U.S. Low-Income Housing Policy And Its Suggestions For Korean Policymakers*

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< Abstract >

This study reviews the U.S. housing policy for low-income families and includes policy suggestions to Korean policymakers based on the comparative analysis of low-income housing programs between U.S. and Korea. Depending on the observation of the low-income housing programs, this study shows that the transition of U.S. housing policy from supply-side subsidy policy to demand-side assistance policy has produced good results, include dropping actual rental payments for low-income families, increasing selectivity for decent home, and reducing federal government expenditure. On the other hand, it has also brought inefficiencies such as increasing market rent and imposing it on low-income tenants. In order to stabilize low-income housing in Korea, the study suggests expanding public rental housing programs and introducing new demand-side subsidy programs based on a comprehensive plan for low-income housing.

Keywords: low-income housing policy, demand-side policy, section 8 program.

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I. Introduction

As written in the National Housing Act of 1937, the overall goal of the U.S. housing policy for the past 60 years has been to provide a "decent home in a suitable living environment for all Americans." To reach this goal, a series of policies implemented to improve the housing condition for low-income classes. As a consequence, a large volume of low-income housing including 1.4 million of public rental housing was supplied. The quality of the housing stock has been greatly improved, with the supply of structurally inadequate units falling from 38% of the stock in 1950 to only 1% of the stock in 1990. The proportion of homeowners as well has risen from 45.0% in 1940 and 64.0% in 1970 to 68.0% in 2001. As a general point of view, the goal of the U.S. housing policy seems fulfilled to some degree, even though the low-income classes are still short of the stated goal of the National Housing Act of 1937.

The U.S. policy for low-income housing has been changed and shown some distinctive characteristics in each phase. During the 1950s, housing demand for poor households was supplied mainly by low-rent public housing owned and operated by government agencies.

1) The first U.S. housing act was enacted in 1934 and based on the law, the federal government created the Federal Housing Administration (FHA) in the same year. The goal mentioned in the text was inscribed in the National Housing Act of 1937 (Wagner-Steagle Housing Act of 1937).
2) According to the Department of Housing and Urban Development (HUD), "low-income" indicates a four-person household with an income less than 80% of the local area median income. It is divided into three categories: very low income, extremely low income, and other low income which is a four-person household with income less than 50%, less than 30%, and from 50% to 80%, respectively, of local area median family income. HUD's definition of low income is not generally as low as another common measure of economic deprivation-the "poverty line", which is defined by the U.S. Census Bureau in terms of a household's ability to purchase goods and services.
3) U.S. Census Bureau (2002). Based on the survey, the homeownership rate for the first half of 2002 was slightly declined to 67.6%.
4) Based on the related studies, 37% of extremely low-income households are facing "worst case needs" housing condition which defined by HUD, including households living in structurally inadequate units and those rental households with income less than 50% of area median paying more that 50% of their income for housing (Rosen and Dienstfrey, 1998).
The following period, from early 1960s through mid-1970s, many of the provisions of federally subsidized low-income housing were conducted by nonprofit private entities such as the Community Development Corporations. However, beginning in 1970s, the existing low-income public housing policy gave way to so-called demand-side subsidy policy triggered by the 1974 Housing and Community Development Act.

From the standpoint of economic efficiency, federal government decreased funding for government housing production and introduced demand-side housing subsidy programs such as the Section 8 Tenant-Based Rental Assistance program. Since the 1980s, the federal subsidies for new housing construction have almost been eliminated. On the other hand, the majority of new subsidized housing units for the low-income households has been funded by vouchers and certificates based on the Section 8 Housing Voucher program. Today, the program supplements rent payments up for about 1.5 million families and individuals (Katz and Turner, 2000, p.1). By one point of view, various economic effects have been attributed to this policy. It might have produced good results such as dropping actual rental payments of low-income families and increasing selectivity for a decent home. On the other hand, it seems that the policy caused some degree of inefficiencies such as increasing market rents imposed on low-income tenants.

In comparison, it was not until early 1960s that the affordable housing policy of Korea was formulated as a part of the governmental planning for Economic Development. It began with the Ministry of Construction in 1963 which was charged with building housing. Since then core of the housing policy has been the expansion of housing production. As a result, the ratio of housing stock and households has climbed gradually from 71.2 % in 1980, to 86.0 % in 1995 and to 100.6% in 2002.

However, similar to the U.S., the housing policy in Korea has come up short of its goal with respect to low-income classes. Until recently, the core housing policy for poor families was to construct and provide low-rent permanent rental housing or free-rent public housing, but the provision of the public housing is always far less than that demanded. Also, governmental programs for demand-side assistance, such as subsidizing rent are not well maintained.
Therefore, it appears meaningful to compare the U.S. housing policy for low-income households with the policy of Korea. By doing so, it is possible to provide some suggestions for the Korean policymakers to improve its policy and increase availability of low-income housing in Korea.

With this objective in mind, we set two goals for this study, that is, closely reviewing the U.S. housing policies for low-income families, and including some policy suggestions for Korean policymakers based on a comparative analysis of low-income housing policies of U.S. and Korea. In pursuit of the first goal, we review the U.S. housing policy towards low-income households since the enactment of the 1937 Housing Act with corresponding welfare, and economic policies focused on housing issues. In addition, we discuss in detail the current policy issues of low-income housing programs focused on the demand-side policy together with some discussions on economic aspects of the Section 8 Tenants-Based Rental Assistance program depending on existing studies and data. To achieve the second goal, we review the historical background of the housing policy and the current low-income housing programs of Korea and then provide some vital suggestions on Korean policymakers based on the comparative study of U.S. and Korea.

The organization of the paper is divided into five sections. Following Introduction, Section II discusses the U.S. low-income housing policy. Part one of Section II reviews some literature on low-income housing in the U.S. Part two of Section II is the historical review of the U.S. low-income housing policy. Part three of Section II discusses current policy issues of U.S. demand-side low-income housing programs. Section III describes Korean Housing Policy focused on the low-income housing. Following the historical background of the housing policy in part one of Section III, the recent issues for low-income housing in Korea are discussed in part two of this section. Section IV presents suggestions for Korean policymakers based on the discussion in previous sections. Section V is a conclusion with some further research suggestions.
II. U.S. Low-Income Housing Policy

1. Literature Review

The topic of the low-income housing policy has attracted scholars as part to the government’s social and economic policy. There has been a fair amount of study of the overall U.S. housing policy for the poor. However, there has been quite small number of examination of the programs’ efficiency, especially of the demand-side subsidy programs. Moreover, it is hard to find literature, either written in English or Korean, that examines the efficiency of the low-income housing policy in Korea with any comparative study between the U.S. and Korea.

