Direct Rental Assistance: Returning to the Roots of Housing Allowances

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Abstract

At $30 billion in expenditures annually, the Housing Choice Voucher program is the federal government's largest rental housing assistance program. Although seen as highly successful in many ways, the voucher program suffers from three interrelated challenges: the program imposes high administrative burdens on recipients, landlords, and housing authorities; many recipients are unable to successfully use their vouchers to rent homes after waiting years to receive them; and program rules distort behaviors in ways that undermine the program's goal of leveraging market efficiency. Amid interest in reforming or expanding the voucher program, this article considers whether and how providing the voucher rental subsidy directly to the recipient might mitigate those challenges. It outlines a set of design considerations for such a program and proposes a demonstration that could inform both voucher reforms and a direct rental assistance program.

Introduction

The Housing Choice Voucher (HCV) program is the federal government's largest rental housing assistance program, spending approximately $30 billion each year to support 2.3 million low-income households. However, when Congress appropriated an extraordinary $46.5 billion for emergency rental assistance in response to the COVID-19 pandemic, funds were not sent through the HCV program. Instead, the Emergency Rental Assistance (ERA) program was administered by the U.S. Department of the Treasury (Treasury), presumably in the hope that the funds might flow faster. Initially, ERA payments went to the landlord on behalf of an eligible renter, following the HCV model, but when local program administrators had trouble disbursing funds—partly due to the challenge of reaching landlords and persuading them to participate—Treasury officials adjusted program guidelines to allow payments to be made directly to eligible households. That policy pivot helped to motivate the "direct rental assistance" concept presented in this article.

ERA was not, however, the first time the federal government provided rental assistance directly to renters. Fifty years ago, the U.S. Department of Housing and Urban Development (HUD) Experimental Housing Allowance Program (EHAP)—which laid the foundation for what would become the HCV program—provided eligible households with a housing subsidy that they could use along with their own funds to pay the full rent to their landlord. It was, essentially, cash assistance earmarked for housing. When Congress created the Section 8 program in 1974, it shifted key responsibilities to the local public housing authority (PHA) and landlord, making the program less like cash and more like in-kind assistance. In the HCV program, the PHA must inspect and approve the unit, the landlord must agree to a Housing Assistance Payment (HAP) contract with the PHA, and the PHA must pay the subsidy directly to the landlord. This article explores how certain key challenges the HCV program currently faces could be overcome by returning to a direct rental assistance approach like the "housing allowances" tested in EHAP.

Housing Choice Voucher Program Review

The HCV program enjoys broad support among researchers, policymakers, and practitioners. Vouchers have proven to be effective at reducing rent burden, overcrowding, homelessness, and housing instability (Mills et al., 2006; Gubits et al., 2016). Research has consistently shown vouchers to be less expensive than public housing (Kennedy, 1980; Mayo et al., 1980; Shroder and Reiger, 2000), and voucher holders live in lower poverty neighborhoods than public housing residents. Evidence also shows that vouchers improve non-housing outcomes, such as children's school performance (Schwartz et al., 2019), and produce long-term educational and labor market gains compared to public housing (Chetty, Hendren, and Katz, 2016).

However, the HCV program faces three related challenges that undermine its potential promise, each of which could potentially be addressed through a direct rental assistance model. First, the HCV program imposes sizable administrative burdens on all three parties involved in the program: voucher recipients, landlords, and PHAs. Second, many households that are offered a voucher are unable to successfully lease up. Third, program rules distort the behavior of all three parties in ways that undermine the program's goal of leveraging market efficiency.

Starting with administrative burden, before a household can receive a voucher subsidy, they must apply to the program and navigate a multi-step process with responsibilities divided between the household, PHA, and landlord. The PHA pulls the household's name from the waiting list, reviews their current income to confirm their eligibility, and then issues a voucher. From that point, the household has limited time to find an acceptable unit and willing landlord and complete the admission process. Once they find a unit, the PHA must conduct a housing quality inspection and a rent reasonableness determination. If the voucher recipient, landlord, and PHA all agree to proceed, they execute a lease (between the tenant and landlord) and a HAP contract (between the PHA and landlord) to formalize the three-party relationship. The voucher household pays a total tenant payment (TTP) generally equal to 30 percent of their income. The PHA pays the landlord a subsidy covering the rest of the gross rent (the unit's contract rent plus a utility allowance) up to a cap known as the payment standard. The payment standard is based on HUD-calculated Fair Market Rents (FMRs) or Small Area Fair Market Rents (SAFMRs); FMRs are meant to indicate the 40th percentile of the metro area rental market, and SAFMRs aim to approximate the 40th percentile of the rental market in each ZIP Code.

