

Housing Policies

Lecture 21

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Chapter 11

Housing Policies

- Housing Policies for the Middle Class
- Housing Policies for the Poor

Supply based – public housing

- Old: large projects
- New: scattered site

Demand Based

- Vouchers
- Rent Certificates
- Income Subsidies

Inclusionary Zoning

Housing Policies for the Middle Class

The policies promote home ownership

1. Federal mortgage insurance

FHA program created the long-term, low down payment mortgage loan.

2. Tax deductions

Mortgage interest

Property taxes

3. Effective elimination of capital gains tax on the private residence

U. S. Housing Policies for the Poor

Rental Housing

Public housing	1.7 million
units	
Government rent subsidized	3.5 million
units	
Rent controlled units	0.6 million
units	
Total rental units in urban areas	32.3 million

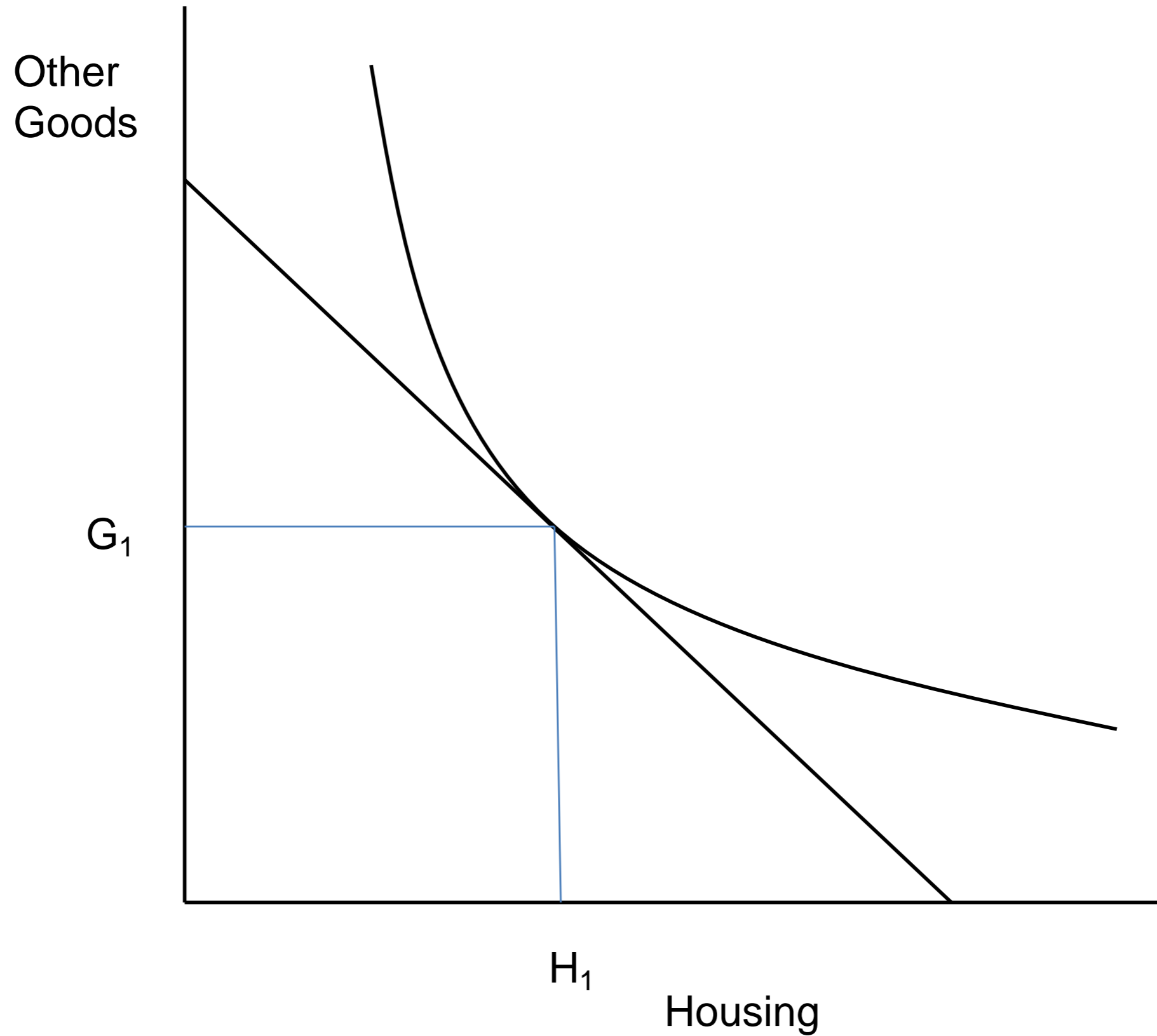
Home Ownership

Congress set goals for Fannie Mae and Freddie Mac to purchase mortgages granted to lower income borrowers.

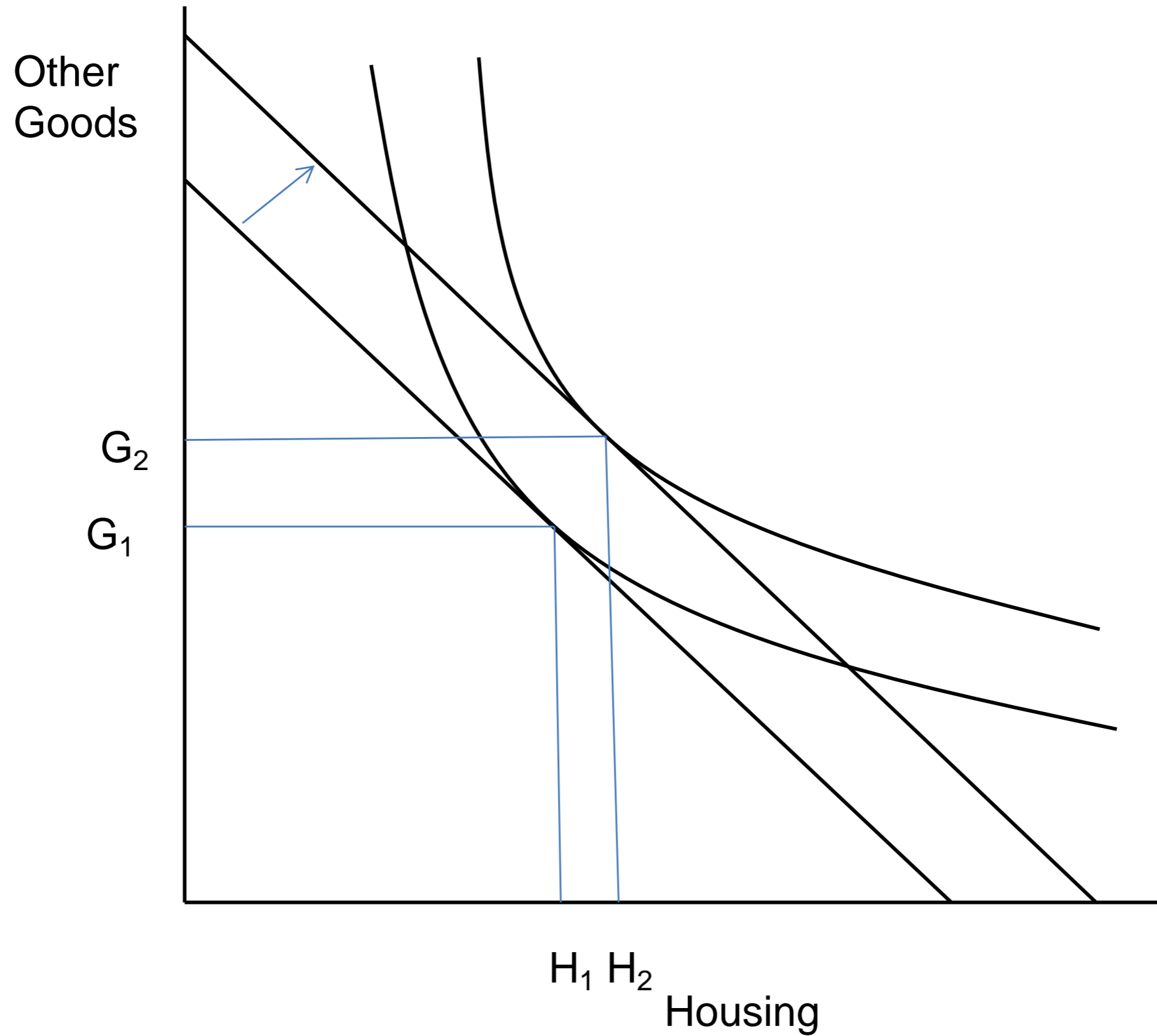
Housing Model

- H = housing
- G = numeraire good
- Y = income
- R = price per standardized unit of housing
(equivalent of P_H in monocentric model)
- Max $U(H,G)$ subject to $Y = RH + G$ or
 $G = Y - RH$

