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# The Characteristics of Subsidized and Unsubsidized Renters and Their Housing

**T**he federal government now spends over \$22 billion per year for low-income rental housing assistance. Yet many renters with relatively low incomes continue to pay large shares of their incomes for housing costs. Many of them live in units that are physically inadequate or in neighborhoods that they consider unsatisfactory. This situation occurs in part because most renters who are eligible for federal housing aid do not receive it, and many of those who do receive it continue to experience those same housing problems, although usually to a lesser degree.

This chapter examines the characteristics of subsidized and unsubsidized renters and the conditions of their housing. The analysis was made possible by an enriched database that allowed the Congressional Budget Office to explore several issues more accurately and in more detail than was previously possible. The goal of that exploration was to provide information to help answer policy questions such as the following:

- o To what extent does housing aid reduce the incidence of recipients' housing and economic problems?
- o Do the current criteria that determine a household's priority for housing aid identify households with the greatest need?
- o Is there a difference in the extent to which different forms of housing assistance alleviate housing problems?
- o Could policy initiatives to shift aid to less expensive household-based aid potentially improve the

housing of all types of renters with low incomes, or might certain subgroups such as large families encounter difficulties in using that type of aid?

CBO defined housing problems for this analysis along a number of dimensions. Three of them can be measured objectively; two are subjective. The objective dimensions are affordability, the physical condition of rental units, and crowding. The subjective ones are the degree of satisfaction renters report with their housing unit and with their neighborhood. Evaluating the extent of these problems depends, of course, on the particular standards that are used to measure them. In that sense, any assessment is at least somewhat arbitrary.

In general, the standards used here to measure the objective problems are those used in federal housing programs today (see Box 2). As in Chapter 2, households with low incomes are considered to have an affordability problem if they pay more than 30 percent of their income for housing. To assess the physical condition of housing, CBO used an index developed by the Department of Housing and Urban Development that measures a host of structural defects.<sup>1</sup> CBO defined a unit as crowded if there were more than two persons per bedroom (a standard similar to the one used in HUD's housing

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1. This index produces overall estimates of the incidence of substandard housing that are comparable with those produced by an index developed and used in the past by CBO. The HUD index has the additional advantage of distinguishing between units that are moderately substandard and those that are severely substandard. For estimates of the number of substandard units in 1985 based on the CBO index, see Congressional Budget Office, *Current Housing Problems and Possible Federal Responses* (December 1988).

**Box 2.**  
**Definitions of Objectively Measured Housing Problems**

This study analyzed three objectively measured housing problems. The first concerns the affordability of the housing unit to the renter. The other two pertain to the physical adequacy of the unit in terms of its condition and its space.

**Relatively Costly Units.** Relatively costly units are those for which renters pay more than 30 percent of their household income in housing costs. That amount is roughly what households that receive assistance pay out of pocket in most federal housing programs. Household income includes the income of all members age 14 and older, including those who are not related to the householder. Housing costs consist of rent payments to the landlord plus utility costs, if paid separately, and renter's property insurance, if any. (For subsidized households, housing costs include only their out-of-pocket expenses for those items.)

**Substandard Units.** Substandard units are units with moderate or severe defects, as defined in the American Housing Survey. A unit is judged to be severely

substandard if it has any one of the following severe problems: (1) incomplete plumbing; (2) three or more breakdowns in the heating system within the past year; (3) no electricity or three specific problems with the electrical system (for example, exposed wiring); (4) five of six maintenance problems (for example, leaks, holes in floors, and peeling paint or plaster); or (5) four specific problems with public hallways (for example, no working light fixtures or loose or missing steps). A unit is judged to be moderately substandard if it has no severe problems but has any one of the following moderate problems: (1) three breakdowns in plumbing within the past year; (2) unvented heaters as the main source of heat; (3) three of the six maintenance problems noted in (4) above; (4) three of the four problems with public hallways noted in (5) above; or (5) incomplete kitchen facilities.