The review begins with a study focused on the nonprofit housing providers of affordable housing: O’Regan and Quigley (2000) examine the pattern of the flow of resources to the nonprofit providers by analyzing the two federal programs, the Low-Income Housing Tax Credit (LIHTC) and the Home Investment Partnership (HOME) programs. They found that both programs channeled a sufficient amount of their funding to nonprofits throughout the 1990s.

In another paper on policy, Katz and Turner (2000) point out one of the malfunction of the current Section 8 Housing Voucher program by indicating that the program goes beyond its role in promoting housing affordability mainly due to the balkanized administration system. To cure the problem, they suggest a series of incremental reforms of the current system for moving the Section 8 program in the direction of metropolitan administration.

Susin (1999) studies an interesting aspect of the Section 8 Voucher program which is the economic effect of the rent vouchers on the price of low-income housing. The paper showed that low-income households in metropolitan area with more vouchers have experienced faster rent increases than those where vouchers are less abundant. In the 90 biggest metropolitan

5) For brief information of the LIHTC and HOME programs, see part 2 in section II of this paper.
areas, vouchers have raised rents by 16% on average, a large effect consistent with the low supply elasticity in the low quality rental housing market. This result implies that vouchers have caused an $8.2 billion rise in the total rent paid by low-income non-recipients, while only providing a subsidy of $5.8 billion to recipients, resulting in a net loss of $2.4 billion to low-income households.

Ludwig, Duncan, and Pinkston (2000) examine the effects of a randomized housing-voucher experiment on welfare receipt and labor market outcomes, both of which are measured using State administrative data. They find that providing families in high-poverty public housing area with housing vouchers that can only be redeemed in low-poverty neighborhoods reduces rates of welfare use by around 6%. They also find that providing families with unrestricted housing vouchers has little effect on economic outcomes beyond the first year.

2. U.S. Housing Policy Towards Low-Income Classes

After the Great Depression and the 2nd World War, the U.S. was confronted with severe housing shortages.6) To cope with the housing and urban slum problems, the federal government created a series of programs aimed at providing affordable housing for low-income households in conjunction with the inner-city redevelopment programs. The history of housing policy for low-income families in America can be divided into three phases.7) During the

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6) During the decade-long economic depression, most U.S. real estate markets were badly underbuilt by 1945. After the 2nd World War, eleven million servicemen and—women were returning home to communities where few unoccupied houses were available. By 1947, more than 5 million families had either doubled up with other families in overcrowded dwellings or were occupying temporary shelters. But the production of new housing was fallen far below demand, and newly deregulated housing prices were skyrocketing. (Miles, Berens, and Weiss; p.151).

7) Quigley (2000) divided the history of housing policy into four stages; Period of no support from national government (from the founding of the Republic through 1937), period of providing of low-rent public housing (1937-1961), period of encouraging private entities in the provision of federally subsidized housing for the poor (1962-1974), and the period of linking between the new construction of dwellings and the subsidy of low-income households (after 1974). The phases in this paper is in some degree coincided with the Quigley's viewpoint.
first period, from the enactment of the National Housing Act of 1937 to the revision of the law in 1961, the federal government carried out the so-called supply-side subsidy program—providing low-rent public housing, owned and operated by government agencies. The second period, from the adaptation of several housing programs by the U.S. Congress to the moratorium by the Nixon Administration and the subsequent enactment of the Housing and Community Development Act of 1974, was the phase which encouraged profit and non-profit private sectors to supply low-income housing. In the third period, the federal government has pursued efficiency and effectiveness of rent subsidy programs by implementing the demand-side subsidy policy such as Section 8 Tenant-Based Rental Assistance program.

First Phase: Supply-Side Housing Policy

After enactment of the National Housing Act of 1937, the federal government took several steps to assist new home production. But the low-rent public housing was the only program providing housing assistance to the low-income households in general. Indeed, the low-rent public housing program has been providing more houses to the low-income households than the other housing programs that were introduced after the program. Before 1960 the program had provided about average 20,000 units each year, and the total figure had increased to 410,000 units in 1960, 830,000 units in 1970, 1.2 million in 1980, and 1.4 million in 1990. After that the trend had reversed to 1,397 thousand in 1995 and 1,243 thousand in 2000.

In 1959, the Section 202 Low-Interest Loan program was newly introduced as a supply-side subsidy program for the elderly and handicapped low-income classes. This program allowed loans to the non-profit housing developers with lower than market interest rates. It was not until the establishment of the Section 202 program that the large-scale federal assis-

8) The government assisted the homebuilding industry in the form of mortgage financing, new highways and infrastructure, permissive zoning and planning, and others. Consequently, more than 1.5 million new house units were built by 1950, but most of them were out of the poor people.
9) See table II-2 in this paper.
10) During the first 10 years after initiating the program, about 45,000 units were provided, and about 250,000 units up to now.
tance was initiated. Each year, the federal government assigned the capital grants and annual operating subsidies to the local governments.

We can summarize the characteristics of the low-income housing policy of this period in two ways. First of all, all public housing units were designed, built, and managed with direct oversight by local government authorities. Second, essentially all the capital costs of public housing were subsidized by the federal government. One of its negative features is that low income housing policy was influenced more by political power rather than the administrative process. Another controversy on the supply-side programs was the economic inefficiency originated from the additional administrative costs.

Second Phase: Expansion of Private Participation

In the early 1960s, the U.S. Congress changed the public housing mandate to allocate scarce federal resources to the most needed families and encouraged the private sector to participate in production of low-income housing. As a result, a series of housing programs for low-income classes were launched by Congress. These are: the Section 221(d)3 Below Market Interest Rate (BIMR) program, the Section 235 Homeowner Assistance program, and the Section 236 Rental Assistance program. Creation of the Department of Housing and Urban Development (HUD) in 1965 greatly increased housing provided by the federal government, and the 1968 Housing Act set forth ambitious production goals. The impact of this legislation was seen in the surge of production during the early 1970s (O’Regan and Quigley, 2000, p.301).