Basic Housing Model



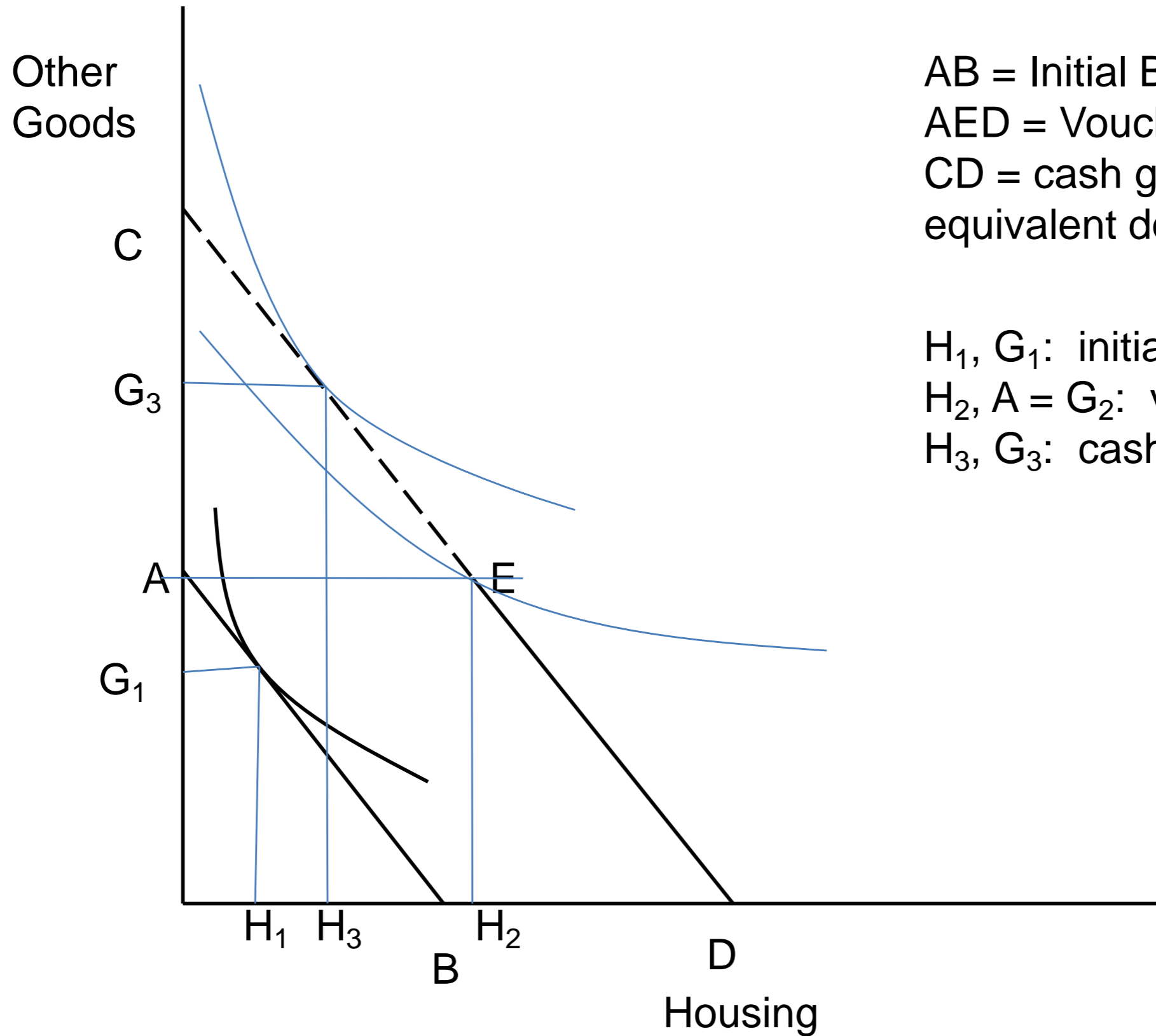
Standard of Comparison: Cash Grant



Vouchers and Rent Certificates

- Most common program in suburban areas
- Benefits:
 - Less expensive than housing built by public sector
 - Can be provided to more households because of lower cost
 - Demand-side subsidies give households more freedom to choose their own housing and location
- Problems
 - May raise cost of housing
 - Less permanent than public housing – can disappear
 - May not lead low-income households to live in higher-quality homes

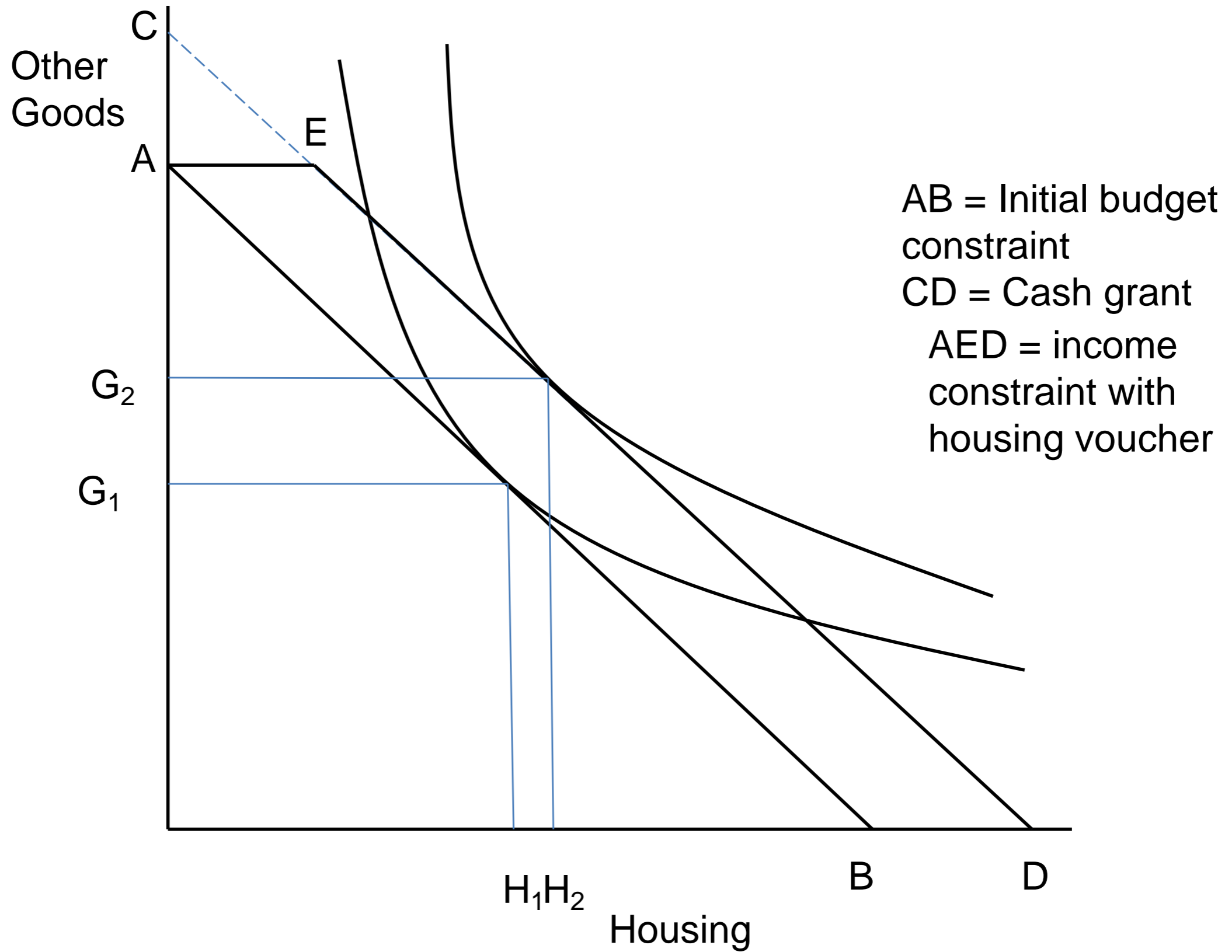
Why Vouchers?



