RESEARCH REPORT

The Low-Income Housing Tax Credit
Past Achievements, Future Challenges

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## Statement of Independence
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Executive Summary

Despite the housing affordability challenges many low-income renters face, most government resources for preserving and building affordable rental housing have declined. This stagnation in federal housing assistance programs means that the Low-Income Housing Tax Credit (LIHTC), which provides a federal income tax credit to private investors in eligible projects, is the primary option for preserving and expanding the supply of affordable rental housing.

This report explores why LIHTC is a critical part of the housing safety net. We detail how and why the program has succeeded, the challenges it faces, and why the program is more important than ever.

LIHTC Matters More Than Ever, but Its Future Is Uncertain

The Low-Income Housing Tax Credit has become the most enduring and prolific source of funding for new affordable rental units and a key resource for preserving public housing and other federally assisted housing units. Since its creation in 1987, LIHTC has created or preserved 37,727 unique properties and an estimated 2.3 million units. It works through the federal tax code and not the budget, funds more units than any other federal housing program, and enjoys bipartisan support.

But the Tax Cuts and Jobs Act (TCJA) passed in 2017 will have an uncertain effect on future LIHTC investments because reducing corporate income taxes lessens the financial incentive for corporations to make equity investments in tax credits. The Consolidated Appropriations Act of 2018 (the March 2018 omnibus appropriations bill) included a 12.5 percent increase in LIHTC allocations for the next four years, but it might not fill the gap created by the TCJA because it will have little effect on the pricing of credits and investor tax benefits and is not a permanent fix. This uncertainty comes amid a deepening affordable rental housing crisis: only around 20 percent of households that qualify for housing assistance receives any (Kingsley 2017). If LIHTC investments falter, developers will not build affordable rental housing and existing units will be lost.
LIHTC Has Played a Crucial Role in Funding Affordable Housing, but Context Matters

We analyzed the distribution of LIHTC properties and units, focusing on newly constructed properties placed in service between 2000 and 2015. Here are the key findings from our analysis:

- LIHTC investments are critical to building new affordable rental units and preserving existing ones, but they are not permanent solutions. LIHTC provides affordable rental housing for millions of low-income families across the country, but LIHTC is not structured as a permanent investment, and properties are only required to be affordable for up to 30 years. As of 2015, an estimated 2 million units remain active, but nearly 50,000 units have left the program, and another nearly 200,000 units had an inconclusive program status. Because units are not tracked beyond their compliance period, it is unknown whether these units are still affordable.

- LIHTC is critical to rural communities that may be most vulnerable to any decline in program investments. In 3 percent of US counties, more than 10 percent of rental units are financed by LIHTC. These 51 counties, mostly rural communities, have larger-than-average shares of black or Hispanic residents and higher poverty and unemployment rates.

- LIHTC production and preservation slowed dramatically during the Great Recession, falling 47 percent from a program peak of 116,175 units in 2004 down to 61,400 units in 2010. Although the program has recovered some since 2010, it is unclear whether recovery has been sustained or has improved.

- If LIHTC investments slow in the future, innovative programs might help fill the gap. The American Recovery and Reinvestment Act of 2009 authorized two programs to offset declining LIHTC investments during the downturn: the Tax Credit Exchange Program, which financed 911 active LIHTC properties and 73,580 low-income units, and the Tax Credit Assistance Program, which financed 859 active LIHTC properties and 62,279 units between 2010 and 2015. Given the extent of the downturn, it is reasonable to assume that LIHTC production and preservation numbers would have been worse without these programs.
What’s Ahead for LIHTC

The Low-Income Housing Tax Credits' public-private partnership model makes it vulnerable to market shifts and changes in tax policy. These are a few key lessons and concerns to note as we look to the future:

- **The fate of LIHTC is intertwined with other federal housing programs.** LIHTC frequently relies on other federal housing programs, including the HOME Investment Partnerships Program and the Community Development Block Grant program, to fill gaps in project financing. Cutting other federal housing programs could decrease future investment in LIHTC, which would contribute to the overall declining supply of affordable rental housing, especially for low-income households.

- **Economic recessions or other conditions that could give equity investors cold feet threaten LIHTC production.** Tax credit production declined during the Great Recession. Although the federal government stepped in to sustain LIHTC production, private-sector investment is key to the program's long-term sustainability. If the incentive structure for corporate investment in LIHTC changes, as is the case in the TCJA, the program's output and sustainability might also change.

- **To adequately track changes in output, we need to overcome data limitations.** The US Department of Housing and Urban Development’s LIHTC database was last updated in 2015, and that update lags three to four additional years. Data limitations stymie efforts to evaluate the program, and poor tracking of LIHTC investments erodes investor and taxpayer confidence that their money is being wisely invested. One solution would be to increase reporting requirements to track all projects annually and to expand the data requested.

We Need More Policy Solutions for Improving LIHTC

LIHTC is central to the preservation and production of affordable rental housing across the US, yet it was absent from the considerations around the TCJA. It has faced struggles in generating private investment before, and it will continue to do so. The Tax Credit Assistance Program and the Tax Credit Exchange Program were innovative solutions implemented during one such period of struggle, the Great Recession, but they were only temporary and did not come close to addressing affordable housing needs across the country. We need longer-term solutions to maximize LIHTC’s effectiveness.
and minimize negative effects from future investment shocks. The future of LIHTC should be shaped by answers to key questions about its past achievements:

- Within which types of housing markets does LIHTC work best? Where does it fill an important void in creating or preserving a supply of long-term affordable units? Where is LIHTC investment needed but missing?

- How dependent is LIHTC on other federal funding streams, including capital development and rental assistance programs? How does this vary across geographies? How can this inform the distribution of federal resources to most efficiently support LIHTC properties?

