

## Housing Vouchers versus Housing Production: Assessing Long-Term Costs

Kirk McClure  
*University of Kansas*

### *Abstract*

Possibly the single largest debate in the field of affordable rental housing concerns the use of tenant-based assistance versus project-based assistance. The accepted wisdom is that project-based assistance costs anywhere from 50 to 100 percent more than tenant-based assistance. This premium for project-based housing is based on a comparison of subsidy costs at the start of a project's life rather than on a comparison of the discounted present value of the costs over the long term.

The subsidy costs of samples of Section 8 new construction projects have been compared to those of Section 8 certificates over a long period of time. The results indicate that the cost premium associated with project-based assistance may be lower than conventionally believed, around 40 percent, and may get even lower if the cost comparison could extend to longer time periods and could control for the quality of the housing units.

**Keywords:** Rental housing; Low-income housing; Programs

### **Introduction**

Planners and public policy analysts have been engaged in a debate over the proper design of rental housing policy for some time. The debate seeks to answer the question: Which policy is best at serving the needs of low-income renter households? Much of this debate centers on how the subsidy should be directed, whether through project-based or tenant-based programs (Apgar 1990). This debate has grown all the more poignant given the changes that have been made in the mechanisms through which the federal government disperses its affordable housing dollars.

The process of designing affordable housing programs has become very decentralized. In the past, local governments implemented the programs designed by the federal government according to its perceptions of national housing needs. Currently, local governments design their own housing programs based on housing needs as defined locally. Instead of implementing narrowly designed federal programs applied uniformly across the nation, communities now receive lump sums of discretionary housing funds through the federal

HOME program. To qualify for HOME funds, local governments must prepare a plan (previously the Comprehensive Housing Affordability Strategy, now a Consolidated Plan) in which they identify the supply and demand conditions in their housing markets. Where problems between supply and demand are found, local governments are called on to design their own strategies for addressing these local mismatches. As such, the debate about “Which policy is the best?” is no longer a matter just of national policy. Rather, it has become a debate being carried out every day by local planners who are very much in need of guidance in the selection of a strategy, especially in the choice between project- or tenant-based programs.

To a large extent, the selection between these strategies hinges on the issue of cost. Which strategy costs less? It is generally accepted that project-based subsidy programs command a premium, but how much is that premium? The research reported here examines the actual long-term costs of these two approaches. A comparison is made between the actual per-unit rental-assistance costs of a sample of Section 8 new construction development with the actual per-unit costs of a sample of Section 8 certificates in the same markets. These costs have been examined for a period of many years and are converted to their discounted present value, permitting an assessment of the actual cost differential between project- and tenant-based assistance.

In all project-based subsidy programs, the subsidy is tied to the dwelling unit itself, whether the unit is generated through new construction or through the rehabilitation of an existing unit. The subsidy can be delivered in the form of direct development grants, a master lease of the units at guaranteed rents, the provision of partial or full financing at below-market-rate terms, or some combination of these or other subsidy mechanisms.

In all tenant-based programs, the subsidy is tied to the household. In most cases, a formula is adopted for calculating the amount of the subsidy for each household based on some assessment of the tenant’s income. Under the federal Section 8 certificate program, the tenants’ contribution toward rent was originally 25 percent of their adjusted gross income. This was later raised to 30 percent, and there has been discussion of raising the contribution again to as much as 35 percent (“Rescission Conference” 1995). The government then pays the difference between the tenant contribution and the rent on the unit occupied, provided that the unit is of acceptable size, quality, and rent level. Some variations exist in this tenant-based subsidy approach—such as with the Section 8 voucher program, which offers the participating households greater flexibility as they shop for available units—but tenant-based subsidy programs generally follow this formula.

The U.S. Department of Housing and Urban Development (HUD) has shifted its stance considerably over the years, moving away from the production programs that were favored in the past and moving toward tenant-based programs. As of 1997, among households receiving rental assistance, 69 percent reside in units developed through project-based programs, with the remainder receiving tenant-based assistance. But this distribution reflects the past allocation of funds between the two approaches. The 1997 allocation of new rental assistance funds directed 72 percent of the funds to tenant-based programs and only 28 percent to project-based programs (U.S. House of Representatives 1998).

