling?
    - *Target* and *ceiling* can be different; participants will have a distribution truncated at the ceiling.
  – Age?
  – Family size?
  – Other criteria?
- Income – how defined, measured, audited?
- Housing standards
  – A checklist?
  – Absolute, or do we permit tradeoffs?

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Two overarching approaches to housing subsidy

- Supply Side Subsidy: Subsidize the unit ("bricks and mortar" subsidies).
  - Public housing*
  - Section 236 interest subsidies to landlords*
  - Section 8 New Construction/Rehab*
  - Section 42 Low Income Housing Tax Credits
  - Many local programs
- Demand Side Programs: Subsidize the tenant.
  - Section 8 Existing Certificates**
  - Housing vouchers

*Legacy programs – no new additions for many years.
** Section 8 Existing folded into Voucher program

There are many other U.S. housing programs we will not discuss today

- Mortgage revenue bonds
- Block grants to state and local governments
  - HOME
  - HOPE VI
  - Community Development Block Grants
- Rural housing programs administered by the Department of Agriculture

Approximate breakdown of U.S. subsidies

	Households (MM)	Population (MM)	Year of data/estimate
Public housing	1.2	2.8	2004
Section 8 NC/Rehab	0.8	1.2	2006
Sec. 236, Sec. 221 (d)(3)	0.7	1.3	2006
Section 42 LIHTC	1.6	3.2	2008
Vouchers	2.0	5.7	2008
Mortgage deduction	36.0	93.0	2001
U.S. population	117	304	2008
Officially poor	9.1	37.3	2007
Below 50% of AMI	11.5	23.0	2005
Below 80% of AMI	18.0	36.0	2005

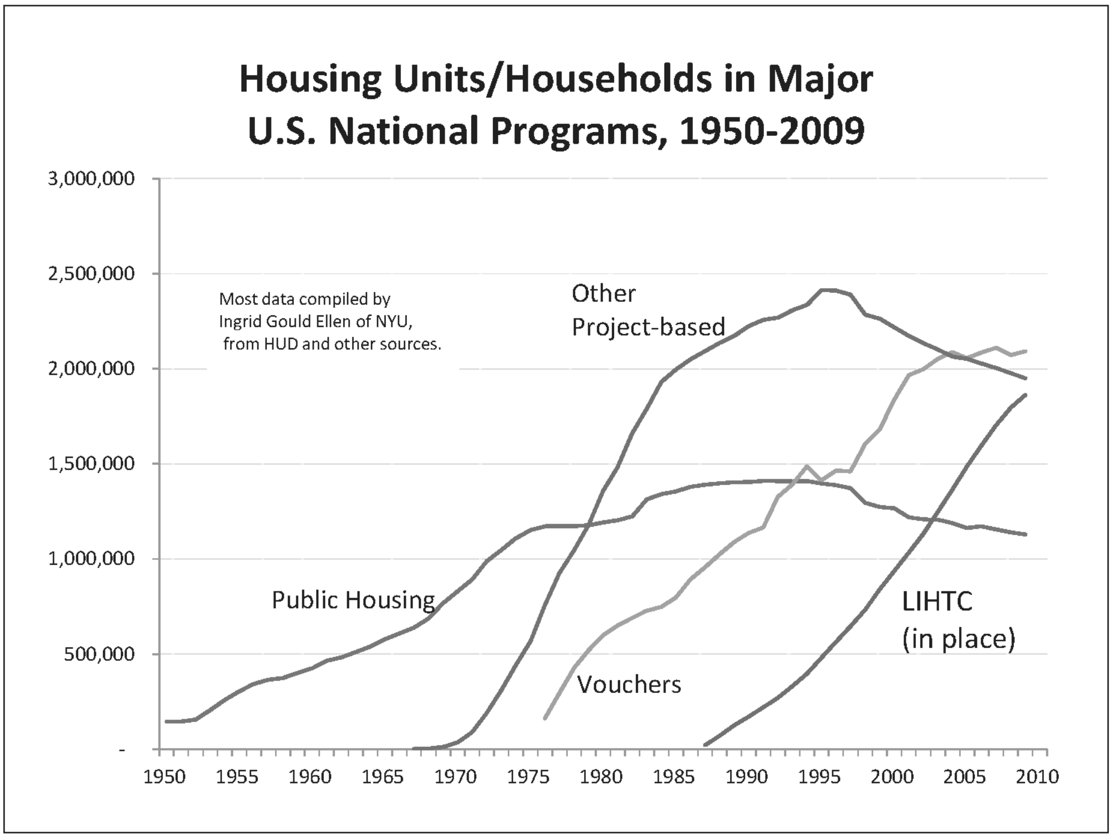
Data for HUD programs from HUD website, Center for Budget and Policy Priorities.
LIHTC counts are my back-of-the envelope. AMI is area median income.
Mortgage deduction from Congressional Research Service; population from Census.
Note households can receive vouchers while in a Section 42 unit. Indicative only, not precisely comparable.

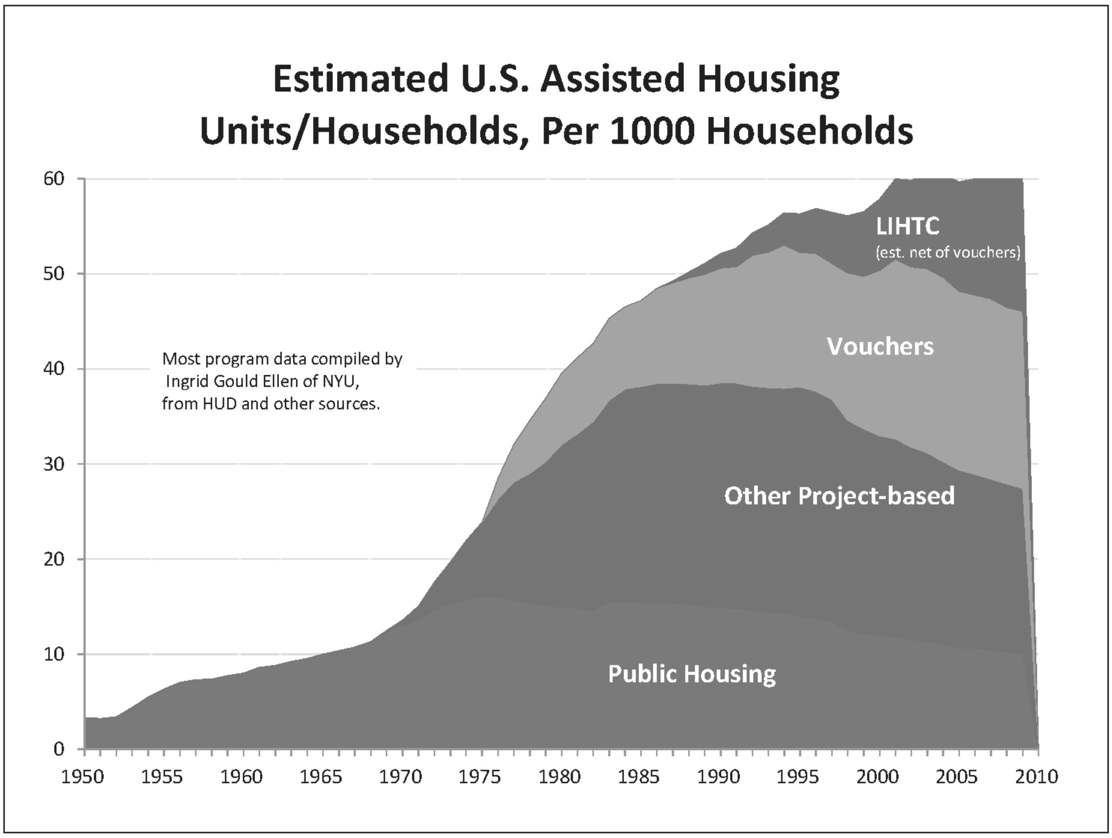
Income

Median U.S. household income	$50,233	2007
Median U.S. family income	$62,359	2007
Poverty threshold, 3 person household	$17,165	2008
National average, 80% median family income	$49,887	2007
National average, 50% median family income	$31,180	2007

Limits on low income housing subsidies

- Low income housing subsidies are means tested; and are not entitlements.
  - Means tested: most such subsidies are limited to VLI (Very Low Income) households.
  - VLI threshold starts with 50 percent of area median income, and are then adjusted for household size.
  - Not entitlements: the number of subsidies, and the dollar amount spent, are decided through the Congressional appropriation process.
- The largest social spending programs – Social Security, Medicare, Medicaid – are entitlements.
- Implicit subsidies through the tax code – notably the mortgage interest deduction, and the deduction for homeowner property taxes – are entitlements.


Housing Units/Households in Major
U.S. National Programs, 1950-2009
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
Most data compiled by
Ingrid Gould Ellen of NYU,
from HUD and other sources.
Other
Project-based
Public Housing
Vouchers
LIHTC
(in place)
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010


Estimated U.S. Assisted Housing
Units/Households, Per 1000 Households
60
50
40
30
20
10
0
LIHTC
(est. net of vouchers)
Vouchers
Most program data compiled by
Ingrid Gould Ellen of NYU,
from HUD and other sources.
Other Project-based
Public Housing
1950
1955
1960
1965
1970
1975
1980
1985
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Milestones in U.S. housing vouchers

- 1973-1980: Experimental Housing Allowance Program (EHAP) undertakes a multi-city, multi-year study of alternative housing vouchers.
- 1974: Housing and Community Development Act created Section 8 Existing Housing Certificates, the first permanent national program.
- 1984: Rental Housing Voucher program created to run in parallel with Section 8 Existing, with certain design changes.
- 1994-1999: Section 8 Certificates and Rental Housing Vouchers are gradually harmonized, eventually combined into the Housing Choice Voucher program.
- 1994-2011: Moving to Opportunity tests for some possible externalities for vouchers over public housing (improved employment, incomes, educational outcomes, health, etc.)

Section 8 Existing Certificates (1974)

- Section 8 Existing: the first large housing allowance in the U.S. Eligible low income tenants are certified, then search for private rental units which meet the program's physical standards. Landlords are paid the difference between 30 percent of the tenant's adjusted income and the Fair Market Rent.
- Existing FMRs are usually not too different from area median rents. One FMR for each metro area (later, county). No tenant can live in a unit renting for more than the FMR, even if they would be willing to pay the additional rent themselves.
- Other issues: high physical standards. Households have no incentive to shop for units below the FMR. All landlords rent at the FMR even for units which would rent for less in the private market. Landlords must accept HUD rules on evictions, which make eviction for cause very difficult.
- Still most economists consider the program more efficient than public housing and the new construction programs.