- Taken together, where is LIHTC development and preservation most needed? How can states best target those areas through the allocation process of both LIHTC and other federal funding streams under their jurisdiction?
Introduction

The Low-Income Housing Tax Credit (LIHTC), which provides a federal income tax credit to private investors in eligible projects, is the primary option today for preserving and expanding the supply of affordable rental housing (box 1). Between 1987 and 2015, at least 46,000 LIHTC transactions have been completed (HUD 2017) to construct or preserve a total of 2.3 million unique units across 38,000 specific properties.¹

BOX 1

What Is the Low-Income Housing Tax Credit?

The Low-Income Housing Tax Credit was authorized through the Tax Reform Act of 1986 to give private investors a federal income tax credit as an incentive to make equity investments in affordable rental housing. The equity raised can be used to construct new properties, acquire and renovate existing buildings, or refinance and renovate existing affordable rental housing properties that had been financed through other federal housing programs. These investments reduce the need for costlier methods of financing, such as a bank loan; this brings the cost of financing LIHTC properties down so that low, affordable rents are enough to sustain the property. Although LIHTC investors can be corporations or individuals, most corporate equity (85 percent of the $9.5 billion in corporate equity invested in LIHTC in 2012) comes from the banking sector.

Two types of LIHTC credits are available. The 9 percent credits are allocated by the Internal Revenue Service annually to each state to award competitively to projects that apply for the funding and meet state priorities. The smaller credit (4 percent) is automatically given to projects that apply for and receive tax-exempt private activity bonds for affordable rental housing development. In exchange for tax credits, properties are required to comply with investment regulations for 15 years and meet affordable rent requirements for at least 30 years. According to a HUD (2015a) report, on average, the LIHTC program has placed in service around 110,000 affordable rental units per year since 1995, with a temporary but significant dip during the Great Recession.


This report explores why LIHTC is a critical part of the housing safety net, its successes and challenges, what it has accomplished, and what it may look like in the future. First, we discuss the uncertainties that face the program following enactment of the Tax Cuts and Jobs Act (TCJA), which occur during a deepening affordable rental housing crisis. Second, we discuss why LIHTC matters as part of the housing safety net and compare it with other housing assistance programs. We detail how
and why the program has succeeded over time, the challenges it faces, and why the program is even more important amid a national affordable rental housing crisis. Third, we analyze the past distribution of LIHTC investments over time and across the country. Our key findings show the importance of LIHTC as a source of affordable rental housing across the country, how LIHTC is particularly critical to some rural communities, what happened when LIHTC investments declined during the Great Recession, and how we might make up for potential program shortcomings caused by tax reform by looking at what has been tried in the past. Finally, we look forward and reflect on LIHTC program performance to understand how past challenges may provide insights into possible futures for LIHTC.

An Uncertain Future: Tax Reform

Because of LIHTC’s singular importance in building new affordable rental homes and preserving existing supply, any changes in its performance or outcomes can have a significant effect on the available of affordable housing to millions of Americans. The TCJA, passed in December 2017 (Sammartino, Stallworth, and Weiner 2018), will have an indirect effect on the future LIHTC investments because reducing corporate income taxes lessens the financial incentive for corporations, the largest LIHTC investors, to make equity investments in tax credits. According to industry sources, the average amount of equity that an investor was willing to pay for each dollar of tax credit received off their federal income tax dropped to a 15-year low during the Great Recession, falling from almost $1.00 invested per dollar of tax credit received to around $0.60 per dollar of tax credit received. Prices recovered by late 2011 (with recovery strongest in metropolitan areas on the East and West coasts), reaching as high as $1.06 by summer 2016. However, prices dipped again in 2017 as tax reform loomed large with uncertain consequences (CohnReznick 2017; Schwartz 2015). Novogradac & Company, an accounting firm that represents investors, projects a potential decline in production of up to 235,000 units over the next 10 years as a result of tax policy changes in the TCJA. To counter this possibility, the Consolidated Appropriations Act of 2018 (the March 2018 omnibus appropriations bill) included a 12.5 percent increase in LIHTC allocations for the next four years to finance more projects. Although this change is estimated to produce an additional 28,400 affordable units, it will have little effect on the pricing of credits and investor tax benefits and will not close the estimated gap created by the TCJA.
A Deepening Crisis: Increasing Rents and Diminishing Resources

This uncertainty around future LIHTC production comes at a time of a deepening affordable rental housing shortfalls: only 21 affordable units are available for every 100 extremely low-income households (Getsinger et al. 2017). Millions of American renters are paying more than they can afford to keep a roof over their heads. In 2015, 8.3 million low-income renter households did not receive any government assistance to help them pay their rent and ended up paying over half of their income on housing or lived in poor-quality housing. And as rents have been increasing, renter incomes have stagnated, and the share of renters paying too much for rent has skyrocketed (figure 1; Joint Center for Housing Studies 2017).

FIGURE 1
Renter Incomes, Housing Costs, and Cost Burdens in Constant 2016 Dollars, 2000–16
Rising rents plus stagnating incomes means a higher share of renters pay more than they can afford

Notes: Median costs and household incomes are in constant 2016 dollars, adjusted for inflation using the CPI-U for All Items. Housing costs include cash rent and utilities. Cost-burdened households pay more than 30 percent of their income for housing. Households with zero or negative income are assumed to have severe burdens; households paying no cash rent are assumed to be without burdens. Indexed values represent cumulative percent change. Data are tabulated from US Census Bureau, American Community Surveys.
Source: Adapted with permission from Harvard Joint Center for Housing Studies, America’s Rental Housing 2017, www.jchs.harvard.edu. All rights reserved.
The inability to afford rent comes with severe consequences for families (Scally et al. 2018). They may start to cut costs elsewhere, often food or health expenses. This may lead to increased reliance on other safety net programs, filling gaps for food, health care, and income with assistance from the Supplemental Nutrition Assistance Program (SNAP), Medicaid, and Temporary Assistance for Needy Families (TANF). A family’s risk of eviction also increases when they can’t afford rent, particularly after experiencing job loss or if the family has several children. An eviction record can be grounds for denying housing assistance and can increase the chance of living in substandard housing conditions in the future (Desmond and Gershenson 2016). The inability to pay rent can also cause families to double-up in houses or become homeless, contributing to increased use of shelters, emergency rooms, and local jails (Culhane, Metraux, and Hadley 2002).

