Housing Policy

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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

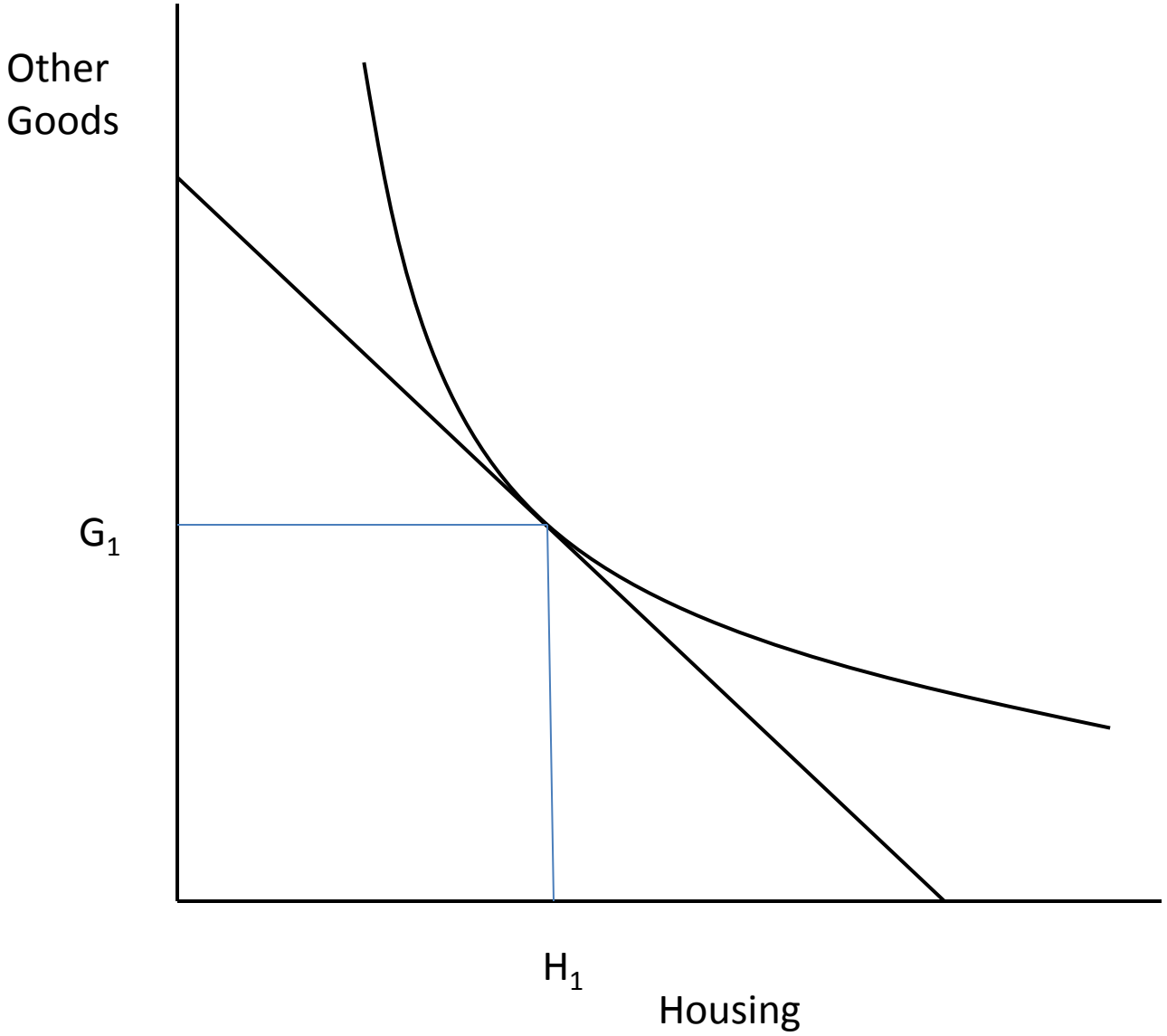
Congress set goals for Fannie Mae and Freddie Mac to purchase mortgages granted to lower income borrowers.