The Section 221(d)3 BIMR program was initiated in 1961, but the program closed in 1974 because it didn’t generate sufficient economic outputs. By the last year of the program, about 88,000 units were supplied because of assistance from the program.

The Section 235 Homeowner Assistance program is a home purchase program wherein the

11) For instance, some States put their political tendency against the construction of public housing for low-income households in their region. It was because they didn’t like the immigration of the poor in their region, and/or because they worried about the objection of the residents in their regions.
homebuyers pay a fixed percentage of their incomes regardless of the selling price of the house they bought. In the year of 1974, the program assisted about 420,000 housing units, but in 1998, it assisted only 50,000 units. The section 236 Rental Assistant program provided subsidies equaling the difference between one fourth of tenant incomes and the amortization of construction costs for new low-income housing over forty years at market interest rates. Initiated in 1969, the program assisted low-income households with about 500,000 units in 1970. Since then, the number of units assisted by the program has been kept around 450,000 units.

In another development, a series of housing programs introduced the participation of non-profit organizations and the for-profit private developers in the provision of low-income housing. In this period, one of the main providers of low-income housing was the Community Development Corporations (CDCs) defined as nonprofit community-based housing sponsors or developers. They were relatively smaller organizations or developers with a distinctly local focus, producing fewer units of housing than non-profit providers that were not community-based. In this period, non-profit organizations including CDCs play a sizable role in providing low-income housing. For instance, it has estimated that they produced more than 15% of all subsidized units from 1960 to 1990. Another survey suggests that CDCs had produced more than 400,000 units of housing by 1994.

In addition to these public housing programs, the private for-profit developers and landlords also participated in low-income housing market. They use financial resources from the below-market rate fund of the BIMR program and other governmental subsidies for building low-income housing units.

Despite some critics in subsidy design, it appears the programs in this period brought innovations in the course of U.S. housing policy. These programs represented the first time that federal government program provided low-income housing using the private as well as the public sector. The private entities increased productive efficiency by owning and manag-

12) In a latest documents of the U.S. administrations, the CDC was often defined as the Community-Built, Nonprofit Housing Development Organizations (CHDO).
ing the housing units under these programs. The participation of the private entities in public housing provision, as a result, could lessen some political burdens of both local and federal governments.

Third Phase: Demand-Side Housing policy

The large-scale federal support for housing production broke off abruptly in 1973 with the Nixon administrations' moratorium on new federal housing subsidies. Reevaluation of federal policy resulted in the 1974 Housing and Community Development Act, which directed the federal policy to be evaluated based on the efficiency concept.

Housing policy for low-income households also changed dramatically after mid 1970s. Between 1978 and 1990, the federal government systematically dismantled its housing production programs and withdrew funding support for affordable housing that was occupied mostly by the low-income families. Federal authorizations for housing dropped by 81.4% between 1978 and 1990 in constant (1998) dollars (see Table II-1). As a result, several existed housing programs were halted or shifted into smaller scale. The dominant trend was the shifting toward demand side subsidies. The 1974 Housing Act authorized the new Section 8 Tenant-Based Assistance program that encouraged eligible low-income households to seek

<table>
<thead>
<tr>
<th>Table II-1</th>
<th>Federal Spending for Housing: 1976 to 2002 (Billions of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
<td><strong>1976</strong></td>
</tr>
<tr>
<td>Current dollars</td>
<td>19.5</td>
</tr>
<tr>
<td>Constant dollars (1998)</td>
<td>51.4</td>
</tr>
</tbody>
</table>

| **Year** | **1990** | **1992** | **1994** | **1996** | **1998** | **2000** | **2002** |
| Current dollars | 11.1 | 19.7 | 21.1 | 16.4 | 19.8 | 24.2 | 26.3 |
| Constant dollars (1998) | 13.7 | 22.7 | 23.1 | 17.1 | 19.8 | 23.2 | 24.2 |

Source: Mikes, Berens and Weiss (2000); p.297 Figure 15-2.

* Numbers for year 2000 and 2002 are estimated values.

14) This trend however had been reversed a little during 1990s mainly due to the National Affordable Housing Act (NAHA) of 1990, which renewed the federal government's commitment to housing, as evidenced in Table II-1.
housing in the private market.

The shrinkage of public housing provided by the federal government was filled by the other financial sources and housing programs. Each state and local government established its own housing policies such as founding financing entities and/or issuing tax-exempt bonds. In addition, several private foundations were established within the network of non-profit developers. With the growth of local investment, the role of the CDCs also became larger.

In late 1980s, there were other changes in housing policy. Anticipating the elimination of incentives for real estate development triggered by the 1986 Tax Reform Act, the federal government introduced two low-income housing programs: the Low Income Housing Tax Credit (LIHTC) program and the Home Partnership Investment (HOME) program.

The LIHTC program is administered by the Department of Treasury and related State agencies. Each State receives an annual allocation of tax credits that represents $1.25 per capita. State agencies review applications submitted by developers and allocate the tax credits according to allocation criteria. State plans must give priority to projects that serve the lowest-income tenants and those which ensure affordability for the longest period (O'Regan and Quigley, 2000, pp.13-15). It is not easy to collect precise data because the program is administered by the Internal Revenue Service (IRS), not by the Department of the Housing and Urban Development (HUD). Based on a survey, about 170,000 housing units were built receiving the LIHTC within 4,121 projects during three years from 1992 to 1994. As showed in Table II-2, rental-housing units subsidized by the program has been steadily increasing.

The HOME program is a block grant program established by the National Affordable Housing Act of 1990 linked between levels of governments, and between for-profit and non-profit organizations. Financing for housing built under the program typically comes from grants from State or local housing programs, conventional bank mortgages, and proceeds from syndication of low-income housing tax credits. Private developers or agencies can apply

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15) U.S. General Accounting Office (1997), Tax Credits: Opportunities to Improve Oversight of the Low-Income Housing program.
16) For a practical explanation of the LIHTC, see the Miles, Berens and Weiss (2000), pp.298-302.
for and receive funds in the form of equity investments for the provision of affordable housing, primarily through rehabilitation of existing structures, but also through new construction in some cases. All housing developed with HOME funds must serve low- and very-low-income families. The program provided housing assistance to nearly 21,000 low-income households in 1998 and the number has been increasing as evidenced in Table II-2. In Table II-2, the annual number of rental units subsidized by federal programs is summarized. As evidenced in Table, public housing and Section 8 (tenant-based rental assistance programs) are still two biggest sources, but housing units provided by the LIHTC and the HOME are increasing rapidly.