Federal housing assistance programs aim to ensure that those who receive assistance have decent, safe, and affordable housing (Scally et al. 2018). Unlike most other safety net programs, however, housing assistance is not an entitlement: it does not provide benefits to all who are eligible. In fact, only about 20 percent of households that qualify for housing assistance actually receive any (Kingsley 2017).

Despite the affordability crisis, most government resources for preserving and building rental housing that is affordable to the lowest-income households have dried up. Federal public housing construction has seen almost no new funding in nearly 40 years; current funding for public housing is primarily for maintenance and operations of existing properties, and even this is extremely inadequate (Scally et al. 2018). Funding for smaller programs that give construction grants and loans to private owners have dried up, too.

If LIHTC investments falter, developers will not build more affordable rental housing and we will lose existing units. Other sources of funding will be necessary to make properties financially feasible (box 2). Developers may need to tap other traditional sources further, including the federal HOME Investment Partnerships Program (HOME) and the Community Development Block Grants (CDBGs) to states and cities and other state and local funding sources such as housing trust funds. New sources like the National Housing Trust Fund may also be used to bolster LIHTC projects. However, many of these other sources are also threatened by tax reform and proposed budget cuts. As a result, we may need innovative efforts to fill gaps, such as the federal Tax Credit Exchange Program (TCEP) and the Tax Credit Assistance Program (TCAP), which were designed to sustain LIHTC during the Great Recession and are discussed in greater detail later in this report.
Key Housing Funds Used in LIHTC Projects

The **HOME Investment Partnerships Program** (HOME) provides at least $3 million annually through HUD to each eligible jurisdiction in the US, including all 50 states and the District of Columbia. These block grant funds can be used flexibly for a range of eligible activities according to the jurisdiction’s Consolidated Plan. HOME is an ideal source of gap financing for LIHTC projects because of this flexibility (funds can be used for anything from security deposits to loan guarantees) and because certain criteria (including the low-income set-aside) align between the programs.

The **Community Development Block Grant** (CDBG) is another flexible source of HUD funding. Since its beginning in 1974, the CDBG has been an important funding stream that communities use to address a variety of eligible community development needs, including affordable housing. In fiscal year 2018, $3.4 billion was allocated to 1,209 eligible jurisdictions through this program. Although program requirements stipulate a higher percentage of units must be set aside for low-income households (making it a less flexible program than HOME), the CDBG is still an important potential source of LIHTC funding.

**State Housing Trust Funds** exist in 47 states and the District of Columbia to promote affordable housing within their jurisdictions. Most are operated by a public or quasi-public agency, and their programs differ depending on state regulatory, tax, and policy environments. Eligible activities typically include rehabilitation and new construction, which pair well with LIHTC projects.

The **Affordable Housing Program of the Federal Home Loan Banks** began in 1990 following the passage of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Ten percent of Federal Home Loan Banks’ net income funds this program, which granted $324 million in subsidies in 2016, making it the single largest private source of affordable housing funds. Funds are disbursed based on local preferences to address specific community needs.

The **National Housing Trust Fund** was created by the Housing and Economic Recovery Act of 2008. In 2017, $219 million were allocated to states, which are required to dedicate at least 80 percent of their grant to rental housing. Units assisted through these funds, through new construction or rehabilitation, are also subject to a 30-year affordability period.

Why LIHTC Matters to the Safety Net

Federal funding for large-scale construction of public housing ended in 1973, when President Nixon issued a moratorium on funding new projects. Beginning in earnest with the creation of the Project-Based Section 8 Rental Assistance program launched in 1974, the model of providing affordable rental housing has permanently shifted away from one of public finance for public ownership and management of units toward private investments in privately owned (and sometimes partially publicly owned) units. LIHTC has become the most enduring and prolific source of funding for new affordable rental units as well as a key resource for preserving public housing and other assisted housing units. Although it is a critical resource, LIHTC differs from these other housing programs in key ways, leaving it open to criticism that it fails to serve the lowest-income households at the lowest cost to government (Scally, Gold, and DuBois 2018). As a tax credit, it is also vulnerable to market downturns and changes to the tax code.

Private Investments Reduce Federal Costs

As a tax credit program, LIHTC is substantially different than other federal rental housing programs, which include public housing, project-based rental assistance for privately-owned housing, and rental assistance programs such as vouchers (box 3). Because it is executed through the tax code, LIHTC does not show up in the federal budget with a price tag attached. Instead, its capacity is directly affected by changes in tax policy. The government still incurs a cost, however, in the form of forgone tax revenue that would otherwise have been received from LIHTC investors (figure 2). Today, more is expended on LIHTC in forgone taxes (about $8.1 billion) than is spent directly on public housing capital and operating costs (about $6.3 billion). Although overall LIHTC costs appear to be about one-fifth the cost of all other major federal housing assistance programs combined, overlap with other federal housing assistance programs (anywhere from 18 to 70 percent of LIHTC residents receive other rental assistance) makes it difficult to disentangle cost by program (Scally, Gold, and DuBois 2018).
FIGURE 2

Federal Housing Program Costs, 2017

Federal costs for housing programs outweigh forgone tax revenues from LIHTC, though some programs overlap.

Notes: LIHTC and rental housing bonds (in yellow) are tax incentive programs operated by the Treasury. “Expenditures” on these programs are therefore estimates of forgone tax revenues. The public housing funds, project-based rental assistance and tenant-based rental assistance (in blue) all fall under the HUD budget, which is allocated and appropriated by Congress annually.
Sources: US Department of the Treasury (2015); National Low Income Housing Coalition (2018).

BOX 3

Major Federal Housing Assistance Programs

Public housing is the oldest federal housing assistance program. Properties are financed directly by the federal government (both their capital costs and operations) and are owned and operated by local housing authorities. Over 3,000 housing authorities manage approximately 1.0 million public housing rental units today, providing housing for extremely low-income families, the elderly, and people with disabilities. Current funding, with a very few exceptions, is for maintenance and operations of existing properties only.