Housing Model

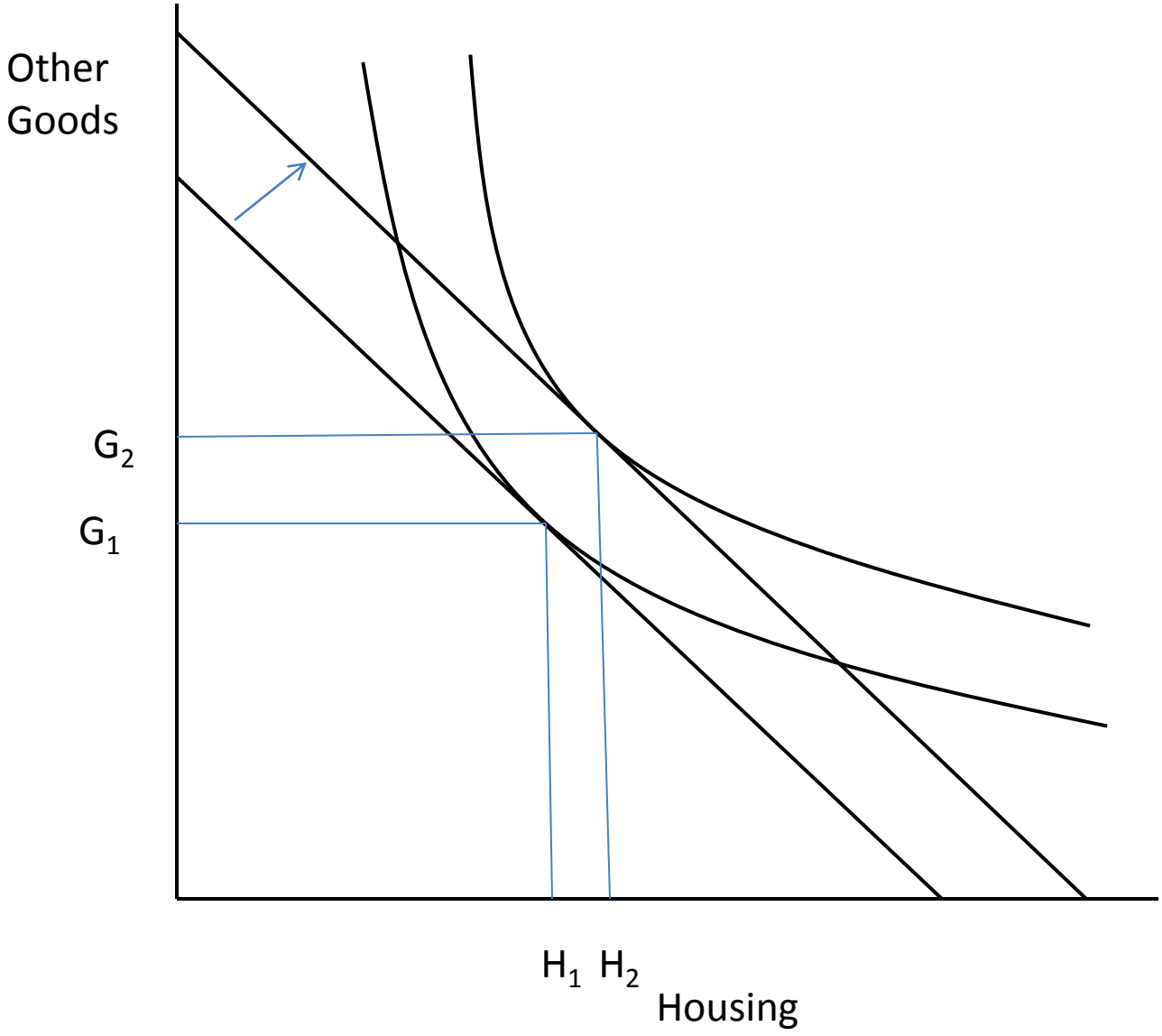
- H = housing
- G = **numeraire** good
- Y = income
- R = price per standardized unit of housing (equivalent of P_H in monocentric model)
- Max U(H,G) subject to **Y = RH + G** or

