

RESEARCH *Works*

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A Bridge Linking Housing Research and Practice

Building Sound Housing Policy

HUD has entered a new era of innovation and impact at a time when the nation desperately needs housing and community outcomes to combat the foreclosure and housing affordability crises. Central to HUD's transformational strategy is high-quality research and evaluation that informs sound policymaking. HUD's recent failure to invest in research and evaluation contrasts sharply with its own history. Congress established HUD's independent research wing, the Office of Policy Development and Research (PD&R), in 1973. During the 1970s, HUD funding for discretionary research reached more than \$200 million annually (in current dollars). However, in its 2008 report, "Rebuilding the Research Capacity at HUD," the National Academy of Sciences chronicled a dramatic decline in PD&R's research funding between 1999 and 2007. Noting that HUD is the only federal agency that focuses explicitly on the well-being of urban places, the report concluded the following:

In 2007, the total amount of funds obligated for... external research was one-third of what it had been in 1999 (\$14.8 million compared with \$43.5 million). For a department that spends more than \$36 billion of taxpayer money each year on a variety of housing and community development programs, there is virtually no money available to the one quasi-independent office in the agency charged with evaluating how these program funds are spent, assessing their impact,



HUD Secretary Donovan introduces plans for building sound housing policy.

and researching ways to make programs more efficient and effective.... PD&R is in a unique position to provide professional leadership in the development of integrated research on the social, economic, and technical problems facing housing and cities.... If HUD, Congress, mayors, and other policy makers are to respond effectively to urban issues, they need a much more robust and effective Office of Policy Development and Research. With adequate resources, PD&R could lead the nation's ongoing process of learning, debate, and experimentation about critical housing and urban development challenges.

The amount of research funding in 2009 represented less than 0.1 percent of HUD's total budget, and most of these resources went to mandatory and fixed costs rather than toward the transformative research

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Building Sound Housing Policy

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needed to guide the nation's housing and community development policies.

Transformative Research

In 2010, Congress increased appropriations to HUD programs and targeted \$258.8 million for the Department's Transformation Initiative (TI), the cornerstone of HUD's plan to change the way it does business. Intended for next-generation information technology development, cross-program technical assistance, research, and demonstrations, TI gives HUD the flexibility to make strategic, crosscutting investments. Through this initiative, more than \$42 million is committed to systemic research spearheaded by PD&R that will continuously subject programs to rigorous evaluation, promptly modify failing programs and policies, develop appropriate measures for tracking program performance between evaluations, and test transformative program ideas through carefully designed demonstrations. This initiative will carefully and scientifically build on lessons learned from past demonstration research, explore fundamental questions, and produce valuable information for policymakers on the actual effects of policy innovations — in other words, what works and what is in need of reform.

One strategy of TI is the design and execution of a series of major research demonstrations. These trials of new program concepts provide a controlled mechanism for improving programs and helping state and local governments find effective strategies for housing, community, and economic development. Since the 1990s, budget constraints have forced HUD to conduct relatively few research demonstrations. Those demonstrations, however — Jobs Plus, Moving to Opportunity, Effects of Housing Vouchers on Welfare Families — have led to important insights on the effects of interventions. In 2010, HUD plans to launch more demonstration research that includes the following:

- *The Family Self-Sufficiency Experiment*, to evaluate the effectiveness of the Family Self-Sufficiency program that has operated since 1992 in public housing and with vouchers;
- *Rent Reform Options Demonstrations*, to evaluate the effect of different rent models on earnings of residents,

severe rent burdens, administrative efficiencies, and the financial status of the applicable public housing authority; and

- *Choice Neighborhoods Demonstration*, through a cross-agency partnership among HUD, the Department of Justice, the Department of Education, and the Department of Health and Human Services, to test selected interventions designed to achieve enduring neighborhood change.

Among other initiatives, PD&R will team with HUD's Office of Sustainable Housing and Communities to assess the feasibility of developing an affordability index that includes housing, utility, and transportation costs. This tool would help consumers decide where to purchase quality homes close to schools, jobs, public services, and valuable amenities.