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Housing</th>
<th>Rent Supplement</th>
<th>Section 236</th>
<th>Section 8</th>
<th>HOME</th>
<th>LIHTC*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>1,390,098</td>
<td>23,487</td>
<td>528,174</td>
<td>2,239,503</td>
<td>0</td>
<td>34,491</td>
</tr>
<tr>
<td>1988</td>
<td>1,397,807</td>
<td>23,476</td>
<td>528,174</td>
<td>2,332,462</td>
<td>0</td>
<td>115,899</td>
</tr>
<tr>
<td>1989</td>
<td>1,403,816</td>
<td>20,000</td>
<td>528,000</td>
<td>2,419,866</td>
<td>0</td>
<td>242,099</td>
</tr>
<tr>
<td>1990</td>
<td>1,404,870</td>
<td>20,000</td>
<td>530,625</td>
<td>2,500,462</td>
<td>0</td>
<td>316,128</td>
</tr>
<tr>
<td>1991</td>
<td>1,410,137</td>
<td>20,000</td>
<td>528,115</td>
<td>2,547,995</td>
<td>0</td>
<td>428,098</td>
</tr>
<tr>
<td>1992</td>
<td>1,409,191</td>
<td>20,000</td>
<td>510,422</td>
<td>2,722,477</td>
<td>------</td>
<td>519,398</td>
</tr>
<tr>
<td>1993</td>
<td>1,407,923</td>
<td>19,270</td>
<td>510,105</td>
<td>2,812,008</td>
<td>------</td>
<td>623,154</td>
</tr>
<tr>
<td>1994</td>
<td>1,409,455</td>
<td>18,808</td>
<td>504,966</td>
<td>2,925,959</td>
<td>------</td>
<td>740,253</td>
</tr>
<tr>
<td>1995</td>
<td>1,397,205</td>
<td>20,860</td>
<td>508,353</td>
<td>2,911,692</td>
<td>------</td>
<td>826,596</td>
</tr>
<tr>
<td>1996</td>
<td>1,388,746</td>
<td>20,860</td>
<td>505,305</td>
<td>2,958,162</td>
<td>111,003</td>
<td>903,599</td>
</tr>
<tr>
<td>1997</td>
<td>1,372,260</td>
<td>20,860</td>
<td>494,121</td>
<td>2,943,635</td>
<td>166,086</td>
<td>940,052</td>
</tr>
<tr>
<td>1998</td>
<td>1,295,437</td>
<td>20,860</td>
<td>476,451</td>
<td>3,000,935</td>
<td>209,193</td>
<td>104,187</td>
</tr>
<tr>
<td>1999</td>
<td>1,286,588</td>
<td>20,860</td>
<td>446,658</td>
<td>3,135,850</td>
<td>266,523</td>
<td>1,103,777</td>
</tr>
<tr>
<td>2000</td>
<td>1,243,100</td>
<td>20,860</td>
<td>420,017</td>
<td>3,320,583</td>
<td>302,146</td>
<td>------</td>
</tr>
</tbody>
</table>

Source: O'Regan and Quigley (2000), p.305 (Table 2).
* LIHTC numbers are cumulative total. All others are numbers of dwelling units actually subsidized.

3. Demand-Side Low-Income Subsidy Programs in U.S.

As we reviewed so far, the federal government began shifting the low-income housing pol-

icy toward demand side subsidies. The Section 8 Rental Voucher program and Rental Certificate program are the two largest demand side programs active today in that they supplement rent payments for about 1.5 million families and individuals (Katz and Turner, 2000, p.1). Currently, most of the subsidies going to projects would be turned into vouchers from the traditional public housing projects. Even after 27 years of experience with tenant-based voucher and certificates, there continue to be differing opinion regarding those programs. For instance, Susin (1999) emphasized that the Section 8 Voucher program had caused increase of the housing price and raised the rent paid by unsubsidized low-income households. This section discusses the Section 8 Rental Voucher program and the Certificate program followed by their economic influences.

Tenant-Based Rental Assistance Program

Subsidizing housing projects for low-income people by the Federal Government were often built or administered poorly, resulting in slums and unsafe conditions for tenants. To cure the problem and with other associated goals such as helping low-income families and the elderly, the U.S. government introduced the Section 8 Tenant Based Rental Assistance program in 1975. The Section 8 rental subsidies are administered locally by Public Housing Authorities (PHAs). They receive federal funding from HUD to administer the section 8 programs.

The section 8 rental subsidy is a federal payment to a landlord on behalf of an individual tenant. There are actually two slightly different subsidy schemes: Section 8 Certificates and Section 8 Vouchers. The Certificate program subsidizes rent in privately provided units, requiring tenants to pay no more than 30% of their income. Tenants should rent units that have been approved by local PHAs as satisfying minimum habitability standards, and that rent for less than the "Fair Market Rent" (FMR) that is a payment standard determined by the PHAs.

The Voucher program varies from the Certificate program in that there is not a cap on the rent level. The tenant obtains a voucher for a set amount of money based on the area, and if they are willing to pay more than 30% of their income, they are free to rent a unit that
exceeds the FMR. Under the Voucher program, they can save money by renting housing units that are cheaper than the FMR, or overpay by renting units that are more expensive.\textsuperscript{18)} The Certificate program was eliminated during the late 1990s in favor of the Voucher program.

Eligibility for the program is based mostly on the income of the family in relation to the family size. A family or individual must meet the very-low income requirements when they initially receive Section 8 housing assistance.\textsuperscript{19)} Once tenants are in a subsidized program, they must certify their income once a year. Based on recent data, two thirds of the new subsidies for the low-income housing in U.S. are from these rent assistant program.

