



## CHAPTER TEN

# Housing Policy: Low-Income Households in France

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## 10.1 INTRODUCTION

Housing consumption and investment remain subsidized even in the most liberal countries. In 2001, the United States spent 1.54 percent of GDP, and France 1.74 percent, on public aid to housing. As in other countries, the French system is a mixture of many interventions, but its three pillars are the construction of public housing, direct rental subsidies to households, and help to low-income owner-occupiers. The goal of this chapter is not to assess the validity of public intervention, whether it stems from the necessity to internalize housing and neighborhood externalities, to dampen the market power of landlords, or to make up for failures of the housing market. Rather, we present in some detail the three main types of French housing subsidies to low-income households, contrasting their setting with their US counterparts. The most acute questions raised by each kind of policy are discussed, with some empirical evidence when available. Evaluating policy measures one apiece and independently of the rest of the welfare package and institutions could be misleading. The hope is that a partial analysis of concrete, yet sufficiently archetypical, situations will shed light on more general mechanisms in housing and welfare policies.

The chapter is organized as follows. Section 10.2 is devoted to an overview of the French housing market and policies, assessing their comparability with the USA. Section 10.3 looks at the public-sector housing. In section 10.4, personal housing subsidies to private-sector renters are discussed. Section 10.5 presents the current policy aimed at facilitating access to homeownership, the PTZ (zero-interest loan). Section 10.6 concludes.



## 10.2 COMPARING FRENCH AND AMERICAN HOUSING POLICIES

France and the USA differ in terms of tenure modes. As shown in Table 10.1, homeownership is more developed in the USA, where 68 percent of households own their dwellings, versus 56 percent in France. Perhaps more importantly, the proportion of mortgage holders among owners is also much higher in the USA (62 percent) than in France (38 percent). Such differences are not easy to explain. Four possibly related features are the following:

- The higher level of direct transaction costs in France. These include stamp duty and a compulsory notary act. Adding fees to intermediaries, the average costs can be estimated at around 14 percent, compared to 10 percent in the USA.
- The greater fluidity of the primary mortgage market in the USA. In France, early repayment of the loan or refinancing are costly (prepayment entails a penalty, capped by law at 3 percent of the remaining principal); thus, significant changes in inflation or credit rates are needed to see owners renegotiate. Also, defaulting on a loan results in a stigma that prevents future borrowing. In contrast, in the USA, refinancing is common, and defaulting can be a genuine part of the buyers' strategy. Most importantly, loan durations are shorter in France (the standard duration is about 15 years) than in the USA. As a consequence, whereas in the USA the monthly mortgage repayment (for a 100 percent loan-to-value ratio) would only slightly exceed the monthly rent for the same house, in France the difference is huge. This creates a barrier to ownership for low-wealth households (i.e., those needing high loan-to-value ratios). Hence, borrowing constraints may be more important in France than in the USA.
- A greater development of the secondary market for mortgages in the USA.
- US tax policy, which is more favorable to owners, in particular through mortgage interest tax deduction (see below).

The construction-subsidized rental sector (mainly the HLM, *habitation à loyer modéré*) accommodates 17 percent of households in France. Less than 2 percent of US households live in Public Housing and even fewer in privately owned subsidized property. The "market share" of the HLM sector has been steadily increasing over time, both in absolute and relative terms. This is the consequence of both new construction (100,000 units per year between 1954 and 1984, and still 50,000 since), and the crisis of the private rental sector during the 1970s and the 1980s. Nearly half of the renters now live in a HLM.

While the private rental market is liberalized in most of the USA (700,000 units are still rent controlled), it is subject to "tenancy rent control" in France. This type of control allows landlords to set the rent freely when a new tenant moves in, while annual rent changes for sitting tenants are limited by a national index. This chapter does not deal further with rent control. However, it is important to keep in mind that it can affect housing supply and demand, and that it also raises

**Table 10.1** Housing tenure modes in France and in the USA

	<i>France, 2001</i>		<i>USA, 2001</i>	
	<i>Number of households (thousands)</i>	<i>%</i>	<i>Number of households (thousands)</i>	<i>%</i>
<i>Owner</i>	13,796	56.3	72,265	68.0
Outright owner <sup>a</sup>	8,654	35.3	27,258	25.7
Mortgagers	5,142	21.0	45,007	42.4
Subsidized mortgager <sup>b</sup>	2,168	8.8	9,820	9.2
Other mortgager	2,974	12.1	35,187	33.1
<i>Renter</i>	10,729	43.7	33,996	32.0
Public housing <sup>c</sup>	4,231	17.3	1,861	1.8
Rent control <sup>d</sup>	246	1.0	710	0.7
Private-sector renters <sup>e</sup>	5,226	21.3	29,224	27.5
Free dwelling	1,027	4.2	2,201	2.1
<i>All</i>	24,525	100.0	106,261	100.0
Number of renters getting direct subsidy (thousands) <sup>f</sup>	4,819		4,448	

<sup>a</sup> France: includes 72,000 farmers. USA: sum of "owned free and clear" and "line of credit, not reported, no regular or lump sum."

<sup>b</sup> France: subsidized low interest rate in France (1,886,000), or direct subsidy (729,000). USA: "state or local program used" (3,791,000) or "federally insured loans" (8,605,000 FHA, VA, and RHS/RD loans), excluding overlap, but excluding the 32,100,000 who deduct their mortgage payments for income tax.