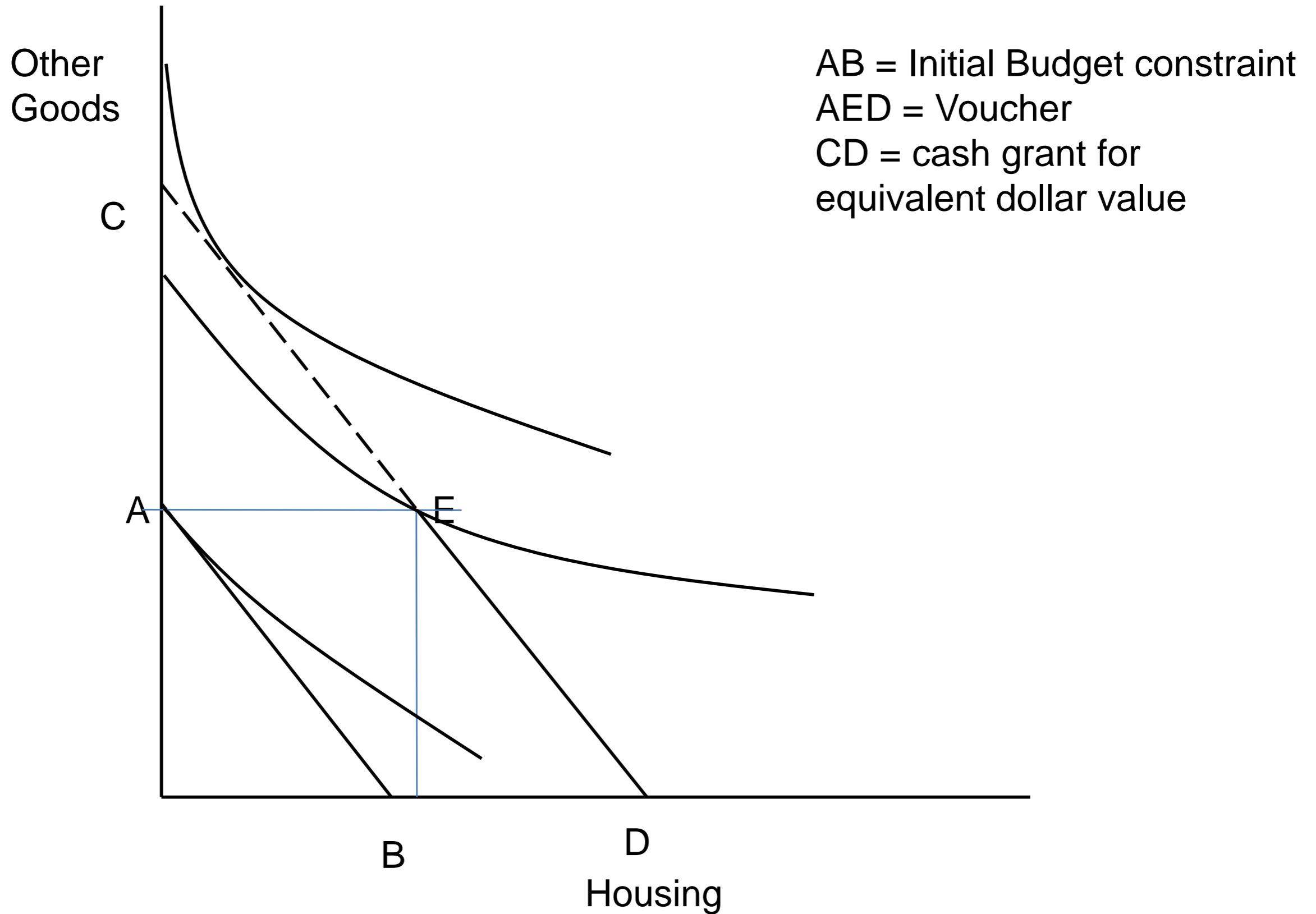
AB = Initial Budget constraint
AED = Voucher
CD = cash grant for
equivalent dollar value

H₁, G₁: initial bundle
H₂, A = G₂: voucher
H₃, G₃: cash grant

Housing Voucher



Extreme Case: Corner Solution



Rent Certificates

- Participating household pays 30% of its income on housing ($.30Y$)
- Government pays difference between $.30Y$ and “fair market rent”
- Fair market rent = 40th percentile of area rents

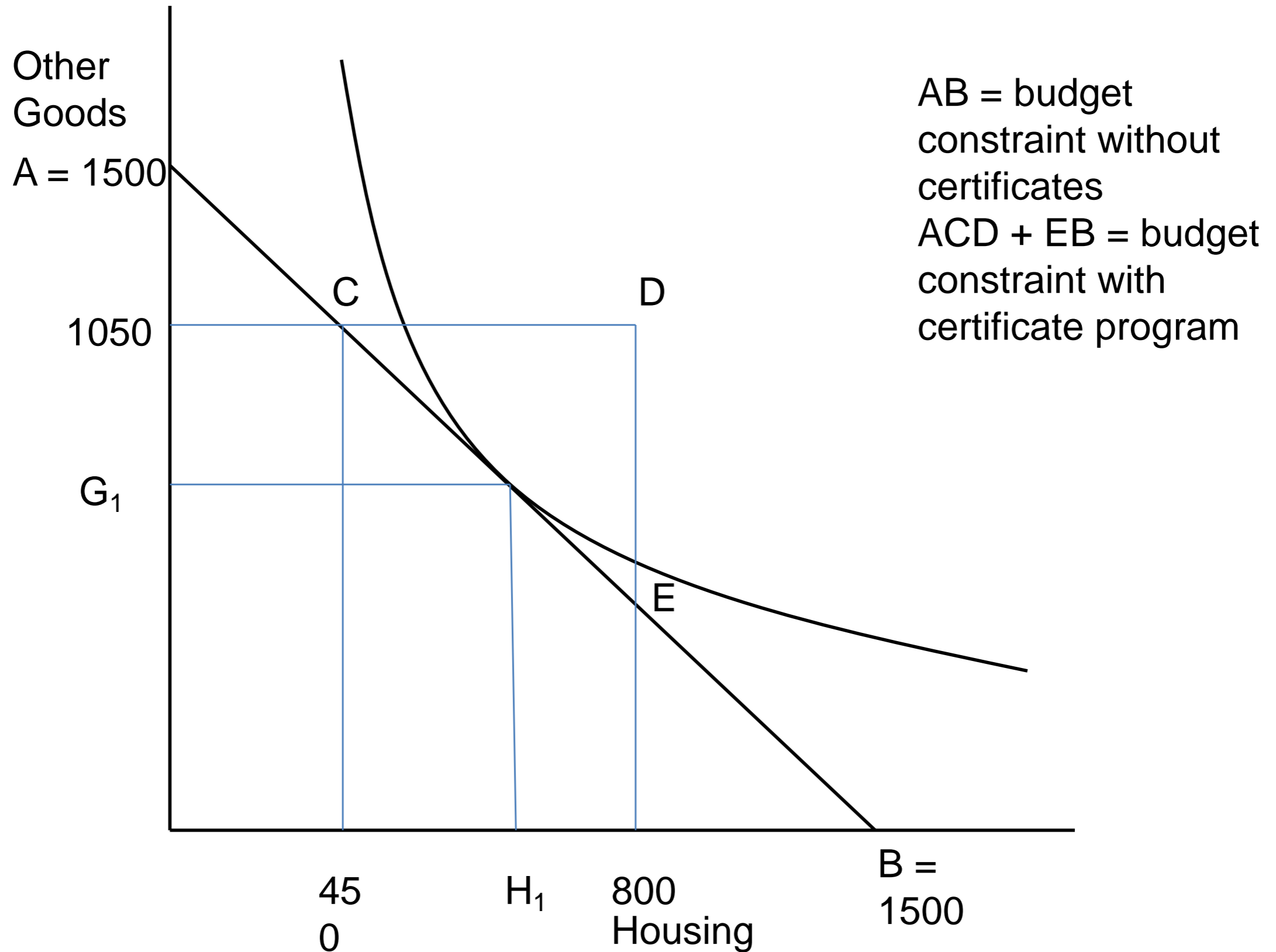
Rent Certificates, Numeric Example

- Household Monthly Income = \$1500
(\$18,000/year)
- Household must pay $.3 * 1500 = \$450$
- Fair Market Rent = \$800
- Household qualifies for a subsidy of $800 - 450 = 350$ per month