Rental Housing Vouchers (1984)

- Like Section 8 existing, vouchers are housing allowances, but with several important differences.
  - The check goes to the tenant, not the landlord; tenants are allowed to pay over the FMR if they choose high quality units, or to keep the savings if they shop for a cheaper unit.
- Standards, difficult evictions still an issue.
- Economists like vouchers, because they are generally more efficient than other programs (higher tenant benefit per dollar spent). But political support is lower.
- A decade ago, the Section 8 Existing program, and the voucher program, were merged. They are now referred to by HUD as Housing Choice Vouchers,

Housing Choice Vouchers (1999)

- "Housing Choice Voucher" emphasizes that voucher users can (in contrast to public housing, LIHTC, etc.) choose their units (subject to finding an agreeable landlord).
- HCV is the current program; it's more or less the 1984 Rental Housing Voucher design.
- Households remaining from the Section 8 Existing program are now in HCV, with these rules.
- HUD's Housing Choice Voucher Program Guidebook provides authoritative details:

  http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/forms/guidebook

Moving to Opportunity (1994)

- Inspired partly by William Julius Wilson's research on the problems of spatially concentrated poverty, and by suggestive data from the Chicago Gautreaux experiment (in which households that took vouchers and moved to better neighborhoods outperformed households that stayed behind on jobs, school performance, etc.)
- But the Chicago public housing residents who moved to better neighborhoods might be more educated, more motivated, or otherwise have some unobserved qualities that account for their relative success.
- MTO experiment randomly assigned public housing recipients to (1) vouchers with assistance to moving to low-poverty census tracts; (2) vouchers in any tract; and (3) stay in public housing.

Moving to Opportunity

- In the final report (2011), Ludwig et al. found several modest benefits:
  - Better health, notably lowered risk of obesity, diabetes among women.
  - Increased "subjective well-being."
- They found no significant differences in employment or income over time; and no differences in their children's educational performance; or in the prevalence of criminal or risky behavior.
- Some, including Wilson, believe the weak results are due to a weak definition of "better neighborhoods," and that a deeper subsidy with stronger encouragement to move to even better neighborhoods/schools would show more effect.
- Nevertheless, generally the MTO experiment is disappointing to those who looked to vouchers as a possible partial solution to a broader range of problems than housing quality/affordability.

Fair Market Rents

- FMRs are used in the HCV program, but also in several other programs (e.g. initial renewal rents for expiring Section 8 New Construction contracts, and as a rent ceiling in HOME program rental units).
- FMRs are gross, including the rent for the unit, and basic utilities (heat, water, electricity, trash removal).
- Data sources include the American Housing Survey (AHS) and the American Community Survey (ACS).
  - Decennial Censuses were formerly used but no longer asks questions on rent, utilities etc.
- HUD selects "standard quality" rental units, then calculates the 40th percentile of the rents in this sample.
  - "Standard quality" is somewhat better than the average quality in most markets; in the end FMRs are usually not too far from median rents in the total market.
- For a long time, FMRs were computed by metropolitan area; and by county, in non-metro areas. Now they are computed by county.

Fair Market Rents

- FMRs are a key program variable.
- While in theory, many below-FMR units should be available in the market, in practice most landlords charge the FMR.
  - Even when there are non-voucher tenants paying below FMR. Landlords have an incentive to “rent-up” to the FMR.
  - This is not illegal but a change to HCV design allows tenants to keep a portion of the savings if the unit rents below the FMR.

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Three Concepts of Efficiency

- Production efficiency: what does it cost for the government to produce a unit, compared to the most efficient producer?
  - *Measure by comparing production costs to market value. Just as a private developer would.*
- Transfer or consumption efficiency: how does the recipient value the unit, compared to the market valuation?
  - *Measure using consumer's surplus. See next slides.*
- Administrative efficiency: how much "teeth to tail," i.e. how much spent on the bureaucracy?
  - *Measure how much we spend on administration as a share of program benefits.*

Estimated Production Efficiency in Major U.S. Housing Programs

Program	Study	Production Efficiency
Public Housing	Schnare et al. (1982)	49%
Public Housing	Mayo (1986)	50%
Public Housing	Olsen & Barton (1983)	86%
Section 236	Mayo (1986)	61%
Section 23	Mayo (1986)	74%
Section 8 New Construction	Wallace et al. (1980)	71%
Section 8 New Construction	Schnare et al. (1982)	74-85%
Section 8 Rehab	Schnare et al. (1982)	85-100%
Section 8 Existing	Wallace at al. (1980)	74%
Section 8 Existing	Leger & Kennedy (1990)	93%
Housing Allowance	Mayo (1986)	88%
Housing Vouchers	Leger & Kennedy (1990)	93%

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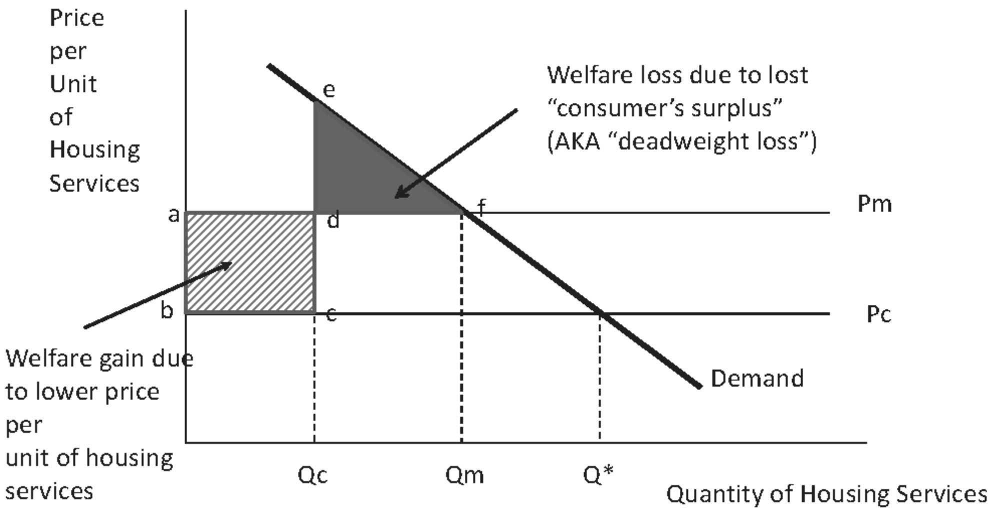
Consumer's Surplus I: Price Reduction with "Too Little" Housing

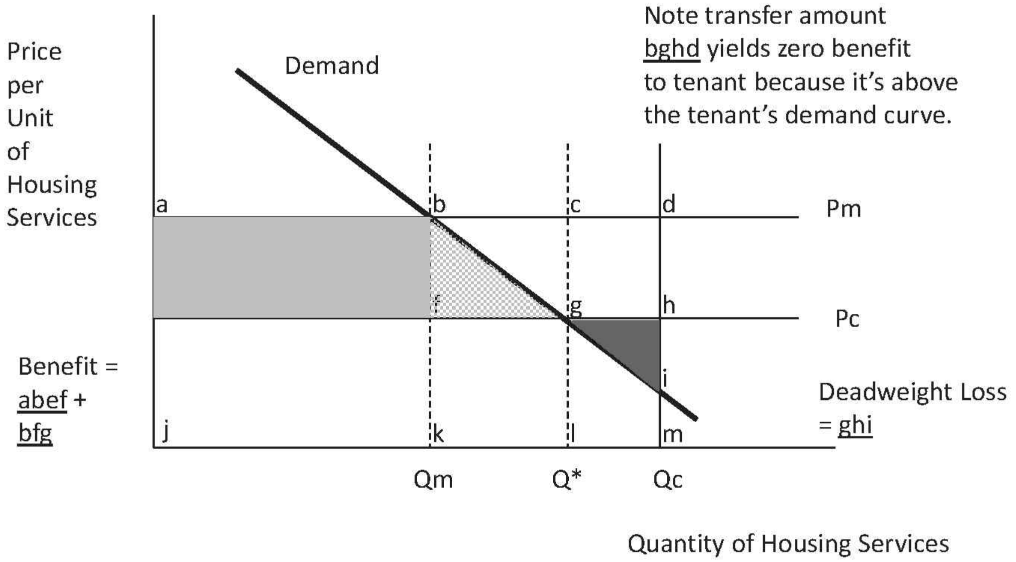


Remarks on previous slide, measuring consumption efficiency of a housing subsidy

- For the moment, we examine consumption or transfer efficiency only. We abstract from production efficiency, administrative efficiency, and market effects.
- Tenant would prefer Qm at market price Pm. At subsidized price per unit of housing services Pc, tenant would purchase even more housing (Q*) but they are given a take-it-or-leave-it offer to consume Qc units at the subsidized price Pc. *For the moment*, assume Qc<Qm.
- Tenant receives benefit (lower rent) abcd, but loses consumer surplus def. Net benefit to tenant is the difference. As long as the rectangle is bigger than the triangle, tenant will prefer the subsidized unit.
- Notice as Qc approaches Qm from the left, tenant benefit increases and the deadweight loss shrinks.
- Government spends abcd on the housing subsidy.
- Transfer or consumption efficiency is the ratio between net tenant benefit, and the cost of the transfer to the government:

  (abcd – def)/abcd

Consumer's Surplus II: Price Reduction with "Too Much" Housing

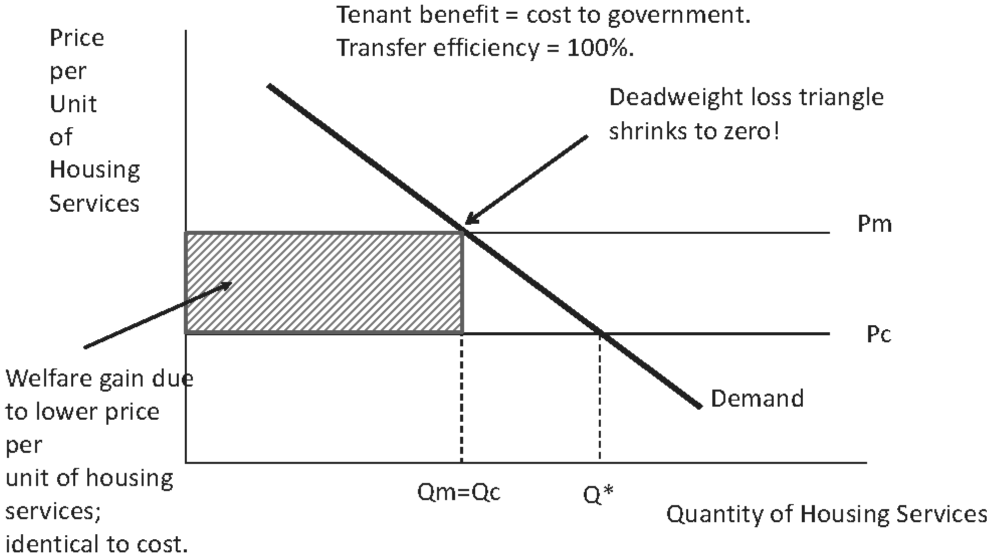


Previous slide – this one's a little complicated…

- Suppose the only unit on offer yields more services than the tenant is willing to pay for, even at the subsidized price? Previous slide provides an example.
- Government spends adhe to lower rent of a "big" (or high quality) unit from PmQc to PcQc, as before. But this time Qc > Qm (and also as drawn, Qc > Q*).
- Tenant's benefit can be broken down:
  - Reduction in rent for their preferred unit (Qm) at market prices is a rectangle, as before: abef.
  - From Qm to Q*, rent reduction is rectangle bcfg, but because of downward sloping demand through this rectangle, the tenant's benefit is only the triangle bfg.
  - Even worse, once past Q*, the tenant values additional Q even less than the subsidized Pc. Triangle ghi is a deadweight loss.
- Overall transfer efficiency: compare tenant benefits to govt. costs:

  (abgfe – ghi) / adeh

Consumer's Surplus III: Price Reduction with "Just Right" Housing, i.e. Qc=Qm



Estimated Consumption Efficiency in Major U.S. Housing Programs		
Program	Study	Consumption Efficiency
Public Housing	Mayo (1986)	86%
Public Housing	Clemmer (1984)	67%
Public Housing	Hammond (1983)	64%
Public Housing	Olsen & Barton (1983)	58%
Public Housing	Kraft & Olsen (1977)	73%
Public Housing	Murray (1975)	66%
Mitchell-Lama Public Housing (NYC)	DeSalvo (1975)	55%
Section 236	Mayo (1986)	74%
Section 8 New Construction	Mayo (1986)	63%
Section 8 New Construction	Schwab (1985)	63%
Section 8 Existing	Mayo (1986)	82%
Section 8 Existing	Sa-Aadu (1984)	61%
Housing Allowance	Mayo (1986)	93%
Housing Allowance	Cronin (1983)	91-100%

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Administrative Functions: A Partial List

- Outreach, "marketing"
- Develop and maintain application system
- Maintain waiting lists
- Determine eligibility (household, and unit)
- Benefit distribution (to tenant? to landlord?)
- Distribute non-cash benefits, e.g. counseling, information about eligible units
- Monitoring of tenants and landlords, recertification
- Appeals process for lower level decisions
- Manage the organization(s): choose existing, or create a new organization; staff up, set organizational policies and procedures
- Program monitoring and evaluation, quality control
- Supportive services, for ordinary and for special needs participants

Katz and Turner administrative reform proposal

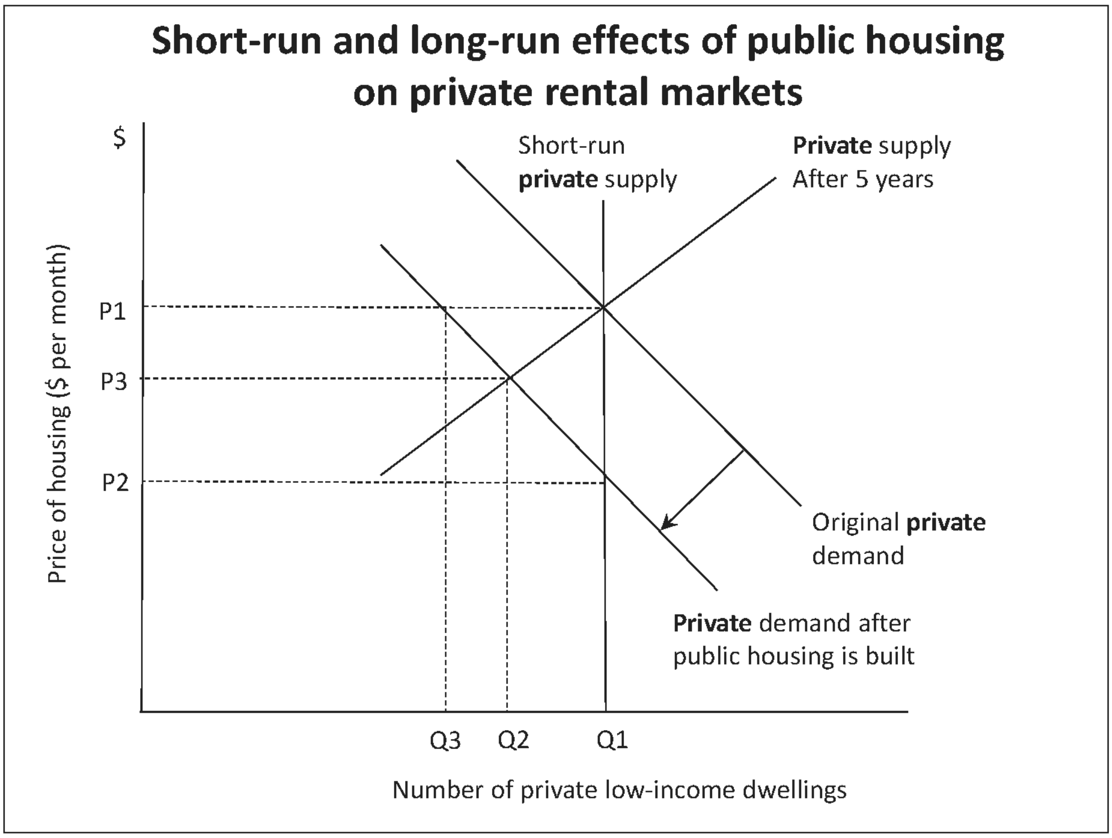
- There are 388 metropolitan areas, and 576 micropolitan areas in the U.S.
- There are 2500 Public Housing Authorities, of which 1700 administer fewer than 250 vouchers.
- Katz and Turner (2001) argue since a metro area is a labor market, and therefore a housing market (see Bertaud 2014), consolidating into regional or metro authorities.
  - Permits economies of scale.
  - Beneficiaries no longer faced with so many “boundary problems.”
- How to choose the new administrative organization? Let public/private/nonprofit organizations compete for the business. They present detailed proposal for a bid system based on quality, level of proposed services as well as price.
- Push back from current PHAs, etc., see Basgal and Villarreal (2001).

Today's outline

- Introduction to housing vouchers
- Vouchers in context: an overview of U.S. housing policy
- Housing vouchers in the U.S.
- Production efficiency
- Transfer efficiency
- Administrative efficiency
- **Market effects**
- Distribution
- Improving housing vouchers
- Concluding remarks

Market effects of housing subsidies

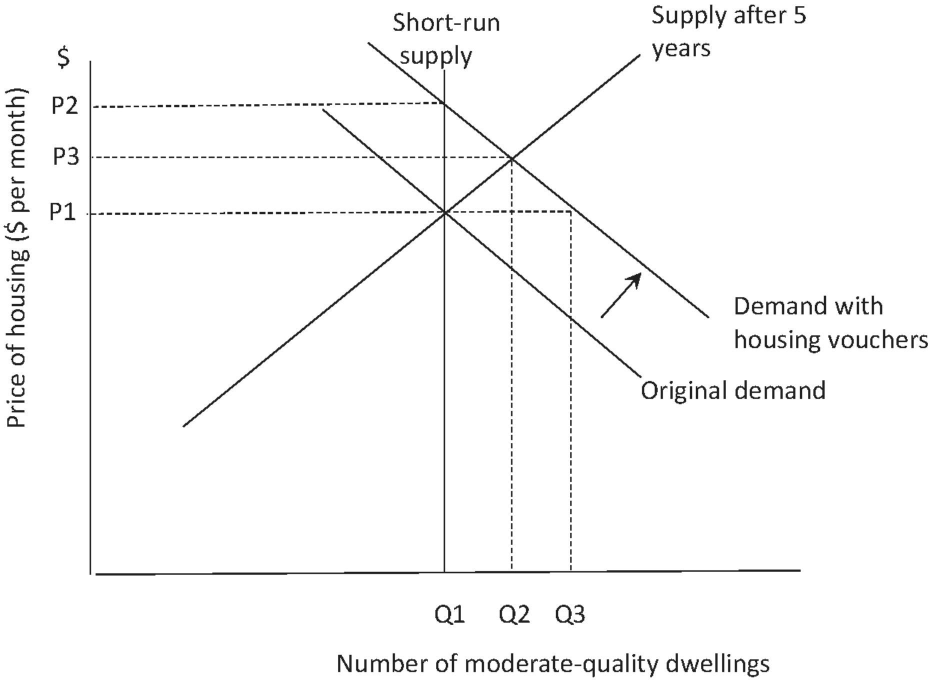
- Previous calculations were for a single representative consumer. What about the market overall?
- If supply is very *inelastic*:
  - Supply strategies add to the stock, and will bring down the price of housing generally.
  - Demand side subsidies raise prices and do not result in much housing.
- If supply is very *elastic*:
  - Supply strategies do not add to the stock, but simply crowd out private investment; no price effects.
  - Demand side subsidies have no price effects, but can increase the stock of housing as supply rises to meet demand.
- What makes markets elastic, or inelastic?



Short-run and long-run effects of public housing on private rental markets

- To study the market effects of demand side programs, we begin by studying the market effects of supply side programs. See previous chart.
- Note this is the market for our city's private rental housing. Public housing construction occurs "off-stage," but does affect demand for private rental, since we assume households live in only one house.
- For simplicity, assume all houses are the same, and the vacancy rate is constant. We assume private rental housing is competitive, and landlords initially cover their costs, including normal profits.
- The construction of new public housing decreases the demand for private low-income housing, i.e. the private demand curve shifts down.
- In the short run, the supply of private housing is fixed, so the price of private dwellings drops from P1 to P2. Landlords are no longer covering their costs.
- Over an intermediate (5 year?) period, where we have greater supply elasticity (in either direction!), landlords will abandon or repurpose some units. As drawn, adjustment to the new lower rent decreases the quantity of housing supplied from Q1 to Q2, , and the price rises to P3. Landlords are still below cost, but losing less than at Q1.
- The longer the period of time, the greater the displacement of private housing, and the smaller the net decrease in price. In the long run, if supply is perfectly elastic, landlords will exit the market until prices return to their normal level, covering costs including normal profit, i.e. at Q3 and P1.