Although not uniformly admired or used by planners, tenant-based housing programs are gaining acceptance, at least among housing policy experts. The Urban Institute held a seminar on housing policy during which it asked a group of experts how they would allocate additional federal funds for housing assistance. Each of the experts recommended using all or the greatest percentage of the funds for tenant-based assistance (Turner and Reed 1990). Raymond Struyk stated, "There appears to be a growing consensus in the United States that the primary housing problem is one of affordability and that the most efficient way to deal with this problem is through housing vouchers or housing allowances" (Struyk 1991, 401).

This consensus for the move away from production programs has formed for a variety of reasons, including the conditions of the rental housing market (the quantity and quality of housing available), the inequity of helping so few needy households while leaving others unserved, and the relative cost-effectiveness of these two types of programs. But the leading argument that seems to have guided the formation of this consensus favoring tenant-based programs concerns the cost to the government of these programs; tenant-based assistance is believed to cost significantly less than project-based assistance (Abt Associates 1981; President's Commission on Housing 1982; Struyk 1991). Certainly cost is not the only issue in choosing between tenant-based and project-based housing programs. Other factors that are important—even critical—include the market conditions that create a surplus or shortfall of units meeting minimum housing quality standards, the level of participation that can be expected from the target population, and the social needs of the target population (Nelson 1994; Weicher 1990).

The President's Commission on Housing (1982) set the tone for national policy by strongly favoring tenant-based programs. The commission based its preference on a study that found project-based subsidy costs to be almost twice as much per unit relative to tenant-based subsidy. It compared the average rent on Section 8 new con-

struction units (a project-based program) to the average rent on Section 8 certificates (a tenant-based program) in the same markets. The new construction rents were \$362 per month in 1979, compared with only \$240 per month for the certificates. Of the total rent paid, the tenants contributed \$110 in the tenant-based program and \$112 per month in the project-based program. With these contributions, the final direct cost to the government was \$250 per month for the project-based program and \$130 per month for the tenant-based program (President's Commission on Housing 1982, 14). This higher cost was attributed to the higher cost of constructing a new building compared with maintaining and operating an existing one. These cost savings, more than any other factor, seem to have brought about the shift away from project-based programs to tenant-based programs.

### **Measuring program costs: Short-term versus long-term cost-effectiveness**

The cost to the government of different approaches to delivering housing subsidy is certainly a legitimate area for concern. All other things being equal, the government should attempt to employ the most cost-effective means to resolve the problems of low-income renter households.

The conclusion that tenant-based programs cost significantly less than project-based programs seems to be drawn from analysis of current average costs. The single most influential study of costs was performed by Abt Associates (1981) for HUD. This study was used extensively by the President's Commission on Housing.

The Abt study employed two large samples. The first sample described project-based spending, using 138 Section 8 new construction projects in 16 cities. The second sample described tenant-based spending, using 1,518 Section 8 certificate holders in 15 of the same cities (one city in the first sample did not have any Section 8 certificate holders).

The study concluded that the tenant contributions were about the same in the two programs and also found that the government was overpaying for some housing, as rents paid through the government programs were frequently greater than the estimated market value of the housing, although this was deemed not to be a significant problem. Finally, the study concluded that the direct costs to the government were typically about double for new construction (\$250 per month for project-based housing and \$130 per month for tenant-based). Not all of this premium for new construction units is waste; some of the \$120 difference in the subsidy costs can be attributed to

the difference in the quality of the housing. The Abt study estimated the market value of the new construction units to be worth about \$60 more in rent per month than the units rented in the tenant-based program. Thus, about one-half of the \$120 premium paid for new construction units may be purchasing higher-quality housing.