Economic Significance of the Tenant-Based Rental Assistance Programs

Almost three decades of experience have shown that providing rental assistance directly to tenants is a very effective and efficient mechanism for addressing the housing needs of low-income families in the U.S. First of all, the majority of households who are given a voucher are successful in finding a location for which they can receive assistance. And they generally live in better quality housing than before receiving the assistance (Katz and Turner, 2000). By the change of the housing policy from supply-side program such as construction of public housing to the tenant-based assistance program, more low-income people have rental assistance as evidenced in Table II-2.\textsuperscript{20)} As a result, the actual rental payments and the total rent burdens of the poor are reduced. It estimated that the program also allows low-income families given assistance to move to neighborhoods of their choice. With this mobility, they can improve their access to educational, employment and other opportunities. An entire region is also better off when fewer people live in neighborhoods of concentrated poverty. Also, viewed from the government standpoint, financial burden of the policy authority can be

\textsuperscript{18)} To know the general figures of the Section 8 Voucher and Certificate program, such as type of assistance and eligible customers, visit the [http://www.hud.gov/programs/voucher.cfm].
\textsuperscript{19)} After that, household income may exceed these limits.
\textsuperscript{20)} As showed in Table II-2, the rental housing units subsidized by the federal government under the Section 8 Tenant-Based Assistance program is much exceeded that of the Public Housing.
reduced by the Tenant-Based Rent Assistance program.

Mentioned earlier, one of the motives of the initiation of the program was to reduce the expenditure of the federal government. Under the supply-side subsidy programs, the Federal government had to spend tremendous amounts of money in building new public housing as well as manage the existing housing stocks. Under the tenant-based rent assistance program, the annual scale of expenditure is cut. Of course, the rent assistance program necessitates a housing stock be in place. So, a supply-side program may be necessary where housing supply is under-developed or inadequate even where demand side programs exist.

Advantages of the tenant-based rent assistance program are weakened by some side effects of the program. First of all, it could increase the burden of the most low-income tenants because subsidizing the low-income tenants could increase the short-term demand for the rental housing. As a result, those subsidized choose more expensive housing with increased market rent. Furthermore, it burdens the large group of income-eligible non-recipient. As Susin (1999) emphasized in his empirical study, it's no doubt that the Section 8 Voucher program caused increase of the housing price and raised the rent paid by unsubsidized low-income households.

The other inefficiency of the system involves the transaction cost that stems from the complicated system of administration by local public housing authorities. For instance, in most parts of the country, the Section 8 program is administered by local Public Housing Agencies (PHAs). Most PHAs serve individual cities or counties. Therefore, in urban areas, there are typically several PHAs operating in a single housing market. In fact, over 2,500 PHAs nationwide administer local Section 8 programs, with 1,700 of them managing fewer than 250 vouchers. As a solution of the problem, Katz and Turner (2000) proposed a new, competitive system of voucher administration, selecting one well-qualified organization to administer the program throughout the region as a whole.

Finally, since there is more demand than supply for the housing subsidies, only small portions of the income-eligible low-income households can benefit up to now. In a recent study, only 10% of them have housing vouchers. Consequently, most applicants for the vouchers have to stay on long waiting lists. Because of strong demand for the assistance, waiting
times are hard to predict, but have been as long as four years. Rental assistance programs, therefore, cannot be the sole answer to low-income housing.

III. Korean Housing Policy for Low-Income Classes

The Housing Supply Ratio (HSR), attained by dividing the nation’s total housing units by the number of households, is the main indicator to formulate its housing policies in Korea. As shown in Table III-1, the ratio has been increased from 71.2% in 1980 to 94.1% in 2000 and 100.6% in 2002. It means that the nationwide shortage of houses has been gradually mitigated. However, the rate in capital region still stood at 88.6%, and 79.7% in Seoul, the capital city, indicating a greater housing shortage in bigger cities.22) In this section, we describe the general status of housing policy in Korea focused on low-income housing. We review the historical background of the housing policy in part one of this section and discuss the recent programs for low-income housing in Korea in the following part.23)

<Table III-1> Housing Construction and Supply Ratio

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwide</td>
<td>71.2</td>
<td>72.4</td>
<td>86.0</td>
<td>89.2</td>
<td>92.0</td>
<td>92.4</td>
<td>93.3</td>
<td>94.1</td>
<td>96.2</td>
<td>100.6</td>
</tr>
<tr>
<td>Capital region</td>
<td>60.2</td>
<td>63.3</td>
<td>76.7</td>
<td>79.0</td>
<td>81.9</td>
<td>82.2</td>
<td>83.2</td>
<td>86.1</td>
<td>88.6</td>
<td></td>
</tr>
<tr>
<td>Seoul</td>
<td>56.1</td>
<td>57.9</td>
<td>68.0</td>
<td>69.7</td>
<td>71.4</td>
<td>70.7</td>
<td>71.0</td>
<td>77.4</td>
<td>79.7</td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Report on Housing Construction, Ministry of Construction and Transportation, Various years.

22) In the case of foreign countries, the HSR ratio in U.S., Japan and France each showed 111.2% (1999), 113.3% (1998) and 121.2% (1996).
23) Much of the information of this section was collected from governmental sources, such as books and reports of the Ministry of Construction and Transportation of Korea, and the electronic sources of several research institutions including the web site of the Korea Research Institute for Human Settlements [http://www.krihs.or.kr] and the Korea Institute of Construction Technology [http://www.kic.re.kr]. For general information of the housing policy in Korea, visit the web site of the Ministry of Construction and Transportation of Korea [http://www.moc.go.kr/Moc1English/moc1_english_frame.php3?link=housing.html].
1. History of Korean Housing Policy

During the past 50 years, the housing policy in Korea has gradually become more organized and sophisticated. In the process, public housing agencies were set up and related laws were legislated and revised to fit the situation. The increase in affordable public housing is the result of the government's policy implementation made through its public corporations and local agencies. Oftentimes, the expanded role of government means more regulations. Between 1962 and 1997, the government controlled the prices for new condominium units, and some of the restrictive regulations still exist.\(^24\) However, since 1995, the general policy direction has been for the government to phase out of the housing business and leave the market in private hands. The history of housing policy of Korea can be divided into four periods of time as follows:

In the 1960s (1962-1971), a housing policy was established as a part of the government economic development plans.\(^25\) However, as the priority of investment was given to economic growth and the construction of the industrial infrastructure, the investment for housing suffered during this period. Several basic laws and institutions related to housing were established during this period: the Building Act (1962), the Act of Urban Planning (1962), the Act of the Korea national Housing Corporation (1962), the Act of Public Housing (1962), the Act of Korea Housing and Commercial Bank (1969). Most of the housing construction was largely taken up by the private sector. About 286,000 housing units, 88% of total, were built by the private sector during first half of the period. In the following 5-year-period (1967-1971), 541,000 units were newly added. Of those, 87.1% (471,000 units) were built by the private sector.