**Crowded Units.** Crowded units are units with more than two people per bedroom, a standard that is similar to the one used in rental assistance programs.

programs). The subjective dimensions were assessed using a rating scale. Households were judged to be dissatisfied with their housing units or neighborhoods if they rated them as a 5 or less on a scale of 1 to 10.

After a brief discussion of key definitions used in the analysis and some limitations of the data, the remainder of the chapter is divided into two parts. The first section focuses on the first two policy questions set out above by categorizing unsubsidized households according to their priority for receiving housing aid under current law. The second part focuses on the last two questions.

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## Background

The analysis in this chapter draws on data from a confidential version of the 1989 American Housing Survey (formerly, the Annual Housing Survey) that

identifies renters who receive housing aid through various types of programs administered by HUD.<sup>2</sup> The analysis describes the characteristics and housing conditions of specific demographic groups of subsidized and unsubsidized renters and identifies those groups that have the greatest incidence of certain problems.

The first part of the analysis classifies households according to their eligibility and priority for

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2. CBO acknowledges the cooperation and assistance of the Bureau of the Census in making these data available without compromising the privacy of individual households. A confidential version of the more recent 1991 AHS was not available at the time this study was undertaken, although the public-use version was. CBO included data from the latter in the analysis in Chapter 2. The public-use version of the survey asks households whether they receive housing subsidies, but those responses have been found to be unreliable. To identify households subsidized by HUD for the confidential version of the AHS, the Census Bureau matched records from the public-use survey with HUD data on program beneficiaries. For published tabulations of the confidential version, see Department of Housing and Urban Development, *Characteristics of HUD-Assisted Renters and Their Units in 1989* (March 1992).

receiving housing assistance.<sup>3</sup> Eligibility depends on the level of income of the household and varies by household size and geographic location. For example, in 1993, a household with four people in the Washington, D.C., metropolitan area qualified for assistance if its income did not exceed \$30,300. In some nonmetropolitan counties in Mississippi and Arkansas, a household of the same size qualified if its income did not exceed \$12,100.<sup>4</sup>

The second part of the analysis examines in more detail the housing conditions of subsidized and unsubsidized households with very low incomes, the primary target group of housing assistance programs today. It classifies rental units according to their cost relative to the local fair market rent.<sup>5</sup> HUD sets the FMR at roughly the 45th percentile of the range of market rents for units in a given geographic area that have turned over during the past two years. The department uses it in some federal housing programs as an upper limit on rents that may be subsidized. Comparing a unit's rent with the FMR indicates whether the rent is expensive relative to that of other units of similar size in the same geographic area. For example, in 1993, the FMR for a two-bedroom unit in the Washington, D.C., metropolitan area was \$854 per month. The FMR for a similar unit in some nonmetropolitan counties in Mississippi and Arkansas was just below \$290.

The reader should keep in mind several caveats regarding the AHS data in interpreting the results of this analysis. First, the confidential data classify some households as unsubsidized, although the households themselves reported that they received

housing assistance.<sup>6</sup> Some of those households may have received subsidies from federal sources other than HUD--such as the Farmers Home Administration--or from state or local governments. Others simply may have misunderstood the AHS question on subsidy status.

Second, the total sample of households that the confidential data identify as subsidized is not large--fewer than 1,000 households. As a result, small differences in the characteristics of subgroups of that population may not be meaningful.

Third, as mentioned in Chapter 2, some households underreport their income in responding to Census Bureau surveys. That behavior leads to an overestimate of the number of households that are eligible for housing aid and an overestimate of the number of households with affordability problems. The overcount of eligible households is offset somewhat, however, by the fact that the AHS does not include homeless people, who are now generally eligible for federal housing aid.

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## Criteria for Assigning Priority for Assistance

Households qualify for federal housing assistance if they meet certain criteria for eligibility that are based on income. But that assistance is not an entitlement, and not enough funds are available to help all of those who are eligible for aid and who apply. The law has thus established additional criteria to assign priority to certain households on the waiting lists.