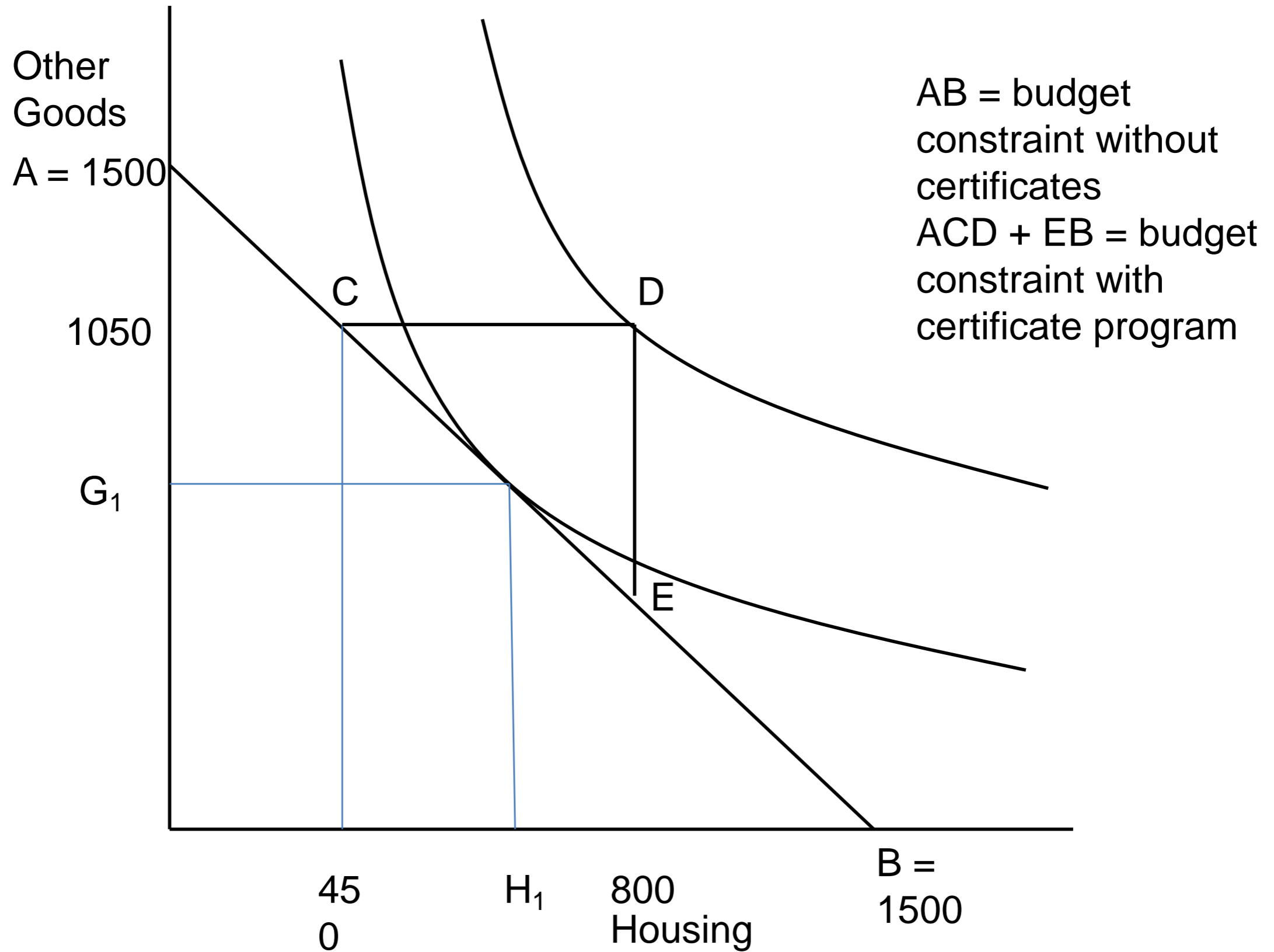
Deriving the budget constraint,
 Income = 1500 ($.3 \times 1500 = 450$), FMR = 800

Total Housing Expenditure	Subsidy	Housing Expenditure by Household	Other Goods \$
300	0	0	1200
400	0	0	1100
450	0	0	1050
500	50	450	1050
600	150	450	1050
700	250	450	1050
800 (FMR)	350	450	1050
801	0	801	699
900	0	900	600
1000	0	1000	500