In the 1970s (1972-1981), the Act of Housing Construction Promotion (1972) was legislated to ease the quantitative shortage of housing\(^26\) and the 10-Year Housing Construction

\(^{24}\) In Korea, the most common type of house is condominium (practically called “Apartment”). According to the Preliminary Count of Population and Housing Census 2000 by the Korea National Statistical Office, currently, it takes 52.3% of total housing stock in Seoul, the capital metropolitan city of Korea.

\(^{25}\) Up until 1962, the post Korean War period, there was no tangible housing policy in Korea.

\(^{26}\) The law still remains backbone of the country's house building projects.
Project was established in 1972 in order to construct and provide 2.5 million housing units by 1981. In 1973, the government established a national housing fund and introduced foreign loans to invest in the project. However, the project had to be revised in 1974 and 1975 in the wake of the 1973 Oil Crisis and the economic difficulties that followed. The aim of the revised project was raising the housing supply ratio to 82.8% in urban areas, and to 88.4% nationwide. To this end, the government encouraged the development of the housing industries, but the housing market was thrown into great confusion in the latter half of the 1970s because of skyrocketing housing prices and absurd profit-seeking speculations. During this period the housing industry produced 1,877,000 new units, 57.0% of which were provided by private sector. This period is characterized by increasing government participation and intervention in the local housing industry.

The major policy goal during the 1980s (1982-1991) was to stabilize housing prices through the increased supply of homes, while discouraging profit-seeking speculations. In 1982, the Rental Housing Promotion Act was enacted to stimulate rental market and the Act of Housing Construction Promotion that was amended in an extensive way in 1977 was further reinforced to solve the chronic housing shortage. But those measures were not effective because of the severe real estate speculation. In a political effort to relieve the situation, the government decided to build 2 million new housing units during 2nd five-year period (1987-1991) and raise the nationwide HSR to 72.9%.\(^{27}\) During the targeted 5 years 1,155,000 units were newly produced and 2,386,000 units were added during latter half period. In spite of the government’s active role in the residential housing market, the housing shortage and high prices continued.

After 1992, the housing project was incorporated into the government’s so-called Five-Year New Economy Plan in which a stable and long-term housing supply was stressed. Between 1993-1997, the government decided to construct 500,000 to 600,000 units every year with the aim of reaching 90% HSR by 1998. In pursuing the construction project, Korean govern-

\(^{27}\) This feature represents 1.7 times more than those built in the previous five years. To cope with the aggressive project, 65 trillion won (about 54 million dollar), or 6.5% of GNP had to be invested in the housing construction.
ment clarified the roles of the public and private sectors, generally expanding the re-
sponsibilities of the private sectors. The public sector was mainly involved in furnishing
small sized housing units for lower-income families. It planned to build 200,000 to 250,000
smaller units for low-income and extremely poor families.

After the harsh economic crisis during 1998 to 1999, the government plans to deregulate
drastically the housing industry aiming to increase housing construction under the free market
economy. At the same time, the government is encouraging the private sector to enter the
rental housing market to ease the housing shortage.

2. Current Issues of Housing Policy in Korea

It’s possible to explain the housing policy for low-income in Korea by studying three cate-
gories: supply of public rental housing for low-income families, subsidies for rent, and assis-
tance for home-ownership. However, the essence of the housing policy for the low-income
population in Korea is public rental housing construction as done originally in the U.S.

Korean public rental housing is classified into two types; one takes the form of govern-
ment financial assistance by National Rental Housing, and the other receives subsidies from
the National Housing Fund without government’s financial assistance exhibited in Table III-2.

<table>
<thead>
<tr>
<th>Table III-2 &gt; Qualifications of Public Rental Housing in Korea</th>
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<tbody>
<tr>
<td>Source of Funds</td>
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<tr>
<td>----------------------------------------------------------------</td>
</tr>
<tr>
<td>Government Finance</td>
</tr>
<tr>
<td>Korea National Housing Corporation (10%)</td>
</tr>
<tr>
<td>Tenants</td>
</tr>
<tr>
<td>Major Builder</td>
</tr>
</tbody>
</table>

Source: [www.moot.go.kr/mootenglish/country.htm](http://www.moot.go.kr/mootenglish/country.htm)

When public finance for the permanent rental housing first invested in housing programs,
the government’s financial support reaches 85% of the construction cost. This financial sup-
port enabled the monthly rent to be reduced to 77,000 won (about $64) and 10% of the lowest income class can rent this type of housing.

When the permanent rental housing project was ended in 1993, other rental housing projects with the government assistance were not executed for a few years. After that, from 1998 to 2002, an additional 50,000 public housing units were being constructed for low-income families. By the end of 2002, the total accumulated units of public housing were 1.06 million but the actual volume for the long-term public rental housing counted only 280,000 units.28)

Another category of the housing policy is rental home subsidy programs for low-income households. In most cases, tenants in Korea rent housing with a peculiar rent/deposit system called Jeonse in which tenants usually pay 40-60% of housing price as deposit money at the time they make the contract.29) It is a very different system than that of the monthly rental system common in the U.S. In Korea, the deposit money of Jeonse is paid back when the rental period ends; this system corresponds with the support system of the National Housing Fund. However, the fund has not assisted the rental system until recently, because the government gave its priority to housing construction.30)

There are two kinds of housing loans to assist the low-income households in renting their homes: one is the loan for the low-income households in urban areas, which was started in 1991. Beneficiaries of the loan must receive a recommendation from a local government and can borrow up to 10 million won (about $8,300) at the low interest, typically 2% to 5% annual interest rate. The other is the program for low-income laborers without homes. It was executed in 1994 to stabilize the relationship between labor and capital. The loans under this

28) See website of the Korea National Housing Corporation [www.huri.jugong.co.kr].
29) The tenants, of course, get the original deposit back at the end of the contract without any reduction. It has been possible with the background of the trend of the high interest rate in Korea. The amount of money deposited depends on various factors including market interest rate, location of house, and size of the housing unit. For instance, the amount of deposit for a condominium under the economic situation of high interest rate suppose to be smaller than that under the situation of low interest rate on the assumption that other factors are being equal.
30) The other reason why the government didn’t assist the rental system was that it might burden the tenants by increasing the deposit money of Jeonse if the government supported it.
program have gradually been expanded to non-labor low-income households.

