

Evaluation of Basic Allowance for Housing

Problem

The Director of the 14th Quadrennial Review of Military Compensation asked CNA to review the statutory requirements and methodologies used to calculate the basic allowance for housing (BAH) to ensure military members can procure suitable housing. A companion report studies analogous issues for other military pay allowances.

Section 662 of the 2023 National Defense Authorization Act requires the Department of Defense (DOD) to report to Congress such topics as the following:

- The efficiency and accuracy of the current system used to calculate BAH
- The appropriateness of using mean and median housing costs in such calculations
- The suitability of the six standard housing profiles in relation to the average family sizes of servicemembers, disaggregated by uniformed service, rank, and military housing area (MHA)
- The flexibility of BAH to respond to changes in real estate markets
- The feasibility of including information, furnished by federal entities, regarding school districts in calculating BAH
- Whether to calculate BAH more frequently, including in response to a sudden change in the housing market
- Whether to publish the methods used by the Secretary of Defense to calculate BAH on a publicly accessible website of the DOD [1]

Findings

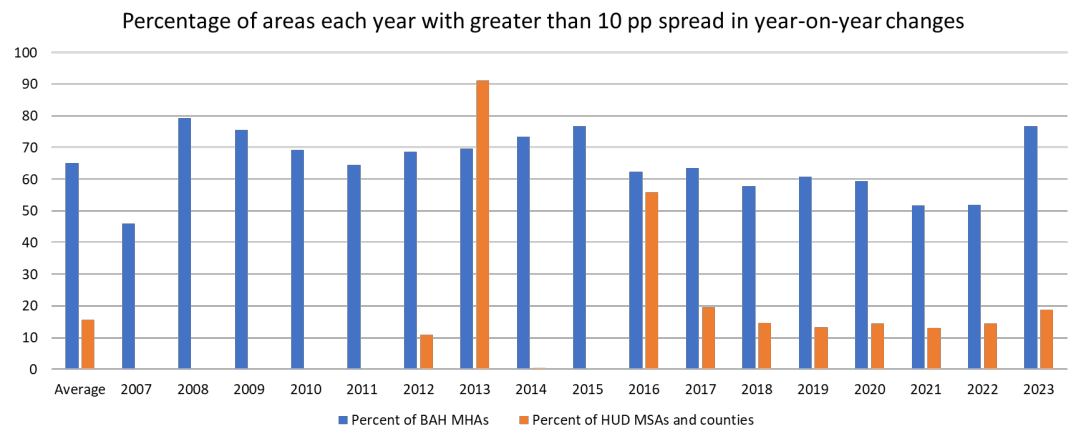
We found that BAH levels are adequate. Statute requires that BAH pay what civilians of comparable income spend on rent and utilities. In theory, a servicemember whose non-BAH pay matches a civilian’s non-housing income should have BAH equal to that civilian’s housing expenditure [2]. In practice, BAH is about 20 percent greater on average because of requirements that housing be military-suitable (e.g., have at least one bedroom, not be in a high-crime area, not be shared with roommates). Although results vary across MHAs, the only paygrade receiving less BAH nationwide than comparable civilians spend on housing is W-1.



Source: CNA.

However, BAH is more volatile than the Department of Housing and Urban Development’s (HUD’s) 50th percentile rents for corresponding metro areas. This result was not driven by small MHAs or by specific housing types. Because HUD does not measure rental rates for military-suitable housing specifically, it is impossible to rely exclusively on HUD data to compute BAH.

Although servicemembers tend to have larger families than civilians, the housing profiles



Source: CNA generated from BAH rates published at [Basic Housing Allowance | BAH Rate Lookup | Defense Travel Management Office \(dod.mil\)](#) and HUD estimates at [50th Percentile Rent Estimates | HUD USER](#).

used to compute BAH provide sufficient family housing for 69 to 90 percent of each paygrade. Additionally, like civilians, servicemembers are increasingly choosing to delay marriage and to have fewer children, lessening the need for larger living spaces. On-base housing tends to be larger than that provided by BAH, and adjusting BAH to match on-base living standards would cost approximately \$1 billion more per year.

BAH is not designed to keep up with rapid changes in the housing market in the short term. Because BAH rates are set in January based on surveys conducted between March and July of the prior year, they are approximately 6 months out of date when implemented and 18 months out of date when next updated. However, in the long run, BAH growth rates for all housing types other than four-bedroom single family homes approximately match or exceed those for both Consumer Price Index measures of primary residence rental rates and HUD median rental rates.

Recommendations/Implications

We do not recommend switching BAH from the median values obtained in rental rate surveys to the mean values. Doing so would increase BAH for some MHA-paygrade combinations and decrease BAH for others. In some cases, the most junior paygrades would see the greatest reductions. If Congress wishes to raise BAH rates, it would be preferable to do so using higher percentile rents.

We do not recommend updating BAH more frequently than the current annual updating schedule, as it is sufficiently accurate in the long run. If needed, BAH can be adjusted to anticipate a typical degree of growth in housing costs over the course of the year.

We do not recommend having BAH account for local school quality. It is difficult to isolate how school quality influences local housing values, particularly since research on this topic focuses on purchase prices rather than rental rates. Furthermore, school quality may not be easily captured by a single measure and may shift substantially over time [3]. Finally, any school quality measure will reflect state law or policy and may not be comparable across all MHAs [4].

We do not recommend publishing a detailed BAH algorithm on a public-facing website. The current process involves some unavoidable subjectivity in such things as drawing MHA boundaries, determining whether to sample specific neighborhoods for housing surveys, and dealing with extreme outlying rental values. Publishing BAH methodology could open DOD to second-guessing of these elements, limit the use of proprietary data, and prevent DOD from adjusting data anomalies. Furthermore, the methodological complexity of such an algorithm would likely limit its usefulness to all but the most technically minded servicemembers.

For further reading

Adam M. Clemens, Daniel M. Leeds, Jaclyn Rosenquist, Robert P. Trost, and Samuel A. Yellin. 2024. *Report on the Calculation of the Basic Allowance for Housing, Basic Allowance for Subsistence, and Cost-of-Living Allowances*. DRM-2024-U-038678-Final.

References

- [1] Department of Defense. Dec. 23, 2022. *National Defense Authorization Act for Fiscal Year 2023*.
- [2] *Section 403: Basic Allowance for Housing*. 2018. Title 37, United States Code. <https://www.law.cornell.edu/uscode/text/37/403>.
- [3] Brasington, David M., and Donald R. Haurin. 2006. "Educational Outcomes and House Values: A Test of the Value-Added Approach." *Journal of Regional Science* 46 (2): 245-268.
- [4] Gibbons, Stephen, Stephen Machin, and Olmo Silva. 2008. "Valuing School Quality, Better Transport, and Lower Crime: Evidence from House Prices." *Oxford Review of Economic Policy* 24 (1): 99-199.

For more information about this study, please contact

Dr. Jennifer L. Griffin | Research Program Director
703-824-2490 ▪ griffinj@cna.org

Dr. Adam M. Clemens | Principal Research Scientist
703-824-2877 ▪ clemensa@cna.org

This document contains the best opinion of CNA at the time of issue. The views, opinions, and findings contained in this report should not be construed as representing the official position of the Department of the Navy.

This summary is based on the full-length CNA report, *Evaluation of Basic Allowance for Housing*, DRM-2023-U-036969-1Rev (U).

The Center for Naval Analyses created this work in the performance of Federal Government Contract No. N00014-22-D-7001.

© 2024 CNA Corporation