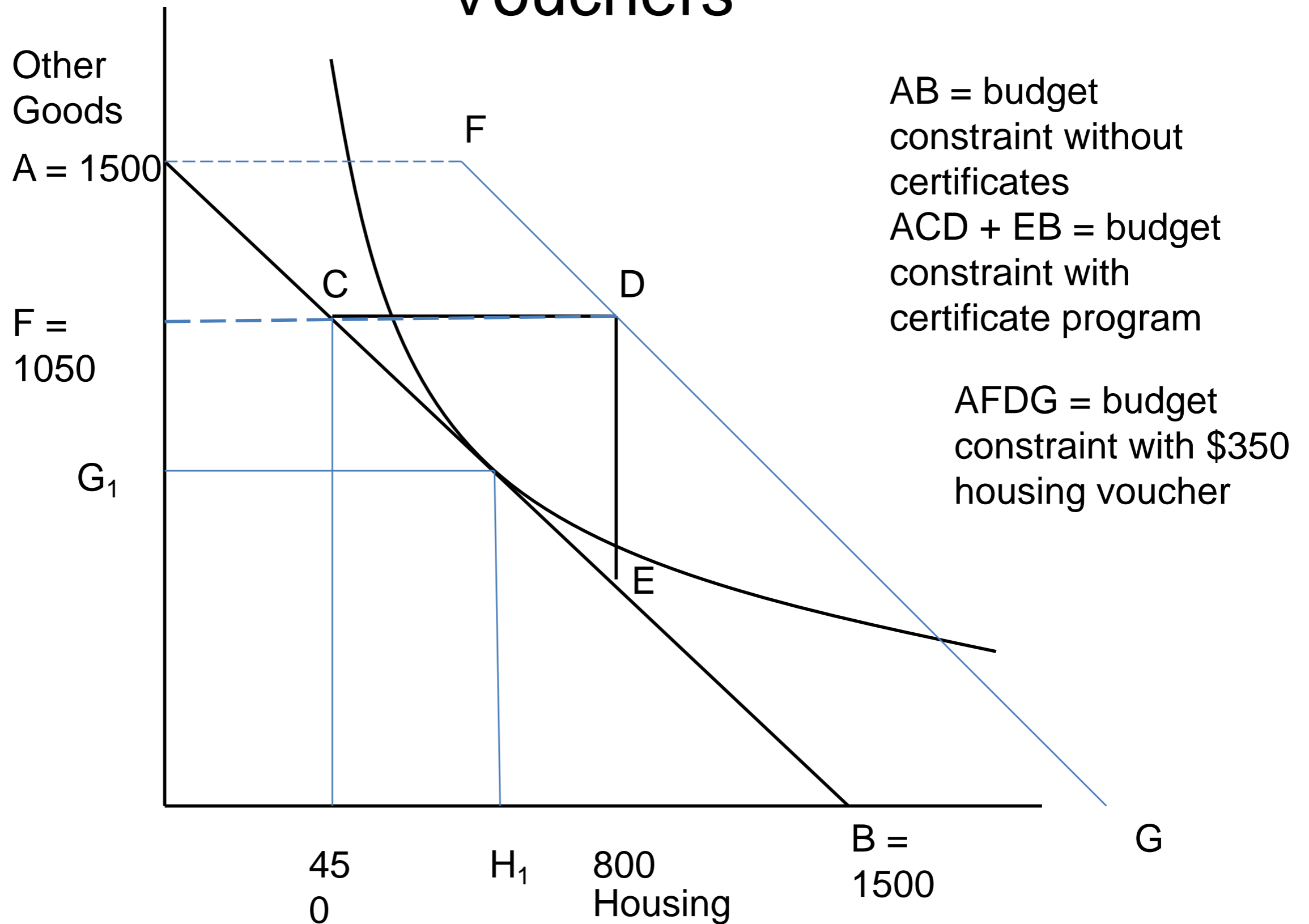
Rent Certificates



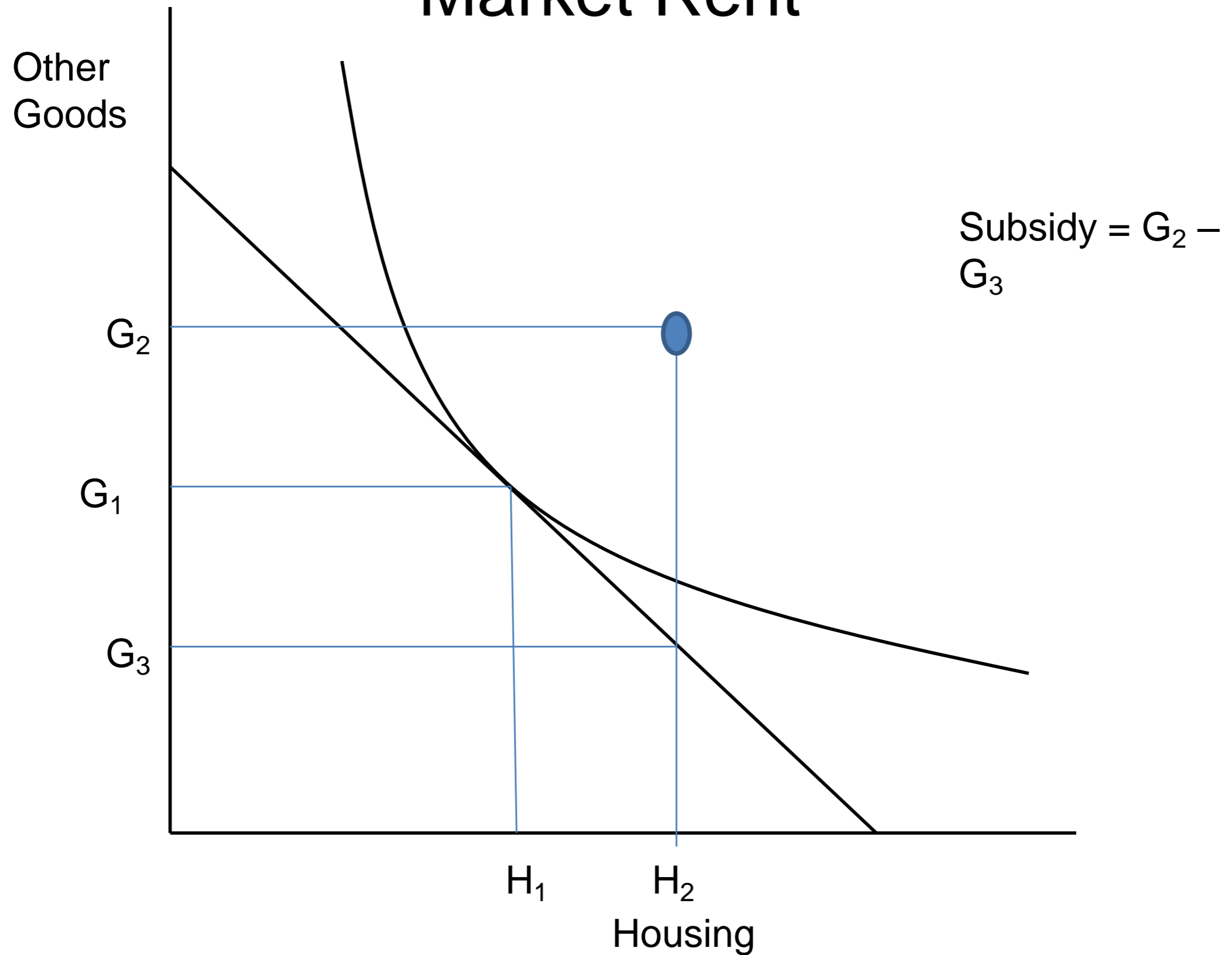
Rent Certificates



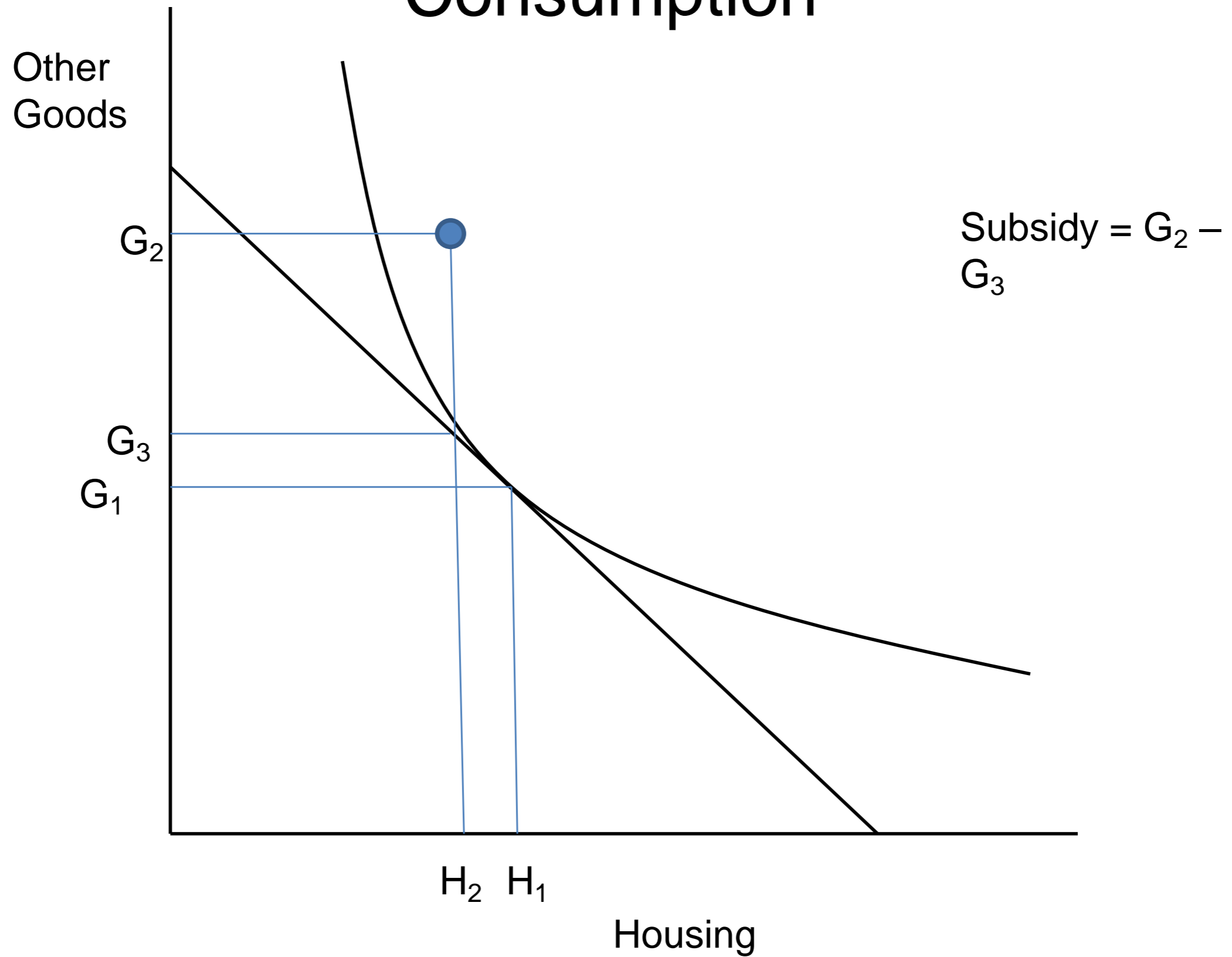
Comparison: Rent Certificates and Vouchers



Public Housing – A Given Unit at Lower than Market Rent



Public Housing – Lower Housing Consumption



Demand-Based versus Supply Based Programs

- Supply based program is likely to lower rents(or at least not raise them)
- Demand-based program may lead to higher rents