The criteria for targeting housing assistance have changed over time. In the 1980s, they tended to restrict assistance to groups in the lowest income brackets, but since 1990, they have become some-

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3. For additional analyses of the housing needs of unsubsidized renters with priority for housing aid, see Department of Housing and Urban Development, *Priority Housing Problems and "Worst Case" Needs in 1989* (June 1991); and Department of Housing and Urban Development, *Worst Case Needs for Housing Assistance in the United States in 1990 and 1991* (June 1994). Those analyses are based on the public-use versions of the 1989 and 1991 AHS, respectively. Therefore, they cannot adequately distinguish between subsidized and unsubsidized households.

4. To determine a household's eligibility, CBO added data to the AHS that it obtained from HUD on local income limits for households of various sizes. For households whose metropolitan area was known, the area's income limit was used. For households with less precise geographic information, a weighted average of income limits in nearby areas was used.

5. CBO added FMR data that it obtained from HUD to the AHS.

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6. Specifically, 18 percent of all very low income households that were not identified as receiving assistance from HUD programs reported that they received some type of housing aid.

**Box 3.**  
**Definitions of Household Groups Based on  
 Their Priority for Rental Housing Assistance**

Households can be classified into four groups that roughly correspond to the preference they receive for rental housing assistance under current program rules.

**Very Low Income.** Very low income households are households whose income does not exceed a certain threshold that depends on the size of the household. For a four-person household, that threshold is 50 percent of the area's median income. The threshold for a one-person household is 35 percent of the median income, and the threshold for an eight-person household is 66 percent. Households in this group by law receive the vast majority of aid commitments. Very low income households are further divided into two subgroups:

- o *With Priority.* Conditions that qualify a household for priority status are paying more than 50 percent of income for housing, living in a severely substandard unit (including being homeless), or being displaced involuntarily, for example, by disasters such as floods or fires. Households meeting those conditions are at the top of local waiting lists for assistance. Local public housing agencies generally must reserve for them at least 70 percent of the project-based subsidies and 90

percent of the household-based subsidies that become available annually.

- o *Other.* These households must generally compete for the remaining 10 percent to 30 percent of the subsidies that become available each year. The statute defines several conditions--for example, participation by a household in a job training program--that local housing agencies may consider in allocating aid.

**Low Income.** Four-person households whose income is between 51 percent and 80 percent of the area's median income are classified as low income. For households with one person, the range is between 36 percent and 56 percent of the median income; for those with eight people, it is between 67 percent and 100 percent. These households are eligible for rental assistance, but the law limits the proportion of overall commitments they may receive.

**Higher Income.** Higher-income households are those whose income exceeds the threshold for low-income status. In general, they are not eligible for rental assistance.

what broader.<sup>7</sup> The federal government targets assistance primarily toward households classified by law as "very low income." For households with four people, very low income means incomes that do not exceed 50 percent of the median income in their local area (see Box 3). Among those households, the ones paying more than half of their income for housing or living in severely substandard units receive priority for aid; they are referred to here as unsubsidized households "with priority," as distinct from "other" very low income unsubsidized households that are

lower on the waiting lists.<sup>8</sup> Crowding and undesirable neighborhood conditions are not among the criteria that determine priority for housing aid.

Some housing aid is also available to households with incomes above the very low income threshold. Households with incomes between 50 percent and 80 percent of the area's median income (adjusted for the size of the household) are eligible for aid in certain housing programs. They are referred to here as low-income households. The law, however, restricts the share of assistance commitments that those households may receive. Higher-income households--those with incomes above 80 percent of the area's

7. For a more extensive discussion of trends in targeting assistance, see Kathryn P. Nelson and Jill Khadduri, "To Whom Should Limited Housing Resources Be Directed?" *Housing Policy Debate*, vol. 3, no. 1 (1992), pp. 1-55.

8. A third criterion for priority is being displaced involuntarily. However, CBO could not model that criterion in its analysis.

median income--generally are not eligible for housing aid. Nevertheless, a few of them live in subsidized housing, either because they moved up into that higher category after beginning to receive aid or because they live in one of a small group of projects in which the income cutoff for eligibility is 95 percent of the area's median income.