When low-income households without a home buy a small size home, they can have various kinds of financial and taxation assistance. Households with an annual income of less than 30 million won who don’t have a home can borrow up to 60 million won ($50,000) at 1 to 3.5% lower rate than market interest rate when buying a house below 85 square meters. In addition, the buyer of newly constructed small size houses (typically condominiums) can be aided by tax rate abatements and reductions. For example, 70% of the total house price can be borrowed when buying a condominium below 60 sq meters. Also, a family without a home is exempted from the acquisition tax and registration tax when buying a condominium below 40 sq meters and pays only 50% of those taxes when buying a unit of 40-60 sq meters. Finally, if one is saving to buy a home, 40% of the money is exempt from income taxes.

IV. Suggestions to Korean Policymakers Based on Comparative Analysis of Issues in the U.S. and Korea

As examined earlier, the U.S. has carried out a variety of housing programs to improve housing conditions of the low-income classes for the past 60 years. In consequence of the effort, large amounts of low-income housing including public housing construction and Section 8 rental housing have been supplied. Moreover, the quality of the housing stock has greatly improved and the supply of structurally inadequate units has dramatically declined. So, it can be said that the U.S. low-income housing policy has been well met, even though a large portion of low-income classes has not made the goal attainment.

In the case of Korea, on the other hand, the housing policy was formulated as a part of the governmental planning for economic development. Since the establishment of the Ministry

31) Housing units of 85-square-meter size generally have two bedrooms, one and half bath and one living room.
of Construction in 1963, the core of the housing policy has been the expansion of the production of housing. As a result, the HSR had gradually increased up to the 100.6 percent in 2002.\footnote{32} However, the housing policy for low-income classes has not performed successfully. Until recently, the core housing policy for poor people was to construct and provide low-rent permanent rental housing or rent-free public housing. But public housing provided is far less than demand. Besides, the governmental programs for demand-side assistance, such as subsidized rent, have not yet been well maintained. Based on the comparative analysis on low-income housing policy in the U.S. and Korea discussed in previous sections, we will put forward three suggestions on the low-income housing policy for Korean policymakers.

The first suggestion is to create a housing policy for the low-income population apart from the existing housing policy because as described earlier there has been no comprehensive housing policy for the poor people so far in Korea. As can be seen by the example of the U.S., low-income housing is an economic challenge characterized by its own problems. There is often no economic engine to provide low-income housing by free market forces. Resources that could be used for this housing sector are normally reallocated to sectors which pay more for these resources leaving the poor without desirable shelter. Also, with lower quality homes comes lower wages, education and community services, like police, fire and health protection. So, low-income classes are caught in spiral that doesn’t end. A comprehensive overall plan to increase the housing welfare should be formulated based on research and experience of these special problems and circumstances. The experience of the U.S. can provide some direction, as we will suggest, but the economic conditions of the poor peculiar to Korea must also be incorporated in the comprehensive plan.

One of the relatively simple but effective ways to produce a plan is study successful cases. The U.S. has been experiencing, within relatively short period, major changes of low-income housing policy as discussed in section II of this paper. One could study many of the programs in each phase of the U.S. housing history. Some of those programs have already been executed in Korea, like interest rate and tax concessions and government loan as-

\footnote{32} Annual Report on Housing Construction, The Ministry of Construction and Transportation, Various years.
sistance programs. In any event, the comprehensive plan for low-income housing should be separate from the overall housing policy, supply legal support by revising or legislating pertinent regulations, and provide financial sources. In addition, the comprehensive plan should be insulated from political forces which may cause periods of neglect or abandonment for specific programs which have occurred in the U.S. And any program created must be combined with efficient means of administration, preferably by the private sector or, at least, by local entities familiar with local conditions and problems faced by the poor in that area.

The second policy suggestion is lessening the gap between supply and demand for public housing. Even with the efforts of the government to provide affordable public rental housing, there are great gaps between the provision and the needs of the housing units as the U.S. has experienced for reasons cited above. In the case of the U.S., housing demand for poor households during the 1950s was supplied mainly by the low-rent public housing owned and operated by government agencies. In the following period, from early 1960s through mid 1970s, much of the public housing provided by private entities such as the Community Development Corporations subsidized by the federal government. Before 1960 the program had provided an average 20,000 units each year, and the total figure had increased to 1.4 million in 1990 and after that the number of units has been slightly decreased to 1.25 million in year of 2000. Providing for the population, the figure is quite low, but before the transition of the low-income housing policy to demand side in mid 1970s, it had been the main housing stocks for low-income households. The point is, a regular and continuing housing stock for low-income people must be continually replenished due to the special circumstances of the poor.

In Korea, the essence of the housing policy for low-income families is to build public rental housing similar to what was done in the U.S. from the 1950s to the early 1970s. Again, however, the number of public rental housing created is far less than that demanded. The stock of the public rental housing in 2002 was 280,000 units, which was only 2.3% of the total housing units. The figure means that only about 10% of the income-eligible

33) If the units that will be sold after five-year rent period are included, the accumulated number of units was 1.06 million, which was about 6.0% of the total housing units.
low-income families currently benefit from the public housing programs.

The first step to solve this problem is to increase the number of public rental housing units for low-income families. To provide more low-rent public housing, it is necessary to encourage the private entities by allowing them the low interest construction loans and adopting tax expenditure programs such as the tax-exempt bonds and the Low-Income Housing Tax Credits like those used in the U.S.\textsuperscript{34} In order to enhance participation by the nonprofit and private/public corporations in building low-income housing units, the government should arrange related programs and regulations including enactment of the so-called the Public Housing Act if necessary. The Section 8 Tenant-Based Rent Assistance program of the U.S. Housing and Community Development Act of 1974 is a good example of the program/enactment that opened the way for greater participation by private entities in the provision of low-income housing. The law proposed government funds for providing more housing stock to the poor people. According to recent report on the low-income housing issued by the Korean Ministry of the Construction and Transportation, fortunately, 80,000 units of public rental housing is to be constructed in 2003 as a part of 200,000 rental housing construction project.\textsuperscript{35} These programs must be continued, and consistency of the policy is more important than flowery pledges of the policymakers. As stated above, some assurance is needed that political concerns don't undermine regular flows of new low-income housing and needed repairs to older stocks of housing used by the poor. Examples in U.S. are abundant of neglected concentrations of dwellings which become run-down and blighted.