<sup>c</sup> HUD reports only 1.274 million units of public housing: some households misreport themselves in public housing in the American Housing Survey. They are likely to be in the private sector and applying for vouchers.

<sup>d</sup> France: first-generation rent control only.

<sup>e</sup> France: second-generation rent control, and including 396,000 (uncontrolled) furnished or sublet.

<sup>f</sup> France: Comptes du Logement, table 5.3. This table does not include 572,000 renters in institutional units, whose subsidies are included in Table 10.2. USA: American Housing Survey, table 2-8, rent reduction, "Government subsidy" + "Other, income verification," excluding "Subsidy not reported." The subsidies include the rental assistance program and direct loan programs for reduced cost housing. According to Table 15-30 of the Green Book (2000), there were 5.051 million assisted renters in 2000, among which 1.621 million received Section 8 certificates and vouchers.

Sources: Authors' compilation from the INSEE Housing Survey, 2001-2; American Housing Survey, 2001



redistribution issues (see Basu & Emerson 2000). Lastly, tenant protection is higher in France than in the USA: it costs both time and money to get rid of a tenant. Under regular circumstances, the landlord cannot force a tenant out during a lease, unless she wants to occupy the dwelling herself or have a child or a parent occupying it, or if she wants to sell.

We now describe the main features of the French programs of low-income housing subsidies, underlining the differences with their US counterparts.

### 10.2.1 The construction-subsidized rental sector

The construction of rental housing is subsidized by low-interest loans (a special financial circuit, the so-called *Livret A*, is based on a tax-free savings program) and tax favors (similar to the US Low Income Housing Tax Credit, LIHTC). In the USA, only privately owned new projects are now financed, and there is no more construction of public housing.

The French HLM system is close to US public housing. As a rule, existing units remain in the system forever. They are owned by local companies (Local Housing Authorities in the USA, *Offices Publics d'HLM* in France). In France, these companies are considered as private, in the sense that rents must cover operating costs. In recent years, in both countries, the government has contributed to rehabilitation, maintenance, and sometimes demolition of public housing.

But there are important differences. First, eligibility (based on income and family composition conditions) is such that some 65 percent of households are eligible in France, while public housing is clearly earmarked for the poor in the USA. In both countries, only a small fraction of eligible households are able to enter.

Second, the attribution procedure is not the same. In France, local HLM agencies share the power of allocating the dwellings with the local elected municipality, the local administrator from the central government (the *préfet*), and a body representing firms contributing to the funding of construction by a compulsory tax. Each organization is granted a quota of the vacated or newly built units, and decides who is to occupy them. To enter HLM, households must register at one of the organizations that are granted quotas. The demand then follows a queuing process, which is opaque for the household, since there is no common criterion for admittance. The wait may last for months, and frequently for more than a year (the average wait, for those who succeed, is 10 months in France versus 11 months in the USA). Offers consist of a particular dwelling (the size of which depends on family composition) at a particular rent. The only degree of freedom for the household is to accept the package, or refuse it and go back into the line.

On the exit side, there is no legal possibility of eviction of a HLM tenant who has turned to be noneligible due to increased resources. As a result, the French public sector houses many households who would no longer be eligible for entry. This has been recognized as a problem, and a law has instituted a rent supplement for those whose resources are above the limit. But HLM agencies are faced



with the hard choice of keeping “good” (rich) tenants at base rent or making them pay more at the risk of trading them for low-income tenants who might not pay their rent regularly. In practice, rent supplements are levied only on a small fraction of tenants.

The third difference is rent fixation. In both countries, rents are well below the market levels. But while in the USA rents are set as a proportion of the household income adjusted for family composition (generally 30 percent), HLM rents in France are fixed independently of income. HLM companies are free to set the rent below a ceiling value per square meter, set by law according to broad geographical zones and dwelling size, and annual changes are regulated.

### 10.2.2 Direct rental housing subsidies

Direct rental housing subsidies (called allowances in France, and vouchers or certificates in the USA) are means-tested benefits, covering part of housing expenses of renters who are free to choose where to live. In the USA, the system of Section 8 vouchers is as follows. Expenses above 30 percent of income (adjusted for family composition) up to either a local “fair market rent” or the actual rent, whichever is lower, are met by the voucher. If  $R$  is the rent,  $\bar{R}$  is the “fair market rent,” and  $Y$  is the adjusted income, the housing allowance  $S$  is generally of the following form:

$$S_{USvoucher} = [\min(R, \bar{R}) - 0.3Y],$$

where  $0.3Y < R$ . The rent has to be below the fair market rent. In some areas, the fair market rent is so low that as many as one-third of recipients seem unable to find housing, and thus have to do without the subsidy (Department of Housing and Urban Development [HUD] 2001, quoted by DiPasquale et al. 2003).

In France, and in other continental European countries, there is a minimum participation rent (a deductible  $R_0(Y)$ ), increasing with adjusted income, above which part of the rent is met by the allowance, up to a ceiling:

$$S_{France} = k(Y)[\min(R, \bar{R}) - R_0(Y)],$$

with  $0 < k(Y) < 0.9$ ,  $k' < 0$  (the lower the income, the higher is the part of the rent covered by the subsidy). The ceiling rent,  $\bar{R}$ , increases with family size, but is not computed at the MSA level, as in the USA, and varies very little with location (basically there is a ceiling for Paris, and another, lower, ceiling for the rest of France).