PHAs spend, on average, 13.8 hours per voucher per year on activities related to the day-to-day operation of the HCV program, including determining household eligibility, verifying household income, calculating TTP, and conducting inspections and rent reasonableness determinations (Turnham et al., 2015). HUD provides funding for this work; however, research has shown that the funding is not sufficient to cover all program administration costs. PHAs often seek ways to simplify and streamline program administration.

For a landlord, the burdens imposed by the HCV program are particularly acute during the leasing process. A landlord considering renting to a voucher recipient must coordinate with the PHA to provide access to the unit for the inspection. If the unit fails to pass the initial inspection, the landlord must address any deficiencies. Landlords must familiarize themselves with the HAP contract, agree to sign it, and adhere to its terms, such as passing annual housing inspections. A recent summary of landlord experience in the voucher program highlighted inspections as particular pain points for landlords (HUD, 2018). Landlords express frustration with inspections being arbitrary and unpredictable, inspection and leasing delays, voucher rents not matching market rents, and general bureaucratic inefficiency when dealing with PHAs (Garboden et al., 2018). Whether a landlord is willing to tolerate these burdens depends on their alternatives; landlords who expect to struggle to rent their unit in the private market are more likely to accept the burdens of the voucher program, and landlords with highly desirable units are more likely to refuse (Rosen, 2020).

Most concerning is the burden the HCV program places on the low-income renters it serves. They must figure out how and when to apply for a voucher, submit all the necessary documents, and find a voucher-eligible unit to rent. These burdens underlie the second key challenge that threatens the promise of the voucher program: many voucher recipients fail to successfully lease homes with their vouchers.

It is hard enough for any renter to navigate the housing search process—to determine whether a particular unit meets their needs, assess housing and neighborhood quality, avoid bad landlords, compete against other renters, and pay application fees, security deposits, and moving expenses. Voucher recipients face the additional barrier of finding units that meet voucher program requirements and are owned by landlords willing to participate in the program. A recent HUD study that used paired testing methods to imitate the voucher search process demonstrated how high these barriers are (Cunningham et al., 2018). To identify one unit that appeared to meet HCV requirements, the researchers had to screen 39 rental listings. When they inquired about a voucher-eligible unit, they found that, in many cases, the landlord openly refused to accept vouchers. In three of five sites, the landlord refusal rate was more than 66 percent. In the other two sites, refusal rates were 31 and 15 percent, despite those jurisdictions having laws banning discrimination based on source of income. The researchers found that landlords were significantly more likely to refuse vouchers for units in low-poverty neighborhoods than for units in high-poverty neighborhoods. In cases when the landlord claimed to accept vouchers, and the tester pair made appointments to view the property, landlords were significantly less likely to show up to the appointment for a voucher tester relative to a matched non-voucher tester.

Many voucher recipients are unable to lease a unit with their voucher and must return the voucher to the PHA. According to a recent estimate, only 61 percent of voucher issuances in 2019 resulted in a successful lease up and program admission (Ellen, O'Regan, and Strochak, 2023). The fact that 39 percent of voucher recipients have to return their voucher—and receive no subsidy—is remarkable, considering how generous the subsidy is. Nationwide, the average voucher subsidy is $10,825 per year,[1] and a household can continue to receive it for as long as they remain eligible. Further, vouchers are scarce and waiting lists are long. Only one in four eligible households receives any form of federal rental assistance (Alvarez and Steffen, 2023) and typically spend years on a waiting list to receive that assistance. That so many households are unable to use this golden voucher ticket demonstrates how heavy a burden the program places on the households it is meant to help. There may also be racial disparities in these burdens. Recent research examining voucher lease-up rates in 433 metropolitan areas from 2015 to 2019 (Ellen, O'Regan, and Strochak, 2024) finds that Black and Hispanic voucher recipients are less likely to lease up than their White counterparts in the same market, even after controlling for a large set of individual factors.

A third set of challenges in the HCV program relates to the incentives faced by the three parties—tenants, landlords, and PHAs. In theory, the HCV program should leverage the incentives and efficiency of the free market—in which buyers shop for a good deal and impose price discipline on sellers—but voucher holders have neither the luxury of shopping for a good deal nor the incentive to do so. For any unit with rent below the payment standard, the voucher household pays the same TTP—30 percent of their income—regardless of the unit's rent. Choosing a less expensive unit would not benefit the household, though it would benefit the PHA by reducing the subsidy. Savvy landlords know that payment standards, FMRs, and SAFMRs are public information; if they want voucher tenants, they can attempt to set their asking rent as close as possible to the payment standard, even if it is more than what the private market would bear. The only mechanism to prevent rent inflation in the voucher program is the requirement that PHAs conduct a rent reasonableness determination, which is an inherently difficult task that requires PHA staff to consider all aspects of a unit—size, quality, amenities, and location—and identify comparable units (Thrope et al., 2022). PHAs sometimes use rent reasonableness as a negotiating tactic to reduce the rent late in the leasing process, which landlords see as an unfair bait and switch (Cossyleon, Garboden, and DeLuca, 2020).[2] Landlords, in turn, have ways of gaming the rent reasonableness process, such as by contesting the PHA's determination and providing more favorable comparisons (Rosen, 2020). One study estimated that voucher-assisted units in

[1] Authors' calculation of average per unit cost as of April 30, 2023 (HUD, 2023).