Project-based rental assistance programs provide long-term contracts to private property owners that fund housing assistance to eligible tenants living in their units in exchange for designating the units for...
low-income households and following program rules. The Project Based Section 8 Rental Assistance program is the largest of these, currently providing affordable housing to 1.2 million households affordably. The Section 202 Housing for the Elderly and Section 811 Housing for People with Disabilities programs provide affordable rental units to help eligible individuals in these groups live independently through long-term rental assistance for tenants as well as capital grants for construction.

The Housing Choice Voucher Program (formerly the Section 8 Voucher) is the largest housing assistance program, helping 2.3 million low-income households afford rent in the private market. Like public housing, vouchers are funded by the federal government and administered locally by housing authorities. However, voucher recipients choose their own rental home, and the federal government makes supplemental rent payments to their landlords.

Source: Scally et al. (2018)

More Units Than Any Other Federal Housing Program

In part because of the nature of its financing (it does not require permanent affordability or ongoing deep subsidies so that extremely low-income households can afford the rent, although many do receive these subsidies from other sources), LIHTC has financed more units than any other construction and preservation program that operates today (Scally, Gold, and DuBois 2018). Over 2.3 million units have received investments, and some of these have received more than one, although some units are no longer subject to affordability restrictions. Since 1995, about 110,000 units receive new investments each year with the exception of a production downtown during the Great Recession (HUD 2015a). In contrast, public housing peaked at 1.4 million units in the mid-1990s and is down to under 1.0 million today. Project-based rental assistance covers another 1.2 million units: Section 202 has supported around 400,000 units from its creation in 1959 until 2009, and Section 811 produced 30,000 units and 14,000 vouchers since its creation in 1990 (Schwartz 2015). All of these programs, however, come with long-term contracts (or permanent contracts, in the case of public housing) committing deep ongoing federal subsidies to help cover the rent for extremely poor households.

Widespread Support Promotes Program Longevity

LIHTC has staying power. It is the longest running national affordable rental housing program producing new units: public housing primarily funded new units for 25 years (1949–73) and the Project Based Section 8 Rental Assistance program only generated new units for 10 years (1974–83). Most smaller project-based rental assistance programs have had no new funding for construction over the
past few years. This is at least in part because of the federal government’s unwillingness to fund ongoing subsidies that are necessary to supplement rents in new buildings built under these programs. The LIHTC program’s longevity stems from bipartisan support, homebuilding industry support, and a history of strong program performance, all of which have been difficult to achieve for other federal housing programs (Collinson, Ellen and Ludwig 2015; von Hoffman 2000). LIHTC appeals to a more progressive agenda of increasing the supply of affordable rental housing, but it also supports the more fiscally conservative goal of minimizing the cost to government while leveraging private investment. It also allows a strong role for state governments in setting priorities and administering the program while requiring minimal HUD involvement (Ellen et. al 2015). LIHTC functions smoothly from a federal perspective, consistently producing around 110,000 units a year and serving low-income households with little federal intervention. Investors are also satisfied with high rates of project success, including extremely low foreclosure rates or project failures (CohnReznick 2017).

Preserves Critical Supply of Existing Subsidized Units

Although other sources of funding for affordable rental housing have declined, LIHTC has become the most critical method of preserving and expanding the stock of affordable rental housing. From redeveloping public housing to preserving project-based rental assistance properties, from expanding rural rental housing to assisting with disaster recovery, LIHTC is leveraged to supplement and even take the place of other housing investments in order to continue to make affordable units available.

**Public housing.** LIHTC has supported the redevelopment and transformation of public housing, beginning with HOPE VI in 1992 and continuing with its successor program, Choice Neighborhoods, in 2010. Both programs aimed to address deteriorating public housing conditions by awarding grants to housing authorities to improve existing public housing units, develop mixed-income communities, and provide some supportive services and other living improvements for tenants. A GAO report found that the bulk of the leveraged funding for HOPE VI redevelopment came from federal sources, including LIHTC (GAO 2002; Popkin et al. 2004). Choice Neighborhoods grantees also relied heavily on LIHTC to fund projects (Urban Institute and MDRC 2015). More recently, LIHTC has been leveraged through the Rental Assistance Demonstration, a regulatory change that now allows housing authorities to fully or partially convert their stock of public housing to project-based Section 8 contracts in order to attract private capital investments not allowed in the public housing program. The Consolidated and Further Continuing Appropriations Act in 2015 lifted the ceiling to allow 185,000 public housing units to convert through RAD (HUD 2015b). At this point, LIHTC equity accounted for nearly 40 percent of the
external funding for RAD projects (Econometrica 2016). For example, when the Housing Authority of DeKalb County in Georgia converted their portfolio through RAD, they used the 9 percent credit to finance the creation of an 80-unit senior housing complex, with 75 units designated as affordable—25 supported by RAD and 50 supported through project-based vouchers (figure 3). LIHTC was also used to preserve 184 units in St. Petersburg, FL (figure 4). The project cost $24.2 million: 66 percent of funding came from tax credits, 24 percent came from the housing authority, and 9 percent came from other sources.

**Project-based rental assistance.** Leveraging funding through LIHTC is allowed by the three primary project-based rental assistance programs, including Section 8 Project-Based Rental Assistance, Section 202 Housing for the Elderly, and Section 811 Housing for People with Disabilities (Scally, Gold, and DuBois 2018). For example, when the Peter Sanborn Place in Massachusetts, a Section 202 development, was in need of substantial capital improvements to continue to properly serve its residents, LIHTC was used for preservation (LISC 2005).