Another difference is that housing subsidies are an entitlement in France, whereas only a third of all eligible low-income households receive them in the USA. As many as 45 percent of French renters are helped, versus 13 percent in the USA, and the subsidy covers on average half the rent. Besides, nearly half of the French public housing tenants benefit from a rental subsidy, on top of the low HLM rent.



### 10.2.3 Help to homeownership

Some 42 percent of French owner-occupiers are helped either by a direct subsidy covering part of the mortgage payment (similar to the rental subsidy described above), or by loans at low rates, or by both (Table 10.1). Also, France has for a long time had a system of contract savings for housing (called *Epargne Logement*). This offers participants the right to obtain a loan at a predetermined rate, after they have completed a compulsory 5-year period of saving. Savings earn interest at a predetermined below-market rate. The amount of the loan depends on the savings in a complicated way. The parameters of the system are such that the loan is generally not sufficient to buy a house and households have to apply for other credits to complement it. In 2002, for those who used it, *Epargne Logement* loans covered, on average, half of the borrowed amount. The importance of *Epargne Logement* has been declining: it now accounts for one-fifth of all housing loans, versus one-third in 1996. For a thorough description of the French system of contract savings and its German counterpart (the *Bausparkassen* system), readers should refer to Lea and Renaud (1995).

Before the mid-1990s, help to low-income homeowners was mainly achieved through government-provided loans, called PAP (*Prêt d'Accession à la Propriété*) and PC (*Prêt Conventionné*). Between 1977 and 1984, nearly 60 percent of the new mortgagors benefited from them and the ownership rate increased markedly. Their success can be attributed to the fact that the high inflation of the period made real interest rates negative. From 1984 on, the situation changed. Inflation fell, but not the interest rates of the PAP and PC. Thus, real interest rates increased sharply. The private credit system was able to propose loans at lower rates than subsidized ones.

The main problem for low-income families was then perceived to be their risk of default, and of borrowing constraints, as private lenders became more restrictive. At the end of 1995, the PAP was replaced by the *Prêt à Taux Zéro* (PTZ). The PTZ is an interest-free loan, granted to first-time buyers to complement their other credits. Eligibility to a PTZ is means-tested. The maximum loan increases with family size, and varies with the geographical zone. It cannot exceed 20 percent of the purchase value and 50 percent of the total credit. For the lowest income brackets, the PTZ can be paid back only after all other loans are totally repaid. Thus, it can be considered as a down payment subsidy. The program has been designed so that mainly households buying a new dwelling can apply, since an existing dwelling has to be renovated for at least 40 percent of its price to be eligible, which rules out most of them. About 600,000 households have benefited from the PTZ between 1996 and 1999, about 35 percent of the flows into ownership over this time period. The average amount of a PTZ was around 15,000 euros.

Direct subsidies to mortgagors are rare in the USA. The federal government encourages homeownership by setting common standardized rules for mortgage requirements, offering insurance on loans for low-income households (FHA loans in particular), and encouraging the development of secondary markets for



mortgages through federal agencies such as Fanny Mae and Freddie Mac. There are also state and local programs for low-cost mortgages (Table 10.1). But the main feature is the tax deduction of mortgage interest from taxable income, which benefits three-quarters of American mortgagors. Such deduction is gradually disappearing in France, as it was suppressed for new loans after 1996.

### 10.2.4 Some macro figures

It should be clear by now that some policies known under similar names in France and the USA differ somewhat in their goals, schedules, and practical implementations. Those differences should be kept in mind when looking at macro figures such as those of Table 10.2, which compares public spending on housing in France and in the USA. Besides, in both countries homeowners are not taxed on rental income from their own home, and this is not counted as a tax advantage in official figures.

- The USA relies more on indirect subsidies (e.g., the interest deductibility provision for homeowners) than on direct subsidies. The reverse is true for France.
- Overall, 36 percent of French households either get rental subsidy, public housing or a subsidized loan, versus only 15 percent in the USA. Due to the importance of the public sector in France, 65 percent of renters benefit either from low rents in HLM dwellings or from personal housing subsidies, or from both. In the USA, the corresponding figure is only 19 percent.
- Direct rental subsidies represent €457 per household per year in France, versus \$164 in the USA. However, because the proportion of recipients is far smaller in the USA, average subsidies per recipient are 70 percent higher there than in France.

The rest of the chapter concentrates on the economic effects of specific housing policies.