  G = Y - RH

Basic Housing Model



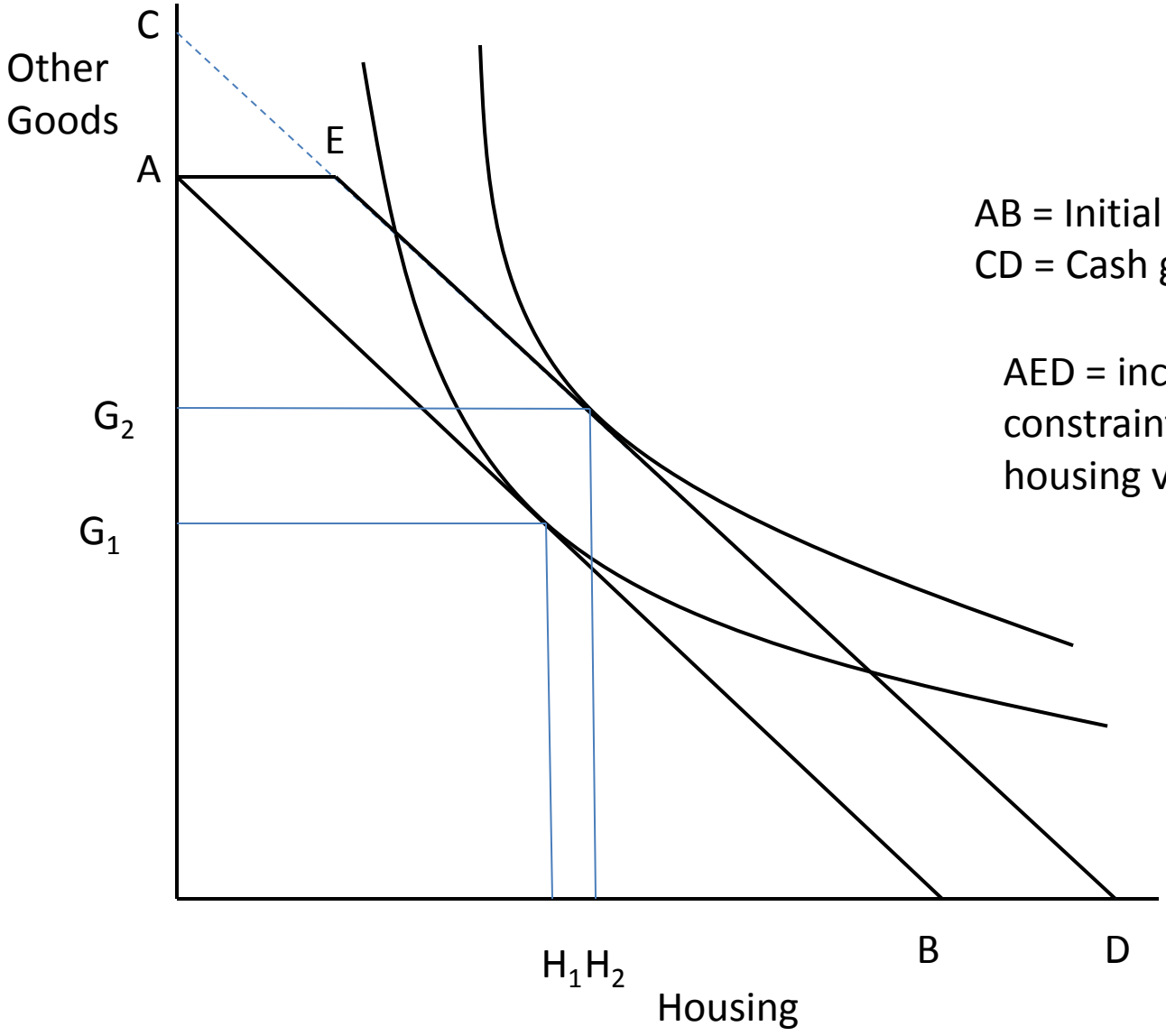
Standard of Comparison: Cash Grant



