

Improving Access to Opportunity: Housing Vouchers and Residential Equilibrium*

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October 2023

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Abstract

This paper examines the effects of improving low-income households' access to high-rent, high-opportunity neighborhoods on the residential equilibrium. In the context of pervasive residential segregation, the Small Area Fair Market Rents enables housing voucher recipients to relocate to high-opportunity neighborhoods by setting the rent ceiling at a finer geographic level. I find that it catalyzed a more polarized rental market, rendering expensive neighborhoods more costly and low-rent, low-opportunity neighborhoods cheaper. In contrast, it fostered a more egalitarian residential equilibrium in terms of income and racial composition within neighborhoods. This new equilibrium entailed a modicum of welfare losses for high-income non-voucher households facing increased living costs in higher-opportunity neighborhoods. It also generated notable welfare gains for low-income non-voucher households with decreased rent prices in low-opportunity neighborhoods. However, I find that the voucher program itself led to a substantial welfare loss for low-income households, the very population this program aims to assist. This research illustrates the broader implications of housing vouchers, underscoring the need to balance affordable housing, socioeconomic and demographic integration, and overall welfare.

JEL Codes: H75, I38, J15, R13, R23, R28

Keywords: Neighborhood Sorting, Residential Segregation, Residential Equilibrium, Welfare, Housing Voucher

***Park:** Duke University, Department of Economics, Email: joonyup.park@duke.edu. I am extremely grateful to my advisors Patrick Bayer and Christopher Timmins for their patient guidance and invaluable support. I have greatly benefited from discussions with Milena Almagro, Bocar Ba, Jason Baron, Jeffrey Brinkman, Marcus Casey, Peter Christensen, Tianfang (Tom) Cui, Gilles Duranton, Jessie Handbury, Nina Harari, Sara Heller, Gi Heung Kim, Jeffrey Lin, Kyle Mangum, Arnaud Maurel, Timothy McQuade, Michael Pollmann, Christopher Severen, Allison Shertzer, Bryan Stuart, Matthew Turner, Maisy Wong, Chamna Yoon, and Calvin Zhang. I also thank the conference and seminar participants at Duke University, Federal Reserve Bank of Philadelphia, KER International Conference 2023, Triangle Applied Microeconomics Conference 2023, Urban Economics Association - North American Meeting 2023, Urban Economics Association - Summer School 2023, and Wharton Urban and Real Estate Seminar for their insightful comments. All errors are my own.