[2] Particularly with the increased use of data-driven pricing for units, property managers may not have the latitude to "negotiate" rent with the PHA (Cossyleon, Garboden, and DeLuca, 2020).

Milwaukee charged between $51 and $68 more in monthly rent relative to comparable unassisted units (Desmond and Perkins, 2016).

These challenges are not inherent to a housing voucher program. Rather, they stem from choices made in the early days of the Section 8 program.

Historical Context and the Experimental Housing Allowance Program

In 1968, the final report from the President's Committee on Urban Housing (the Kaiser Committee) considered three approaches to helping low-income families with housing: project subsidies, housing allowances (cash subsidies that were tied to housing consumption), and income maintenance (unrestricted cash assistance). The report stated that housing allowances would "provide purchasing power directly to the housing consumer" and "offer the opportunity for the free market to operate in its traditional fashion" (The President's Committee on Urban Housing, 1968). Housing allowances would "permit the consumer to make his own choices in the marketplace, a freedom which tends to enhance personal dignity. By relying on market forces, it should bring about a better matching of consumer demands and housing supply." The Kaiser Committee called for housing allowances to be tested on an experimental basis, and 2 years later, the Housing Act of 1970 authorized HUD to launch the Experimental Housing Allowance Program (EHAP) to develop and test the concept.

The EHAP Demand Experiment[3] tested two main subsidy formulas. The first covered some fraction of a household's actual rent (with subgroups testing different fractions of rent). The second formula (which most resembles housing choice vouchers) covered the gap between some fraction of a household's income and the average local cost of "modest" housing. One of the housing gap subgroups received "unconstrained" assistance—that is, with no housing requirement. There were also two control groups—neither received a subsidy, but one group participated in housing information sessions (Kennedy, 1980). Notably, landlords had no direct engagement with the subsidy program for any of the experimental groups. All EHAP subsidies were provided directly to low-income participants, who were then responsible for securing housing on the private market and paying the full rent to the landlord. All participants (except for the unconstrained assistance group) were required to meet some form of housing requirement, such as passing a minimum quality standard inspection or paying a minimum rent, before receiving a housing allowance (Struyk and Bendick, 1981). Households could request that their current residence be inspected, or they could identify a dwelling to which they planned to move (the inspection of which could come after they moved in). As a result, many households resided in the units at the time of inspection (Struyk and Bendick, 1981). Households living in units that failed one or more quality standards either needed to secure requisite repairs in negotiation with their landlord or move to a unit that met standards before receiving the subsidy (Khadduri, 1979). Families also needed to spend at least the amount of the subsidy they received on housing. In these ways, EHAP was a demand-side subsidy earmarked for housing by imposing housing requirements on recipients.

[3] EHAP included three distinct studies: the Supply Experiment, Demand Experiment, and Administrative Agency Experiment. This article focuses on the Demand Experiment.

When Congress created the Section 8 program in 1974, it deviated from the EHAP model in several respects. Perhaps most fundamentally, subsidies were paid directly to landlords through a contract with the local housing authority. Similar to EHAP, units had to meet quality standards, but under Section 8, PHAs engaged more directly with landlords in the inspection process. Second, unlike EHAP, the gap formula adopted was based on the difference between a fixed percentage of a household's income and the rent of the *specific* unit rented (rather than the average costs of local housing) and subject to a rent ceiling cap. This approach meant that households would bear none of the cost of higher rent (up to the ceiling cap) and reap none of the savings from securing less costly housing. To offset the participant's lack of incentive to economize, Section 8 originally incorporated a somewhat complex rent reduction, or "shopping" incentive, which proved ineffective and was later eliminated (Khadduri, 1979). To prevent landlords from raising their rents to charge ceiling rents, housing authorities were also required to assess rent reasonableness for each leased unit (HUD, 1978). An assessment of early Section 8 operations revealed much greater rent increases than observed in EHAP. Specifically, relative to their initial units, rents increased 71 percent for Section 8 participants who moved compared to 34–46 percent for movers in the EHAP experiments, and 31 percent for Section 8 participants who leased in place compared to 2–8 percent in EHAP (Khadduri, 1979). Section 8 rents were clustered close to FMRs, suggesting these ceiling rents were serving as a target. Indeed, 37 percent of surveyed Section 8 landlords who had increased rents responded that they did so to meet the FMR. Khadduri credits the collection of design differences between the two programs leading to Section 8 not being administered as a "market mechanism" program (Khadduri, 1979: 46).