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

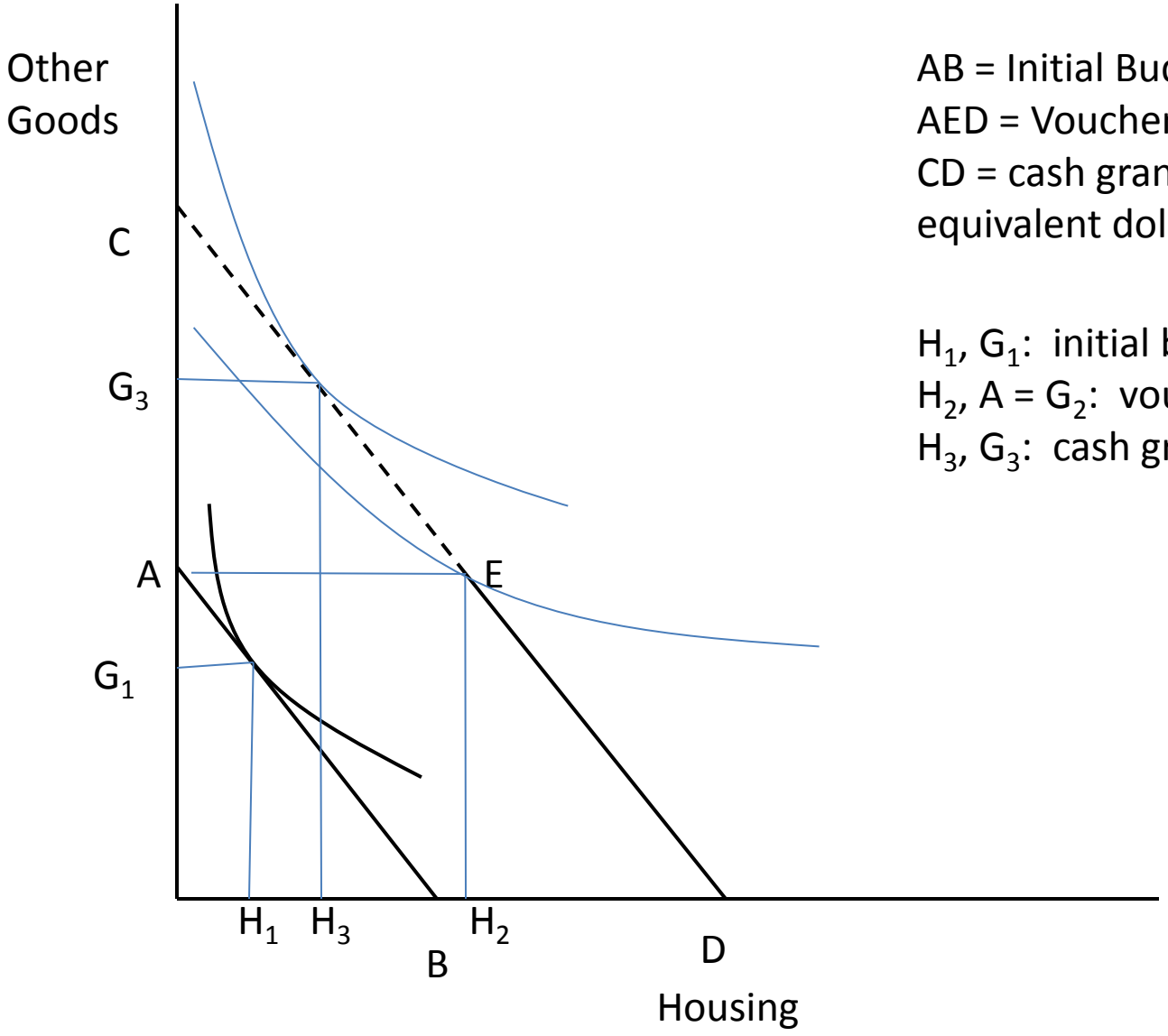
Housing Voucher



AB = Initial budget constraint