TI maximizes innovation and collaboration; Secretary Donovan points out that “only with competitive, game-changing interventions that leverage public dollars can we help distressed communities transform into the export-oriented hotbeds of innovation we need for the 21st century.” PD&R has invited fresh ideas from the public on the *kinds* of new research to launch in fiscal year 2011; we are also expanding our resource base with new partnerships. We hope to collaborate with and support a wider range of scholars and research institutions through a new set of funding opportunities, including the addition of research grants. As the Transformation Initiative unfolds, PD&R will closely monitor outcomes, measure and evaluate program performance, and keep policymakers informed about how effective these innovations prove to be.

Historical Building Blocks for Housing Demonstration Research

Over the past 25 years, HUD's Housing Choice Voucher program — better known as Section 8 vouchers — has proven to be one of the agency's most successful tools for delivering decent, safe, and affordable housing. Since 1975, the year tenant-based rental assistance was formally enacted, the total number of households receiving certificates and

vouchers has risen from 162,000 to 2 million. Indeed, Section 8 is so ingrained in the policy firmament that it's difficult to imagine that policymakers, housing economists, and low-income housing advocates once viewed tenant-based rental subsidies skeptically.

Two sets of experiments with tenant-based subsidies sponsored by HUD fundamentally altered the way the federal government approaches subsidized low-income housing. In 1970, the Experimental Housing Allowance Program (EHAP) set out to determine whether tenant-based housing subsidies could help low-income renters find safe, affordable housing in the private market. In the 1980s, HUD's Freestanding Housing Voucher Demonstration gauged how different subsidy structures affected housing choices among low-income families. Together, these two demonstration projects laid the foundation for one of HUD's most successful programs.

Toward Demand-Driven Housing:

The Experimental Housing Allowance Program

In 1970, Congress authorized HUD to experiment with tenant-based housing allowances as a possible tool for national housing policy. Previously, housing policy focused largely on increasing the *supply* of affordable housing. By providing cash payments directly to eligible households, EHAP instead emphasized increasing *demand*. EHAP supporters believed that, by stimulating consumer demand, the government could effectively encourage the private market to provide affordable housing. From April 1973 to February 1976, researchers followed 3,600 low-income households in two cities — Pittsburgh, Pennsylvania and Phoenix, Arizona. In each city, half of the participants were given payments to supplement the “housing gap” — the difference between the prevailing fair market rent (FMR) for a “standard” unit and 30 percent of the family's net income. The other half served as a control group and received no subsidy.

According to the final EHAP evaluation in 1980, one major concern was the potential for housing allowances to distort the market by pushing up rents for poor-quality homes, a situation that would mainly benefit landlords. Another key question was whether such a program would stimulate repairs, substantial rehabilitation, and new construction.

In both cases, the answer was no. As Mark Shroder noted in a 2000 HUD research article on EHAP,

“The single most important finding of this experiment is the extreme [low] elasticity of housing demand among low-income people.”¹ On one hand, rents stayed relatively stable. On the other hand, the allowances failed to stimulate much new construction or major rehabilitation. Instead, landlords tended to make modest but significant improvements to numerous homes. In many cases, the most egregious defects in health and safety hazards were easily remedied. In addition, the report found that the program was responsible for modest improvements — thus helping, however incrementally, to preserve housing stock.

Flexibility Equals Choice:

The Freestanding Housing Voucher Program

In 1985, HUD launched the Freestanding Housing Voucher Demonstration, which tested how the structure of housing allowances influenced the consumption of subsidized low-income housing. From 1985 to 1988, researchers followed 12,390 participants in 19 sites around the country who were given structured subsidies to bridge the gap between 30 percent of household income and the HUD-determined fair market rent (FMR). Half of the sample received housing certificates that required participants to put 30 percent of their income toward an apartment at or below the FMR for a standard unit — with HUD making up the difference. By contrast, the voucher program gave recipients a flat payment equal to the difference between the FMR and 30 percent of household income. Voucher payments were effectively an income supplement, and recipients were free to rent a lower-cost unit (and keep the difference), or rent a more expensive unit and make up the difference themselves (as long as their total contribution did not exceed 40 percent of household income).²