The seemingly subtle differences between housing allowances and housing vouchers illustrate that there is a continuum of potential policies between project-based (in-kind) housing assistance and unrestricted cash assistance. Specific policy features can move a rental assistance program along the continuum. The design of housing vouchers made the subsidy more like in-kind assistance than housing allowances were. Several innovations of the past few years—the payment of ERA directly to tenants, the expanded Child Tax Credit, and the proliferation of guaranteed income pilots—suggest an appetite among policymakers to move the other way along the continuum toward cash assistance. However, these efforts have been challenging to sustain. Housing allowances, or direct rental assistance, could strike the right balance—maintaining a targeted focus on housing and realizing the vision of the Kaiser Committee to provide households with freedom of choice, personal dignity, and purchasing power while also leveraging market forces. The remainder of this article explores what a direct rental assistance model might look like and how it could inform the future of the HCV program.

Direct Rental Assistance Design Considerations

The core features of any direct rental assistance model include: (1) the subsidy is designed to cover housing expenses and targets the same population as the HCV program; (2) the subsidy is paid to the household, not the landlord; and (3) interaction between the PHA[4] and the landlord is

[4] This article assumes PHAs would administer direct rental assistance (DRA); for DRA to inform the future of the HCV program, it seems reasonable to rely on the administrative infrastructure that already exists for the voucher program.

minimized, if not eliminated entirely. The following sections explore three other important design parameters that could vary according to secondary objectives.

Housing Quality Requirement

One of the most difficult direct rental assistance design choices is how to handle housing quality requirements. Housing quality standards were a major barrier to enrollment in EHAP, as they are today in the HCV program. Households in the unconstrained assistance EHAP group faced no housing quality requirement, and they were more than twice as likely to receive the subsidy than the recipients facing housing requirements.[5] However, about two-thirds of the unconstrained group lived in substandard housing (Allen, Fitts, and Glatt, 1981). Households eligible for EHAP were especially unlikely to complete enrollment and receive assistance if they lived in low-quality housing at baseline and/or if they lived in an area with less adequate housing (Struyk and Bendick, 1981: 12, 109–112). Importantly, there were also racial disparities in how participation rates varied by the stringency of quality standards. Across experimental arms, more stringent housing quality standards differentially constrained the participation of households of color compared to eligible White households in the same market (Struyk and Bendick, 1981: 94). There was a clear tradeoff between providing assistance to needy households and incentivizing people to improve their housing.

That program designers prioritized housing quality in the 1970s is unsurprising. The balance might differ today because housing quality has improved considerably in the past 50 years,[6] even for the lowest-income households. In 1975, 12 percent of households with income in the lowest quintile lived in severely inadequate housing; by 1997, this had dropped to 3 percent, barely higher than the rate for households in the highest-income quintile (Orr and Peach, 1999).

As housing quality has increased, the predominant housing problem has become affordability. Of the 8.53 million renter households with “worst case housing needs” in 2021, 97.2 percent paid more than one-half of their income toward rent, and only 5.6 percent had severely inadequate housing (Alvarez and Steffen, 2023). Nowhere in the United States can a person working full-time at the minimum wage afford a two-bedroom rental at the FMR (National Low Income Housing Coalition, 2022). The shifting nature of housing problems today—from a quality problem to a cost problem—also changes the calculus of tradeoffs between meeting quality standards versus increasing program reach. Given the prominence of housing inspections in landlord critiques of the voucher program, direct rental assistance requires a different approach.

One option is simply to eliminate the housing quality requirement. With no inspection and no HAP contract, a household offered direct rental assistance (DRA) could begin receiving assistance immediately for the unit they already occupy (“leasing in place”). In contrast, a household with a voucher can only lease in place if their landlord agrees to sign the HAP contract and the unit passes

[5] This result compares the unconstrained assistance group with the other groups under the housing gap plan, which faced minimum standard requirements.

[6] In 1975, roughly 5 percent of housing units were “severely inadequate;” this had fallen to 2 percent by 1997 and 1.4 percent in 2021 (Orr and Peach, 1999; authors’ analysis of 2021 American Housing Survey (AHS) data). Declines were similar for housing units with “moderate” physical problems (Eggers and Thackeray, 2007; authors’ analysis of 2021 AHS data). An alternative measure of housing quality that does not focus exclusively on severe or moderate inadequacy also shows significant improvement between 1985 and 2009 (Eggers and Moumen, 2013).

inspection. Lowering the barrier to leasing in place would enable DRA recipients to get assistance faster, reduce their rent burden, and search for better housing—if and when they choose—under less duress.

