The Case for Enhancing the Low-Income Housing Tax Credit

There is an Unprecedented Need for Affordable Housing

The number of renter households considered “severely cost burdened” – meaning they spend more than half of their monthly income on rent – is at an all-time high of 11.4 million, or more than one in four of all renters in the U.S.[1]

The number of severely cost-burdened renters is expected to grow to 14.8 million by 2025, as more renter households enter the market and rents continue to rise.[2]

While affordable housing needs increase, each year we continue to lose affordable housing from our nation’s stock. Since 2001, over 650,000 affordable apartments have been permanently lost due to conversion to market-rate rentals or condominiums or to obsolescence.[3]

Meanwhile, rental assistance resources have stagnated. Only one in four income-eligible renter households receives housing assistance of any kind, and with vacancy rates at historic lows, it is crucial that we increase the supply of affordable housing.[4]

We must take action before the affordable housing crisis worsens – by enhancing the Low-Income Housing Tax Credit (Housing Credit), our nation's primary tool for financing the development and preservation of affordable housing.

How the Housing Credit Works

- There are two types of federal Housing Credits: "9% credits," which are used for new construction and substanial rehabilitation; and "4% credits," which are used typically for preservation and rehabilitation of existing housing, but also can be used for new construction.
- The federal government provides state Housing Finance Agencies (HFAs) with 9% Housing Credit authority according to a formula based on population. The states allocate 4% Housing Credits to properties receiving a threshold amount of tax-exempt multifamily Housing Bond financing, subject to the state's private activity bond cap.
- Each state agency that allocates Housing Credits establishes selection criteria based on the state's affordable housing needs and priorities. Developers then compete annually to secure Housing Credits to support their specific projects. By law, agencies only allocate the amount of Housing Credits necessary for a development to be financially feasible.
- Investors provide equity capital in exchange for the Housing Credit. The capital is provided up front, while the credits are provided over a 10-year period. There is a 15-year tax compliance period, and the property is subject to further deed restrictions requiring that it remain affordable for at least 30 years.
- The Housing Credit equity allows the developer to drastically reduce – or even eliminate, the debt the property must take on, thereby enabling rents to be set at levels affordable for low-income families.
- Apartments financed by the Housing Credit must be rented to people earning no more than 60 percent of area median income.
- Because Housing Credits can be recaptured for noncompliance, investors maintain close supervision over the properties to ensure their long-term viability and compliance with IRS and state requirements. In addition, state HFAs regularly monitor the properties they finance with the Housing Credit.

High Rent Burdens Devastate Low-Income Households

When families pay so much of their income toward rent, there is little left over to cover basic needs such as food, health care and transportation.

Excessive rent burdens also mean that families have little money to save for retirement, homeownership, their children's education or other activities that allow families to escape the cycle of poverty.

In order to keep costs down, many families end up living in housing that is inadequate, overcrowded or may have major physical defects that lead to chronic health conditions.[5]

Unaffordable rents put families at risk of eviction that can create long lasting unemployment and financial instability, and threatens children's academic performance.[6]

The Housing Credit Is the Nation's Most Effective Tool to Encourage Private Investment in Affordable Housing

- The Housing Credit has financed the development or preservation of roughly 3 million affordable apartments[7], providing housing for veterans, the elderly, working families, people with disabilities and the formerly homeless.
- Housing Credit apartments are predominantly occupied by extremely- and very low-income families, with 48 percent of the families earning at or below 30 percent of the area median income, and over 82 percent of the families earning less than 50 percent of the area median income.[8]
- Without the Housing Credit, there would be virtually no private investment in affordable housing. It is fundamentally uneconomic to build housing that very low-income people can afford. In order to develop new apartments that are affordable to renter households earning the full-time minimum wage, the construction cost would have to be 72 percent lower than the current average.[9]

The Housing Credit Stimulates Local Economies and Helps Lift Families Out of Poverty

Each year, the Housing Credit supports nearly 96,000 jobs and adds roughly $3.5 billion in taxes and other revenues to local economies.

Research has shown that the introduction of affordable housing into a low-income neighborhood is associated with lower crime rates, less segregation, and a 6.5 percent increase in property values.[10]

A recent study found that residents of a Housing Credit property had an average of $500 more in monthly discretionary income, the equivalent of a 30 percent raise.[11]

By devoting less of their income to rent, families have more money to spend in support of the local economy. A study of Housing Credit properties in the Bronx, N.Y., found that developments there boosted estimated local purchasing power by one-third, contributing to the retail vitality of the neighborhood and the availability of goods and services to residents.[12]

Studies have also shown that the availability of affordable housing leads to better health outcomes, keeps families together, reduces domestic violence and substance abuse, and helps low-income individuals gain employment and keep their jobs.[13]

Demand for the Housing Credit is at Record Levels

- The widespread use of the Housing Credit to preserve existing affordable housing properties, paired with the enormous need to develop new affordable housing, places tremendous competing pressures on the program.
- Every year, state Housing Credit allocating agencies receive applications requesting far more Housing Credit resources than the agencies have available. In 2014, the last year for which this data is available, developers requested well over twice as many Housing Credits as states could award.[14]
- Investor yields, which are inversely related to the price paid for each credit, are at historic lows - indicating that the Housing Credit is highly effective.

"4% Credits" Complement Multifamily Housing Bonds

- Multifamily housing bonds, which states may issue under their Private Activity Bond authority, enable jurisdictions to raise low cost debt capital to finance affordable housing development and rehabilitation.
- If at least 50 percent of the property's financing comes from multifamily housing bonds, then the property is eligible to receive an allocation of 4% Housing Credits. These Credits provide a critical source of equity to enable the project to move forward.
- Multifamily housing bonds are a major part of the Housing Credit program, accounting for approximately 40 percent of total housing production in any given year.[15]

Now Is the Time to Enhance the Housing Credit

The Affordable Housing Credit Improvement Act, introduced by Senator Maria Cantwell (D-WA) and Senate Finance Committee Chairman Orrin Hatch (R-UT) in the Senate (S. 548), and by Representative Pat Tiberi (R-OH) and House Ways and Means Committee Ranking Member Richard Neal (D-MA) in the House (H.R. 1661), would enhance the Housing Credit's ability to meet our nation's growing affordable housing needs at a time when it is increasingly urgent. This bipartisan legislation would build on the Housing Credit's 30-year history of success with an eye towards tax reform.

The proposed legislation would:

- Streamline requirements and provide states with additional flexibility;
- Facilitate Housing Credit development in challenging markets like rural and Native American communities;
- Increase the Housing Credit's ability to serve extremely low-income tenants;
- Better support the preservation of existing affordable housing; and
- Enhance the 4% Credit and multifamily housing bond portion of the program.

S. 548 would also expand the Housing Credit by 50%, consistent with a recommendation that was made by the Bipartisan Policy Center's Housing Commission. This politically diverse, highly regarded commission, chaired by two former U.S. senators, one former HUD secretary, and one person who has held both of these distinguished roles, unanimously recommended this increase in Housing Credit resources.[16]

Sources

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AFFORDABLE RENTAL HOUSING A.C.T.I.O.N.
A Call To Invest in Our Neighborhoods

The ACTION Campaign is a coalition of over 2,000 national, state, and local organizations and businesses working to address our nation's severe shortage of affordable rental housing by protecting, expanding and strengthening the Low-Income Housing Tax Credit.

www.rentalhousingaction.org