## 10.3 THE HLM

Most of the questions raised by the existence of the HLM are standard. But their relative importance may differ from the case of the USA, because of the high share of HLM in the total housing stock. The main issues are the following:

- 1 Is it more efficient to subsidize construction or to give households personal subsidies? A related question concerns the extent of the crowding out of private construction by public housing.
- 2 Does the existence of an important public sector affect rents in the private sector? In other words, do private-sector tenants pay higher rents because of HLM?
- 3 What is the benefit of a below-market rent to a social housing tenant? How does a renter living in public housing change her housing consumption and

**Table 10.2** Public spending on housing, France and the USA

Public spending	France, 2000		USA, 2001	
	€ billions	%	\$ billions	%
Direct (subsidies) <sup>a</sup>	17.68	71.3	34.90	22.4
Including direct allowances to renters <sup>b</sup>	11.20	45.2	17.44	11.2
Indirect (tax expenditure) <sup>c</sup>	7.11	28.7	121.10	77.6
Total	24.79	100.0	156.00	100.0

	France (€)	USA (\$)
Direct allowance per household	457	164
Direct allowance per beneficiary household	2,324	3,922
Direct allowance per renter	1,044	513

	France	USA
Percentage of renters getting direct subsidy	44.9	13.1
Percentage of renters getting direct subsidy or public housing	65.3	18.6
Percentage of households getting direct subsidy, public housing, or subsidized mortgage	36.3	15.2

<sup>a</sup> France: Comptes du Logement (2000), table 5.2. USA: Green Book (2000), table 15–32.

<sup>b</sup> France: *aides personnelles*, including administrative costs (Comptes du Logement 2000, table 312, “*locatif social*” + “*locatif privé*”). USA, from table 15–32 of the Green Book (2000): Section 8 Low-income housing assistance, Section 202/811 Housing for the Elderly and the disabled, Section 236 Rental Housing Assistance, Rent Supplement, Section 235 Homeownership Assistance. This last item should be removed, but the amount is unknown (43,000 households are concerned).

<sup>c</sup> France: the difference between “*aides effectives*” (Comptes du Logement 2000, table 5.2) and “*avantages conférés*” (table 5.1); that is, tax and interest rate advantages. USA: National Low Income Housing Coalition, *Changing Priorities: The Federal Budget and Housing Assistance 1996–2006* (2001).

Sources: Comptes du Logement (2000); Green Book (2000)

her consumption of other goods, as compared to living in the private rental sector?

- 4 A related question concerns the targeting of the transfers occurring through HLM. Do public social housing benefit the poorest households?



- 5 Is public housing a mobility trap, with the adverse consequence of spatial mismatch between jobs and housing?
- 6 What are the consequences of the impossibility of expelling rich tenants from HLM?

Empirical studies on those questions are but a few, especially in France. The answer to question 1 on efficiency in the production of housing services is deferred until section 10.4, on rental subsidies. Let us just mention that, historically, there was an efficiency reason for creating HLM. In a time of acute shortage, when private financing was lacking, HLM companies were supposed to build new housing faster and more efficiently than private developers. Actually, since maintenance costs were to be borne by the HLM companies, they had an incentive to build high-quality housing that would be less costly to maintain, all the more since capital costs were subsidized. No empirical evidence on this topic is available for France. In the USA, there is some evidence that public-sector housing was costly to the taxpayer. Note, however, that because of the trade-off between initial quality and maintenance costs, such results can be misleading if costs are not assessed over the long term.

The fact that the existence of a controlled public rental sector may affect prices in the uncontrolled rental sector (question 2 on price distortion) has been recognized from some time (Fallis & Smith 1984), but empirical evaluations of the impact have been relatively rare (see, e.g., Fallis & Smith 1985). At the micro level in the area of the Paris outskirts, the presence of HLM seems to depress the free sector prices in the same area, through a “bad neighborhood effect,” but no evidence exists on the overall effect of the HLM on the private-sector rents at the agglomeration (MSA) level. This lack of empirical results is particularly detrimental in the French case, because the quantitative importance of the public housing sector is likely to induce changes in the aggregate demand for housing and spillovers from the controlled to the uncontrolled sector.

### 10.3.1 The mobility trap

The huge rent differential between the private and the public sectors, as well as the conditions of admittance into and exit from the HLM sector, are likely to cause “mobility traps” (question 5). Households living in HLM and facing adverse shocks on the labor market will not find it profitable to move away to find a job, because they would have to give up HLM rents and subsidies and face the private-sector rents to relocate (moving to another location means going back to the end of the queue). The problem is exacerbated by the spatial concentration of HLM. In the 1960s and 1970s, some areas were entirely made up of public apartment buildings. Together, those facts could lead to acute spatial mismatch problems. No empirical evaluation of the importance of this mobility trap exists. It would require relating transitions on the labor market to transitions on the housing market. But since such transitions are rare, very large samples would be needed.



### 10.3.2 Transfers to HLM tenants

To answer questions 3 and 4, on the value of transfers to HLM tenants, we follow Le Blanc and Laferrère (2001), who used the model and estimation strategies of Olsen (1972), studying rent control in New York City. The model is a static, partial equilibrium model, with two goods, housing service and a composite good assimilated to the numeraire, and three markets, the controlled market for housing services (the public sector), the free market sector for housing services, and the market for nonhousing goods. The last two markets are assumed to be perfectly competitive. An important assumption is that the existence of a public sector has no influence on the rents of the private sector (question 2 is assumed away).

Denote by  $p_s(p_m)$  the unit price of housing service in the public sector (in the private sector). Suppose (as is empirically true) that  $p_s < p_m$ . Let  $U(c, q)$  represent the preferences of a household over consumption and housing, let  $v(p)$  be the associated indirect utility function, and let  $x$  be the household's income. If the household lives in the private sector, it consumes a quantity  $q_m$  of housing service and a quantity  $c_m$  of the composite good. These quantities are the Marshallian demands arising from the maximization of utility under the budget constraint  $x = p_m q_m + c_m$ , yielding utility level  $v(p_m)$ . If the household lives in the public sector, it consumes a quantity  $q_s$  of housing service, and a quantity  $c_s$  of the composite good, with budget constraint  $x = p_s q_s + c_s$ . It reaches utility level  $u_s \equiv U(c_s, q_s)$ . Note that  $q_s$  is not freely chosen.