Short-run and long-run effects of housing vouchers on private rental markets



Short-run and long-run effects of housing vouchers on private rental markets

- The housing-voucher program increases the demand for private rental.
- In the short run, the supply of private rental housing is fixed, so the price increases from P1 to P2. The underlying cost structure has not changed, so landlords are now making excess profits.
- Over the intermediate five-year period, the increase in rents provides an incentive for new rental construction; the quantity supplied increases from Q1 to Q2, and the price drops to P3.
- The longer the period of time, the greater the increase in the quantity supplied and the smaller the net increase in price. If supply is elastic, we return to P1 at new, higher Q3.

Market effects of housing subsidies

- The above analysis demonstrates the market effects of housing policies. To repeat,
- If supply is very *inelastic*:
  - Supply strategies add to the stock, and will bring down the price of housing generally.
  - Demand side subsidies raise prices and do not result in much housing.
  - These are called pecuniary externalities.
- If supply is very *elastic*:
  - Supply strategies do not add to the stock, but simply crowd out private investment; no price effects.
  - Demand side subsidies have no price effects, but can increase the stock of housing as supply rises to meet demand.
- So the price elasticity of supply of housing is a key market parameter.

Price elasticity of supply of housing (U.S.)

- Two main sources of supply: new construction, and from the existing stock (maintenance and upgrading/remodeling).
- The best estimate of price elasticity of supply of housing in the U.S. from the existing stock (remodeling and extra maintenance) is 0.2 – 0.3 over 10 years (Ozanne and Struyk).
  - They themselves argue their estimates are on the low side.
- Some estimates of the long run price elasticity of supply of new construction in the U.S. are over 10 (based on work by Jim Follain, and Malpezzi and Maclennan). Some recent estimates by Rosen and Topel, and by Poterba, suggest it's more like 2. Who is right?
  - Malpezzi and Maclennan argue that the Rosen and Topel, and Poterba results are driven by the fact that both analyzed prices starting in a trough of a long cycle, and ending in a peak. Taking a longer run view "elasticizes" the market.
  - M&M's cycles suggest the long run in U.S. housing is very long, circa 2 decades.

Price elasticity of supply of housing (U.S.)

- There is some evidence that U.S. housing supply is becoming less elastic for a given time frame.
- What determines the elasticity?
  - Malpezzi (1996), Green, Malpezzi and Mayo (2006): More heavily regulated housing markets are more inelastic. Land use and development need to be regulated, but overly stringent regulation increases costs without significant benefits.
  - Saiz (2008): natural constraint (large bodies of water, mountains, etc.) also decrease housing market supply elasticity.

Market effects of housing subsidies

- Most studies find little or any market effects of housing subsidies.
  - Most U.S. housing markets are fairly elastic, at least in the long run.
  - Most housing programs are “small” relative to the market.
- EHAP’s “Supply Experiment” provided an entitlement voucher program in order to test for rent effects; none found.
- Susin (2002) did find some pecuniary externalities.
- Eriksen and Ross (2014) improve on Susin’s study; find that pecuniary externalities are correlated with a restrictive regulatory environment for land use and housing development.

Market effects of housing subsidies

- Example of "crowding out:" A classic study by Michael Murray finds for every 100 publicly subsidized housing units built, 85 private sector units are not built.
- Research by Murray, Sinai and Waldfogel, Malpezzi and Vandell find that the amount of crowding out varies a lot with the specific type of supply side program examined.
  – Public housing exhibits less crowding out than Section 236 or LIHTC units.

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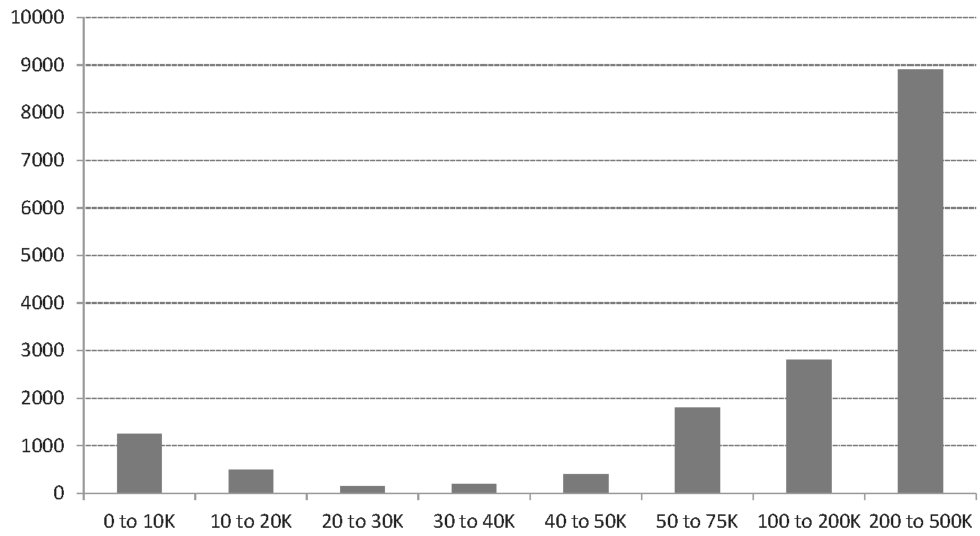
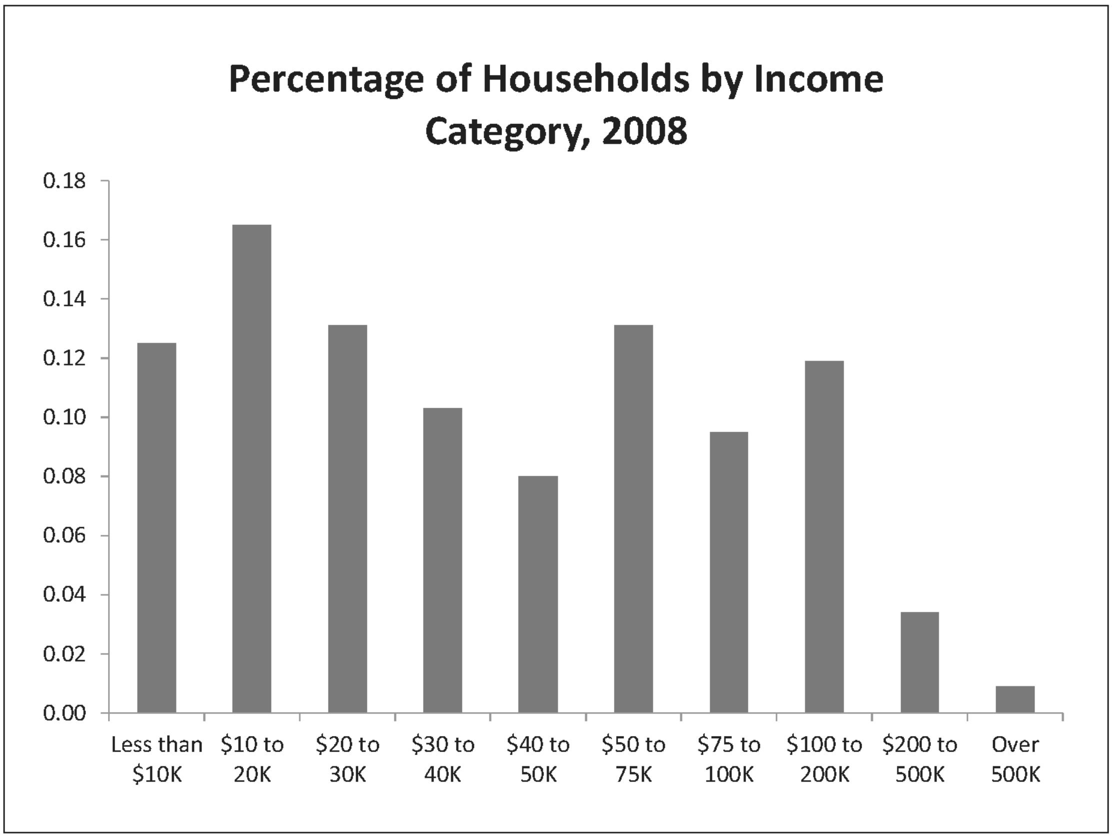
Distribution of subsidies

- In the event, how do these subsidies break out?
- HUD provides subsidies through vouchers, public housing, etc. These go to low income households.
- The tax code provides subsidies through the deductions for mortgage interest and property taxes. Most of these go to upper income households.
- NB: richer households have larger mortgages, higher property tax bills, and also deductions are more valuable if you are in a higher marginal tax bracket.
- Carasso, Steuerle and Bell (2005) have estimated the size and incidence of these subsidies by income group. See next slide for the average housing subsidy, by income.

Average annual Federal housing benefits (subsidy and tax expenditure) by total household income



Source: Carasso, Steuerle and Bell, 2005
Excludes elderly households. Unconditional means (households not receiving subsidies assigned 0).



The distribution of subsidies in the U.S. is problematic

- We provide modest housing subsidies to poor people, on the order of $1,000 per household.
  - Of course some poor get much larger subsidies; most poor get little or nothing. Less than a third of eligible low-income households receive subsidies. Housing vouchers etc. are not an "entitlement" like Medicare or tax expenditures.
- We provide much larger subsidies to upper income households through tax expenditures.
  - These are entitlements, i.e. if you qualify you receive them you get them.
  - To qualify, you do have to have a mortgage; and you have to live somewhere that charges property taxes.
- We provide very little housing subsidy, on average, to the middle class.

The consensus among U.S. housing economists

- Demand side programs are more efficient (consumption and production efficiency) than supply side. Taxpayers, and recipients, get bigger bang for the buck.
- Little evidence that supply *or* demand programs have much market effect.
  - Supply side programs probably don't lower market rents much, and demand side programs don't raise rents much.
- Distributional concerns. Only 1/3 of eligible households receive housing assistance (see Olsen 2010).
- Current demand side programs (vouchers) can be much improved.
  - Standards?
  - Leases?
- NB Consensus does not mean unanimity! See Apgar (1990).