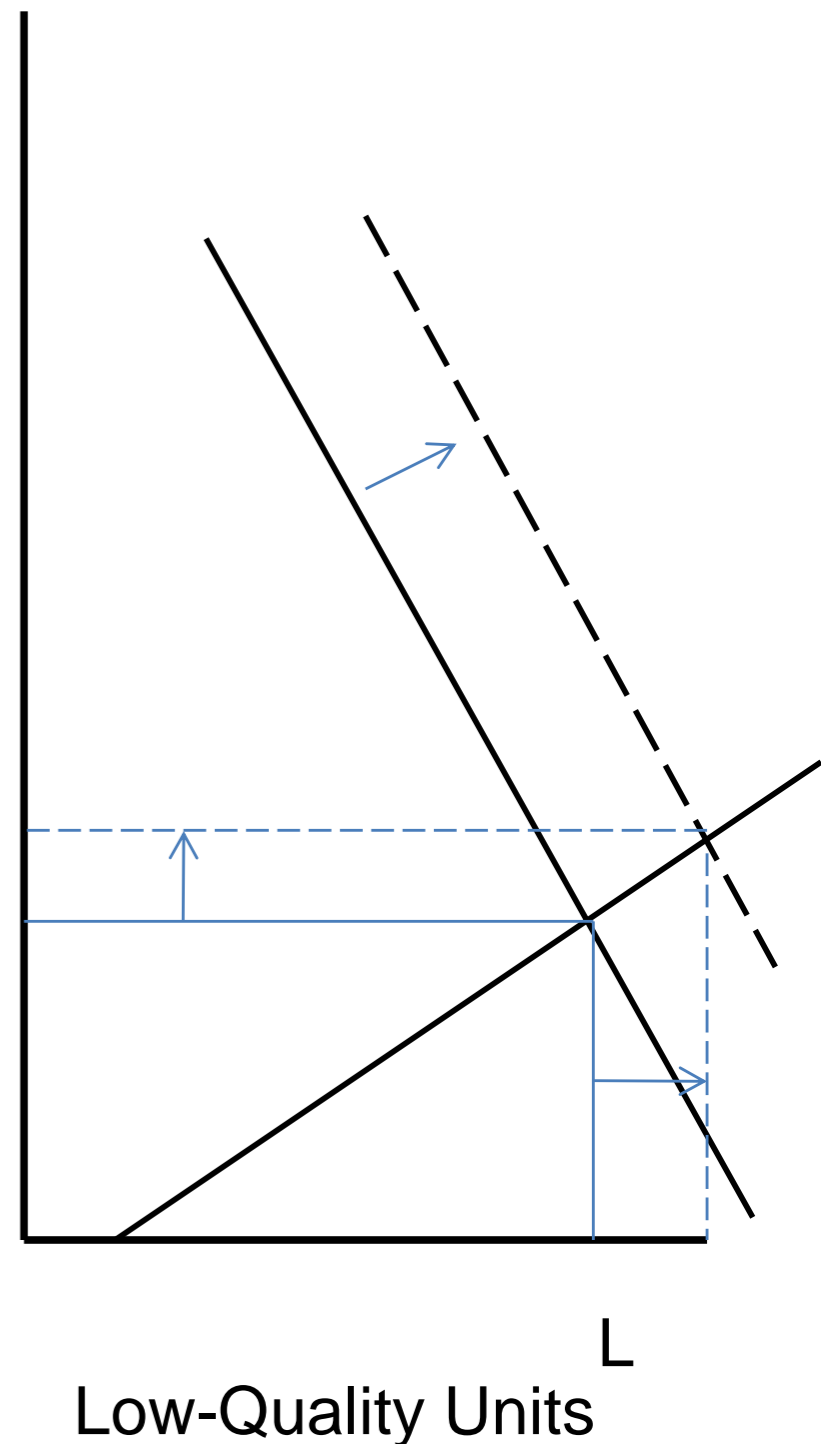
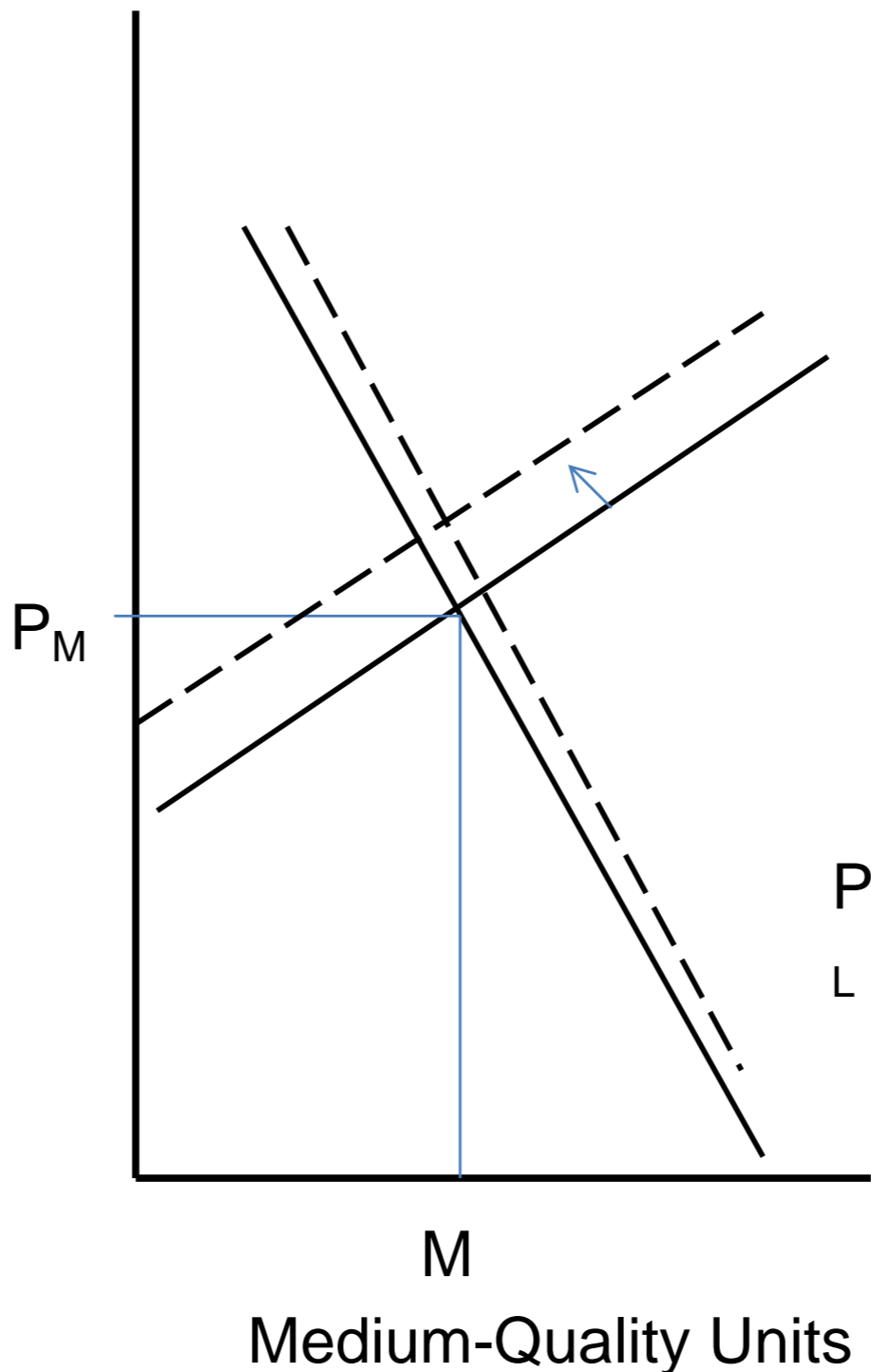
Housing Demand Subsidies – Shift in the demand curve for *low-quality* units

Demand shifts out in M because P rose in Low market

Supply falls (shifts left) in M as shift units to Low

Price must rise in Medium market

Q must fall in M because total number of household stays the same and Q has increased in L market