Weicher (1990), reviewing this study, agrees that project-based programs cost more than tenant-based programs. However, he concludes that the cost differential between the two styles of housing subsidy is not as great as the 100 percent increase for project-based programs so often mentioned. The Abt study estimated the “tenant benefit” as the difference between the market value of the housing and the tenant contribution toward the rent on the unit. The tenant benefit for tenant-based housing was \$129 per month, whereas it was \$179 per month for project-based housing. As such, tenants in project-based subsidized housing received about \$50 per month more housing while paying about the same tenant contribution as those tenants who received certificates. Accounting for this difference in the quality and quantity of the housing, plus the somewhat higher administrative costs associated with project-based programs, Weicher concludes that the cost differential of project-based subsidy over tenant-based subsidy is about 50 percent (Weicher 1990, 285).

### *Inflation of costs*

Although a 50 percent increase in project-based costs over tenant-based costs is significant, it is much less than the 100 percent increase often cited. But is this an accurate assessment? Weicher’s conclusions were based on average per-unit costs realized during the very early years of the Section 8 programs. It is possible, even likely, that a different conclusion would have been drawn if the measurement had been taken at other points in time. If the costs of these programs had been monitored over a period of years, the impact of changes in inflation and market conditions could have been factored into the analysis. As inflation or other market forces drive up rents in tenant-based programs, the cost savings over project-based programs is reduced.

The impact of inflation on rents varies between tenant-based programs and project-based programs. When rents rise with inflation, several different forces are at work. Certainly, market-based rents can rise by no more than what the market will bear. However, to keep the Section 8 programs viable, the program administrators must keep allowable rents responsive to the inflation of landlords’ costs.

The landlords' rising costs fall into two categories: The first derives from the inflation in the operating expenses paid to maintain the dwelling unit. Operating expenses include maintenance, utilities, property taxes, and other management costs associated with providing rental housing. The second category of costs derives from the inflation in the costs of buying or developing the housing. These costs respond to changes in interest rates, loan terms, and the market value of the space being purchased or developed.

The rents paid for units that are part of a tenant-based housing assistance program will suffer the full effects of inflation in both of these areas. To the extent that the market will bear any upward adjustment in rents, the owner of rental property will seek to impose increases in rents reflecting both changes in the operating expenses and in the market value of the unit. To the extent that the unit changes ownership periodically over time, the rents will reflect the changes in the value of the dwelling along with the new debt taken on the property at the time of sale.

Units that are part of a project-based housing subsidy program may not experience the same pressures for rent increase, but they will experience upward pressure on rents as operating expenses increase. However, as the ownership of these units does not change, or changes very rarely, there may be little or no pressure to raise rents in response to changing debt load on the property.

When a housing unit is built or renovated through a project-based subsidy program, the initial rent is established. Generally, this rent will be rather high relative to other rents in the marketplace. This is to be expected; the unit is brand new and offers more housing service to the tenant because of this newness. However, the rents on these units need not remain high relative to the remainder of the marketplace. As the housing unit ages, it no longer commands a premium for its newness. With time, its rents reflect its operating expenses and its initial debt, which will become devalued over the years. A profit-maximizing owner would certainly try to charge the highest rents the market would bear, but with no change in the debt on the housing, there would be no pressure to raise rents to cover changing financial conditions in the market.

Table 1 charts the inflationary changes in the costs to the government of the two types of housing programs. The first part of the table lists the government's direct costs for a tenant-based housing program over a period of 20 years. The initial subsidy cost on this approach is set at the level found in the Abt study in 1979, or \$130 per month (rent of \$240 minus a tenant contribution of \$110), which translates into \$1,560 per year. It is assumed that these costs will rise with inflation, shown here at about 4.2 percent per year,