Before 1990, housing programs targeted aid primarily toward elderly households and households with children.<sup>9</sup> Single, nonelderly people generally received assistance only if they were disabled or met certain stringent conditions. Beginning in 1990, however, single individuals became fully eligible for aid, although the law continues to rank elderly or disabled individuals ahead of other single people.<sup>10</sup>

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## Characteristics of Subsidized and Unsubsidized Renters

Of a total of 31.6 million renters in the United States in 1989, 4.1 million received rental assistance through HUD programs. That left unserved 8.5 million very low income renters who would have been eligible for aid under 1994 program rules. More than half of those renters qualified for priority status for assistance.<sup>11</sup> Of the 4.1 million renters who received aid, 11 percent were classified as low income and another 7 percent as higher income. Consequently, HUD's programs served only about 28 percent of the 11.9 million very low income households. Those

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9. Households are divided into four demographic groups for this analysis. Elderly households without children are those headed by a person age 62 or older with no children under age 18 present. Nonelderly households without children are headed by a person younger than age 62 and also have no member under age 18. Households with one or two children and those with three or more children (all under age 18) may be headed by a person of any age.
  10. The law is silent, however, on whether (among very low income households) single people who have priority status (because of severe housing problems) but are neither elderly nor disabled should be ranked ahead of elderly or disabled people without priority status.
  11. Although the priority group consists of households that meet the criteria for priority status, not all of them apply for aid and are on waiting lists for assistance. Conversely, some households on the waiting lists are classified as very low income but may not meet the criteria for priority status.

programs also served about 7 percent of the nation's 6.4 million low-income renter households and 2 percent of the 13.3 million higher-income renter households.

## Demographic Characteristics

Households that received assistance differed substantially in their demographic traits from eligible households that received no housing assistance. The differences reflect historical patterns of federal targeting that have focused on the elderly and given low priority to single people. In fact, in 1989, most nonelderly single people were not even eligible for aid. As a result, subsidized households were almost twice as likely as unsubsidized ones with priority (37 percent versus 20 percent) to be headed by elderly people without children; they were half as likely (18 percent versus 39 percent) to consist of nonelderly households without children (see Table 4). Of the nonelderly households without children that received assistance, a substantial share probably consisted of households with disabled individuals. (It is difficult to estimate the extent of that share because the AHS does not identify such households accurately.) Households with children represented fewer than half of both the subsidized households and the unsubsidized households with priority.

Among the unsubsidized households, the demographic composition of the group with priority was similar to that of other very low income renters. Small points of difference were that the priority group was less likely than other very low income renters to have children present (41 percent versus 47 percent) and more likely to include nonelderly households without children (39 percent versus 31 percent).

## Selected Household Characteristics

The fact that subsidized households differed systematically from unsubsidized ones was also reflected in the characteristics of the householder (one of the adults in the household whose name is on the lease). Not only were subsidized households the most likely to be headed by an elderly person in 1989, but they

were the least likely to be headed by a young person --only 6 percent were under age 25 (see Table 5). In addition, they were the group with the least education; almost half had not completed high school. Households that received assistance were also most likely by far to be headed by divorced, separated, or widowed people (62 percent) and least likely to be headed by currently married people. Finally, subsidized households were more likely than any other group to be headed by women (75 percent), to receive welfare payments from the Aid to Families with Dependent Children or Supplemental Security Income programs (38 percent), and to belong to a minority group (54 percent).

Among unsubsidized households, the differences between households with priority and others with very low incomes can be partially explained by the relatively large share of childless, nonelderly house-

holds in the priority group. As a whole, households with priority were more likely than other very low income households to be headed by a person who was very young and who had some schooling beyond high school. In particular, 16 percent of renters in the priority group were less than 25 years old and 30 percent had some college education, compared with 12 percent and 20 percent of other very low income renters, respectively. Renters with priority were less likely to be currently married (19 percent versus 28 percent), more likely to be women, and more likely to be receiving welfare payments. The two groups were similar in racial composition, however.