**Housing Choice Vouchers.** Even with the affordability requirements, LIHTC units can be too expensive for some low-income individuals and families. Some qualified renters receive additional rental assistance to fill this gap. It is difficult to determine how prevalent this phenomenon is because of incomplete, often self-reported, data. For example, in the 23 states that reported on it, about half of renters living in LIHTC units reported that they were receiving assistance through Housing Choice Vouchers or lived in an assisted unit with a project-based voucher (Hollar 2014). Another 2009 study from Florida, however, found that only 16 percent of residents in LIHTC units had vouchers (Williamson, Smith, and Strambi-Kramer 2009).
**FIGURE 3**
LIHTC Property in DeKalb County, GA

Source: "DeKalb County, Georgia, Uses Rental Assistance Demonstration Program to Expand Housing Options." Washington, DC: U.S. Housing and Urban Development.

**Rural rental housing.** LIHTC has been essential for preserving and expanding the supply of affordable rural rental housing. Almost 100 percent of all US Department of Agriculture Section 538 guaranteed loans made for new construction and preservation have relied on LIHTC to provide equity (Scally and Lipsetz 2017). Twenty rural rental housing properties with almost 800 units across 16 counties in Tennessee were renovated and preserved in 2015 as long-term affordable rental housing with the help of $28 million in tax-exempt bonds and $16 million of equity generated from 4 percent LIHTC credits. About 84 percent of the units receive Section 521 Rental Assistance provided by the USDA Rural Rental Housing Service to be affordable to low-income individuals and families.11
Disaster recovery. Some jurisdictions have leveraged LIHTC with the allocations they receive from HUD following a disaster, through the Community Development Block Grant Disaster Recovery program. For example, the Louisiana used LIHTC following Hurricane Katrina to leverage $1.1 billion in tax credit equity to support the creation of 8,448 new units, 63 percent of which were designated as affordable (Latour 2012). Financed properties include the Preserve (figure 5), which leveraged $1.5 million in tax credits and $15.9 million from the Community Development Block Grant Disaster Recovery program, opening in February 2009.
FIGURE 5
The Preserve, Louisiana

BOX 4

Program Challenges

Despite its successes, LIHTC continues to face challenges both old and new. Six main challenges are highlighted below and discussed in more detail in an accompanying paper, *The Low-Income Housing Tax Credit: How It Works and Who It Serves* (Scally, Gold, and DuBois 2018):

1. **Units are not required to be permanently affordable.** Instead, units are only required to be affordable for a total of 30 years, although many need new investments after just 15 years, when investors have met their compliance obligation and want to withdraw their initial investment.

2. **LIHTC does not serve the lowest-income households well.** Because of the program’s requirements, LIHTC properties often serve households earning an average of 60 percent of the median income in the surrounding metropolitan area. This means new affordable units are not being built for households earning less than that.

3. **LIHTC is an economically inefficient method for producing affordable rental housing.** Higher costs are driven by a lengthy and complex process of allocating and awarding tax credits, which drive up legal and other transaction costs. LIHTC projects have few incentives to keep costs low.

4. **The program structure can promote the concentration of units in poorer places.** Although the program only requires that 40 percent or less of the total units in the property be set aside as affordable, many properties are developed with affordability restrictions on all units to maximize the equity investment because only the affordable units qualify for tax credits.

5. **Community opposition can stymie LIHTC development in places that may need it.** Opposition—ranging from regulatory barriers preventing construction or driving up costs to active protests against affordable housing properties and tenants—influences the development and geographic distribution of LIHTC units (Scally and Tighe 2015).

6. **LIHTC investments have promoted racial segregation, a repeated legal problem for affordable rental housing developments over the years.** In Texas, a disproportionate number of LIHTC units were awarded in black urban communities versus white suburban communities in violation of the Fair Housing Act.⁴

**Note:**

The Location and Timing of Past LIHTC Production

In this section, we analyze the distribution of LIHTC properties and units with a focus on newly constructed properties placed in service between 2000 and 2015. Data sources and limitations are detailed in the appendix. Our findings reinforce existing knowledge about LIHTC: it has played a crucial role in funding affordable housing in the face of declining federal resources, but context matters. Some rural communities rely heavily on LIHTC to support their rental markets and are likely to be negatively affected by any future downturns in program activity. LIHTC production has fluctuated in the past along with market conditions, experiencing a sharp downturn during the Great Recession. We can look to past federal actions during the Great Recession for hints on how to fend off future slowdowns.

LIHTC Investments Build Many New Affordable Rental Units and Preserve Existing Ones, but They Are Not Permanent Solutions

Since 1987, the LIHTC program has created or preserved 37,727 unique properties and an estimated 2.3 million units nationwide. Most counties (87 percent) have at least one LIHTC-financed property (figure 6). Almost three-quarters of counties with LIHTC activity have relatively few units placed in service (between 1 and 500), and only 1 percent of counties with LIHTC activity have more than 10,000 units.

Not surprisingly, states with larger populations (and therefore larger allocations of 9 percent tax credits) have more LIHTC activity, such as California, Texas, New York, and Florida. Los Angeles has had the largest number of LIHTC units since 1987, followed by Cook County, Illinois, and New York County, New York.

Although almost 31,000 properties with an estimated 2.0 million units are still active as of 2015, at least 835 properties with more than 49,000 units were inactive and have left the program, and another 6,000 properties with almost 200,000 units were inconclusive when the data were pulled, meaning that it is not clear whether they are still available LIHTC units (table 1). Because properties are not tracked by HUD after the end of the federal 30-year affordability period, it is unknown whether or not some of these units have been preserved as affordable rental housing through other subsidy programs or if they
have converted to market-rate units. The National Low Income Housing Coalition estimates that the affordability period for over 115,000 LIHTC units will expire within the next five years.