Table 1. Projected Subsidy Costs per Unit of Section 8 Programs

Year	Tenant-Based Program				Project-Based Program			
	Current Rent	Tenant Contribution	Monthly Subsidy Cost	Annual Subsidy Cost	Current Rent	Tenant Contribution	Monthly Subsidy Cost	Annual Subsidy Cost
1	240	110	130	1,560	362	112	250	3,000
2	250	115	135	1,626	368	117	251	3,017
3	261	119	141	1,694	374	122	253	3,034
4	272	124	147	1,765	381	127	254	3,052
5	283	130	153	1,839	388	132	256	3,070
6	295	135	160	1,916	395	138	257	3,090
7	307	141	166	1,997	403	143	259	3,110
8	320	147	173	2,081	410	149	261	3,131
9	334	153	181	2,168	418	156	263	3,153
10	348	159	188	2,259	427	162	265	3,176
11	362	166	196	2,354	436	169	267	3,200
12	377	173	204	2,453	445	176	269	3,225
13	393	180	213	2,556	454	183	271	3,251
14	410	188	222	2,663	464	191	273	3,278
15	427	196	231	2,775	475	199	278	3,307
16	445	204	241	2,892	486	208	281	3,336
17	464	212	251	3,013	497	216	283	3,367
18	483	221	262	3,140	509	225	286	3,399
19	503	231	273	3,271	521	235	289	3,432
20	524	240	284	3,409	534	245	289	3,466

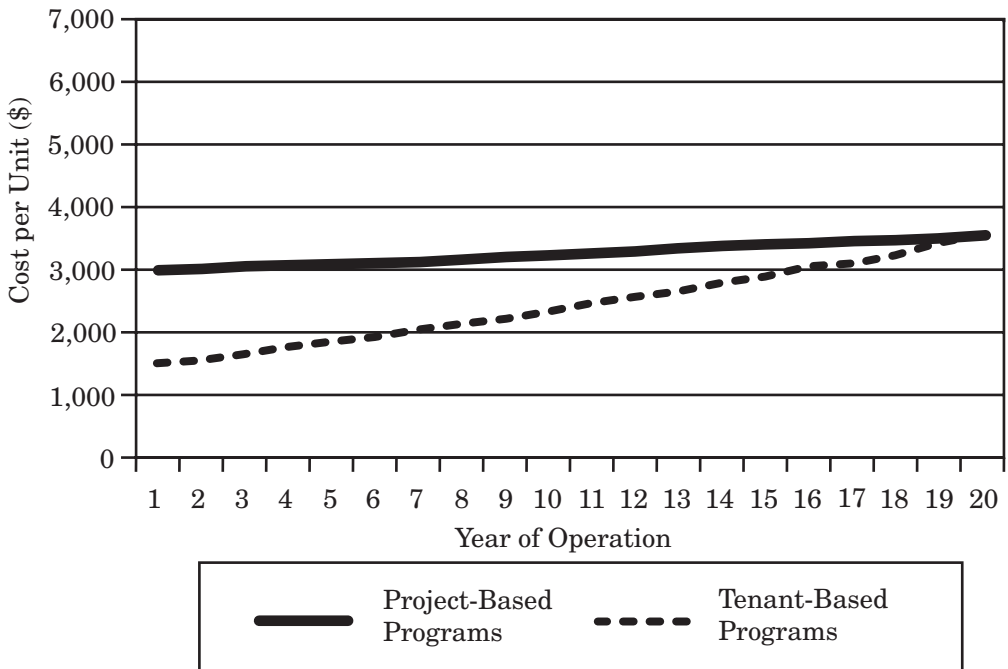
Note: This table assumes an inflation rate of 4.20 percent and an operating expense ratio of 40.0 percent.

which corresponds to the average annual rate of change in housing costs during the 1980s (U.S. Bureau of the Census 1994).

The second part of the table lists the government’s direct costs for a project-based housing program over the same period. The initial cost has been set at \$250 per month (\$362 rent minus a tenant contribution of \$112), again taken from the Abt study. This cost has been annualized and projected forward in time based on the assumption that the rent would increase only by enough to cover increases in operating expenses, initially about 40 percent of a development’s revenue. Thus the rents are projected to increase only by enough to cover the same 4.2 percent increase in operating expenses, while the portion of the rent that pays the debt service remains constant. The changes in these subsidy costs are illustrated in figure 1.

Figure 1 shows that, over time, the government’s direct costs for tenant-based programs could overtake those of project-based programs. This does not necessarily mean that tenant-based housing

Figure 1. Comparison of Projected Program Costs per Unit



projects become more expensive than project-based housing in the long run. These costs can be expressed in terms of the discounted present value of the two streams of rents to some initial point in time. Employing the 4.2 percent yearly inflation rate as the discount rate, the discounted present value of the total costs to the government for tenant-based housing over a 20-year period is \$29,942 per unit. The discounted present value of the government's costs of project-based housing over the same 20-year period is \$42,357 per unit. Thus, the increased direct costs to the government associated with project-based housing compared with tenant-based could be as low as 40 percent.