CD = Cash grant

AED = income constraint with housing voucher

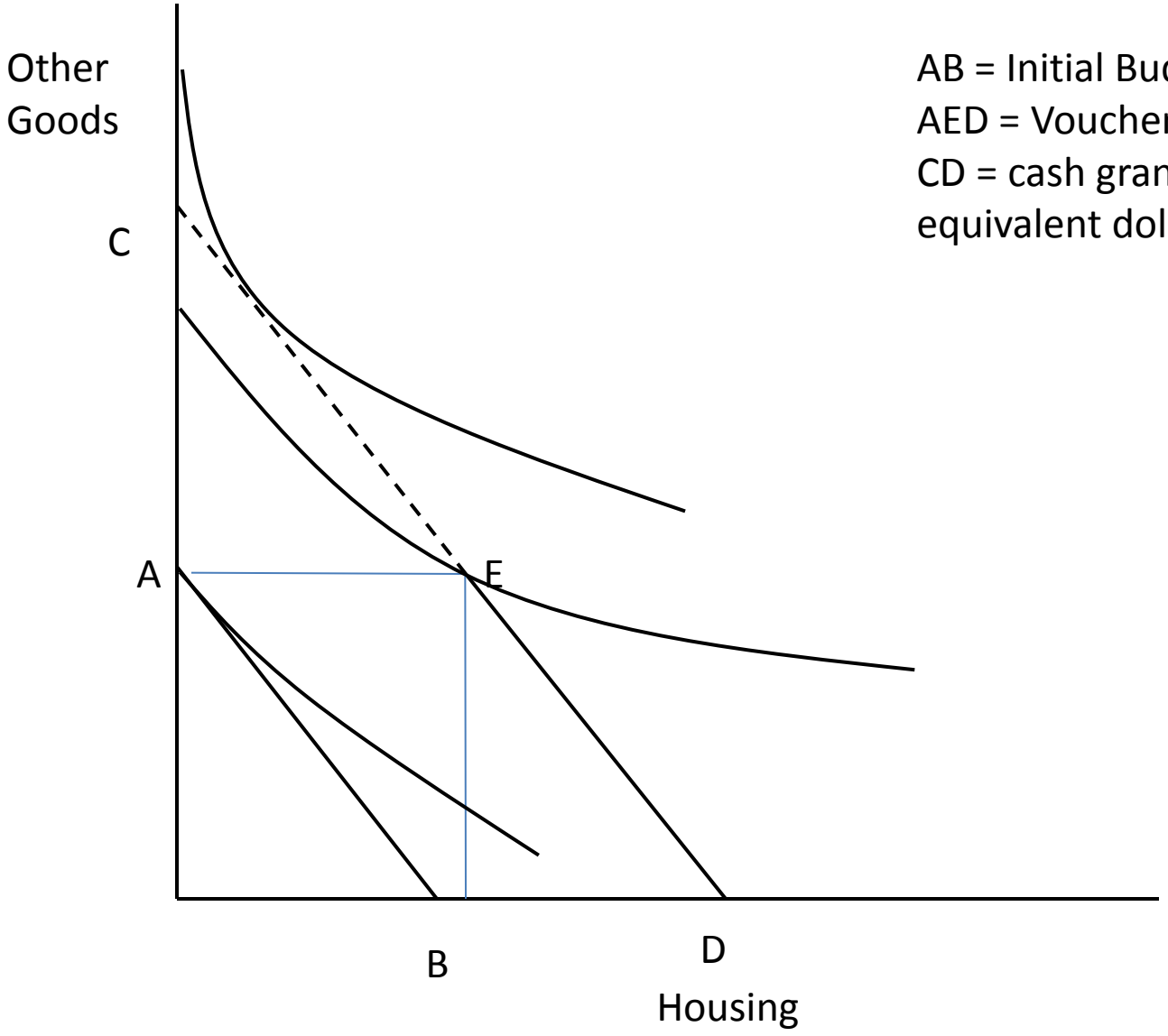
Why Vouchers?