With no inspection requirement, DRA recipients would be trusted to search for housing and assess quality the same way that unassisted renters do. If they perceive a unit to be unacceptably low quality, they would simply look elsewhere. The ability to look elsewhere is, of course, constrained by many factors; but if the DRA subsidy succeeds in its primary objective—defraying housing costs without deterring landlords—recipients should have access to a broader segment of the housing market and have the opportunity to be more selective.

Nonetheless, it is likely that in the absence of any housing quality requirement, some subsidized households would occupy inadequate housing. Using taxpayer dollars to subsidize such arrangements could be highly controversial. Thus, a politically acceptable DRA program might have to retain some form of quality standards.

Several aspects of landlords' dislike of inspections could potentially be addressed by DRA. The first is simply logistics. Coordinating and conducting the inspection takes time and effort on the landlord's part, and the process often requires that landlords keep units off the market for multiple months. During the leasing process, time is money. A second challenge for a landlord is to correct any deficiencies before the unit can be approved for a voucher subsidy. (This article does not address a third concern: landlords' complaints that inspectors are arbitrary, unpredictable, and overly picky. HUD's new inspection framework is meant to create more consistent and objective inspections (REAC, n.d.)).

To address logistical challenges related to inspections, any DRA inspection should either be integrated into standard leasing processes or removed from the leasing process altogether. For example, during the leasing process, an inspection could take place when the prospective renter visits the unit, imposing no burden on the landlord. One option inspired by EHAP is "participant inspections," in which the assisted household conducts the inspection using a PHA-provided checklist. As in the "no inspection" option, the assisted household would bear responsibility for assessing the unit, but they would be guided by the PHA checklist and could be required to attest to the PHA that the unit passed, in their view. A second option, growing out of HUD guidance during the COVID-19 pandemic, is to do remote inspections. When an assisted household views a prospective unit, they would use their phone to do a video walkthrough or video call to enable a PHA inspector to inspect the unit virtually. In either case, if a deficiency is identified, the tenant could ask the landlord to fix it (as an unassisted renter might do). If the landlord refuses to do so, the PHA could require that the household continue their search.

Outside of the leasing process, it should be possible to do a standard inspection—in person, by a trained inspector. Standard, in-person inspections could apply whenever a DRA recipient leases in place or if issues arise during the tenancy. The tenant would grant the inspector access to the unit; the landlord would not be burdened or even need to be made aware. If a deficiency is identified, it is unclear what action should be taken. With no HAP contract between the PHA and the landlord, the PHA would have no leverage or legal recourse to force the landlord to make improvements to pass the inspection. The PHA could help the tenant negotiate with the landlord, but the tenant would also have limited leverage during their lease term. Should the PHA continue paying a subsidy for the tenant to live in a unit known to have deficiencies? Or should the PHA end the household's subsidy (which would not fix the housing quality problem), report the landlord to the city for code enforcement violation (which might result in the unit being deemed uninhabitable), or require the tenant to break their lease and move out? With exceptions for the most severe life-threatening deficiencies, a reasonable compromise is to allow the tenant to continue receiving the subsidy through the term of their lease, but to require them to move at the end of the lease if deficiencies persist.

Subsidy Calculation

The subsidy provided through direct rental assistance should be roughly equivalent in generosity to the HCV HAP subsidy. One option is to follow the exact same procedures as the HCV program: to measure a participant's income each year, set their TTP at 30 percent of their income, and provide them with DRA equal to the difference between their TTP and the lesser of their unit's rent or the payment standard. Alternatives might overcome some of the voucher program's challenges that were previously discussed. Most importantly, the DRA subsidy should incentivize the household to get the most value out of their subsidy. The DRA subsidy could possibly create better incentives for households to increase their income as well.

The most extreme change would be for DRA to be a fixed subsidy that does not vary based on a household's income or the specific unit they rent. For example, each household might receive a subsidy equal to two-thirds of the FMR,[7] which would remove any work disincentive from the subsidy. It would also be extremely easy to administer, as it would not require a PHA to do annual income examinations or a complex household-specific subsidy calculation. More importantly, it would empower assisted households to be full participants in the rental housing market—to weigh tradeoffs between unit cost, quality, and location, and to make the choice that best meets their needs. A household that chooses a less expensive unit would receive the same DRA subsidy and, therefore, use less of their own funds to pay rent. Relative to the current HCV subsidy calculation, this should impose greater market discipline and could exert downward pressure on rents. There are, however, two significant problems with this approach. First, it would raise vertical equity concerns, providing the same subsidy to more and less needy households. Second, households might choose unacceptably low-quality units or neighborhoods to limit spending their own funds.

