

Comments on House Bills 305, 455, 1238, 1708, 1711, 2879, 2941, 3379, 3636, 4173, 4804, 4944, 4980, 5146 on “The Rental Housing Subsidy Program Act”

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General comments

The rationale for the proposed rental housing subsidy program is meritorious. In particular, the voucher program has been applied in many countries (especially Western and European countries) and has been supported by housing experts to address certain housing issues. It is important for Congress to note the context and rationale of how the program works and the possible drawbacks of this scheme for guidance.

Rental voucher is a housing allowance given to a household to increase the rent he/she can pay. It may be handed over to the tenant or the landlord to guarantee rent payment of target households in private rental housing. The key advantages of the program based on international experiences are (Peppercorn and Taffin 2011; World Bank 2014):

- a. The scheme gives the household flexibility to choose the type, location, cost of their dwelling and move based on changes in income.
- b. Rental vouchers can be better targeted compared to homeownership programs as it is directly linked to income and other characteristics of households.
- c. The scheme is more flexible and can be adjusted upward and downward with changes in the economic environment and incomes.
- d. It is easier to measure the direct size of the subsidy passed on to tenants.
- e. It can stimulate investments by turning small landlords into “professional” investors either by adding levels to their existing houses, constructing medium-rise low-cost building in their vacant lots or buying low-cost buildings. This may also involve low profit organizations e.g, NGOs, LGUs under a PPP arrangement to invest in rental housing.
- f. It has been extremely helpful in providing immediate post-disaster shelter (whether natural/man-made disasters). Those who are the most vulnerable during disasters are often those with least resources and as such, these families stay in evacuation centers for a long time. Homeownership is expensive and takes a long time. It also raises moral hazards and create inequities between those given housing and those who were not.

On the other hand, to avoid potential drawbacks of the program, the factors that should be carefully considered in the design and implementation of the program are:

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- a. Limited supply of low-cost/affordable rental housing in the formal sector. This creates rigidities and lack of mobility in the system. Possibility of a long queue for housing vouchers.
- b. Rising rents. The program can be expensive if the strategy is based on economic cycles
- c. Decisions to expand the number of assisted households can lead to significant cost increases.
- d. It can entail long-term commitments to government if not complemented by an exit strategy.

Specific Comments:

1. On rental housing coverage:

The rental housing voucher is applied to rent accommodation in the private rental market. Public rental housing is a separate rental housing program and decisions on rental rates (whether given free or below market rates) can be done directly through an executive order. Use of rental vouchers as a form of transfers to another government agency defeats the intent of the program to increase affordable rental housing in the market through private sector investments. Public rental housing is limited and are eventually expected to be “privatized” (rent to own/sale) since operation and maintenance are financially draining and government is eventually bound to lose stock as buildings continue to deteriorate.

Alternatively, the rent control law covering affordable housing should be reviewed to complement a rental subsidy program. Eviction issues and other restrictions hinder investments in the formal sector. This may also discourage participation of rental owners into the voucher program as they will become more exposed to government regulations and scrutiny.

There is also no data on affordable rental housing supply in the formal market. In Metro Manila, the dwelling characteristics of renter-households show that the rented spaces are likely situated in informal settlements. Studies on ISFs show that most households living in informal settlements are renter-households. Thus, the program’s objective to exclude rental spaces in informal settlements will be a deterrent to the rise of informal settlements but the supply of affordable rental spaces will be very limited as well.

2. On eligible households

Given the provision in some bills to require the eligible families to have at least one member with livelihood or is gainfully employed implies that the target beneficiary of the program would be the low-income families. In general, we agree with this provision. The housing program for poor families and those homeless

(living in streets) should be covered by public rental housing and DSWD social assistance not rental vouchers.² Based on housing affordability estimates in the Philippines, the low-income but not poor group corresponds to households in the 3rd to 5th income deciles (Ballesteros, et al 2022). The profile of renter households in Metro Manila also shows that renters are mainly nonpoor families and only 1.4 percent have been classified as poor (Ballesteros and Ramos 2017). The program should also give priority to those families in evacuation centers that have been staying for more than three months.

3. On rental subsidy rate

The rental subsidy rate should not be tied to economic cycles as this can make the program expensive and tend to increase the size of the subsidy beyond the fund. Housing rent paid by renters in Metro Manila range from less than P2000 to P10,000. The bulk or 81.38% are paying a rent of less than P4,000 a month; 278,791 or 15.91% are renting P4,000 to P9,999 per month; and the rest or 2.26% are paying rent of P10,000 or more per month (PSRTI 2017).

In other countries, rent subsidy is pegged to the difference between the market rent and 30% of income of households. However, this basis may not be appropriate for the Philippines given that rental affordability levels of low-income households range from 8-10 percent of monthly income and varying the subsidy amount, in the absence of information on rental housing supply and household incomes would make the program unsustainable. A fixed rental subsidy rate is thus recommended for this program. Should the government intend to give incentives to landlords or address possible increases in rents, a direct subsidy in terms of tax incentives would be better.

4. On conditions for continued entitlement/eligibility

The program should be complemented by an exit strategy. The rental voucher program can be link to a home self-sufficiency voucher scheme to support homeownership programs. The period of eligibility can also be fixed based on estimates of income growth to qualify for an affordable homeownership package. DSHUD/NEDA can provide some estimates. From initial estimates this can be between 4 and 7 years based on an 8% growth in household income for a socialized housing package.

5. On institutional provisions

A pilot implementation of the program in highly urbanized cities would be a sensible approach to initiate this program given that data and monitoring and

² Note the experience of the DSWD Modified Conditional Cash Transfer (MCCT) program for 4Ps beneficiaries, which included the provision of rental housing subsidy to homeless families.

evaluation systems on supply and demand are still being established or has yet to be improved.

A program office at DHSUD should be created. Guidelines on the minimum design and standards of private rental housing that considers public health goals should be established as well as an accreditation and payment system to rental housing owners.

References:

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Peppercorn, Ira and Taffin, Claude (2013). Rental Housing: Lessons from International Experience and Policies for Emerging Markets. The World Bank: Washington.