This 40 percent increase is sensitive to some of the assumptions made in the projections. First, the results vary significantly with changes in the inflation rate used to make the projections. If the inflation rate is 7 percent, the increase in direct costs to the government associated with project-based housing falls to only 20 percent. Certainly inflation has been less prevalent in the last two decades than during the 1970s; it seems unlikely that long-term average inflation as high as 7 percent will occur again. However, some rental housing markets have experienced annual rates of inflation in rents of 7 percent or more per year.

Second, the results vary significantly with changes in the residual value of the housing built with project-based subsidy. The 40 percent increase in the government's direct costs of project-based programs relative to tenant-based programs assumes that any project-based housing has no residual market value at the end of the 20-year time span, or at least no market value that will be returned to the government to reduce its direct costs. An estimate of the development's value can be generated by capitalizing the net operating income (60 percent of the gross revenue in year 20) at 10 percent (a commonly employed capitalization rate). The discounted present value of this residual amount can be deducted from the government's total direct costs, further reducing the difference between tenant- and project-based costs. The 40 percent difference between these two programs approaches zero if this residual value accrues to the government.

Whether a project has any residual value after 20 years of service depends on a variety of market conditions. Further, whether any of this residual value can return to the government depends on the form of the ownership and the manner in which the financing has been structured. However, it is possible for local governments, working through Community Housing Development organizations, to use HOME funds for developments in which they own some or all of the asset. As such, it is possible that the residual value could be returned to the public sector, further reducing its direct costs.

*Empirical test*

This analysis suggests that the long-term effects of inflation on direct government costs may neutralize, if not eliminate, the premium paid for project-based housing over tenant-based housing. It is possible to test this concept empirically through examination of the direct costs to the government of both types of program over time. Fortunately, the data now exist to make such a test.

Many projects subsidized under the Section 8 New Construction/Substantial Rehabilitation program have been in operation for many years. The Section 8 Existing Housing Certificate program has been in operation since its inception shortly after the passage of the Housing and Community Development Act of 1974. The multi-year history of these two programs permits an analysis of the discounted present value of the direct costs to the government of running these programs simultaneously.

Data have been acquired from the area offices of HUD in St. Louis and Kansas City, Missouri, on subsidy costs to HUD under the Section 8 certificate program for the years 1980 through 1994 in those two cities. These costs are the total dollars transferred annually from HUD to the housing authorities of Kansas City and St. Louis through their Annual Contributions Contracts (ACCs). This provides information on the actual costs to HUD of this tenant-based program over a long time period. Similarly, the Missouri Housing Development Commission has provided data on the ACC amounts paid by HUD to several housing developments subsidized under the Section 8 New Construction/Substantial Rehabilitation program over a similar time period in these same two markets.

Although these samples are not as large as those used in the Abt study, they do provide some detailed insights into the costs of these two housing approaches in fairly typical urban housing markets. The Housing Authority of Kansas City now administers about 2,500 units of Section 8 certificates. This number was of course much smaller during the early years of the program and has grown over time. Similarly, the St. Louis Housing Authority now administers about 3,400 units of Section 8 certificates.

The sample of project-based costs has been drawn from 12 family-occupied developments, 6 in each market. The actual rental assistance costs to HUD, along with the numbers of units involved for these projects, have been used to calculate the average costs per unit. These costs have been calculated beginning with the first full year of occupancy for each project, which occurred between 1980 and 1982.

These costs have been used to calculate the discounted present value of the long-term costs of each approach. Each city's Consumer Price Index for All Urban Consumers for Housing has been used to discount these costs for inflation. These figures are shown in table 2.