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Housing standards and inspections

- Housing standards are moderately strict, and do not permit tradeoffs.
  - EG a household might accept a unit with less ambient light (window/area ratio) if it is very well located relative to job and school. But HUD checklists are
- Simplifying standards, and adopting a scoring system that permits tradeoffs.
- Currently HUD inspects units, and certifies tenant incomes every year. PHAs report these re-inspections take half their resources. HUD and GAO are recommending income recertification every 3 years, unit inspection every 2 years.

Focus block grant programs on vouchers, too

- State and local governments often use funds from HUD block grants (HOME, CDBG, etc.) for local supply side projects.
- The same arguments in favor of vouchers over supply side operate at the local level, too.
- HUD could eliminate block grants to supply side projects and require that local governments use the housing portion of their block grants to increase the availability of vouchers.

Homeowner vouchers?

- Although most low income Americans rent, there are low income homeowners as well as low income renters. Tax subsidies (mortgage interest and property tax deductions) rarely benefit these households because the tax code only makes these subsidies relevant to households with a larger mortgage and/or tax bill than poor households usually incur.
- HUD has a small homeownership voucher program for first-time homebuyers.
- Program operates at PHA discretion; most do not.
- A different context: in response to the post 2006 housing crisis, Davis, Malpezzi and Ortalo-Magné presented the Wisconsin Foreclosure and Unemployment Relief Plan (WI-FUR), which offered temporary vouchers to unemployed to reduce mortgage defaults. Not adopted.

Revamp vouchers as an entitlement

- Roughly a third of eligible low income households receive housing assistance.
- Which means 2/3 do not; a major violation of horizontal equity.
- Assuming budgets are not likely to triple, Olsen (2010) has argued for restructuring smaller, simpler vouchers as an entitlement; and has simulated likely household responses.

Stabilize funding

- Budget authority for vouchers lasts 5 years, i.e. every five years the money for existing vouchers has to be re-appropriated.
- Historically this was done routinely, but in the current political climate, renewals are not as certain.
- In 2013, Congressional sequestration of the Federal budget required 73,000 housing vouchers cut.
- Congress has since restored some funding, but Center on Budget and Policy Priorities reports less than half the losses will be restored.

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Some advantages of vouchers

- Generally flexible
- Portable, allow for labor mobility
- High degree of transfer efficiency
- Production efficiency drops out as a concern
- Low administrative cost
- Does not force a move if income rises
- Can be combined with limited supply side programs, e.g. for special needs populations

Vouchers work best when…

- Main objectives are improving recipient welfare, and/or efficient use of taxpayer funds.
- Enabling household mobility is important.
- When financial constraints/affordability is a primary concern.
- When there is an adequate stock of existing rental housing.
  - But Olsen (2010) and others show that while higher vacancy rates help, vouchers are still more effective than public rental housing in tight markets; and that vouchers do improve housing quality on the margin.

Collateral actions increase voucher effectiveness and housing conditions of low income households

- Improving supply responsiveness improves the operation of voucher programs.
  - Improve the effectiveness of land use and development regulation; use regulatory cost-benefit as a guide to address environmental, neighborhood, other externalities without imposing unnecessary costs.
  - Review regulatory treatment for landlords to ensure even-handedness with other investors.
  - Are the financial and tax playing fields level between landlords and homeowners; between landlords and other investors?

Additional Reading

- As noted above, this is the short version of Malpezzi's presentation.
- The longer version of this presentation also incorporates a list of references.
- A starting point for further reading:
  - Richard K. Green and Stephen Malpezzi, *A Primer on U.S. Housing Markets and Housing Policies* (Urban Institute for the American Real Estate and Urban Economics Association, 2003) gives a broad overview of U.S. housing markets and policies, including vouchers. But it is a decade old (a second edition is underway).

Additional Reading

- Two excellent recent references with more policy detail (though less than the Primer on market context) are available:
  - Alex F. Schwartz, *Housing Policy in the United States* (Second Edition, Routledge 2010); written by/for non-economists.
  - John C. Weicher, *Housing Policy at a Crossroads" The Why, How and Who of Assistance Programs* (American Enterprise Institute, 2012) is written by a top economist with deep program experience. Highly recommended.
- Details of the current U.S. program can be found in the Housing Choice Voucher Program Guidebook, downloadable from:

  http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/forms/guidebook

주제발표
Presentation 2

Abstract

Housing Allowances and Rent Rebates: Experiences in the Netherlands

Hugo Priemus

Since 1970, housing allowance schemes in the Netherlands and many other European countries have been subject-based rather than object-based. However, it still took the Dutch government until 1984 to pass a general Housing Allowance Act.

The housing allowance (rent rebate) scheme in the Netherlands takes the form of an entitlement and applies in both the social and the commercial rental sector. The size of the allowance is determined by the household composition, the household income, and the rent. The aim of the scheme is to guarantee affordability, adequate quality of housing, and adequate choice of housing for low-income households.

On 1 January 2006 responsibility for the housing allowance scheme was transferred from the Ministry of Housing to the Tax Authority. Since then, questions have been asked about the effectiveness of the means-testing and the data checks.

Introducing housing allowances in a national housing system is far from easy: there are many modalities which have to be determined by political decisions. The relationship between housing allowances and income policy, social policy, and rent policy determines the affordability criteria. A public budget also needs to be set for the short and the long term. Governments have to define the trade-off between budgetary controllability by the State and safeguarding the affordability of housing for the tenants.

요약

네덜란드의 주거급여제도

_ 휴고 프리뮈스

1970년 이후 네덜란드와 다수 유럽국가의 주거급여제도는 공급측 지원정책에서 수요자 지원정책에 중점을 두고 있다. 그러나 네덜란드에서는 1984년이 되어서야 주거급여법이 통과되었다.

네덜란드에서 임대주택 임대료 경감을 통한 주거급여 제도는 수급권의 형태를 띄고 있으며 사회주택과 민간임대주택 모두에 적용되고 있다. 주거급여의 수준은 가구구성, 가구소득, 임대료의 수준에 따라 달리 정해진다. 주거급여제도의 목적은 저소득가구 임대료 부담경감, 적절한 질적 수준의 확보, 주거선택권의 확보에 있다.

2006년 1월 1일부로 네덜란드에서의 주거급여 책임소관 부서는 주택부서에서 국세청으로 이관되었는데, 그 이후로 주거급여 수급대상자 선정을 위한 자산조사 및 자료검증의 실효성 문제가 지속적으로 제기되고 있다.

한 국가의 주택시스템에 주거급여를 도입하는 것은 결코 쉬운 일이 아니다. 여러가지 세부적인 사항들이 정치적으로 결정되기도 한다. 주거급여제도와 소득보조정책, 사회보장정책, 임대료정책과 이들의 관계가 임대료 및 주택의 부담가능성을 결정하는 요인으로 작용한다. 단기적 관점 뿐 아니라 장기적 관점에서 국가 재정 소요에 대한 고려도 필요하다. 정부는 예산 제약 및 관리와 임차인의 임대료부담 경감 모두를 고려하여 적절한 균형을 유지해야 한다.

HOUSING ALLOWANCES AND RENT REBATES: EXPERIENCES IN THE NETHERLANDS

Presentation at the KRIHS-conference, Seoul, October 7, 2014

Hugo Priemus and Marietta E.A. Haffner
OTB, Delft University of Technology,
The Netherlands

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From supply side to demand side support

1945 – 1970:	supply-side approach; stimulating supply by public loans + property subsidies
1970 – 1984:	mixed approach: combination property subsidies and housing allowances (1984: Housing Allowances Act)
1995:	the end of general property subsidies and public loans in social rented housing

2

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Aims of housing allowances/rent rebates

1. Safety net: affordable housing for low-income households.
2. Improving housing quality and choice on the housing market for low-income households.
3. Contributing to a fair housing distribution.
4. Improving the accessibility of new housing for low-income households.
5. Reducing segregation and spatial concentration of poor people.
6. Mitigating impacts of imperfect housing market.

3

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From housing allowances to rent rebates

From the start: HA as an entitlement; open-end budgets for the State.
As of 1.1.2006: implementation in the Netherlands transferred from Housing Ministry to Tax Authority.
Peak in administrative problems around this transfer.
In the same time: transformation from housing allowances to rent rebates.
Since 1.1.2006: checks and means-testing not before payment, but after. Serious doubts about effectivity of inspection.
Legal base: Rent Rebate Act.

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Conditions and rent mitigation

Rent rebates reduce net payments for rent.

Conditions: max. household income (about 50% of all households)
max. rent (about 95% of all rents).

Rent rebates: in both social and commercial rented housing.

Rent mitigation for housing associations (until 2006): tenants pay **net** rent to HA; HA receive housing allowances.

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Pro's and con's of rent rebates

Pro: public support better targeted.
less distortion on rental market.
lower public expenses.
higher housing quality and positive external effects.

Con: poverty trap.
disincentive labour market participation.
danger of over-consumption of housing.
reduction of consumer choice and horizontal inefficiency.

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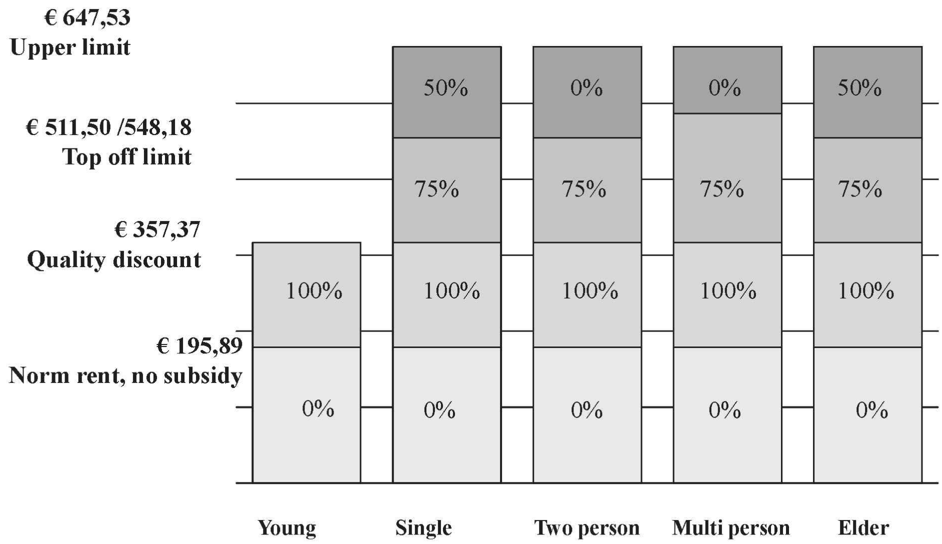
Rent rebates in the Netherlands (1)



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Rent rebates in the Netherlands (2)

1. Type of unit
2. Duration of lease
3. Capping limit of rent (max. € 700 per month)
4. Rental price
5. Domicile
6. Occupancy
7. Age/marital status
8. Residency status
9. Application date
10. Household income
11. Personal assets.