As it turned out, the alternate payment structure had a profound influence on how recipients shopped for housing. Because household expenditures for rent were fixed under the program, certificate holders had little incentive to find units priced below the program ceiling. Consequently, certificate households tended to overpay for lower quality units. In contrast, the Housing Voucher program encouraged recipients to shop more diligently in the lower price ranges because they were allowed to pocket any savings. Yet they also had the freedom to pay the difference between the voucher amount and the above-market rent. Not surprisingly, 57 percent of voucher recipients who moved from their original homes had rents above the FMRs — meaning that they were

Historical Building Blocks for Housing Demonstration Research

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able to obtain better quality housing while still keeping their rent burdens below 40 percent of household income.³

The Evolution of Tenant-Based Subsidies: The Section 8 Voucher

Tenant-based subsidies have continued to evolve over the years. In 1998, the certificate and voucher programs were merged and the Section 8 rules streamlined to make the program more attractive to landlords. HUD research has shown that success rates for tenant-based assistance are universally high — between 86 and 92 percent — regardless of racial or ethnic group, age or disability status, or primary source of income. By allowing families to live in any neighborhood they choose, if the unit is affordable and meets the program's quality standards, Section 8 gives low-income families greater choice and mobility. Relieved of the financial burden of managing subsidized units, public housing authorities are able to serve more people through vouchers, and the fee structure leaves room for landlord outreach and tenant counseling. And residential choice and mobility, bedrock principles of the once-experimental voucher program, are now central to the way HUD approaches subsidized housing.

¹ Mark Shroder, "Social Experiments in Housing," *Cityscape* 5:1 (2000), 244–46.

² *Ibid.*

³ U.S. Department of Housing and Urban Development, "Final Comprehensive Report of the Freestanding Housing Voucher Demonstration," Vols. I-II, 1990.

⁴ U.S. Department of Housing and Urban Development, "Section 8 Tenant-Based Housing Assistance: A Look Back After 30 Years," 2000.

Past Research Demonstrations Pave Future Roads to Policy

HUD sponsored three important research demonstrations between 1994 and 2004 to gauge the effectiveness of interventions designed to tackle problems emanating from concentrated poverty and severely distressed living

conditions. These empirically designed demonstration programs — Moving to Opportunity (MTO), Jobs Plus, and the Effects of Housing Vouchers on Welfare Families — sought to pinpoint what approaches help improve quality of life for low-income families and neighborhoods.

Families participating in the MTO demonstration lived in the nation's most distressed public housing developments in five central city census tracts with poverty rates above 40 percent. This experiment examined the long-term effects on adult and child well-being when publicly assisted families move from very poor areas to neighborhoods with much lower poverty rates. The key to the study was an experimental design that shed light on the effects of moving to these areas and the causal mechanisms that underlie the outcomes. Each participating family was assigned to one of three groups:



Credit: Jon E. Hilsenrath

Lydia Grayson and her children, Kevin and Khadijah, used an MTO housing voucher to leave a dangerous, drug-infested public housing project for improved housing and a safer neighborhood.

- An experimental group received housing vouchers to be used only in neighborhoods where less than 10 percent of the population earned incomes below the 1990 poverty level. This group received counseling and assistance in finding a private rental unit.
- A Section 8 group received vouchers according to the rules in place at the time for the program, with no geographical restrictions or special assistance.
- A control group received no interventions, but was eligible to remain in public housing.

An interim evaluation in 2002 revealed the following significant outcomes for the experimental group: an 11 percent reduction in the incidence of adult obesity, a decrease in adult psychological distress, and positive effects on girls' mental health. The evaluation noted that families who moved with vouchers improved the quality of their housing, neighborhoods, and neighborhood safety and satisfaction, and that these improvements were often much larger for the experimental group than for the Section 8 group.¹ A final analysis of this 10-year study, including the longer-term effects of MTO, is anticipated for release later this year.