FIGURE 6
All LIHTC Units Financed between 1987 and 2015, by County

TABLE 1
All Active, Inconclusive, and Inactive LIHTC Properties Financed between 1987 and 2015

<table>
<thead>
<tr>
<th>Status</th>
<th>Total properties</th>
<th>Percent</th>
<th>Total units</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active</td>
<td>30,903</td>
<td>82</td>
<td>2,056,297</td>
<td>89</td>
</tr>
<tr>
<td>Inconclusive</td>
<td>5,989</td>
<td>16</td>
<td>195,148</td>
<td>8</td>
</tr>
<tr>
<td>Inactive</td>
<td>835</td>
<td>2</td>
<td>49,101</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>37,727</td>
<td>100</td>
<td>2,300,546</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Total units use the assisted unit information for only one LIHTC tax credit. For properties with two recent LIHTC tax credits, the greater assisted unit count is used. Other levels of analysis in this report, such as when we consider only active properties or post-2000 properties, also use the assisted unit information for only one LIHTC tax credit.
LIHTC Is Critical to Rural Counties That May Be Vulnerable to Declines in Program Investments

For 75 percent of counties with active LIHTC properties, these affordable units account for less than 6 percent of their total rental housing stock (figure 7). However, for about 3 percent of counties with one or more active LIHTC properties (mostly rural counties), 12 percent of rental units are financed by LIHTC (table 2). These high-share counties, with more than 12 percent of rental units financed by LIHTC, include Sioux County, North Dakota (24.9 percent); Fredericksburg City, Virginia (24.5 percent); and Corson County, South Dakota (24.4 percent). High-share counties are also disproportionately located in the South (67 percent).

**FIGURE 7**

Active LIHTC units, 1987–2015, as a Share of Total Rental Units

![Map of LIHTC units](image)

Source: Urban Institute analysis of data from the National Housing Preservation Database, 2017, and from the American Community Survey 2012–16 five-year estimates.
TABLE 2


<table>
<thead>
<tr>
<th>Status</th>
<th>High-Share Counties (n=69)</th>
<th>Non-High-Share Counties (n=2,607)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># of counties</td>
<td>Percent</td>
</tr>
<tr>
<td>Urban</td>
<td>18</td>
<td>26</td>
</tr>
<tr>
<td>Rural</td>
<td>51</td>
<td>74</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Urban Institute analysis of data from the National Housing Preservation Database, updated 2017, as well as Office of Management and Budget classifications to define counties as either urban or rural.

**Note:** “High share” refers to counties having at least 12 percent of the entire rental housing stock financed by active LIHTC investments. “Non–high share” refers to all remaining counties with less than 12 percent of their entire rental housing stock financed by active LIHTC investments.

Although LIHTC units might represent a higher share of rural rental units because rural communities have fewer rental units overall, we find other reasons behind these numbers. LIHTC projects in these 51 high-share communities also tend to be larger than those in other rural communities with fewer LIHTC developments: they have an average of 245 LIHTC assisted units per property whereas the other 1,526 rural counties only average 146 LIHTC assisted units per property, a statistically significant difference. Compared with these other rural counties, the 51 high-share counties also have a smaller number of total rental units on average, a smaller total population, a larger proportion of the population that is Black or Hispanic, a smaller proportion of the population that is white, and higher poverty and unemployment rates (table 3). These represent communities, such as Choctaw County, Alabama, and Corson County, South Dakota (box 5), where affordable housing may be at risk if the LIHTC program experiences a future decline in investments in new properties.

TABLE 3


<table>
<thead>
<tr>
<th></th>
<th># of counties</th>
<th>Total rental units</th>
<th>% white</th>
<th>% black</th>
<th>% Hispanic</th>
<th>Total population</th>
<th>Poverty rate (%)</th>
<th>Unemployment rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural high-share</td>
<td>51</td>
<td>1,709</td>
<td>63*</td>
<td>25*</td>
<td>10</td>
<td>14,377</td>
<td>23*</td>
<td>11*</td>
</tr>
<tr>
<td>Rural non–high share</td>
<td>1,526</td>
<td>3,460</td>
<td>84*</td>
<td>9*</td>
<td>9</td>
<td>28,077</td>
<td>18*</td>
<td>7*</td>
</tr>
<tr>
<td>Total</td>
<td>1,577</td>
<td>3,404</td>
<td>84</td>
<td>9</td>
<td>8</td>
<td>27,634</td>
<td>18</td>
<td>7</td>
</tr>
</tbody>
</table>

**Source:** American Community Survey five-year estimates 2012–16; Office of Management and Budget classifications of rural; Urban Institute analysis of data from the National Housing Preservation Database, updated 2017.

**Note:** * Indicates statistically significant differences between high-share and non–high share characteristics. Significance testing is not possible for percent Hispanic because of missing margin-of-error estimates. Differences in average total population and average total rental units were not tested for significance because of a lack of guidance on aggregating margin-of-error estimates for averages.
BOX 5

Rural Spotlights: Choctaw County, Alabama and Corson County, South Dakota

**Choctaw County**, a rural county in southwestern Alabama, has a population of about 13,000. The population is older, is majority white with a high percentage of black residents, and has a high poverty rate, with more than one in five individuals living below the federal poverty level in 2016. According to the US Department of Agriculture Economic Research Service, the county faces persistent poverty, population loss, and low employment. The largest employer in the county is the Georgia Pacific Naheola Mill, which manufactures paper products and employs 800 people. Only about one-fifth of the county’s occupied housing stock is rental. Since 2000, all LIHTC activity in the county has been new construction, with four properties built that represented 14 percent of the county’s rental housing stock in 2016.

**Corson County**, a rural county in northern South Dakota located entirely within the Standing Rock Indian Reservation, has a population of about 4,000 that is younger and mostly Native American. Nearly half of the county’s population is in poverty, with the county facing persistent poverty, population loss, and low employment. Around a quarter of the workforce is employed in agriculture-related industries. Since 2000, LIHTC in the county has been a mix between new construction and preservation, representing almost a quarter of its rental housing stock in 2016. The Standing Rock Housing Authority, a Tribally Designated Housing Entity, owns three of the five LIHTC financed properties constructed or preserved since 2000 and has developed and managed 17 LIHTC properties across the reservation, which is split between South Dakota and North Dakota. Recently, South Dakota has started incentivizing LIHTC development in Corson County in its Qualified Allocation Plan by awarding additional points to proposed LIHTC projects that are located in a designated Indian Reservation.