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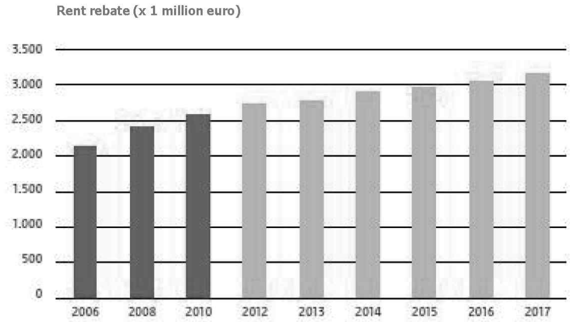
Figure 1 Rent rebates in the Netherlands (3)



Source: Ministerie van BZK, 2013

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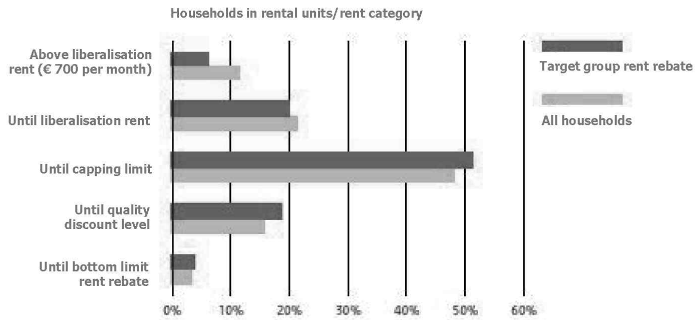
Figure 2 Rent rebates in the Netherlands (4)



Source: Ministerie van BZK, 2013

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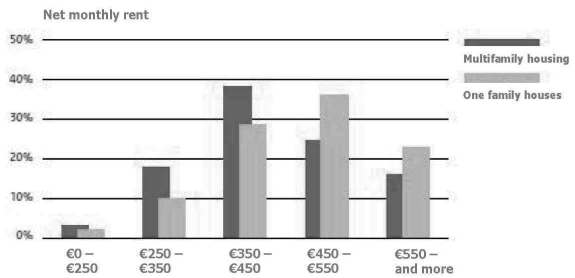
Figure 3 Rent rebates in the Netherlands (5)



Source: Ministerie van BZK, 2013

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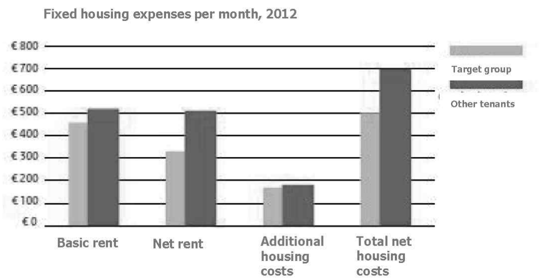
Figure 4 Rent rebates in the Netherlands (6)



Source: Ministerie van BZK, 2013

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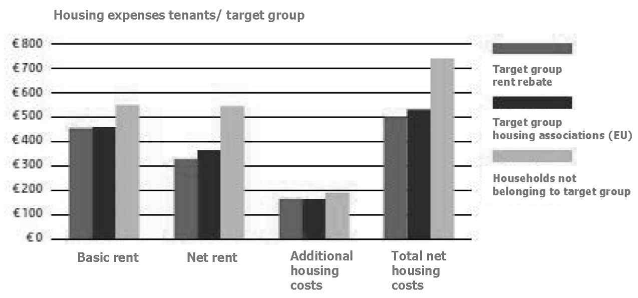
Figure 5 Rent rebates in the Netherlands (7)



Source: Ministerie van BZK, 2013

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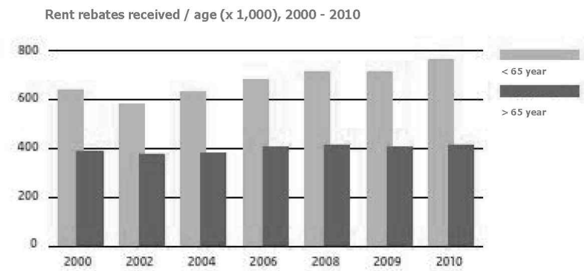
Figure 6 Rent rebates in the Netherlands (8)



Source: Ministerie van BZK, 2013

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Rent rebates in the Netherlands (9)

1983-1984: from equal rent: income ratios to a residual approach. After receiving housing allowances households must not sink under the poverty line.

Rent rebates suppose a fixed minimum income.

Clear dividing line between income problem (income lower than minimum) and housing problem (rent too high).

Rent rebate may increase the rent (price impact, small supply impact).

1/3 of all tenants receive rent rebate.

Within target group (income below € 34.678): 2/3 of tenants receive rent rebate.

70% of households with minimum income
80% of households receiving social support
Receive rent rebate

Tensions between controlling public expenses and sheltering tenants against the impact of income decline and/or rent increase.

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Different options for a rent rebate scheme (1)

1. Entitlement or budgeted scheme?
2. Temporary or permanent rent rebate?
3. Which affordability criteria included?
4. Scope: all rented? Social rented only? New/renovated housing? Including/excluding housing substitutes?
5. Relation between rent rebate and rent policy. Free/regulated rents? Collusion landlord-tenant?

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Different options for a rent rebate scheme (2)

6. Moral hazard.
7. Rent rebate based on income only; income + rent; income + notional rent, for instance: average rent in the region. Vouchers.
   Choice or constraint. Under-consumption or over-consumption of housing services?
8. Stimulation or disincentive for housing consumption?
9. Implementation of rent rebate is crucial.
   Means-testing. Inspection ex-ante and/or ex-post.
10. Budgetary consequences of the rent rebate scheme.

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Conclusions

Many modalities of the rent rebate scheme have to be determined.

Relation with income policy, social policy, rent policy and affordability criteria is crucial. Impact on public budget: short/long term.

Trade-off between budgetary controllability by the State and safeguarding affordability of housing for the tenants.

International exchange of experiences; mutual learning.

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주제발표
Presentation 3

Abstract

Korea's Housing Allowance Scheme and Implementation Issues

Hye-seung KIM

Until now, the Korean government has been making a diverse range of housing support efforts, including the provision of public rental housing, the National Housing Fund (NHF) loans for Jeonsei tenants, and housing allowances based on the National Basic Livelihood Security (NBLS) system, for the improvement of housing welfare for low income and working class households.

Nevertheless, there is a substantial blind spot in housing policy for the low income class. In addition, due to the increasing Jeonsei prices and conversion of Jeonsei into monthly rent in the stagnating housing market, the proportion of households living on monthly rent is continually increasing. The proportion of households living on monthly rent and the rent to income ratio (RIR) has increased substantially for the low income class. The current housing allowance system has been paying a prescribed proportion of the comprehensive cash allowance (about 20%) to the recipients regardless of their housing condition and rent level. As a result, it has not been fulfilling the policy's purpose of satisfying the housing needs of individual households.

Therefore, particularly for the renters, there is a need to revise the housing allowance system to alleviate the rent burden based on consideration of the income and the real rent each household pays or the amount of the basic rent that will be appropriate in meeting the housing standards that government established. This new housing allowance system must be consistent with the customized separate allowance system that the current government has been pursuing. Under the revised NBLS system, the government has been switching from the integrated allowance system to the customized separate allowance system.

The new housing allowance program targets the households that have no person who has a legal duty to support the family and whose income levels are 43% or less than 43% of the national median income. Also, the program has set the basic rent, which is the maximum level of the rent that the government guarantees to the household that is eligible for housing allowance. The formula for the amount to be paid under the new housing allowance system has been set such a way that the beneficiaries does not have to pay the rent from the standard amount of basic livelihood allowance they receive even though the portion to be borne by the beneficiary (the prescribed ration of the income) will be deducted from the basic rent (or the real rent). As such, the revised housing allowance program has been separated from the NBLS system and focuses on reducing the amount of real rent paid by tenants. Under the revised program, it is anticipated that the number of beneficiaries will increase from approximately 730,000 households to 970,000 households, including owner-occupiers, and the average monthly allowance per household will rise from the present 80,000 KRW to 110,000 KRW.

In order for such a housing allowance system to be established successfully, it is necessary to improve the scheme by continuously reviewing the details such as the selection standards of beneficiaries, calculation of the basic rent, and an effective housing allowance delivery and monitoring system.

한국의 주거급여제도의 확대・개편과 발전방향

_ 김혜승 국토연구원 연구위원

지금까지 우리나라 정부는 저소득・서민의 주거복지 향상을 위해 장기공공임대주택 공급 및 국민주택기금으로부터의 전세자금 대출지원, 그리고 국민기초생활보장제도 하에서의 주거급여 등 다양한 주거지원 프로그램을 수행하여 왔다.

그럼에도 불구하고 여전히 저소득층을 위한 주택정책에는 사각지대가 존재한다. 또한 최근 주택시장의 침체로 인한 전세가격의 상승, 전세의 월세전환 증가 등으로 월세가구 비중이 점차 높아지고 있으며, 특히 저소득층의 경우에는 월세가구 비중 및 소득대비 임대료부담 비율(RIR)도 상당히 높게 나타나고 있다. 그리고 기초생활수급가구에게 현금급여의 일정비율을 지급해온 기존의 주거급여는 주거상태 및 임대료 수준 등과 무관하게 정액 지급되어 개개 가구의 주거욕구 충족이라는 주택정책의 목적에 부합되지 않는 한계를 지니고 있다.

따라서 특히 임차가구의 경우에는 소득 및 임대료 수준 혹은 정부가 보장하는 일정 수준의 주거기준을 만족시키는 정도의 임대료(기준임대료) 등을 종합적으로 고려하면서 임대료 부담 완화 등 주거욕구 해소에 기여할 수 있도록 주거급여를 개편할 필요가 있다. 특히, 이러한 주거급여제도의 확대・개편은 최근 정부가 추진하고 있는 맞춤형 개별급여제도 - 최근 정부는 통합급여 방식으로 수행되었던 국민기초생활보장제도를 맞춤형 개별급여제도로 전환하여 추진하고 있음 - 와 정합성을 가지고 수행되어야 할 것이다.