The Effects of Housing Vouchers on Welfare Families demonstration (originally called the Families Welfare to Work Voucher program) also studied the effect of vouchers on low-income families. This study examined the effects of vouchers on housing quality and locations of families with children; on obtaining and retaining employment; and on levels of welfare dependency, material hardship, and family well-being. The research was conducted in 6 cities, all of which had 2000 poverty rates above the national rate of 12.4 percent. Voucher recipients were current, former, or eligible Temporary Assistance for Needy Families (TANF) recipients who were able to become self-sufficient with housing assistance; housing- and employment-related program services supplemented the vouchers. Families were randomly assigned either to a group receiving vouchers to use in the private rental market or to a control group that received no demonstration assistance. To successfully lease with a voucher, participants could choose to remain in their current unit or identify a housing unit that met inspection standards and had a landlord agreeable to voucher use. An impact assessment of housing location, household composition, employment,

poverty, and material hardship suggests that voucher assistance:

- Substantially reduced homelessness and overcrowded living conditions and freed up money for other necessary expenditures.
- Increased the chances of establishing smaller, independent households. At the same time, this improved self-sufficiency is thought to have affected another significant finding of the study — the treatment group experienced an *increase* in TANF benefits, possibly because of reduced financial support from other household members.
- Moderately increased the quality of neighborhood conditions when mobility counseling and housing search assistance were provided.
- Did not positively affect employment or earnings.²

The Jobs-Plus Community Revitalization Initiative for Public Housing Families study examined the effect of interventions to help public housing residents in six major cities secure work, increase earnings, and improve their quality of life. The intervention featured employment-related services (job search instruction, vocational training, and supportive services such as child care and transportation assistance) and social programs (such as a resident-to-resident outreach program that encouraged interactions with neighbors regarding work and training opportunities). The intervention also used rent incentives to promote work. Because public housing rents typically rise as earnings increase, Jobs Plus used rent stabilization or a slower rate of rent increase as an incentive to encourage participation. A key finding of the program's evaluation was that the rent incentive was very effective in its goal of work promotion. Overall, the most successful demonstration sites experienced the following results:

- Significant increases in individual earnings, averaging \$4,564 per person over 4 years, with rent incentives playing a crucial role in this outcome.
- Although individual earnings increased, improved earnings were not found for the residents of the development as a whole. Development-wide earnings only increased in neighborhoods with low resident turnover.

Past Research Demonstrations Pave Future Roads to Policy

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- No significant rise in the total number of jobs or decline in the numbers of welfare recipients occurred.
- Resident quality of life measures, including economic and material well-being, social capital, personal safety, and satisfaction with the housing development changed very little.³

What have policymakers and practitioners gained from these large-scale evaluations? Each demonstration investigated the value of new strategies to help families struggling with poverty and distressed living conditions and provided reliable evidence on what works for public housing initiatives. The MTO and the Effects of Housing Vouchers on Welfare Families demonstrations confirm that vouchers can positively contribute to the quality of life for families receiving housing assistance. The Jobs Plus findings underscore the value of employment-related supportive services and highlight the usefulness of rent incentives to advance public housing residents' efforts in gaining satisfactory employment and earnings. The lessons learned from these demonstrations continue to inform public policy and are applied in HUD's new housing policy initiatives, such as Choice Neighborhoods.

¹ U.S. Department of Housing and Urban Development, Office of Policy Development and Research, "Moving to Opportunity for Fair Housing Demonstration Program: Interim Impacts Evaluation," 2003.

² U.S. Department of Housing and Urban Development, Office of Policy Development and Research, "Effects of Housing Vouchers on Welfare Families," 2006.