The "benefit" of a HLM tenant can be computed as the compensating variation; that is, the maximum amount that she would be willing to pay to avoid moving to the private market sector. This quantity (denoted  $A$ ) is implicitly defined as follows:

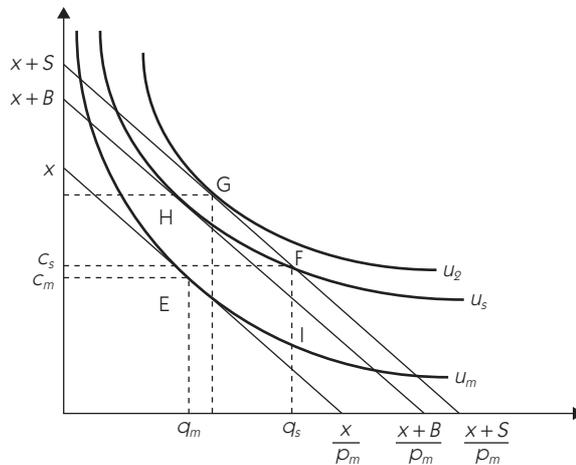
$$U(c_s - A, q_s) = v(p_m). \quad (10.1)$$

Alternatively, one can compute an equivalent variation (denoted  $B$ ), as the amount a private-sector tenant would need to be as well off as a HLM tenant. If  $e$  denotes the expenditure function associated with  $U$ ,  $B$  is defined as follows:

$$B = e(u_s, p_m) - x. \quad (10.2)$$

Inefficiency arises because HLM tenants are not on their demand curves: the only arbitrage for them is to compare their utility levels in the public sector (where the quantity is fixed but the rent is low) and in the market sector, where they are able to adjust the quantity of housing service. Denoting by  $S = (p_m - p_s)q_s$  the transfer made to HLM tenants in the form of low rents, the collective surplus loss can be measured by  $S - A$  or  $S - B$ . Figure 10.1 depicts the situation (see also Olsen & Barton 1983).

To estimate the importance of the implicit transfers to HLM renters, two quantities have to be computed for each tenant: the private market rent of his dwelling



**Figure 10.1** The HLM: the household's utility functions and the Hicksian surplus. A private-sector renter with income  $x$  is located at point **E**. The HLM tenant is located at point **F** and reaches utility level  $u_s$ . For the HLM landlord, the loss resulting from renting the dwelling below the market price is equal to  $S = q_s(p_m - p_s)$ . Were he given this sum in the form of a cash subsidy, the HLM tenant could reach utility  $u_2 > u_s$ , locating at point **G**. To reach the utility level  $u_s$  in the private sector, the household would only need the additional income  $B < S$ ; it would then locate at point **H**.  $B$  is the equivalent variation. The welfare loss is then equal to  $S - B$ . Next, consider the point **I**, defined by the intersection of the vertical line from point **F** with the indifference curve  $u_m$ . The maximum amount that the HLM tenant would be willing to pay to stay in the HLM sector,  $A$ , is given by the length of segment **IF**.

on one hand – that is,  $p_m q_s$  using our notation – and the quantity of housing the tenant would choose in the private rental sector,  $p_m q_m$ . The simplest way to achieve this goal is to estimate two regressions on private-sector dwellings or tenants. The first relates the market rents to the characteristics of the dwellings, and the second explains housing expenditures in the private sector as a function of the renters' characteristics. The parameters of the first regression are used to compute a free-market rent for each dwelling in the social sector. The parameters of the second model are used to predict housing consumption for social-sector tenants.

Empirical estimates from Le Blanc and Laferrère (2001), conducted on a sample from the 1996 French Housing Survey, indicate that public-sector tenants consume 10 percent more housing services and 11 percent more of other goods than they would in the private sector. The collective surplus loss due to these transfers is 8 percent of the transfers. In New York City in the 1960s (Olsen & Barton 1983), the corresponding figures were 66 percent in housing consumption and 17 percent in nonhousing consumption. Perhaps the closest analogue to New York in

**Table 10.3** The gain in housing service and in nonhousing consumption of HLM tenants, by income and location

Decile of equivalent income	Paris metropolitan area		Other regions	
	Gain in housing service (%)	Gain in nonhousing consumption (%)	Gain in housing service (%)	Gain in nonhousing consumption (%)
1	21	49	18	15
2	15	28	12	12
3	17	20	12	9
4	13	18	9	8
5	12	19	9	8
6	11	16	6	7
7	14	14	3	7
8	5	12	0	7
9	2	10	-7	5
10	-7	8	-26	5
Total	10	15	9	9

Source: Le Blanc and Laferrère (2001)

France is the Paris metropolitan area, where the corresponding figures are 10 percent and 15 percent (see Table 10.3). The differences with New York City may stem from different compositions of the public housing populations. In particular, the Parisian HLM residents are not particularly poor: 52 percent have an income above the median income of the whole French population. The relative gains are more important for the poorest households.

