

Flying under the Radar Screen: The BBB Act's Low-Income Housing Provisions

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The House's Build Back Better Act (BBB) contains numerous housing proposals that have received little attention even though they involve substantial taxpayer cost. The Act proposes spending more than \$160 billion to expand existing low-income housing programs and create major new programs. To keep their apparent cost low, many provisions increase government spending for only a few years. If the proposed reforms are made permanent, their cost over the next ten years would be much greater, and they would have substantial additional cost each year thereafter.

The most expensive housing proposal in the House's BBB Act (\$65 billion) is for building new public housing projects and renovating existing projects. Because the U.S. Department of Housing and Urban Development's public housing program has performed poorly, public housing authorities have long been prohibited from using their HUD funding to add to the stock of public housing units, and for quite some time, they were allowed to rebuild demolished projects only if it was less expensive than providing their tenants with HUD's housing vouchers to help pay the rent for units in the private market. As a result, the number of public housing units has been declining for 30 years from a peak of 1.4 million to less than a million today. While some new units have been built to replace demolished ones, in most cases, tenants have been provided with housing vouchers. The BBB Act would allow public housing authorities to reverse this trend. It would permit them to use HUD funds to build additional units.

The proposed reforms of the public housing program are inconsistent with the evidence on program performance. My [survey](#) of the evidence indicates that housing voucher programs are much more cost-effective in delivering housing assistance than public housing. The best evidence is from a major HUD-funded study conducted by a leading public policy research organization. It found that the public housing program spent much more than housing vouchers for equally good housing in equally desirable neighborhoods in its two sites – 64% more in Phoenix and 91% more in Pittsburgh. A more recent [GAO study](#) found that public housing redevelopment under the HOPE VI program was the least cost-effective approach for delivering housing assistance studied. Even though the study omitted substantial costs of public housing such as the opportunity cost of the land and the substantial local property tax abatements received by public housing agencies, HOPE VI was estimated to be 27% more expensive than housing vouchers for providing a unit with the same number of bedrooms in the same metro area.

Based on the average percentage excess cost of public housing compared with housing vouchers in the two sites of the HUD-funded study, the housing that would result from the BBB Act's proposed expenditure of \$65 billion on public housing renovation and construction could be provided for a cost of \$37 billion with housing vouchers. The BBB Act would thus waste \$28 billion of taxpayers' money.

The BBB Act also contains numerous provisions that would massively increase subsidies for the development of privately owned housing projects for low-income households. Developers of most of these projects receive federal tax credits and subsidies from other federal, state, and local government programs. The passage of the House version of the BBB Act would add about \$45 billion to the subsidies for these rental projects over ten years and create a new tax credit for builders and renovators of owner-occupied houses that would cost about \$6 billion in its first four years. To keep their apparent cost low, some provisions increase government spending for only a few years. Making these reforms permanent would add more than \$56 billion to their cost over the next ten years and more than \$9 billion a year thereafter.

The most expensive items in this category are about \$20 billion for increasing the magnitude of low-income housing tax credits (the Joint Committee on Taxation has greatly understated this magnitude), \$15 billion for the National Housing Trust Fund and \$10 billion for the HOME Investment Partnership Program that provide developers of tax credit projects with extra subsidies, and about \$6 billion to create a new tax credit for builders and renovators of owner-occupied houses for households with incomes less than 140% of the local median (about 75% of all households). To put these numbers in perspective, about \$14 billion in low-income housing tax credits will be allocated to developers in 2021, and the FY 2021 appropriation was about \$700 million for the Trust Fund and \$1.35 billion for the HOME Program.

As in the case of public housing, the proposed expansions of programs that subsidize the development of privately owned housing projects for low-income households are inconsistent with the evidence on program performance. The [evidence](#) indicates that housing voucher programs are much more cost-effective than privately owned subsidized projects for delivering housing assistance. The best evidence is from another major HUD-funded study that is based on a national random sample of units in HUD's housing voucher program and its largest program that subsidized the construction and operation of privately owned low-income housing. The study provided a range of estimates for the excess cost of the subsidized projects compared with housing vouchers for equally good housing in equally desirable neighborhoods. The lowest was 44%; the highest 77%. A more recent [GAO study](#) produces a much smaller estimate of the excess cost for newly built tax credit projects. It estimates that units in these projects are only 16% more expensive than housing vouchers for providing a unit with the same number of bedrooms in the same metro area. This, however, greatly understates the [cost of LIHTC projects](#) because it ignores subsidies received by many projects in the form of property tax abatements, land sold or leased to developers by local government agencies or public housing authorities for a nominal amount, and residual loans from these sources that are not repaid in their entirety or at all.

Based on the midpoint of the range of estimates of the excess cost of HUD's largest program that subsidized the construction of privately owned low-income rental housing projects, the housing that would result from the BBB Act's proposed expenditure of about \$45 billion on programs of this type could be provided for a cost of about \$28 billion with housing vouchers. Adopting the BBB Act's proposals would waste \$17 billion of taxpayers' money.

The BBB Act does contain an important proposal that is supported by evidence on program performance. It would spend \$24 billion over ten years to expand HUD's housing voucher program, with a substantial set-aside for some of the neediest families and individuals. The voucher program is not only the most cost-effective method for delivering housing assistance but also offers recipients much greater choice about their housing than programs that tie assistance to living in a specific dwelling unit. We get more for our money when we force suppliers of goods to compete for the business of customers rather than compete for subsidies from government officials.

During his campaign, President Biden [proposed](#) expanding HUD's housing voucher program to offer assistance to all eligible households so as to eliminate the gross inequity of the current system of low-income housing assistance that provides large subsidies to a lucky minority and offers nothing to many of the poorest households. The BBB Act does not go nearly that far but is a step in that direction. We could go much further by diverting some or all the money that the House version of the BBB Act proposed to spend on the construction, renovation, and operation of low-income housing projects to expanding the housing voucher program.

The BBB Act's housing voucher proposal could be improved further by mandating smaller subsidies for new voucher recipients so that more eligible households could be served with whatever amount Congress decides to spend on it. Under the current housing voucher program, the national mean voucher subsidy for the poorest households with one adult and two children is about \$1,200 a month. In expensive places, it is much higher – about \$2,000 a month in New York City and Los Angeles. Current voucher subsidies enable their recipients to occupy rental units of about average desirability without devoting more than 30% of their income to their housing. It is possible to occupy and retain more modest units with smaller subsidies.

It is often argued that it is necessary to subsidize the construction of new units to house the homeless or solve a housing affordability problem. Neither argument holds water.

All homeless people could easily be accommodated in vacant existing units, and that would be much less expensive than building new units for them. In the entire country, there are less than 600,000 [homeless people](#) on a single night, we need far fewer than 600,000 units to house them because many are couples without children or families with children, and there are always more than 2.4 million [vacant units](#) available for rent. The reason that these people are homeless is that they don't have the money to pay the rent for an existing vacant unit. With some outreach and search assistance to the most troubled, a housing voucher would solve that problem. A major HUD-funded random assignment experiment called the [Family Options Study](#) compared the cost and effectiveness of housing vouchers and subsidized housing projects for serving the homeless. Short-term housing vouchers were as effective and much less expensive than transitional housing projects.

Finally, we do not need to build subsidized housing projects to solve a housing affordability problem. The least expensive way to reduce how much low-income families spend on housing is to pay a part of their rent. The housing voucher program does that. Building housing for these

households and charging the same rent as they would pay under the voucher program is much more expensive.