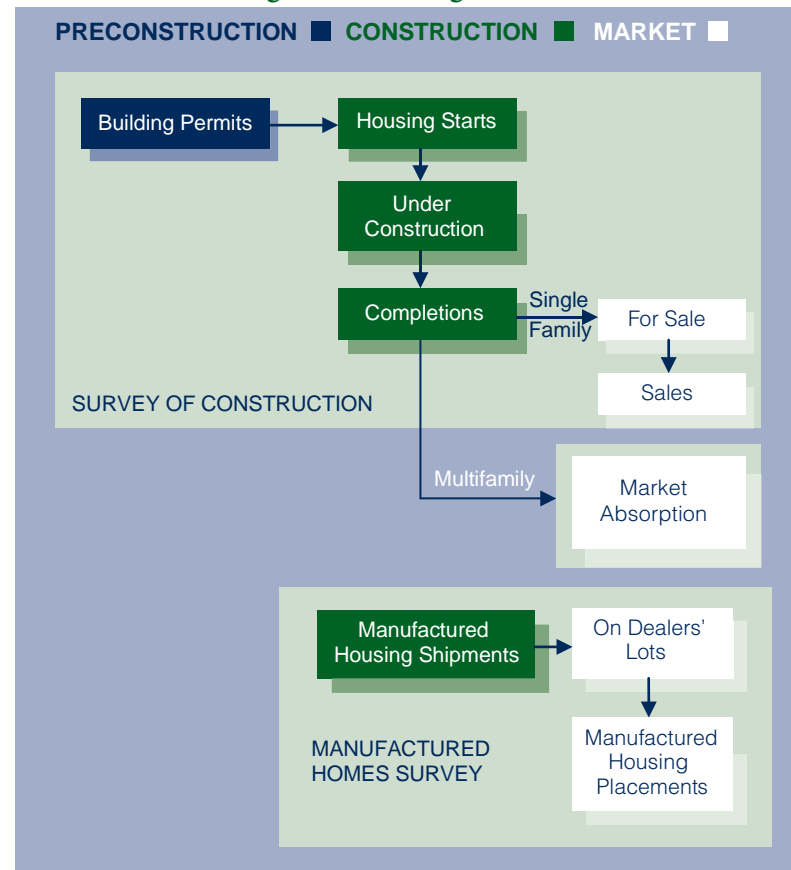
³ Howard S. Bloom, James A. Riccio, Nandita Verma, and Johanna Walter, "Promoting Work in Public Housing: The Effectiveness of Jobs-Plus, Final Report," MDRC, 2005.

Surveying HUD's Surveys

Housing data are important to many people, from housing providers, to doctoral students, to researchers from HUD's Office of Policy Development and Research (PD&R) who perform policy analyses and conduct surveys, studies, and evaluations. PD&R plans to continue sponsoring five housing surveys that together contribute to a comprehensive view of housing in the United States.

Each survey makes a unique contribution to what is understood about the nation's homes. The **American Housing Survey** (AHS) collects data that describe the nation's housing stock and its occupants. The Survey of **New Home Sales** and **Housing Completions**, part of the larger Survey of Construction, produces two leading national economic indicators — housing starts and **building permits**. The **Survey of Market Absorption** (SOMA) and the new **Rental Housing Finance Survey** illustrate the supply and demand (market absorptions) of new multifamily units and their mortgage

Path of New Housing from Planning to Construction to Use



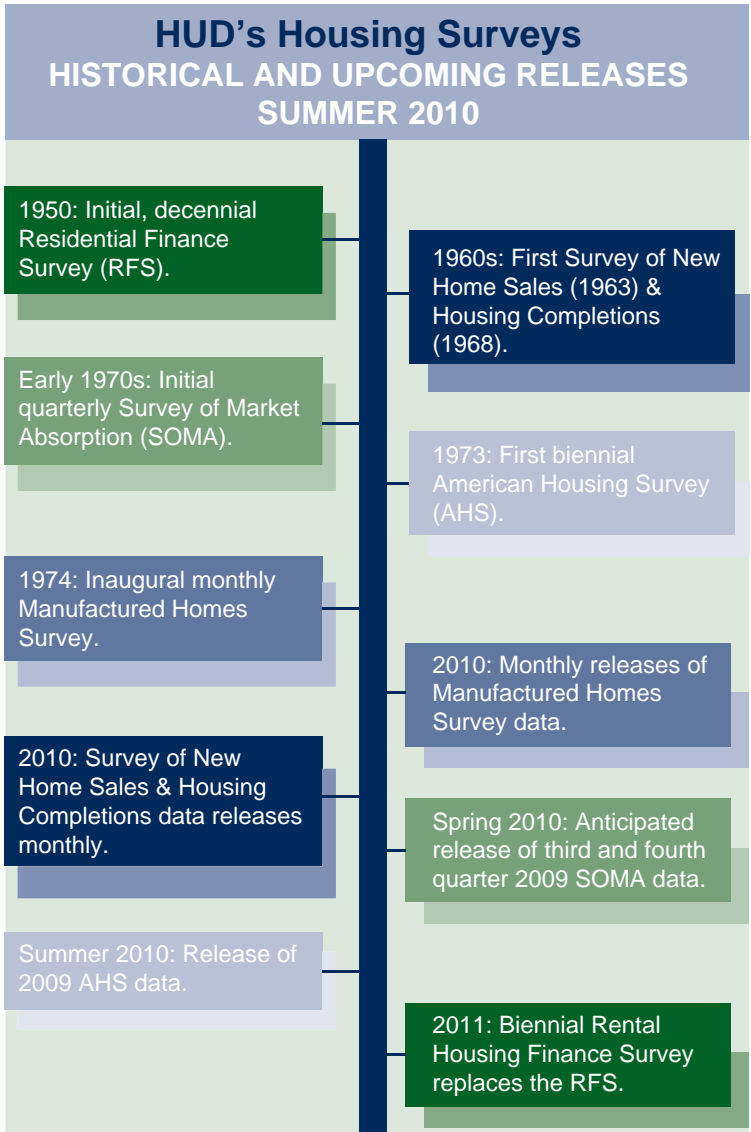
Source: U.S. Department of Housing and Urban Development, "PD&R Research and Technology 2011 Summary Statement and Initiatives," p. O-18.