### 10.3.3 Redistribution and horizontal equity

For HLM tenants, the gain in housing services decreases as income increases, to reach zero at the ninth decile. However, the relative gain in nonhousing consumption decreases only slowly with income; it is around 8 percent for the three highest deciles (Table 10.3). For the richest tenants, the only effect of HLM is to allow them to consume more of nonhousing goods (Table 10.3). They live in dwellings equivalent to those that they would choose in the private market sector. This gives them the opportunity to build up a down payment to finance a future home purchase. The collective transfer to households living in HLM, through below-market rents, benefits the lowest income renters more (in relative values). Those in the first income decile gain 17 percent of housing service and 21 percent in consumption of nonhousing goods; up to the fifth decile, the consumption gains are above 10 percent, both for housing and nonhousing



consumption. In that sense, the public sector fulfills its role to help low-resource households, allowing them to live in bigger apartments than in the private sector, while consuming more of other goods.

However, the targeting to the poor is quite loose: 45 percent of the public housing surplus goes to households whose income (adjusted for family composition) is above the median. By comparison, direct rental allowances, which in France are also granted to eligible public housing tenants, are better targeted: 95 percent go to the poorest half of the population.

From the point of view of horizontal equity, some low-income households have easier access to the HLM sector than others. Most of the HLM accommodation was built in the 1960s and 1970s for families with children, who constituted the bulk of the low-income households. The existing stock is thus not well suited for part of the new low-income population, which frequently consists of single persons. They have to live in the private sector, where rents are much higher.

### 10.3.4 Access to and exit from the HLM

The impossibility of expelling rich HLM tenants obviously has adverse consequences on the ability of HLM to house the poor, since fewer dwellings are available. But it also has implications on the spatial concentration of the poorest populations. Indeed, upper-class households, who could afford to live in the private sector, are induced to leave the public sector if their apartment is located in a “bad” neighborhood, whereas they will stay in a well-located apartment. Thus, public-sector apartments that are vacated and offered to new (poor) tenants are mainly located in the worst neighborhoods. This, added to the segregative policies of some HLM companies (which can be seen as a sorting between “good tenants,” to be put into the good dwellings, and “bad tenants,” to be put into the bad dwellings), makes concentration of the poor a problem in many French cities.

## 10.4 PERSONAL HOUSING ALLOWANCES: THE EXAMPLE OF THE FRENCH PRIVATE RENTAL SECTOR

Housing allowances were developed at a time when project-oriented policy was criticized for its inefficiency (high maintenance costs), for the fact that it was not targeted to the most needy, and when the main problem was no longer a housing shortage but affordability, and the concentration of low-income households in zones of high public housing density.

As has been shown above, personal allowances are better targeted to low-income households than public housing. We discuss three main questions:

- 1 Are direct housing allowances more cost-efficient than project-oriented subsidies?
- 2 How are housing allowances “shared” between low-income households and landlords? Did housing allowances increase rents in the private sector?





### 3 Do personal housing allowances allow low-income families to consume more housing?

Unfortunately, the empirical evidence on these questions is very scarce in the French context.

#### 10.4.1 Comparing costs

There has never been an assessment of the long-term costs of direct housing allowances compared to project-oriented construction subsidies in France. In the USA, vouchers seem more cost-effective than production programs. DiPasquale, Fricke, and Garcia-Diaz (2003) compare total costs over 30 years of currently active production projects (such as LIHTC) and rental subsidy such as vouchers. The total cost of a voucher is the present discounted value of rents (paid by both the voucher and the assisted household) plus the administrative cost of the program. For production programs, the market rents do not cover total costs, so total cost is the sum of the present discounted value of rents and construction subsidies (below-market interest loan, tax credits). The production program appears to be less efficient. For instance, for two-bedroom units in metropolitan areas, the construction program would cost from 6 percent to 14 percent more, depending on the program.

In France, the focus has been on the huge and expanding cost of personal housing allowances, which was largely unforeseen at the time when the program was created, in 1977. One of the reasons for the drift in costs is the rise in the number of eligible households, which matched the rise in unemployment and in single-parent families. As personal housing subsidies are an entitlement, the number of beneficiaries rose mechanically in response.

#### 10.4.2 Effect on rents

Textbook economics predicts that a direct *ad valorem* subsidy to a consumption good increases demand and pushes up prices. A subsidy reduces the price of housing, compared to other goods. The magnitude of the extra consumption depends on how consumers choose to allocate the extra income between housing and other goods. Another effect of the subsidy is to induce the formation of new households: for instance, children may now choose to live independently from their parents. Note that if they already lived independently but the parents were covering part of the expenses, the latter are the true beneficiaries of the subsidy.

In response to a higher demand, supply reacts. In the short run, it is probably rather rigid, except in areas with high vacancy rates. An increase in demand translates into higher rents, and the only beneficiaries may be the landlords who rent the same dwellings at a higher price. In the longer run, new dwellings are constructed or renovated, and rents settle at a new equilibrium.