확대・개편되는 주거급여제도는 부양의무자가 없는 중위소득의 43% 이하인 가구를 대상으로 하며, 정부가 대상가구에게 최대한도로 보장해 주는 임대료 수준인 기준임대료를 설정하고 있다. 또한 새로운 주거급여제도의 지급액 산식은 기준임대료(또는 실질임대료)를 토대로 자기부담분(소득의 일정비율)을 공제하되, 생계급여 기준금액에서 임대료를 부담하지 않도록 설정하였다. 이상과 같이 확대 개편된 새로운 주거급여제도는 국민기초생활보장제도에서 분리되어 실질임대료 부담을 덜어주는 성격이 강화되었고, 수급대상이 종전 약 73만 가구에서 약 97만가구(자가가구를 포함한 규모)으로 확대되었으며, 가구당 월평균 급여액도 기존 8만원에서 11만원으로 증가하는 효과를 보일 것으로 예상된다.

이러한 주거급여제도가 성공적으로 정착하기 위해서는 현재 중위소득의 43% 이하인 가구로 설정된 소득기준의 상향조정 및 주거급여 대상자 선정시 부양의무자 기준 적용 여부, 근로빈곤가구를 보호하는데 한계가 있다고 지적받고 있는 소득인정액 방식의 개선 혹은 적용 여부, 임대주택시장 여건을 적절히 반영할 수 있는 기준임대료의 설정 방식 및 수준, 그리고 기존주택 재고를 보다 효율적으로 관리하기 위해 주거급여 수혜가구가 거주하는 주택이 일정 수준 이상을 유지할 수 있도록 의무를 부여하고 지원하는 방안에 대한 지속적인 검토가 요구된다. 이러한 노력과 함께 수혜자의 정책 체감도 높일 수 있는 실효성 있는 주거급여 전달체계 구축, 부적절 급여 및 임대주택시장의 왜곡 등을 방지할 수 있는 효과적인 모니터링 체계의 구축, 주거급여제도에 대한 정기적 평가와 피드백을 통한 제도개선 노력이 필요할 것이다.

KRIHS 36th Anniversary International Seminar

Hye-seung KIM (2014.10.7.)

Korean Housing Allowance Scheme and Implementation Issues

국토연구원 KRIHS

CONTENTS

1. Overview of the housing policy in Korea

◆ The government's housing support

- Classification 1
  - Supply side support → (e.g.) public rental housing
  - Demand side support → (e.g.) housing allowance
- Classification 2
  - Direct support → (e.g.) housing allowance or other subsidies
  - Indirect support → (e.g.) tax benefits
- In Korea, there are both supply- and demand-side housing support programs as well as direct and indirect housing support programs.
  - Public rental housing supply
  - Housing allowance under the National Basic Livelihood Security (NBLS) system
    → expansion and reorganization needed
  - Loans for Jeonse* tenants
  - Housing improvement fund support
  - Mortgage support
  - Mortgage interest payment through tax deductions, etc.

Jeonse system

- Jeonse is one of the most popular rental tenure systems in Korea
- In this system, tenants deposit a lump sum of money when they occupy rental houses instead of paying rent on a monthly basis
- Tenants pay 50-70% and more of the housing price as a deposit
- Interest on the deposit is considered the rent
- Tenants get their deposit refunded at the end of the contract
- As of 2010, the percentage of jeonse households in the entire rental households is about 50%

◆ Overview of the housing policy in Korea

- Until the late 1980s, housing policy was based on the housing filtering theory:
  - Housing had been supplied mostly by the private sector
  - To facilitate the creation of demand for new housing for the upper-middle class with a certain level of housing affordability rather than for the low-income class
  - To anticipate the improvement of the housing conditions for the low-income class
  - Housing issues had not been looked as key agendas of social policy and social security, as is the case with Western European countries

Chapter. 1 _Overview of the housing policy in Korea

◆ Overview of the housing policy in Korea

- The Two Million Housing Units Construction Plan (1988–1992)
  - To stabilize the housing market with the amount of jeonse deposits skyrocketing in the 1980s
  - Suburban development (five satellite cities around Seoul were developed) to resolve the chronic housing shortage and improve housing quality
  - The Korean government's first direct intervention to address housing welfare problems
    - to introduce for the first time permanent public rental housing, which is the equivalent of social housing in Europe
    - to supply long-term rental housing, small-scale housing for sale, labor welfare housing, and employees' rental housing

◆ Overview of the housing policy in Korea

- The 5-Year New Economic Plan (1993~1997)
  - Built upon the previous plan with some changes
  - To supply two other types of public rental housing (50-year/5-year rental),

⇒ Until then, the fundamental objective of the housing policy
  - Was not to address housing welfare issues
  - But to focus on quantitatively expanding housing supply to tackle severe housing shortages

- The Housing Welfare Support Plan for Different Income Groups (2003)
  - Housing distribution ratio reached 101.2% in 2003
    - ❖ housing distribution ratio: the percentage of housing stock relative to the entire number of households in the country
  - Housing shortages were alleviated

❖ Housing Welfare Support Plan for Different Income Groups (May 28, 2003)

≪Group≫	≪Characteristics≫	≪Support measures≫		
10th Income Percentile	· Difficulty in paying rent	· Expand housing assistance · Supply small-scale national rental housing units · Purchase housing for lease of multi-household housing units	⇦	Maintaining the basic condition for housing price stabilization
20th-40th Income Percentile	· Difficulty in purchasing housing	· Repair and improve low-quality housing units · Concentrated supply of National Rental Housing · Expand Jeonse deposit loans at subsidized interest rates	⇦	
50th-60th Income Percentile	· Able to purchase housing with government support	· Low-cost small- and medium-sized housing units · Expand financial support for housing purchase	⇦	
70th or Higher Income Percentile	· Able to purchase housing	· Accommodate market functions · Financial support through tools such as housing mortgage	⇦	

Figure 1. Housing Welfare Support Plan for Different Income Groups (May 28, 2003)

◆ Overview of the housing policy in Korea

- The minimum housing standards were set as a policy qualitative indicator (2004)
  - Used to consider the quality of housing along with the housing distribution ratio as a quantitative indicator
- The Comprehensive Housing Policy Plan (2003-2012) was established in January 2004
  - To shift the institutional focus from housing quantity to housing welfare
- The 10-year Housing Welfare Blueprint (2007)
  - The public sector's role was expanded
  - To increase the ratio of LT rental housing relative to the entire housing stock to 20%

◆ Overview of the housing policy in Korea

- The Bogeumjari Housing Construction Project (2008)
  - So-called "Bogeumjari," or sweet home project
  - To build a total of 1.5 million housing units by 2018
  - To rebuild permanent public rental housing
  - To expand the supply of small-size housing for sale at reasonable prices by public sector, etc.
  - Greater attention has been paid to the supply-side housing support, including public rental housing or public housing for sale
- A national project to "attain the universal housing welfare" (2013-)
  - The current administration is pursuing a wide range of housing support programs of both the supply and demand side, and tries to balance the two sides
  - In particular, expanding and revising the housing allowance system is representative of the demand-side effort

2. Need for expanding and revising the housing allowance system

◆ Target households outside the current housing support programs

- Size of beneficiaries
  - Long-term public rental housing (10 years or more rental period)
    - The inventory is a total of 930,000 units in 2012
    - (6.1% of the total housing inventory in Korea)
  - NHF loans for Jeonse tenants (the loan for low-income households and the loan for working-class and middle-class households)
    - A total of approximately 430,000 households received the benefits (on the basis of the outstanding balance) in 2012
  - Housing allowance under the NBLS system
    - 730,000 households are receiving a housing allowance (640,000 rental households and 90,000 owner-occupiers) as of the end of March, 2013

◆ Target households outside the current housing support programs

- Number of the target households outside the programs
  - It is estimated that there are approximately 370,000-520,000 households among the low income households who do not own their houses (households with 45-50% of the median income)

❖ The estimation is based on the assumption that some of the housing support programs mentioned above have been provided to the households with less than 45-50% of the median income and that there was no redundant provision of support services

Chapter. 2 _Need for expanding and revising the housing allowance system

◆ Structural change of Korean rental housing market and increasing rent burden for the low income class

- The proportion of households living on monthly rent is continually increasing
  - Due to the increasing Jeonse prices and conversion of Jeonse into monthly rent in the stagnating housing market
    - Trend of housing purchase prices and Jeonse prices

source : Korea Appraisal Board

Figure 2. trend of housing purchase prices and Jeonse prices

- Change in the proportion of households living on monthly rent:
  14.8% (2000) → 19.0% (2005) → 21.4% (2010)

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Chapter. 2 _Need for expanding and revising the housing allowance system

◆ Structural change of Korean rental housing market and increasing rent burden for the low income class

- The proportion of households living on monthly rent and the rent to income ratio (RIR) has increased substantially for the low income class
  - The proportion of households with less than 45% of the median income and living on monthly rent is 32.4%, substantially higher than the overall proportion of households living on monthly rent (21.9%)
  - RIR of the private housing renters among the households with less than 45% of the median income is 46.2%, more than twice that of the public housing renters in the same income bracket (21.2%)

⇒ There is a need for diverse housing cost subsidies, not only in the form of the Jeonse deposit loan, but monthly rent assistance

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◆ The limits of current housing allowance under NBLS system

- The current housing allowance system has been paying a prescribed proportion of the cash allowance (about 20%) to the recipients regardless of their housing condition and rent level.
- As a result, current housing allowance is not fulfilling its purpose of satisfying the housing needs of individual households.