originations, volume, and rental affordability. The **Manufactured Homes Survey** generates information on manufactured housing sales and inventory changes. Together, the information collected forms an integrated picture of the path that housing takes from the planning stage, through construction, to occupancy, which in turn helps shape policies that tackle America's housing challenges.

Two survey enhancements are in store: revisions to the AHS and the addition of the Rental Housing Finance Survey. PD&R senior economist David Vandenbroucke offered some insights into upcoming changes to the AHS. The largest anticipated change is the new sample, which will take effect for the 2015 AHS. Vandenbroucke observes that "A new sample will enable us to present our data in terms of current metropolitan geography instead of the 1980-based areas that we are using today.... We plan to structure the new sample so that we will be able to produce estimates at the Census Division level and for at least some states instead of just at the regional level." The AHS will also include new modules on transportation and walkability, healthy homes, housing modifications to improve accessibility, energy efficiency, and disaster planning. New questions will capture the various mortgage products now available to homebuyers. However, these changes will not happen at the same time. "The new supplements will begin in 2011 and 2013," according to Vandenbroucke, with "the new sample drawn for the 2015 AHS."

A new sample will enable us to present our data in terms of current metropolitan geography.

The other significant improvement will come with the addition of the Rental Housing Finance Survey, a replacement for the **Residential Finance Survey** (RFS) last conducted in 2001. The RFS has been the best available source for certain multifamily financing information, but the data are old and the survey has been criticized for some sampling issues. To address these shortcomings, HUD, Freddie Mac, Fannie Mae, and the U.S. Census Bureau are creating a scaled-back version of the survey. The Rental Housing Finance Survey will provide the only recent, nationally representative data on multifamily rental project mortgage origination volume and rental affordability — both critical for developing housing goals for government-sponsored enterprises under the Housing



and Economic Recovery Act of 2008 — as well as numerous other potential uses in crafting housing policy. The sample design is composed of subsamples from two existing housing surveys: the AHS, which covers existing properties, and the SOMA, which covers newly built properties.

These surveys are among the many tools that enable PD&R to contribute to the Department's focus on evidence-based policymaking as HUD helps the nation recover from the foreclosure crisis, resolve the housing affordability gap, and support sustainable communities. The use of these tools reaches beyond HUD and extends to stakeholders in housing finance, metropolitan governance, academia, and other fields. All will benefit from the continued funding of the surveys, as well as the expanded AHS and new Rental Housing Finance Survey.

CHANGE IS COMING!

Research Works is moving to an online-only format (indeed, this is the last print-based issue). Current Research Works subscribers signed up for the print version are asked to provide us with an email address so that you may continue receiving the e-news-only *Research Works*, which will cover housing research and data from HUD and other sources. Sign up today at www.huduser.org to receive the electronic version of the newsletter.

We're also pleased to announce *Evidence Matters*, a new quarterly print newsletter from PD&R. Current Research Works subscribers signed up for the print version will automatically receive *Evidence Matters* four times a year starting this summer. New subscribers can sign up at www.huduser.org.