*Source: EDPA (2017); SDHDA (2018); USDA (2015); American Community Survey five-year estimates 2012–16; “Agency Overview,” Standing Rock Housing Authority, accessed March 27, 2018, [http://standingrockhousing.org/Agency/about.aspx](http://standingrockhousing.org/Agency/about.aspx)*

The prevalence of LIHTC in rural areas varies across states (table 4). Some largely rural states have directed a large proportion of their LIHTC resources to rural counties. These include Wyoming, Montana, and Vermont, which locate over 50 percent of their LIHTC units in Office of Management and Budget–designated rural counties. These states with the largest share of LIHTC in rural areas also tend to have the largest share of total state rental units that are rural LIHTC (between 2 and 3 percent). States with the smallest share of LIHTC in rural areas also tend to have the smallest share of state rental units that are rural LIHTC, representing below half of 1 percent. Three states (Delaware, New Jersey, and Rhode Island) and the District of Columbia have no rural LIHTC units.
TABLE 4
Active Rural LIHTC Units, 1987–2015, as a Share of State Active LIHTC Units and Total Rental Units

<table>
<thead>
<tr>
<th>State</th>
<th>State's rank</th>
<th>Rural LIHTC share of state's total LIHTC units (%)</th>
<th>Rural LIHTC share of state's total rental units (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wyoming</td>
<td>1</td>
<td>61.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Montana</td>
<td>2</td>
<td>56.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Vermont</td>
<td>3</td>
<td>55.3</td>
<td>3.7</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>4</td>
<td>40.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Mississippi</td>
<td>5</td>
<td>38.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>6</td>
<td>36.7</td>
<td>1.5</td>
</tr>
<tr>
<td>North Dakota</td>
<td>7</td>
<td>34.9</td>
<td>1.6</td>
</tr>
<tr>
<td>South Dakota</td>
<td>8</td>
<td>33.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Idaho</td>
<td>9</td>
<td>32.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Arkansas</td>
<td>10</td>
<td>31.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Maryland</td>
<td>42</td>
<td>4.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Connecticut</td>
<td>43</td>
<td>3.2</td>
<td>0.1</td>
</tr>
<tr>
<td>New York</td>
<td>44</td>
<td>3.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Florida</td>
<td>45</td>
<td>2.8</td>
<td>0.2</td>
</tr>
<tr>
<td>California</td>
<td>46</td>
<td>2.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>47</td>
<td>1.1</td>
<td>0.04</td>
</tr>
<tr>
<td>Delaware</td>
<td>48</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>49</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>New Jersey</td>
<td>50</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>51</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Urban Institute analysis of data from the National Housing Preservation Database, updated 2017; Office of Management and Budget classifications of rural counties; American Community Survey five-year estimates 2012–16.

Note: Rural LIHTC units are those located in a state’s rural counties, as defined by Office of Management and Budget classifications of counties as urban or rural.

LIHTC Production Declined Sharply during the Great Recession, Reflecting Overall Downturns in Multifamily Construction and Private Investments

During the Great Recession, all housing construction slowed considerably. Multifamily housing construction did not falter as much as single-family starts, but it still fell 68 percent, from 335,500 housing unit starts in 2005 to 108,900 in 2009 (figure 8). LIHTC production and preservation slowed as well, dropping 47 percent from a program peak of 116,175 units in 2004 down to 61,400 units in 2010. Although there has been some recovery since 2010, it is unclear whether recovery has been sustained or has improved because only partial data are available beyond 2012 (figure 9).
The market for LIHTC investments reflected the national slowdown, and prices for LIHTC fell between 2007 and 2010, decreasing from about $1.00 per dollar of LIHTC credit to about $0.80. Before this, government-sponsored enterprises had been responsible for about 40 percent of LIHTC investments, making them the single largest investors in the market (Schwartz 2015). In 2008, however, the US government had to bail out Fannie Mae and Freddie Mac and placed them in conservatorship. Afterwards, neither could make investments in tax credits. Additionally, many large financial institutions (other frequent investors in LIHTC) collapsed over this period or stopped needing to invest in LIHTC after the crash, leading to reduced demand for tax credits (Schwartz 2015). The market for LIHTC investment began to recover by the second half of 2011. Although prices vary somewhat by geography, by late 2011 the price per dollar of tax credit exceeded $1.00 in major metropolitan areas on the East and West coasts (Schwartz 2015). In November 2017, the Federal Housing Finance Agency allowed Fannie and Freddie to enter the LIHTC market again and start making equity investments.  

17
If LIHTC Investments Slow in the Future, Innovative Programs Could Help Fill the Gap

The American Recovery and Reinvestment Act of 2009 authorized two separate programs to offset declining LIHTC investments during the downturn: the Tax Credit Exchange Program (TCEP) and the Tax Credit Assistance Program (TCAP). TCEP allowed state housing finance agencies to exchange unused or returned 9 percent credits from 2007 through 2009 for a grant from the US Treasury. TCAP provided $2.25 billion to HUD to distribute through the federal HOME program, according to a formula, for state housing agencies to use for capital investments in LIHTC projects funded between October 2006 and September 2009.¹⁸
TCEP helped finance 911 unique active LIHTC properties and 73,580 low-income units, representing 5 percent of all properties financed between 2000 to 2015 and 6 percent of all units (table 5). Seventy-five percent of units were new construction; 25 percent were preservation.

Using data available on HUD’s website, we found that TCAP financed 859 active LIHTC projects and 62,279 units between 2000 and 2015 to fill gaps left in those projects by missing private equity investors. The majority of financed units were new construction (59 percent), and TCAP funded units in all 50 states (as well as the District of Columbia and Puerto Rico). On average, TCAP financed almost 1,200 units per state, though 13 percent of all units (8,119) are in Texas. In some instances, TCAP may have been used to preserve existing LIHTC properties or in combination with TCEP financed properties. By 2012, the last year for which public data are available, only 193 projects and 14,590 units had been completed (23 percent of all estimated units).