### *Results*

Figure 2 charts the average direct costs to the government for the Section 8 programs in these two metropolitan areas. It shows that the trends of the direct government costs for these two programs correspond to the behavior illustrated in figure 1, which shows project-based rents subject to lower inflation than tenant-based rents. The direct government costs of Section 8 new construction housing have increased over the last 15 years for the combined sample from both metropolitan areas at a rate less than the rate of increase in costs associated with the Section 8 certificate program.<sup>1</sup>

Between 1980 and 1994, inflation raised the price of housing by about 79 percent, or about 4.2 percent per year (using the Consumer Price Index for Housing as an indicator). During the same time period, the Section 8 certificate costs per unit rose by about 137 percent, whereas the Section 8 new construction costs per unit rose by only about 23 percent, much lower than both the rate of increase in inflation (79 percent) and the rate of increase in the certificate program costs (137 percent).

The direct costs to the government of these two approaches are intriguing. The Section 8 certificate program, over the period of 1984 to 1994, cost an average of \$2,356 per unit per year in 1980 constant dollars averaged over an 11-year period for which data are available. The Section 8 new construction program, over approximately the same period, cost an average of \$3,271 in 1980 constant dollars. This suggests that the present value of the housing provided through this program would cost the government about 139 percent of the cost of certificate program. This premium for the Section 8 new construction program is, if anything, decreasing with the passage of time. The differential between the average discounted costs of the project-based and the tenant-based approaches may be narrowing as the observation period is lengthened because the constant dollar costs of the new construction program are generally

---

<sup>1</sup> The dramatic increase in the Section 8 new construction costs in 1993 is due to a one-time adjustment to all Section 8 new construction developments. This adjustment resulted from a court ruling calling for HUD to compensate developments for past rent adjustment procedures.

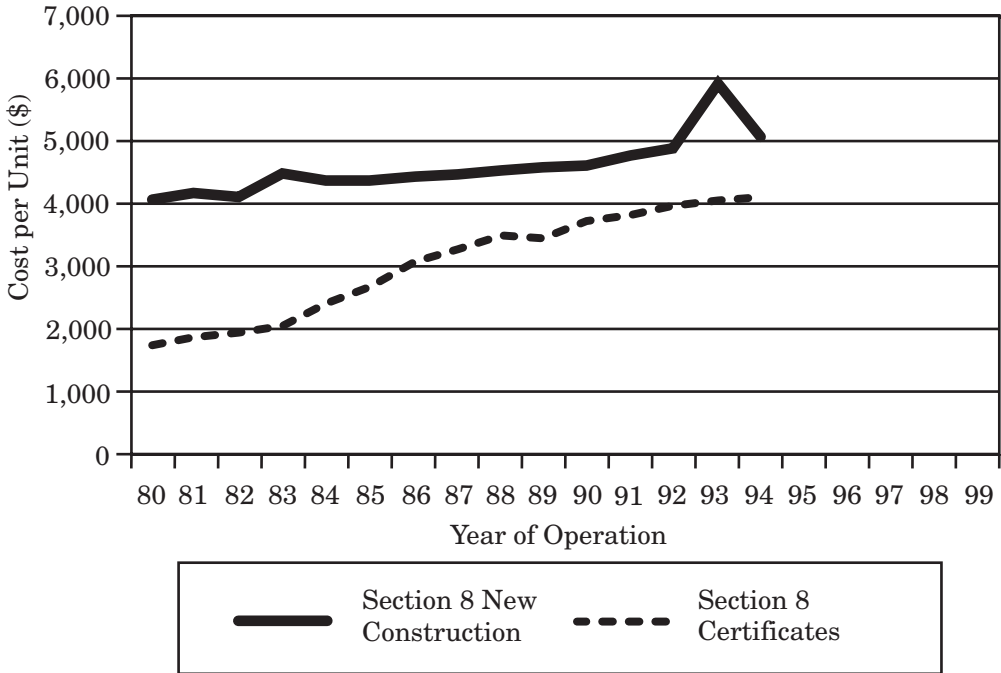
Table 2. Actual Subsidy Costs per Unit of Section 8 Programs