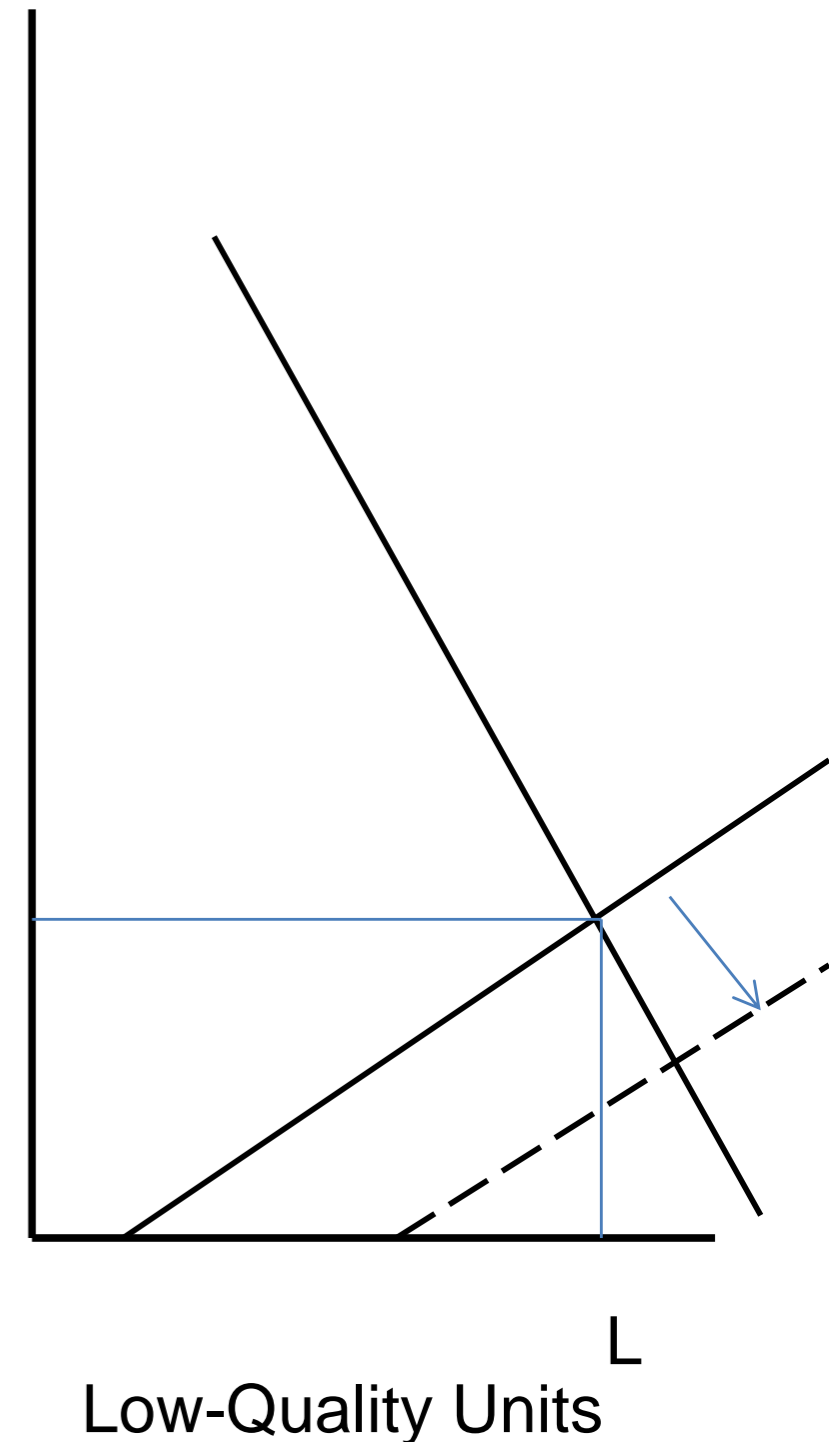
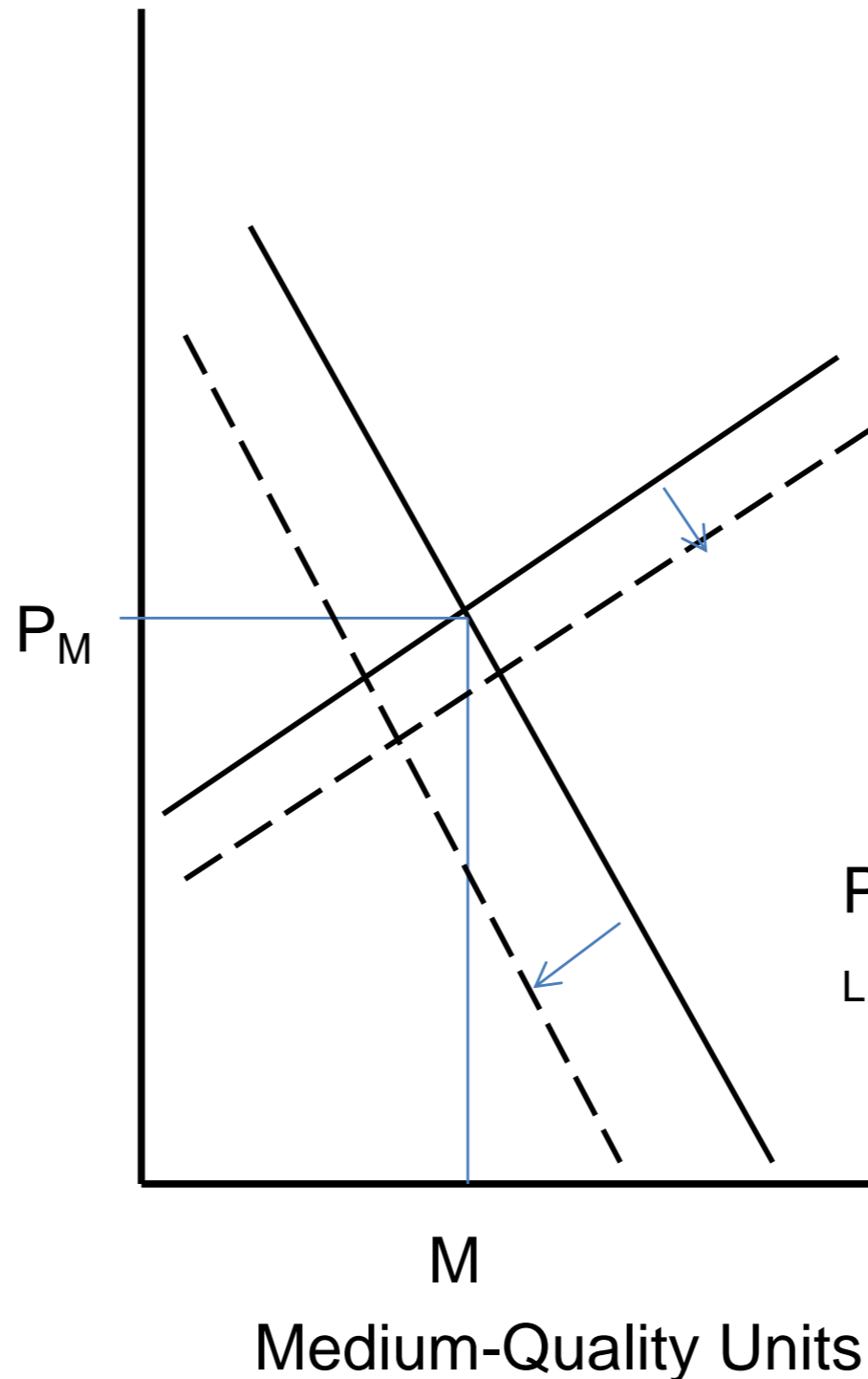


Housing Construction Subsidies – Directly build *low-quality* units

Direct effect is to shift supply curve to the right in the L market, lowering price and increasing quantity

As price falls in low market, demand falls in M market – some houses are demolished in L, others are upgraded for use in M

As price falls in L market, fewer homes are downgraded, increasing supply in M. Net effect is to have lower price and lower Q in M (Q must fall because Q went up in L market)



Inclusionary Zoning Example

- Requires developers to include a specified portion of “affordable” units alongside market-price units in any new housing development
- Highland Park: “has the potential to increase the supply of housing for the City’s workforce. Such action may help local employers attract and retain employees – the people who keep our community safe, teach our children, and maintain the economic health of our business sector. Furthermore, by providing opportunities for people to live near their place of employment, the City can benefit from reduced traffic congestion on local streets.”

Provisions of Highland Park Ordinance

- Developers must provide 20% of total units for sale or rent at an affordable price to income-qualified households
- Alternatively, for smaller developments (<20 single-family detached units), can make a cash payment to the city's "Affordable Housing Trust Fund" of \$100,000 per required unit.

Target Households

1. Highland Park government/school employees
2. Highland Park private sector employees
3. Other income-qualified workers

Up to 120% of area median income (AMI)
At least one and no less than half of affordable units must be sold to households with income \leq 80% of AMI, rest cannot exceed 120%
Households can stay in unit if their income increases later

What happens over time?

- For-sale units must remain affordable in perpetuity (or as long as legally permissible)
- Rental units must be keep affordable for 25 years
- Restrictive covenants include “a resale formula designed to provide a fair return to owners of inclusionary units while at the same time ensuring that the units will be resold at a price affordable to income-qualified buyers”

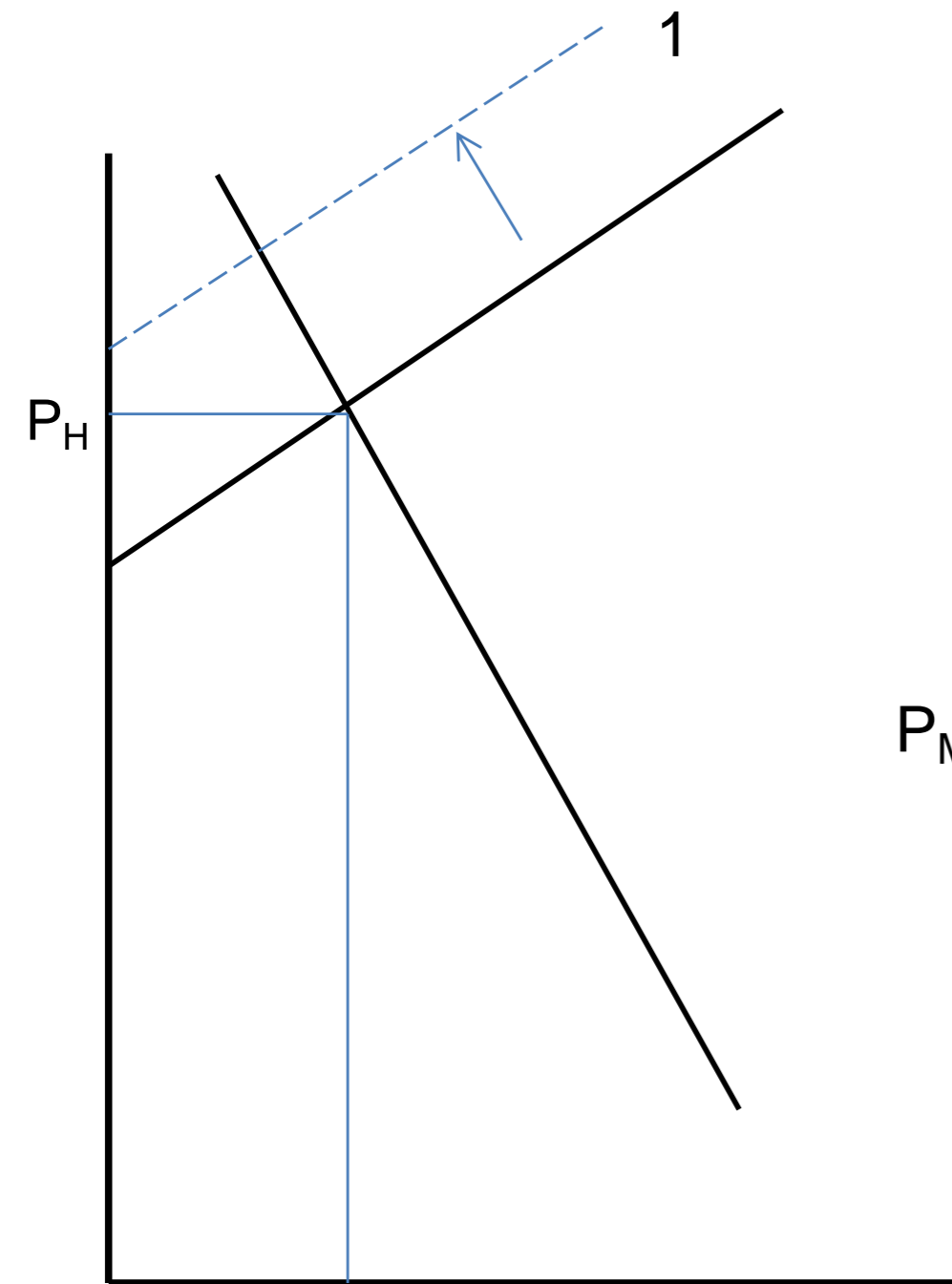
Must the affordable inclusionary units be identical to the market-rate units?