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

H_1, G_1: initial bundle
H_2, $A = G_2$: voucher
H_3, G_3: cash grant

Extreme Case: Corner Solution



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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

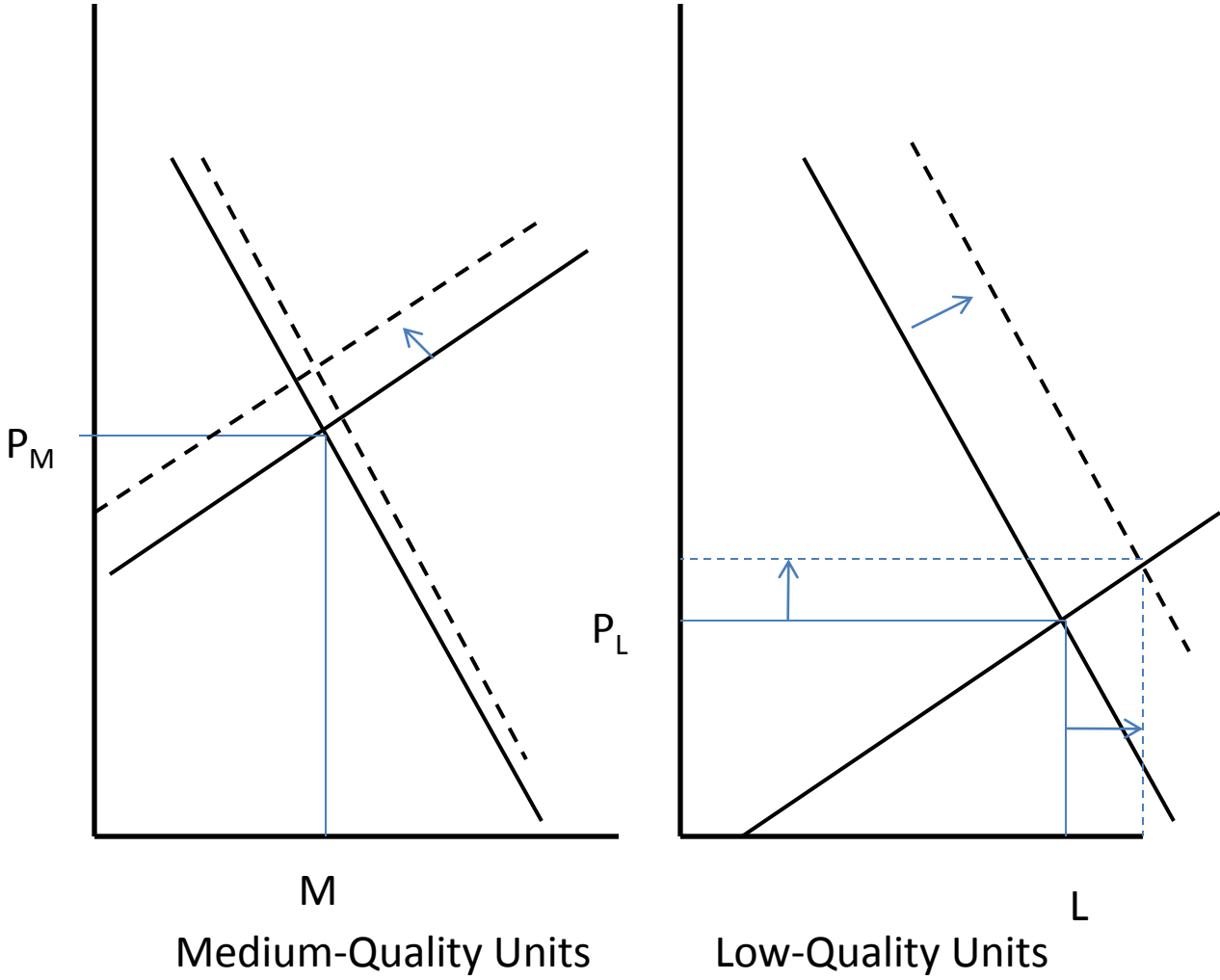
Housing Demand Subsidies – Shift in the demand curve for *low-quality* units

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)