This is especially important in Korea where there are many examples where the existing housing stock is not properly maintained, especially long-term rental housing units. Since real estate is basically a depreciating asset, upgrading poor management by the government is another problem for public rental housing. Therefore, appropriate maintenance and efficient management with a proper budget are essential to lessen the gap between low-income hous-

\textsuperscript{34} For more information for the tax-exempt bond financing and the low-income housing tax credits, see Miles, Berman, and Weiss (2000), pp.298-302.

\textsuperscript{35} For more information, see [http://www.chosun.com/2002-05-12]. Recently, Korean government announced a flowery plan to produce 1 million public rental house units until 2012 [www.hunjugong.co.kr].
ing and demand. Possibly policymakers could give concessions and incentives to attract well-trained individuals and companies to the housing management industry as well as provide education assistance for those willing to learn the field. Certificate programs and university classes in real estate management have been successful in the U.S.

The third possible suggestion is introducing new demand-side subsidy programs suitable for the Korean situation in order to complement inefficiency of supply-side subsidy programs. As examined earlier, such supply-side subsidy programs as the public housing lead to some social and political problems. For instances, people may veto the construction of public housing for low-income households in their residential zone because they worry about an influx of poorer people into the neighborhood. It is hard to share the benefits of public rental housing with extremely poor people who out of favor of the programs. The programs may cause governmental budget constraints due to the large-scale construction and management cost. In order to complement such restrictions of the supply-side subsidy programs, the Korean policymakers need to introduce diversified housing programs for low-income classes, and one of the appropriate alternatives is introducing demand-side subsidy programs similar to the Section 8 Housing Voucher program of the U.S. As reviewed, the U.S. Federal Government began shifting the low-income housing policy toward demand-side subsidies. The Section 8 Tenant-Based Rental Assistance program, which has been dominant for almost three decades in the U.S., allows households to receive assistance and lets them live in better quality housing with more choice as to region and house type. As shown in Table II-2, presently more than 3 million housing units are taking subsidies under the Section 8 Tenant-Based Rent Assistance program. These are the most rental dwelling units subsidized by federal programs up to date. As we seen earlier, the demand-side subsidy programs has led to positive effects on improving the quality of life of low-income households.

In the case of Korea, until recently, there wasn’t any rent subsidy program directly supported by the government fund. Even the recently initiated housing loan programs referred earlier in this paper haven’t helped the low-income households much. Most of them often depend on the market or private loans when they try to rent housing beyond their income level. Moreover, a majority of low-income classes living in urban areas suffer from lack of
affordable housing, and a high rate of rent (Jeonsei) compared to their income level.

So, Korea will be subject to some constraints in adopting the U.S. rent subsidy system because, for one reason, of the difficulties in clear assessment and monitoring of incomes of the potential tenants. Another constraint will be the difference of the rent system (Jeonse system) and a third is the limits of the housing budgets of the government necessary for introduction of new programs. A final constraint to mention is the possibility of increasing market rent. In spite of these constraints, it is necessary to introduce the programs into Korea because it will increase the welfare of low-income householders in view of the U.S. experience although it is too early to draw a conclusion of the overall efficiency of the demand-side subsidy programs.

V. Conclusion

This paper was written with two general goals: To closely review the U.S. low-income housing policies and, based on the comparative analysis on low-income housing policy of the U.S. and Korea, present appropriate policy suggestions to the Korean policymakers. For these purposes, we broadly reviewed the U.S. low-income housing policies since the 1937 Housing Act. In addition, we discussed demand-side low-income housing programs focusing on the economic aspects of the Section 8 Tenants Based Rental Assistance program. Additionally, after reviewing the historical background of the housing policy and current low-income housing policy of Korea, we proposed some policy suggestions to the Korean policymakers including formulation of a comprehensive plan for low-income housing, reduction of the gap between supply and demand for public housing, and introduction for Korea of new demand-side subsidy programs.

This study has examined comprehensively the housing policy for low-income households of the U.S. and presented policy suggestions to Korea based on existing studies and data. It mostly focused on explanation of the distinctive policy programs and their economic impacts.
Therefore, this study can be a source of guidelines for the Korean policymakers in that it contains some practical suggestions for them. As an academic research paper, however, it has several limitations; because this study has focused on reviewing the comprehensive policy aspect, it didn’t analyze thoroughly certain housing programs. Also, it did not conduct empirical analyses but depended heavily on the existing literature and data.

Some additional suggestions for possible study can be made from the accomplishments as well as limitations of this study. More study is needed of demand-side subsidy programs as they exist in the U.S. For instance the increase in market rents is an important issue. Second, more study is needed on how to design the program for the economic housing conditions peculiar to Korea. In general, because the efficiency and effectiveness of the demand-side subsidy programs are not analyzed in full-scale yet, they are very good topics to study in the future. The comparative study on low-income housing policy between Korea and countries besides the U.S. is also good topic to study further.

References


국 문 요 약

본 고는 미국연방주택법(National Housing Act, 1937) 제정 이후 최근까지의 미국의 저소득주택정책에 관해 고찰하고, 미국과 한국의 관련 정책에 관한 비교분석을 바탕으로 한국의 저소득주택정책에 요구되는 정책방향을 제안하였다. 미국은 정책초기 연방정부 주체의 공급자보조 주택정책(supply-side subsidy programs)에서 70년대 중반부터는 지방 정부와 지역사회 중심의 수요자지원정책(demand-side assistance programs)으로 전환되었으며, 이는 저소득 수요자의 임대료부담 경감, 주거여건 개선, 임차인의 선택폭 확대, 정부의 단기지출부담 축소 등의 효과를 가져왔으나, 전체시장임대로 상승에 따른 저소득 임차인의 부담증가, 수혜자들의 도덕적 해이, 부수적 행정비용과 같은 비효율을 초래하였다. 미국과의 비교분석 결과, 한국의 저소득층 주거안정을 위해서는 포괄적인 저소득 주택정책 정책사전이 마련되어야 하며, 기존의 저소득임대주택의 확대공급에 병행하여 새로운 이론바 수요자지원방식의 주택정책의 도입이 필요하다.