⇒ Therefore, particularly for the renters, there is a need to revise the housing allowance system to alleviate the rent burden

– By considering **their income** and **the real rent** each household pays or **the basic rent** that will meet the housing standards that the government set

3. Status and Purpose of Housing Allowance

◆ Status of housing allowance

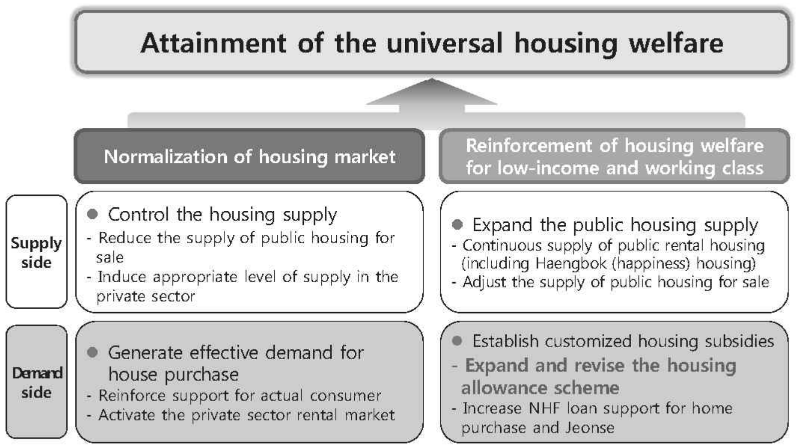

Figure 3. Status of housing allowance

Status of housing allowance

- If the expansion and revision of the housing allowance system is successfully established and implemented, this system, along with the policy for expanding the supply of public rental housing, will make a substantial contribution towards:
  - Reinforcing the housing welfare level for the low-income and working class
  - Attaining the universal housing welfare.

Chapter. 3 _Status and Purpose of Housing Allowance

Purpose of housing allowance

Figure 4. Purpose of housing allowance

- Additionally, in order for the housing allowance to be utilized fully and the existing housing inventory to be used efficiently,
  - there is a need to design and implement programs, including the housing allowance program for housing units where the housing conditions are above the minimum living standard

4. Details of the new housing allowance system

◆ Absolute income or relative income?

- The current government is revising the existing NBLS system: an integrated allowance → a customized separate allowance

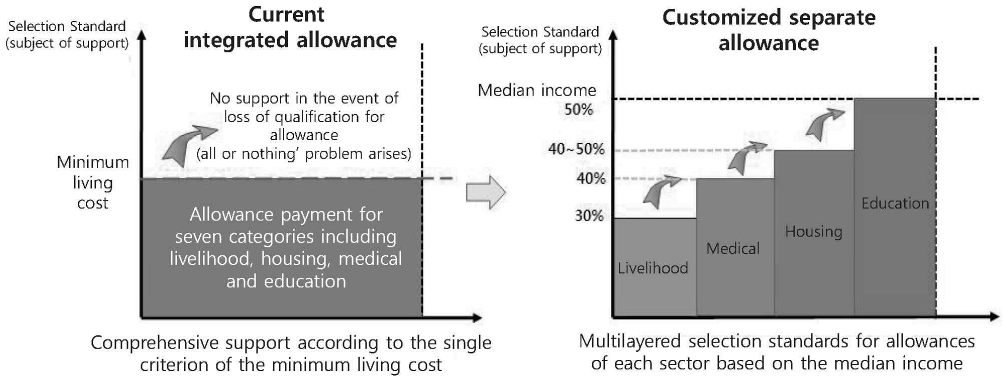

Figure 5. Comparison of the current integrated allowance and the customized allowance systems

- Therefore, under the new housing allowance system, the relative income standard, the median income, has been chosen to determine allowances in all areas

Chapter. 4 _Details of the new housing allowance system

◆ Income standard for housing allowance eligibility

- According to studies, the appropriate level of rent expenditures is defined to be in the range of 15%-30% of the household income (Kemp 1997)
- RIR for the low income class in Korea are 36.3%, 35.9% and 34.3% for the households with less than 40%, 45% and 50% of the median income, respectively
  - They are substantially higher than the 22.6% for the entire households, meaning that the rent burden is excessive for the low income classes.

Table 1. RIR of low income households (average values) (unit: %)

	Less % of me ome	Less % of me ome	Less % of me ome	Tota ehold
RIR	36.3	35.9	34.3	22.6

◆ Income standard for housing allowance eligibility

- Meanwhile, under the newly customized separate allowance system, the beneficiaries' incomes are in the range of 40-50% of the median income (as illustrated in the Fig. 5)
  - First, if the recipient's income standard is set to be 50% of the median income, there is an excessive burden on the government administratively and financially in the initial stage of implementation of the new system.
  - Secondly, the standard of 40% of the median income for housing allowance is identical to the standard for medical allowance, which conflicts with the innate purpose of the revision aimed at establishing multilayered selection standards
    - so that recipients are able to obtain multiple allowances of different fields if eligible even though they are not eligible under the NBLS system
  - Therefore, it is desirable to provide the housing allowance for households with less than 40-45% of the median income

◆ Income standard for housing allowance eligibility

- The government* has set the recipients' ceiling level of income to be less than 43% of the median income and the households must have no person with the legal duty to support the family

  * The government department responsible for the housing allowance has changed: Ministry of Health and Welfare → Ministry of Land, Infrastructure and Transport

- In the future, a review will be necessary to increase the standard income as the policy takes shape
  - As well as not to apply the criteria of "having no person with the legal duty to support the family" to housing allowance

◆ Recognized income standard vs. income and property separation standard

- In order to assess the economic capability of a household, information such as the household's income and property needs to be taken into account
  - Whether the property income should be included in the standard income for determining eligibility must be reviewed
  - The existing housing allowance system adopts the recognized income that includes the converted amount of property income

◆ Recognized income standard vs. income and property separation standard

Table 2. Comparison of advantages and disadvantages of the recognized income format and the income & property separation format

	rmat	Income on format
Advantages	▪ High equity since the amount of allowance differs according to the amount of property income ▪ Minimization of confusion since it is the currently implemented system	▪ Does not hinder accumulation of property up to the standard line
Disadvantage	▪ Hindrance in accumulation of property since income (flow) is generated from the property (stock) ▪ Different opinions on income conversion rates	▪ Hinders equity since there can be no difference i n the amount of allowance even if there is huge difference in property income ▪ Huge difference in the amount of allowance at t he stand line

- Current recognized income format has been selected for administrative accommodation and stabilization at the system's initial stage
  - In the future, there is a need to review increasing the basic property deducted in calculating converted property income and applying an income & property separation format

◆ Setting the basic rent

● Definition of the basic rent

- It refers to the maximum level of rent that the government guarantees to the household that is eligible for housing allowance.
- The level of basic rent needs to guarantee the minimum or appropriate housing standards for a pleasant and livable daily life
- The government has been announcing the minimum housing standards since 2004

⇒ The basic rent has been determined in such a way to meet the minimum housing standards

◆ Setting the basic rent

● Regional division of the basic rent

- The rent levels fluctuate substantially depending on regional conditions, so there is a need to categorize the regions in order to set the basic rent that satisfies the minimum housing standard
  - the minimum housing standard also varies according to family numbers
- The government has been establishing the 4 classes of regions in order to set the basic rent
  - 4 classes of regions : Seoul (class 1 region), Incheon and Gyeonggi (class 2 region), regional metropolitan cities (class 3 region) and other regions (class 4 region)

◆ Setting the basic rent

- Calculating the basic rent
  - Estimate the rent rate for the minimum housing standard (based on 3 person-families) by using the Korean housing survey data
  - Apply this estimated rent rate to the data on the actual transaction value of Jeonse and monthly rent rate
    ⇒ Values that correspond to the 25-quantile value were obtained.
  - To calculate the basic rent for households of different number of members and in different classes by applying the household equivalence scale of housing cost to the 25-quantile value

Chapter. 4 _Details of the new housing allowance system

◆ Setting the basic rent

Table 3. Basic rent in 2014

(Unit: '0.000 KRW /month)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1 person	17	15	12	10
2 persons	20	17	14	11
3 persons	24	21	17	13
4 persons	28	24	19	15
5 persons	29	25	20	16
6 persons	34	29	24	19

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◆ Creating the formula for determining the amount of allowance

- Principles for creating the formula
  - To alleviate the rental burden of the low income class
  - To guarantee housing quality and to improve living conditions at the prescribed level (e.g. minimum housing standards)
  - To guarantee the minimum living cost including the rent cost to the beneficiaries.
    - To meet the aforementioned conditions, it must be designed in such a way that the recipients have the minimum rent burden
  - To minimize side effects such as excessive housing consumption or falsified reporting of rent, and to prevent excessive administrative cost.

Chapter. 4 _Details of the new housing allowance system

◆ Creating the formula for determining the amount of allowance

- Formula for determining the amount of allowance
  - The formula was set as illustrated in <Table 4>

Table 4. Formula for determining the amount of housing allowance

(Recognized income < =Standard amount of basic livelihood allowance)	Full support for the "basic (or real) rent"
(Recognized income >Standard amount of basic livelihood allowance)	Support for "basic (or real) rent – portion to be borne by the beneficiary*" * Portion to be borne by the beneficiary = 0.5 × (Recognized income - Standard amount of basic livelihood allowance)

- The system has been set in such a way that the basic rent will be the upper limit, but if the real rent that the beneficiary pays is lower than the basic rent, the amount of the allowance will be determined on the basis of the real rent payment

◆ Creating the formula for determining the amount of allowance

- Effects of the new housing allowance
  - Increase the number of beneficiaries
    - 730,000 households → 970,000 households (including owner-occupiers)
  - Increase the amount o the average monthly allowance for each household
    - 80,000 KRW → 110,000 KRW

5. Implementation Issues

- In order for such a housing allowance system to be established successfully, it is necessary to continuously review and address the following issues.
  - 1) whether or not to apply the "having no person with the legal duty to support the family" criteria to the housing allowance beneficiaries;
  - 2) a review on raising the standard income at the time of the beneficiary selection;
  - 3) a review of whether or not to apply or to improve the recognized income format, which has been pointed out to have limited ability to protect the working poor households;
  - 4) a review on setting the basic rent and its level to appropriately reflect the conditions of the rental housing market;

5. Implementation Issues

- 5) a review of the means to support the housing maintenance at a level above the prescribed level for the housing eligible for housing allowance;
- 6) efforts to establish an effective housing allowance delivery system that is more beneficial to the recipients;
- 7) establishment of an effective monitoring system that can prevent inappropriate allowance and distortion of the rental housing market; and
- 8) efforts for improvement of the system through regularly scheduled evaluations and feedback on the housing allowance system

- In particular, the government must put forth efforts to resolve the issues of redundancy and blind spots in the policy
  - through enhancement of consistency not only with this housing allowance system, but also among the diverse range of housing support programs
    - including Jeonse deposit loan and the supply of public rental housing, etc.

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THANK YOU

Korean Housing Allowance Scheme and Future Suggestions

Hye-seung Kim

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