Alternatively, DRA could follow a version of the EHAP "housing gap" model—setting subsidies based on the difference between 30 percent of household income and the local payment standard and capping the subsidy at the gross rent of the chosen unit. This approach addresses the vertical equity issue and still allows households to benefit from choosing a unit with rent below the payment standard, up to a certain point. Capping the subsidy at the unit's gross rent prevents households from receiving a subsidy greater than the amount they pay for rent, which would be

[7] Setting the subsidy at the full FMR would be significantly more generous than the HCV program—essentially eliminating the TTP entirely. Nationwide, the average ratio of HAP to FMR is about two-thirds, which suggests a flat subsidy of two-thirds the FMR would be equivalent, on average, to the HCV subsidy. The exact ratio should be refined based on further analysis for specific sites preparing to implement a DRA model.

difficult to justify as housing assistance. This excess subsidy may matter for political support of the program and whether the subsidy is treated as income for taxes and other benefit programs (an issue discussed more later in this article). Similar to EHAP, capping the subsidy at the gross rent of the household's chosen unit should ensure that DRA is treated as housing assistance. Exhibit 1 provides a numerical example.

Exhibit 1

Subsidy Calculation Example (Payment Standard=$1,100; Monthly Household Income=$1,000)

	Gross Rent of Unit Leased:			
	$1,100	**1,000**	**$800**	**$700**
HCV:				
Subsidy	$800	$700	$500	$400
Tenant paid rent	$300	$300	$300	$300
DRA:				
Subsidy	$800	$800	$800	$700
Tenant paid rent	$300	$200	$0	$0

Source: Authors

For a household with a $1,000 monthly income and a payment standard of $1,100, the maximum subsidy would be $800 under both the HCV and DRA approaches. If the household chooses a unit with gross rent below $1,100, the HCV subsidy would be reduced dollar for dollar; the household does not benefit from choosing a lower-cost unit, and all savings go to the PHA. Under the DRA model, if the household chooses a less expensive unit in this range, every dollar of savings would offset a portion of their contribution to rent. (The household's DRA subsidy would not change for any unit with gross rent between $800 and $1,100.) However, the DRA subsidy structure would offer no benefit to choosing a unit below $800. This design should encourage assisted households to be economical but not to excessively sacrifice housing and neighborhood quality.

DRA could also build on the precedent of HUD's rent reform experiments by reducing the frequency at which PHAs reexamine income and recalculate the subsidy—doing so every 3 years rather than every year (Riccio, Deitch, and Verma, 2017).[8] A triennial reexamination cycle would reduce administrative burden, provide households with a predictable subsidy beyond 1 year, and enable households to increase their income within that 3-year window without the penalty of a decreased subsidy.

Finally, while basing payment standards on FMRs would be simplest, using SAFMRs would build on recent efforts at HUD to incentivize (and enable) voucher households to choose higher-quality neighborhoods (HUD Public Affairs, 2023).

Subsidy Usage and Monitoring

The DRA subsidy is intended for housing, but it is unclear whether or how a PHA should *ensure* that the subsidy is used for housing. Similar to EHAP, it seems reasonable to consider the subsidy

[8] To accommodate households that experience a loss of income, the PHA could adopt a hardship policy to allow limited interim recertifications.

to be supporting access to decent, affordable housing as long as the household provides the PHA with a valid lease, demonstrating that the minimum amount (equal to the monthly subsidy) will be spent on rent each month.[9] Indeed, recent research suggests that cash transfers only nominally targeted for specific uses do increase spending on that use. For example, expenses on child-related goods and services increase because of assistance that is fundamentally unrestricted but labeled as being intended for children—such as the expanded Child Tax Credit (Parolin et al., 2024) and the "Baby's First Years" study (Gennetian et al., 2022). Perhaps DRA recipients would similarly use the funds for housing, even without monitoring and enforcement. After all, "the rent eats first" (Desmond, 2016). Housing is, by far, the largest expense for low-income households; among households in the lowest-income quintile, housing consumes 41 percent of the average household's total annual budget ($13,376 per year). The next largest categories of expenses are food (15.6 percent), transportation (15.1 percent), and health care (10.3 percent) (U.S. Bureau of Labor Statistics, 2023).

In the context of a DRA pilot or demonstration, monitoring how the funds are used would be a primary objective of the research. Regardless of the findings from such a demonstration, if the DRA model were implemented more widely, it could be argued that some amount of monitoring is desirable. If a DRA recipient fails to pay rent, not only would they be violating program rules, but more importantly, they would be at risk of eviction. Monitoring subsidy usage could, therefore, avert evictions in addition to ensuring program fidelity. PHAs could require ex-post documentation of rent payment before providing the next month's subsidy. Paying the subsidy by direct deposit (which would have the added benefit of ensuring that recipients have a bank account) or using another electronic payment platform might enable monitoring without imposing an excessive administrative burden.

