

Housing Allowances Alone Cannot Prevent Rent Arrears*

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Key Question

Housing allowances are now one of the most widely used housing instrument in OECD countries. A gap seems to exist between discourses of housing affordability and effective affordability. Indeed, based on the French Housing Survey of 2013, one out of four recipients of housing benefits experienced financial difficulties over a period of twenty-four months (against one out of ten for non-recipients). What are the sources of unaffordability? Do housing allowances cushion households against job loss (which represents a quarter of the adverse events)?

Methodology

We use probit regressions to estimate households' financial difficulties, close to two points of discontinuity of benefits (respectively, the eligibility threshold and the maximum housing allowance rate cut off point) to evaluate whether recipients of housing allowances are better protected than non-recipients when controlling for their characteristics.

Main Results

Econometric results show that

- The net total housing burden (depending on the rent, income and housing allowances perceived by the household) increases the probability of financial difficulties for households with a high rate of housing allowance (by definition, those on low income) but has no significant effect for those with a low rate of housing allowance.
- The chance of financial distress increases for single families with children, for foreigners and for those who lost their jobs recently.
- Receiving (different levels of) housing allowance (HA) does not change significantly the probability to fear financial difficulties when losing one's job near the two discontinuity points.

Median of the monthly financial variables (by different level of Housing Allowance rate)

	Net Monthly Housing Burden	Probability of difficulty paying rent
Maximum HA rate	0	0.34
High HA rate	147	0.33
Low HA rate	273	0.21
Not eligible to HA*	420	0.16

* For households who earn less than the median income.

Source: Insee, National Housing Survey (enquête *Logement*), 2013; author's computations.

Message

It is difficult to disentangle the different causes of unaffordability. The question of how earmarked housing policies should deal with unemployment loss is raised. Employment insurance should make up for part of the loss of income but not all households are eligible. When and how should housing allowances adjust? Avoiding high dependence on income provides stability needed for long-term housing plans. However, when income drops, housing expenditure might become unaffordable if social benefits do not adjust quickly enough. This article contributes to bringing into focus the many facets of the unaffordability issue, in particular with respect to job loss, and to provide empirical evidence of the (lack) of sustainability of existing measures, at least near the two discontinuity points.