The first assessments of the effect of vouchers on prices, following their introduction as an experiment in very limited areas of the USA, did not conclude that there was any effect on rents. However, Susin (2002), using spatial differences in



the distribution of vouchers in 90 US metropolitan areas, finds that rents for the poor are 16 percent higher where vouchers were more widely distributed. He attributes this to the very low supply elasticity of low-income housing and the segmentation of housing submarkets. There is no effect of vouchers on rents on the middle- or upper-income submarkets. But the increase in demand following the receipt of a voucher is not matched by an increase in supply at the lower end of the market, where subsidized and nonsubsidized eligible households compete for the same dwellings. Susin concludes that vouchers have been a huge transfer to landlords and a net loss to low-income households, where the recipients benefited and the nonrecipients were worse off.

In France, Laferrère and Le Blanc (2004b), using quarterly panel data on rental dwelling units, prove that landlords charge higher rents to subsidized renters than to nonsubsidized ones. Thus, landlords pocket part of the subsidy. Due to this behavior, when the number of recipients went up from 1.9 million to 3.1 million as the coverage of personal housing subsidies was extended in 1992, the rents of dwellings occupied by subsidy recipients grew at a faster rate than those of units occupied by nonsubsidized tenants. However, the study does not measure the overall impact of personal subsidies on rents.

### 10.4.3 The effect on housing consumption

Given the effect on prices, do recipients consume more housing services than nonrecipients? Susin (2002) clearly answers in the negative for the USA. It is probable that the adverse effect on poor households found by Susin is less severe in France, for two reasons. First, personal housing subsidies are an entitlement, so all low-income families benefit, and not only those lucky enough to be at the top of the waiting list. The second reason is more hypothetical: there are reasons to believe that housing submarkets are less segmented in France, so that the supply response to housing allowances might be higher. We can only present one casual example: in 1992, personal housing subsidies were extended to students, regardless of their parents' income. The supply response seems to have been fairly high in that case. Between 1988 and 1996, the proportion of students living independently rose dramatically, from 28 percent to 40 percent. Among those living independently, the proportion of those sharing a home decreased from 26 percent to 16 percent. On this topic, see Laferrère and Le Blanc (2004a).

More generally, do subsidies increase total housing consumption? Sinai and Waldfoegel (2002)  whether markets with more public housing or more vouchers per capita have more total housing units per capita, after accounting for other potential determinants of the number of housing units. As in the case of Murray (1999) before them, they point to an important crowding out of private-sector units by construction-subsidized units: three to four public units are needed to add one net unit, thus crowding out two to three private units. Tenant-based allowances seem more effective than project-based programs at targeting units to people who otherwise would not have their own, the crowding out being much less.



Overall, it would seem that personal housing subsidies are both more efficient and cause less harm to private construction than construction subsidies. But note also that, according to both Murray and Susin, very low income households do not find adequate housing on the market: vouchers are not enough if there are no available affordable houses on the market, and subsidized construction is then needed.

## 10.5 AN UPFRONT DOWN PAYMENT SUBSIDY TO OWNERS: THE PTZ

A policy of loan subsidy such as the *Prêt à Taux Zéro*, described in section 10.2.3, raises many questions. It is convenient to start from a stylized demand model of mobility and tenure choice, in which borrowing constraints are explicitly introduced. In such a model, exogenous shocks on family size (divorce, marriage, births) and income make adjustment in the owned or rented housing stock desirable. The only way to adjust is by moving, but moves are costly. The distortion between the current stock of housing capital and the optimal one must be large enough for the family to move. When moving, the households choose between renting and owning. For unconstrained households, the choice relies on the comparison of the rent and the user cost of housing capital. But borrowing constraints can prevent low-wealth households from purchasing the desired type of housing stock, whereas they can choose optimal quantities in the rental sector.

In this framework, it is clear that borrowing constraints not only affect the rental/ownership trade-off, but also have an impact on mobility. The PTZ relaxes the borrowing constraints, shifting up the utility associated with moving and owning and making both alternatives (staying, and moving and renting) less attractive.

The following questions can be asked:

- 1 What is the impact of the PTZ on the flows into ownership?
- 2 Where do the "marginal" owners (i.e., the households induced to move-and-own at any period by the PTZ) come from? Would they have stayed in their current dwellings, or would they have moved and owned in the absence of the PTZ?
- 3 Is the program well targeted? What proportion of households using the PTZ would have moved and owned even without it?
- 4 What is the impact of the program on the quality of housing construction?
- 5 Does the program have any long-term effect on the ownership rate, or is it just making the same households own earlier in their life cycles?

Two other important questions would need to be addressed, and would necessitate going beyond a demand model:

- 6 What is the effect of the PTZ on housing prices?
- 7 What is the impact of the program in terms of total welfare?





It would require many empirical studies to answer all of the above questions. Oddly enough, it is difficult to find any study of the PTZ on microdata, even though the program started 7 years ago. The first paper to address some of the issues on the basis of a microeconomic study is Gobillon and Le Blanc (2002).

The model allows the simulation of changes on parameters that affect the maximum house value that households can afford, which depends on maximum loan-to-value ratio (LTV), and maximum payment-to-income ratio. The PTZ, which is roughly equivalent to a down payment subsidy, decreases the amount that the household has to borrow and thus benefits mostly households for whom the LTV constraint is binding.