### Incomes

Housing assistance programs in 1989 served households that had higher incomes, on average, than all

**Table 4.**  
**Subsidized and Unsubsidized Renter Households, by Demographic Group and Priority for Housing Assistance, 1989**

Demographic Group <sup>a</sup>	Subsidized	Unsubsidized			
		Very Low Income		Low Income	Higher Income
		Priority	Other		
<b>In Thousands</b>					
All Households	4,070	4,570	3,972	6,023	12,994
<b>As a Percentage of All Households</b>					
Elderly, Without Children	37	20	22	12	7
Nonelderly, Without Children	18	39	31	46	63
One or Two Children	33	28	31	33	25
Three or More Children	<u>12</u>	<u>13</u>	<u>16</u>	<u>9</u>	<u>5</u>
Total	100	100	100	100	100

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTE: See Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

**Table 5.**  
**Characteristics of Householders in Subsidized and Unsubsidized**  
**Renter Households, by Priority for Housing Assistance, 1989**

Characteristic	Subsidized	Unsubsidized			
		Very Low Income		Low Income	Higher Income
		Priority	Other		
<b>Thousands of Households</b>					
All Households	4,070	4,570	3,972	6,023	12,994
<b>Age (As a percentage of all households)</b>					
Less than 25	6	16	12	12	9
25 to 34	23	30	32	40	44
35 to 61	33	34	32	36	41
62 or Older	<u>38</u>	<u>20</u>	<u>23</u>	<u>12</u>	<u>7</u>
Total	100	100	100	100	100
<b>Education (As a percentage of all households)</b>					
Less than High School	46	37	42	20	10
High School Graduate	36	33	38	42	33
Some College	13	18	14	22	23
College Graduate	<u>5</u>	<u>12</u>	<u>6</u>	<u>16</u>	<u>34</u>
Total	100	100	100	100	100
<b>Marital Status (As a percentage of all households)</b>					
Never Married	23	34	27	30	32
Married	15	19	28	35	41
Divorced, Separated, or Widowed	<u>62</u>	<u>47</u>	<u>45</u>	<u>35</u>	<u>27</u>
Total	100	100	100	100	100
<b>Other Characteristics (As a percentage of all households)</b>					
Female Head	75	62	54	43	33
Minority	54	42	42	34	22
Receiving AFDC or SSI	38	29	21	5	2

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTES: A householder is one of the adults in the household whose name is on the lease.

See Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

AFDC = Aid to Families with Dependent Children; SSI = Supplemental Security Income.

**Table 6.****Average Annual Income and Monthly Housing Costs of Subsidized and Unsubsidized Renter Households, by Demographic Group and Priority for Housing Assistance, 1989 (In dollars)**

Demographic Group <sup>a</sup>	Subsidized	Unsubsidized				
		Very Low Income			Low Income	Higher Income
		All	Priority	Other		
<b>Average Annual Household Income</b>						
Elderly, Without Children	7,400	7,089	6,063	8,156	16,305	33,839
Nonelderly, Without Children	12,135	7,240	5,624	9,588	17,241	40,182
One or Two Children	11,071	8,859	6,325	11,464	20,773	42,267
Three or More Children	10,659	10,311	7,095	13,360	24,860	44,557
All Households	9,874	8,127	6,098	10,461	19,000	40,497
<b>Average Monthly Housing Cost</b>						
Elderly, Without Children	208	329	432	223	431	536
Nonelderly, Without Children	257	364	420	283	404	540
One or Two Children	247	381	442	318	472	580
Three or More Children	223	402	459	347	522	597
All Households	232	367	433	291	441	553

SOURCE: Congressional Budget Office based on a special version of the Census Bureau's 1989 American Housing Survey.

NOTE: See Box 3 for definitions of household groups and their priority status. The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

unsubsidized very low income households combined. That outcome is not too surprising, given the finding reported above that some 18 percent of subsidized households had incomes that exceeded the threshold for very low income status.<sup>12</sup> The incomes of subsidized households were 22 percent higher, on average, than those of unsubsidized very low income households--\$9,874 versus \$8,127 (see Table 6). However, average incomes differed by substantial amounts only among nonelderly, childless households and among small families (by 68 percent and 25 percent, respectively). Those findings are mirrored in the relatively high proportions of the subsi-

dized households in those two groups whose incomes exceeded the very low income thresholds: 29 percent of the nonelderly, childless group and 22 percent of small families, compared with only 8 percent of the elderly and 13 percent of large families.

