How Can States Encourage Affordable Housing in High-Opportunity Neighborhoods?

BACKGROUND

The Low Income Housing Tax Credit (LIHTC) is a federal program administered by the Treasury Department that subsidizes the development of rental housing projects for low-income households. It is the predominant "supply-side" or "project-based" component of U.S. rental housing policy, while the "demand-side" or "tenant-based" component is the Housing Choice Voucher program, which provides subsidies that households can use to rent housing units they find in the private market. The LIHTC has developed about 2.4 million units since it was created by the Tax Reform Act of 1986. The housing voucher program currently assists about 2.5 million households with some overlap, since vouchers are often used to rent units in LIHTC projects.

Federally-subsidized housing is not often built in neighborhoods with good schools, quality jobs, and transportation options, making it difficult for residents in subsidized housing to live in these otherwise unaffordable, high-opportunity neighborhoods. State LIHTC guidelines, known as Qualified Allocation Plans (QAP), often award points to low-income housing proposals in neighborhoods that currently have such housing.

However, states have the power to change this by amending their distribution of these tax credits.

A recent paper by Abt Associates Senior Fellow Jill Khadduri examines the role of state Qualified Allocation Plans in influencing the location of new affordable housing tax credit developments in high opportunity communities, and the importance of coordinating housing investment in lower opportunity communities with broader community planning, including other forms of non-housing investment.

KEY FINDINGS

Based on analysis of the texts of recent Qualified Allocation Plans in 36 states, research literature on the LIHTC program and on interviews with officials from Housing Finance Agencies, there are several changes that could be made to QAPs to achieve more balance in the locations of LIHTC projects.

Those changes fall into four categories:

- **Limit priorities for LIHTC developments in low-income neighborhoods to those that have neighborhood revitalization efforts with a real chance of success.** State officials sometimes say that one of the reasons for the current imbalance in the location of LIHTC units is a requirement that states give preference to properties in qualified census tracts, which are places where household incomes are low enough that the property may not be able to charge rent at the LIHTC maximum. However, the regulation also says that states must include a preference in their QAPs for projects in these areas "with a concerted community revitalization plan." However, very few states are limiting preferences for low-income neighborhoods to those that have neighborhood revitalization efforts. Limiting preferences for low-income neighborhoods to those that have revitalization plans that would turn the neighborhood into an area of opportunity is an obvious way for states to achieve better balance in their QAPs.
- **Limit incentives that lock in the historical geography of affordable housing. Many states have incentives in their QAPs to preserve existing affordable housing.** However, given the increasing amount of older subsidized housing that needs recapitalization, these preservation incentives can crowd out other uses of the Low Income Housing Tax Credit.

In addition, while some subsidized rental properties are in high-opportunity locations, the vast majority of LIHTC units are in low-income locations where households could easily use Housing Choice Vouchers to rent units in the same or other properties. States should design incentives for preservation to include an assessment of the risk that a property's rents would rise above a level that voucher users could afford or above their current LIHTC rents if the property were no longer subsidized with rent and income restrictions.

- **Create incentives for locating projects in high-opportunity neighborhoods.** Among the 36 states with Qualified Allocation Plans that were reviewed in "Creating Balance in the Locations of LIHTC Developments: The Role of Qualified Allocation Plans," 12 have QAP provisions with incentives for locating some LIHTC developments in high-opportunity neighborhoods.
- **Change QAP provisions that block projects from being developed in high-opportunity neighborhoods.** A state analysis of its LIHTC developments may indicate that particular Qualified Allocation Plan provisions are preventing properties in high-opportunity locations from being selected. For example, in some states, per unit development cost limits may exclude properties in high-opportunity neighborhoods. Should that appear to be the case, the HFA might consider exceptions to the cost limits.

IMPLICATIONS

Qualified Allocation Plans are a powerful tool for affecting the location of low-income housing in a state. However, both federal and state policymakers should take other measures outside the tax credit allocation rules.

Those measures could include:

- Department of Housing and Urban Development (HUD) policies that ensure that the "stock" of deeply targeted housing subsidies is preserved when project-based subsidies are turned into tenant-based vouchers. Another change in HUD policy could include more flexibility in allowing project-based subsidies to be moved from an existing project to a new project in a different location.
- More research on what constitutes neighborhood revitalization efforts with a high likelihood of success. Such research would help states define the standards for concerted community revitalization plans.
- State policies that support the acquisition of property in high-opportunity areas that can be used for affordable housing. For example, such policies could target foreclosed properties (including scattered-site properties) that become available during an economic turndown in locations that are likely to continue to have high-performing schools and strong public services.
- State policies that shift the burden of zoning appeals for affordable housing or that support inclusionary zoning provisions, making it easier for housing developers to bring projects in high-opportunity locations into the LIHTC competition.
- Support for the emergence of a sector of the multifamily development community that focuses on creating affordable rental developments in high-opportunity locations. This includes capacity building for the industry and also may include support for land acquisition costs beyond the basis boosts that states are able to provide within LIHTC.
- A proactive effort to identify multifamily properties, both subsidized and unsubsidized, that are at risk of loss as affordable housing in high-opportunity neighborhoods. This would help state officials identify policy changes that might be necessary to preserve these properties as affordable housing.

These measures are important steps toward ensuring that the LIHTC program is leveraged to create housing opportunities that enhance the effectiveness of—and go beyond—the Housing Choice Voucher program.

About this Paper

The report "*Creating Balance in the Locations of LIHTC Developments: The Role of Qualified Allocation Plans*," is a more in-depth follow-up to a 2008 report that surveyed "best practices" in state qualified allocation plans around the country. It was supported by Abt Associates and the Poverty & Race Research Action Council.

http://www.abtassociates.com/Reports/2013/Creating-Balance-in-the-Locations-of-LIHTC-Develop.aspx

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