The model predicts that in 4 years, the PTZ would have benefited 533,000 households. Since it does not take into account the restriction of the PTZ to new dwellings (see section 10.2), and since a large proportion of mover-owners choose to buy old dwellings, this number must be a loose upper bound for the real one. From the Ministry of Housing, the real figure for the four years 1996–9 on a comparable field (former HLM renters excluded) is 423,000. Among beneficiaries, the PTZ induced nearly 75,000 households to turn to ownership: 70 percent of these would have been stayers without the PTZ, and only 30 percent would have moved and rented without it. Thus, the PTZ acts as an “ownership accelerator” for renters who otherwise would have waited in their current dwellings, accumulating savings until they could meet the borrowing constraints. However, we are unable to say whether the PTZ just accelerates accession to ownership for households that would become owners in any case, although perhaps later in their life cycles, or whether it induces durable switches to the ownership sector (question 5).

Judging the efficiency of the PTZ only by its effects on the flows into ownership, one would conclude that it suffers from a huge “windfall effect,” since 85 percent ( $1 - 75/533$ ) of the recipients would have chosen to move and own at the same date without it. This figure is in line with other evaluations that have been made by the French Ministry of Housing, using different approaches. However, another goal of the PTZ was also to allow constrained households to buy larger dwellings. Overall, the response of the mean purchase value of “mover-owners” to a loosening of the borrowing constraints is the sum of two effects: on the one hand, households that would have moved and owned in the benchmark case continue to turn toward ownership, but buy more expensive dwellings. On the other hand, some households that would not have chosen ownership now decide to move and own. These marginal owners are less wealthy than supramarginal ones, and buy cheaper dwellings. Which effect dominates is an empirical matter. Gobillon and Le Blanc (2002) find that implementing the PTZ leads to a *decrease* in the average purchase value.

Considering that the PTZ is used only for new dwellings, one possible interpretation of this last result is that the PTZ might have led to the building of cheaper (i.e., lower-quality) dwellings than would have been the case without the policy. Another interpretation is in terms of location: as the price gradient declines with the distance to city centers, lower values could signal construction in the outermost suburbs. This is in line with factual observations of entire



neighborhoods of “PTZ homes” being built by developers in newly urbanized areas far from the centers. Strictly speaking, however, the model does not allow a choice between these two interpretations, because neither quality nor space is explicitly modeled. Qualifying those potential explanations could have important consequences. One might fear that new construction farther from city centers would increase the risk of spatial mismatch. This is especially relevant because the PTZ beneficiaries are among the less wealthy of owners, and thus are more exposed to shocks on income.

At this point, we have some answers to questions 1, 2, 3, and 4. No empirical result is known concerning the impact of the PTZ on housing prices (questions 6 and 7). However, it is commonly believed that this impact was sizeable. One reason is the segmentation of the housing market. Only relatively poor households use the PTZ, so that “PTZ homes” are a separate product aimed at the lower end of the market. The PTZ then becomes a rent, of which developers get some part, reflected in higher housing prices. When the above model is used to simulate a uniform extra rise of 5 percent of housing prices (which seems modest for a 4-year period), the effects of the PTZ on the flows of owners are halved. A 12 percent rise totally annihilates the extensive effect of the PTZ on flows to ownership. Therefore, the results presented above must be taken as an upper bound for the effects of the PTZ.

## 10.6 CONCLUSION

We have examined the main French housing subsidy programs and looked at their targeting to low-income households. We have argued that personal housing subsidies are better targeted than public housing. However, they push rents up, so that their overall effect on welfare is not clear. Concerning help to homeownership, the PTZ program has sizeable effects, but generates huge wind-fall gains. As emphasized in the Introduction, it would be important to go beyond the analysis of particular housing policies and consider their interactions with the whole welfare system. A good example is labor supply. Presumably, as argued above, the low rents in HLM constitute a poverty trap. The same could be said of personal housing subsidies: since they decrease with income, they constitute an implicit taxation of the household’s work and thus tend to reduce labor supply. But these programs interact with others that are directly linked to the job market, so that examining, say, the effect of the sole HLM on labor supply makes little sense.

Space permitting, it would have been worthwhile to look at the other side of the coin; that is, to start from low-income households and assess how well (or how badly) housing policies perform. Perhaps the main preoccupation of recent housing policy both in France and in the USA is the effect of neighborhood externalities on outcomes. There is an increasing awareness that a dwelling is not only a place to live, but comes with a package of public goods, such as schools, peers, and community life. In France, a rather extreme way to achieve “social diversity” was a law passed in 2000, which prescribes a standard of 20 percent of



public housing for every community. Communities not meeting this threshold must pay taxes that are redistributed among the communities of the same MSA that have the highest shares of public housing. Interestingly, many rich communities prefer to pay the tax than build any public housing units. This has happened in a context in which hardly anything is known of the effects of the presence of low-income households in a neighborhood.

In the USA, experiments such as the Moving To Opportunity program, which consisted in giving housing vouchers to randomly selected public housing families to allow them to relocate, have given rise to a growing body of literature. No clear-cut conclusions seem to emerge. In Boston, Katz, Kling, and Liebman (2001) found that some outcomes are definitely better for relocated households (improved health, increased safety, reduction in male children behavior problems), but others are unaffected (employment, earnings, welfare receipt). Looking at public housing demolition in Chicago, Jacob (2003) shows that children who left after a demolition do no better nor worse than peers who did not move out. In fact, many families moved to very similar neighborhoods, and children did not end up in significantly better schools. Clearly, large-scale and long-term random experiments remain to be done, but are hard and costly to implement.

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