Year	Kansas City		St. Louis		Both Cities
	Current Dollars	Constant 1980 Dollars	Current Dollars	Constant 1980 Dollars	Average Constant 1980 Dollars
1994	4,182	2,574	4,123	2,443	2,509
1993	4,050	2,544	4,020	2,449	2,496
1992	3,883	2,501	4,008	2,503	2,502
1991	3,904	2,550	3,663	2,324	2,437
1990	3,753	2,524	3,692	2,395	2,460
1989	3,367	2,306	3,591	2,418	2,362
1988	3,711	2,570	3,369	2,376	2,473
1987	3,379	2,436	3,178	2,297	2,367
1986	3,155	2,362	3,125	2,293	2,328
1985	2,949	2,245	2,526	1,898	2,072
1984	2,503	1,952	2,362	1,860	1,906
1983	2,040	1,662			
1982	1,985	1,669			
1981	1,860	1,669			
1980	1,752	1,752			
Average		2,221		2,296	2,356

*Table 2. Actual Subsidy Costs per Unit of Section 8 Programs (Continued)*

Year	Section 8 New Construction				
	Kansas City		St. Louis		Both Cities
	Current Dollars	Constant 1980 Dollars	Current Dollars	Constant 1980 Dollars	Average Constant 1980 Dollars
1994	4,538	2,793	5,472	3,243	3,018
1993	5,876	3,691	6,036	3,677	3,684
1992	4,365	2,811	5,417	3,384	3,097
1991	4,314	2,818	5,264	3,340	3,079
1990	4,177	2,809	5,073	3,291	3,050
1989	4,057	2,778	5,144	3,464	3,121
1988	3,901	2,701	5,185	3,656	3,179
1987	3,831	2,762	5,141	3,715	3,239
1986	3,730	2,793	5,095	3,739	3,266
1985	3,899	2,968	4,752	3,572	3,270
1984	4,094	3,193	4,595	3,618	3,406
1983	4,305	3,509	4,696	3,828	3,669
1982	4,016	3,362	4,218	3,530	3,446
1981			4,156	3,729	
1980			4,063	4,063	
Average		2,999		3,590	3,271
Ratio Project-Based/Tenant-Based		1.35		1.56	1.39

Figure 2. Comparison of Actual Program Costs



decreasing with time, whereas the constant dollar costs of the certificate program are increasing.

The calculations indicate that the long-term direct costs of project-based housing are greater than the direct costs of tenant-based housing but that the premium is only about 40 percent. This is lower than the 100 percent often cited using current costs from the initial years of project development and is somewhat lower than the quality and administrative fee adjusted estimate of 50 percent offered by Weicher.

However, this 40 percent figure is not adjusted for differences in the quality of the housing consumed through the two approaches. It is possible that if the differences in the quality of the housing consumed could be incorporated into the analysis, the differential between the costs of the two approaches might be even smaller. This would be the case if the Section 8 certificate units are generally of lower quality than the Section 8 new construction units. A brief test was made to check for this quality difference.

The bulk of the Section 8 certificates administered by the Housing Authority of Kansas City are used to rent apartments in the inner city, in neighborhoods that could be characterized as deteriorated. A sample of more than 200 certificate holders' apartments was geographically coded by census tract. All but six of these certificate holders resided in apartments in census tracts that, relative to the city and the metropolitan area, have buildings that are older and in poorer condition. This could bias the results, as the dollars spent to rent these units may not result in housing of the same quality as that obtained through the dollars used to develop the Section 8 new construction housing. However, the six Kansas City area Section 8 new construction projects are located in census tracts that are very similar to the tracts in which the certificate holders reside. Four of the six projects are located in the "core area" of Kansas City where most of the certificate holders reside. Two of the projects are located outside of the core, in more suburban locations with generally higher-quality housing stock. However, the average costs associated with the Section 8 new construction projects are about the same, even if the "core" projects are analyzed separately from the suburban projects.