- Must be dispersed through city, visually compatible, and built concurrently with market rate units
- External building materials and finishes must be “substantially the same type and quality”
- Interior improvements including finishes and fixtures need not be the same, except for those related to energy efficiency
- Gross floor area not less than 75% of market rate units, comparable number of bedrooms

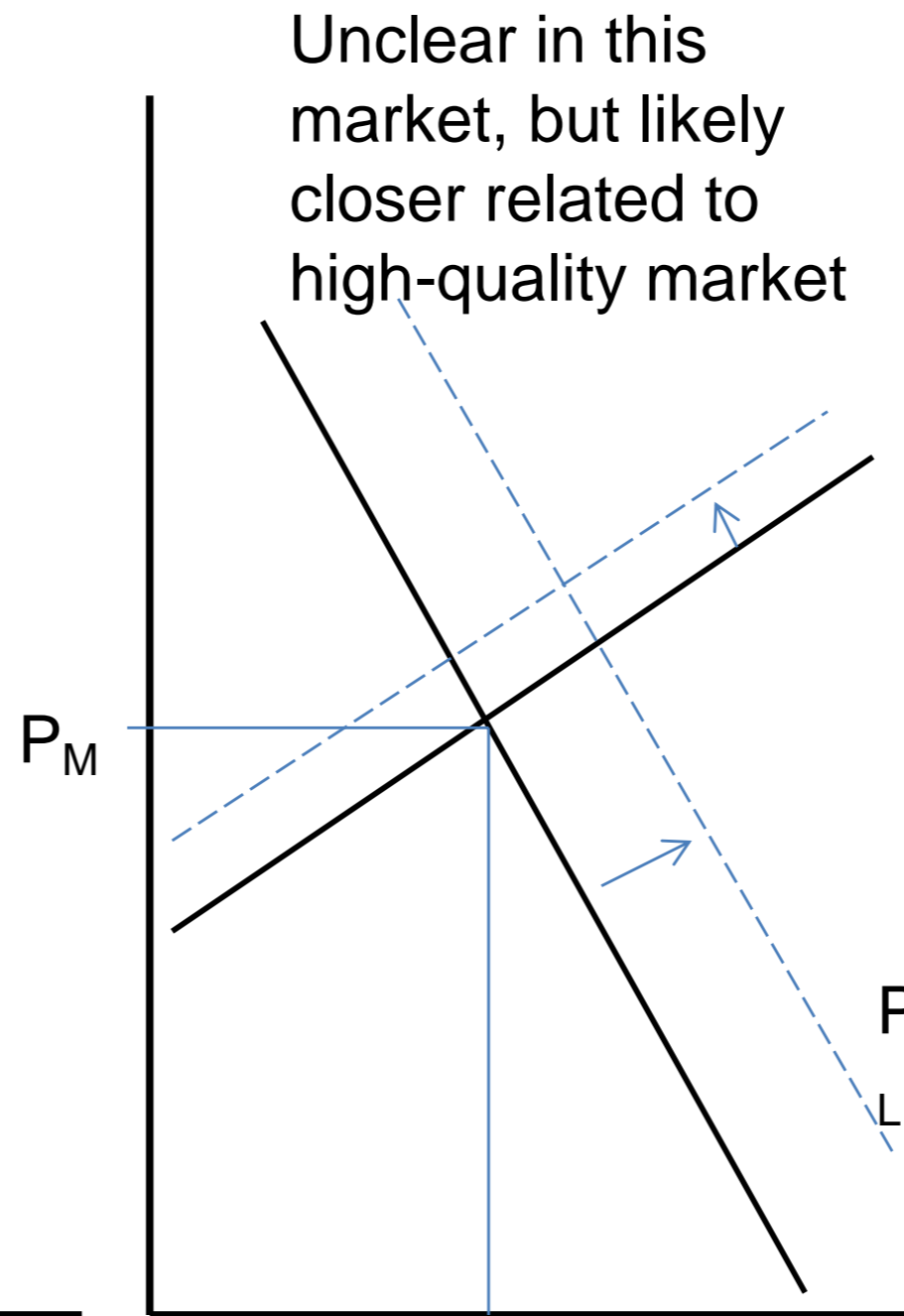
Additional Benefits to Developers

- Density bonus of one additional market rate unit for each affordable unit
- Waiver of development related fees (application fees, permit fees, plan review fees, inspection fees, sewer and water tap-on fees, demolition permits fees, and demolition tax)
- Alternatives: cash payment to Affordable Housing Trust Fund, dedication of land to housing commission, affordable housing units elsewhere in city

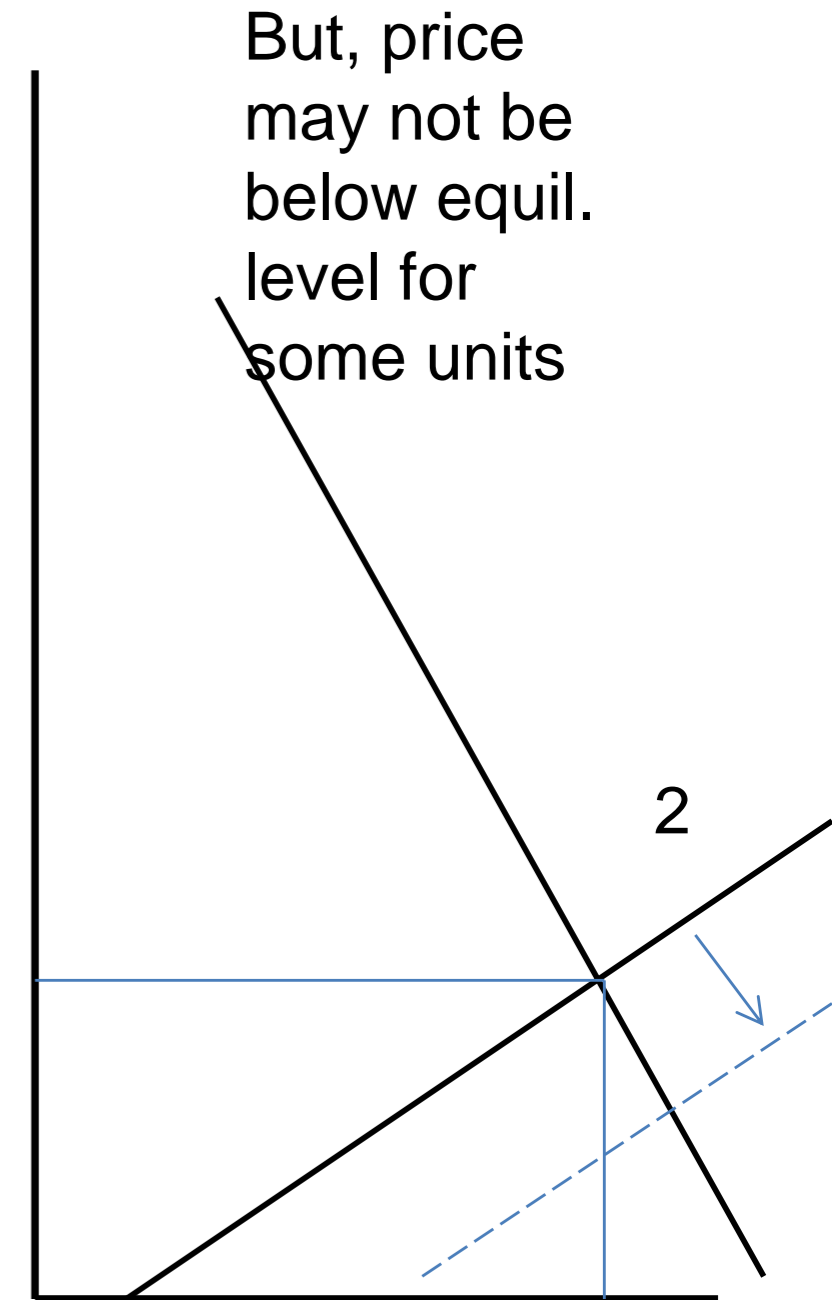
Inclusionary housing leads to lower rate of filtering



H
High-Quality Units



M
Medium-Quality Units



L
Low-Quality Units

Bid-Rent Functions