Potential Challenges

The previous section explored three areas in which policymakers might choose different approaches to direct rental assistance. This section explores challenges that could arise during the policy design or implementation process.

Landlord Awareness in the Leasing Process

Although one might think that replacing a voucher with direct rental assistance and removing the PHA-landlord relationship would make the housing subsidy invisible, this is unlikely, at least for households entering into a new lease with a new landlord.

Landlords typically vet prospective tenants by checking their credit and income; in many cases, landlords will be aware of a housing subsidy no matter the form it takes. Indeed, without knowledge of the housing subsidy, a landlord might conclude that a subsidized household cannot afford the rent. PHAs should provide DRA recipients with documentation of the subsidy, and the household could decide whether to provide that to the landlord. In most cases, informing the landlord of the additional subsidy will almost certainly be in the tenant's interest. A landlord

[9] If a household moves, they would inform the PHA and provide a new valid lease to ensure that the subsidy does not exceed their new rent.

should prefer a DRA-assisted renter over an unassisted renter with similarly low income, but it is unclear how landlords will respond to DRA relative to HCV or to unassisted renters with slightly higher income. One aspect of the HCV program that landlords appreciate is the guaranteed monthly payment from the PHA. A landlord considering renting to a DRA recipient may believe that the household can pay the rent but still be skeptical that they will pay the rent. Ultimately, landlord attitudes about DRA will depend on (1) how much of the HCV administrative burden is eliminated in DRA and (2) whether the DRA housing requirement gives the landlord confidence that the DRA recipient will pay their rent reliably.

Tax and Benefit Implications

In-kind government benefits, such as housing assistance (including vouchers), are not considered income for federal income taxes or other means-tested government programs. Unrestricted cash assistance and other cash-like programs, however, are sometimes considered income for federal taxes and other benefits.[10] In some cases, receiving cash assistance might make a household worse off if they are on the precipice of a "benefits cliff" where the increased income makes them ineligible for other programs. It is important to ensure that direct rental assistance does not lead to adverse tax or benefit consequences relative to the voucher program.

The most relevant precedent comes from the ERA program. The IRS determined that ERA payments to eligible households should not be considered income (IRS, n.d.). Including a *housing requirement* in DRA—requiring that DRA be used for housing, requiring the recipient to provide a lease, and setting the subsidy not to exceed the recipient's rent—should ensure that DRA is considered housing assistance rather than general income.

Why Not Cash?

Some might wonder why direct rental assistance is worth testing; why not go further and just give cash? In addition to concerns about tax and benefit implications, sustaining guaranteed income pilot programs beyond a year or two has been challenging. Many have relied on flexible, one-time funds provided by the federal government as part of the COVID-19 response. The sole federal program providing cash assistance to low-income families on an ongoing basis—Temporary Aid to Needy Families (TANF)—has eroded significantly over the past 20 years, suggesting a lack of political will for providing cash assistance nationwide (Shrivastava and Thompson, 2022). Incorporating some of the tenets of cash assistance into the HCV program but retaining the emphasis on *housing* may prove more politically viable than cash assistance.

[10] Generally, any money received by an individual counts as "income." The IRS has a "General Welfare Exclusion" under which certain government benefit payments that "promote the general welfare" are excludable from a recipient's gross income (Ball, 2023). TANF is considered income by HUD but not by the IRS. Unemployment Insurance benefits are considered income by HUD but are partially excluded by the Internal Revenue Service (IRS). The Earned Income Tax Credit is not considered income by HUD or the IRS. Cash assistance funded by the Coronavirus State and Local Fiscal Recovery Funds program is not counted as income by the IRS or HUD because it is considered disaster relief. Basic income pilots funded by philanthropy are often classified as gifts and excluded from tax and benefit calculations, but longer-term assistance may not be considered a gift. If Congress established a guaranteed basic income, it could come with a provision to ensure it is not counted as income for taxes and benefit purposes, but absent such explicit statutory direction, it likely would be counted as income.

Furthermore, in most cases, addressing the *housing needs* of low-income families would have the same effect as cash assistance. The most common payment amount for guaranteed income pilots is $500 per month (Guaranteed Income Pilots Dashboard, n.d.). Only 7 percent of rental units nationwide had a gross rent of less than $500 in 2022. A household already paying at least $500 in rent would experience virtually no loss of utility from receiving $500 in DRA instead of $500 in cash.