That some subsidized households were found to be better off than the very low income group as a whole is to be expected as long as the law continues to grant eligibility for aid to people with higher incomes. Perhaps more surprising is how much higher--62 percent--the average income of subsidized households was compared with that of unsubsidized households with priority for aid. The large difference in average income between the two groups could raise some questions about the extent to which households being granted aid today are actually

12. At the same time, though, one-half of all subsidized renters had incomes below 25 percent of the area median, compared with 42 percent of all unsubsidized very low income households.

drawn from the priority list, especially because the pattern persisted for all four demographic groups. One explanation for these outcomes is that the incomes of the subsidized households may have increased after they started receiving subsidies.<sup>13</sup>

The particularly large difference in income between subsidized nonelderly households without children and their very low income unsubsidized counterparts does not necessarily imply that, before 1990, subsidies were targeted toward households with higher incomes in that group. The unsubsidized households include many single people who were previously not eligible for housing assistance but who tend to have relatively low incomes. Many of them are young, never-married people, perhaps still in college, who are likely to have low incomes only temporarily and may never apply for housing aid. Nevertheless, the relatively high incomes of their subsidized counterparts--many of whom are disabled--are somewhat surprising.

The large share of income being paid for rent, which gives most renters with priority their elevated status for housing assistance, is partially explained by their extremely low incomes. The average income of priority renters was 42 percent lower than that of other very low income renters. That pattern held firm for all types of households; the difference varied from 25 percent for elderly households to 47 percent for large families.<sup>14</sup> Thus, the criteria that the federal

government uses to assign households priority for housing assistance identify a relatively poor group of households.

## Housing Costs

Housing subsidies reduced the average cost of housing for those who received them to \$232 per month (see Table 6). That amount was just over half of what renters with priority paid and four-fifths of what other very low income households paid. The relative benefit of the subsidies was greatest for the elderly and for large families: they paid less than half the amount paid by their counterparts with priority.

Among the unsubsidized, the very large share of income paid for housing in 1989 by most renters with priority is explained not only by their relatively low incomes but also by the fact that they lived in costly units. Rents for households in the priority group averaged nearly 50 percent higher than rents for other very low income households--\$433 versus \$291 per month. Elderly renters with priority paid nearly twice what other very low income elderly renters paid. In contrast, among large families, the difference in average rents between renters with priority and other very low income renters was only 32 percent. Thus, for the priority group of elderly renters, their affordability problem stems largely from relatively high housing costs, which may be holdovers from the days when their incomes were higher. For the priority group of large families, however, the affordability problem is more associated with relatively low incomes than with high rents.

Why did so many very low income renters pay so much in housing costs? For some renters with priority, those high rents could reflect a voluntary choice to live in relatively expensive units. In particular, some of those households may prefer to devote their limited resources to housing and consume less of other goods and services. Other households in the priority group may have low incomes only temporarily, as a result, perhaps, of a job loss or illness. Rather than move to a more affordable dwelling, such households may prefer temporarily to spend a large share of their income for rent, possibly drawing on whatever savings they might have.

13. In general, the government certifies the incomes of assisted households each year only to determine the rent they must pay. Rents for households receiving household-based subsidies will increase as their income rises, until 30 percent of their income equals the market rent that the unit commands. Only at that point does the subsidy disappear. Thus, in areas where FMRs are high relative to the income-eligibility thresholds for new applicants, current recipients will continue to receive subsidies even after their incomes have increased beyond those thresholds. Households that receive project-based subsidies and whose incomes exceed the eligibility thresholds are never evicted from the projects; their rents simply increase. Under some program variants, however, the rent that a tenant pays cannot exceed a predetermined maximum level specific to a particular project. Households that pay those maximum rents commonly pay less than 30 percent of their income.

14. Even after adjusting for geographic location and household size, renters with priority appeared to be very poor: 62 percent had incomes below 25 percent of the area median adjusted for household size. Among other very low income households, only 19 percent had incomes that low.