As a result, there is no obvious reason to believe that the households in the Section 8 new construction projects are able to consume a higher-quality location by residing in better neighborhoods than their counterparts in the Section 8 certificate program. It is possible, though, that the housing units provided in the new construction program are of higher quality than those units rented through the certificate program. If this difference could be quantified in terms of the dollar value of the increased consumption, it could be used to adjust the differential in costs between the project- and tenant-based programs. Prior research suggests that the adjustment would reduce the differential (Weicher 1990). However, given the apparent similarity in the housing markets involved, it is not clear that the 40 percent increase in costs due to the use of project-based subsidy over tenant-based is biased due to differences in the quality of the neighborhoods in which the housing is located.

### **Policy implications**

Are these results generalizable to other areas? Kansas City and St. Louis are older, midwestern industrial cities that are experiencing declining populations while their suburbs grow. As such, they typify many central cities in the United States. Kansas City and St. Louis are soft markets; their vacancy rates are high and their stocks of housing contain significant percentages of substandard units. In these respects, the two cities reflect the housing problems of many of the nation's older central cities. However, the softness of these

two markets is not characteristic of the tight conditions that exist in some housing markets. In cities where the vacancy rates are low and the demand for affordable rental housing is much more intense, the results may differ. Project-based rents in tight markets may increase faster than was true for the Kansas City and St. Louis projects. This could lead to somewhat different conclusions for tight markets than for these two relatively soft markets.

Further, the results presented here are based on small samples: 12 project-based developments in the two metropolitan areas and the leasing experience of only two large housing authorities using tenant-based assistance. In terms of the scale of the data sets, the results presented here do not compare favorably with the prior research conducted by Abt Associates (1981) in 1979. Replication of this research in other cities is needed before the full implications of these results can be assessed.

Section 8 new construction is still linked to rents found in metropolitan housing, markets subject to the inflationary pressures of operating expenses as well as capitalized value, rather than just the inflation of operating expenses alone. However, the rents on Section 8 new construction units have increased at lower rates than inflation, whereas rents on units with Section 8 certificates have increased at a higher rate than inflation. This has kept the long-term costs of the project-based program lower and has pushed the long-term costs of the tenant-based program higher. Thus, the ratio of long-term costs for project-based housing programs to tenant-based housing programs may not be as high as is usually believed.

The results of this study do not necessarily suggest that, in terms of costs, project-based housing subsidy programs should be favored over tenant-based programs. Project-based subsidies appear to cost more in the long term than tenant-based subsidies. However, the cost differential may be smaller (around 40 percent) than the 50 to 100 percent that is generally believed. The results do suggest that when housing planners compare these alternative approaches, the evaluation should be based on the present value of the long-term costs of the two types of programs. Over the long run, the tenant-based approach may be only marginally less costly than the production approach.

### *Author*

Kirk McClure is an Associate Professor with the Graduate Program in Urban Planning at the University of Kansas.

## *References*

Abt Associates. 1981. *Participation and Benefits in the Urban Section 9 Program: New Construction and Existing Housing*. Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research.

Apgar, William C., Jr. 1990. Which Housing Policy Is Best? *Housing Policy Debate* 1(1):1–32.

Nelson, Kathryn P. 1994. Whose Shortage of Affordable Housing? *Housing Policy Debate* 5(4):401–42.

The President's Commission on Housing. 1982. *The Report of the President's Commission on Housing*. Washington, DC.

Rescission Conference Spares Operating Subsidies and CDBG: Clinton Suggests Veto. 1995. *NAHRO Monitor* 27(10):2–5.

Struyk, Raymond J. 1991. Preservation Policies in Perspective. *Housing Policy Debate* 2(2):383–411.

Turner, Margery A., and Veronica M. Reed. 1990. *Housing America: Learning from the Past, Planning for the Future*. Washington, DC: Urban Institute Press.

U.S. Bureau of the Census. 1994. Consumer Price Indexes for All Urban Consumers. In *Statistical Abstract*. Washington, DC: U.S. Government Printing Office.

U.S. House of Representatives, Committee on Ways and Means. 1998. *1998 Green Book*. Ways and Means Committee Print WMCP 105.7.

Weicher, John. 1990. The Voucher/Production Debate. In *Building Foundations: Housing and Federal Policy*, ed. Denise DiPasquale and Langley C. Keyes, 263–92. Philadelphia: University of Pennsylvania Press.