Moving Toward a Direct Rental Assistance Demonstration

HUD has never attempted to directly compare the housing allowance model tested in EHAP with the voucher model adopted by Congress in 1974, but several recent efforts have taken steps toward that goal. In 2021, the Center on Budget and Policy Priorities (CBPP) called for testing a streamlined rental subsidy that would be paid to tenants, targeted to housing but with no inspection requirement, and administered at the state level (Fischer and Sard, 2021). This bold proposal was shared with HUD, where staff were already exploring the possibility of testing direct rental assistance as a cohort of the Moving to Work (MTW) Expansion (through which PHAs get waivers from many standard HUD rules). The Research Advisory Committee guiding the MTW Expansion considered a direct rental assistance cohort in its fall 2021 meetings (HUD, 2022). Meanwhile, the Philadelphia Housing Development Corporation and the Housing Initiative at the University of Pennsylvania were working on designing a program called PHL Housing Plus, which was successfully launched in Philadelphia in 2022. PHL Housing Plus provides unrestricted cash assistance for 2.5 years, calculated using a formula nearly identical to the HCV program, to households on the HCV waiting list (Philadelphia Housing Development Corporation, n.d.). An evaluation will compare the effects of receiving cash to two control groups—one receiving vouchers and a second with households that remain on the HCV waiting list. PHL Housing Plus is very promising, but more experimentation is needed to explore alternative policy designs and examine effects in different market types.

HUD's effort to test DRA in the MTW context faltered partly due to uncertainty about whether HUD's housing assistance funds can legally be provided to tenants instead of landlords. HUD has since sought to encourage DRA pilots that would be developed and funded organically by local housing agencies and their partners (McCabe and Shroyer, 2023). Such pilots would be a welcome step, building on the strong start of PHL Housing Plus, but a HUD-led demonstration—with clear authorization and support from Congress—presents four potential benefits over independent pilots. First, it would enable federal policymakers, researchers, and national stakeholder groups to guide the policy design—to ensure that the DRA model(s) can inform the future of tenant-based rental assistance. Second, a HUD-led demonstration would be better positioned to produce rigorous multi-site evidence through careful site selection, an adequate sample size, and a consistent research approach. Third, DRA funded by HUD would clearly be "rental assistance"—not "income" that could affect taxes and other benefits. Finally, it would be essential for researchers to observe how DRA recipients navigate the housing search process—how they balance cost, housing quality, and location—and how landlords react. A HUD-led demonstration—that provides at least 3 years of DRA subsidy and transitions households to the voucher program at the end of the study period—would provide the long-term certainty households need when considering whether and where to move.

This article considers many choices that must be made in the design of a direct rental assistance model but does not argue for a single preferred approach. The designers of a DRA pilot or demonstration should consider the issues presented here, as well as the CBPP and PHL Housing Plus models. Collaborating directly with people with lived experience would also be valuable to ensure that direct rental assistance meets the needs of low-income people currently using (or seeking to use) housing vouchers. Regardless of which design features are adopted, however, any direct rental assistance pilot or demonstration should use a rigorous, randomized controlled trial design. PHAs across the country have long waiting lists of households in need of rental assistance. These households should be invited to enroll in the demonstration and randomly assigned to receive direct rental assistance or a traditional HCV. A research team should closely monitor key outcomes, including leasing success rates, housing and neighborhood quality, housing costs, housing stability, and administrative costs and burden.

Conclusion

During the 2020 presidential campaign, then-candidate Joe Biden proposed making the HCV program an entitlement, and the Biden administration has consistently pushed for incremental increases to the program. That nearly 40 percent of current voucher recipients fail to successfully use their vouchers shows that expanding reach requires more than additional funding: it requires program reform. If the HCV program were significantly scaled up as is, the programmatic challenges discussed in this article would possibly be exacerbated—the administrative burdens of the program could overwhelm PHAs, landlords, and tenants; the limited supply of eligible units with willing landlords could further reduce voucher success rates; and misaligned incentives could create inflationary pressure throughout the rental market. Reforming the voucher program first requires evidence about how different programmatic changes would improve the ability of rental assistance to reach those it intends to assist at scale and with what other consequences.

The variety of recent initiatives that have provided assistance directly to the intended beneficiaries—including the ERA program, the Expanded Child Tax Credit, and guaranteed income pilots—may be the bellwether of that reform. A direct rental assistance model might prove to be the perfect blend of the cash and in-kind approaches. It would maintain a focus on housing, continuing to advance the mission of HUD and the HCV program. But by embracing some elements of cash assistance, it might better live up to the original vision of housing allowances: to leverage the free market, empower tenants, and be a scalable, cost-effective model for ensuring that low-income renters have access to decent, affordable housing. Designing, implementing, and evaluating a direct rental assistance demonstration program are critical next steps.

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