### TABLE 5
Active LIHTC Properties by Program Type, 2000–2015

<table>
<thead>
<tr>
<th>Program type</th>
<th>Total properties</th>
<th>Percent</th>
<th>Total units</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>9% competitive tax credit</td>
<td>8,277</td>
<td>47</td>
<td>452,226</td>
<td>35</td>
</tr>
<tr>
<td>4% tax credit with bonds</td>
<td>5,168</td>
<td>30</td>
<td>564,671</td>
<td>44</td>
</tr>
<tr>
<td>Tax Credit Exchange Program</td>
<td>911</td>
<td>5</td>
<td>73,580</td>
<td>6</td>
</tr>
<tr>
<td>Other program type</td>
<td>2,250</td>
<td>13</td>
<td>140,092</td>
<td>11</td>
</tr>
<tr>
<td>Missing program type</td>
<td>868</td>
<td>5</td>
<td>57,481</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total unique properties</strong></td>
<td>17,474</td>
<td>100</td>
<td>1,288,050</td>
<td>100</td>
</tr>
<tr>
<td>Tax Credit Assistance Program</td>
<td>859</td>
<td>NA</td>
<td>62,279</td>
<td>NA</td>
</tr>
</tbody>
</table>

**Source:** Urban Institute analysis of data from the National Housing Preservation Database (NHPD), updated 2017.

**Note:** NA = not applicable. Counts above the total line are mutually exclusive. However, the Tax Credit Assistance Program (TCAP) data are stored separately. Subsequently, TCAP property and unit counts represent unique projects and not necessarily unique properties, as TCAP funding may have been used to preserve existing units or may have been used in combination with the Tax Credit Exchange Program. Comparing activity names in the TCAP data with property names in the NHPD data, about 35 of the 868 NHPD properties with a missing program type appear to have had TCAP funding. Since address information is not available in the TCAP data, though, we cannot say for certain how many of the 868 properties had TCAP funding.

No data are available to prove that units receiving TCEP or TCAP funding would not have been built without these investments, however, the two programs were introduced as partial solutions to declining LIHTC investments. But given the extent of the downturn in LIHTC projects (figure 9) and the concentrated time frame for deploying these funds, it is reasonable to assume that LIHTC production and preservation numbers may have been worse without them. More monitoring and robust evaluation in the future could disentangle whether such programs are truly effective at closing gaps left by declining investment in LIHTC.
Looking Forward

LIHTC has become an integral part of the housing safety net in the United States. Providing affordable rental housing for millions of low-income families across the country, it is the only constant source of affordable rental housing development capital for the construction of new units and the preservation of existing subsidized ones.

When LIHTC is working well, it adds to the stock of affordable units and preserves older ones consistently every year. Even then, however, it still faces challenges of economic inefficiency and its inability to provide affordable rents to the lowest-income households without additional federal rental assistance. It has also suffered from spatial concentration in some of the poorest neighborhoods and often works along segregated lines.

When LIHTC is not working well—when prices plummet or investors pull out—the construction and preservation of affordable rental housing slows across the US, meaning critical units are lost for good, lack necessary repairs or rehabilitation, or simply are not constructed where they are needed. It has faltered significantly in the past during extraordinary economic conditions, and the impact of the TCJA on the program is still uncertain. If LIHTC investments falter in the future, some places may be more vulnerable than others. Below, we highlight a few key lessons and concerns to note as we look forward to the future of this critical program.

The fate of LIHTC is intertwined with that of other federal housing programs. LIHTC has created or preserved an estimated 2.3 million affordable units since 1987, but it frequently leverages other federal funding such as HOME and, more recently, the National Housing Trust Fund to do so. Tax credits are also leveraged to redevelop public housing and used in tandem with rental assistance programs such as the Project-Based Section 8 Rental Assistance program and Housing Choice Vouchers. Although LIHTC has been very successful in its ability to produce and preserve affordable units over the past 30 years, it frequently relies on other federal housing programs to fill gaps in project financing. If other federal housing programs get cut, LIHTC may shift more toward preservation, financing the capital requirements of a building without the additional subsidies needed to reach the lowest-income households. This could mean fewer investments in the new construction of additional supply, fewer units available to extremely low-income households, and an overall stagnating supply of affordable rental housing across the US.

Economic recessions, or other conditions that give equity investors cold feet, threaten LIHTC production. LIHTC production declined definitively during the Great Recession. Some of this may have
been the result of an overall decline in housing production as housing starts (including multifamily starts) slowed considerably between 2005 and 2009. Investor financial insecurity also contributed to reduced demand in tax credits specifically, as many traditional investors (such as government-sponsored enterprises or banks) collapsed or stopped investing in tax credits.

Although the federal government stepped in to sustain LIHTC production during the Great Recession, private sector investment is key to its long-term sustainability. We still do not know how TCJA will affect the LIHTC program, but changes to the incentive structure for corporate investment in LIHTC might change the program’s output and sustainability. It is also unclear how state priorities may change if preservation or new construction will be favored or how the 9 percent and 4 percent credits will fare under new tax regulations (Keightley 2018).

To adequately track changes in output across this important program, we need to overcome data limitations. HUD’s LIHTC database was last updated in 2015, and that update lags three to four additional years. As the largest affordable rental housing production and preservation program in the country, this is an area of concern. Not only do data limitations stymie efforts to evaluate the LIHTC program, poor tracking of LIHTC investments erodes investor and taxpayer confidence that their money is being tracked and wisely invested. One possible solution would be to increase reporting requirements to track all projects annually and to expand the data requested. The GAO has previously called for Congress to authorize HUD as a joint administrator of the LIHTC program with the IRS to add additional oversight (GAO 2015), although this has not yet been accomplished.

We need more policy solutions for improving LIHTC. LIHTC is central to the preservation and production of affordable rental housing across the US, yet it was absent from the considerations around the TCJA. It has faced struggles in generating private investment before, and it will continue to do so. The TCEP and the TCAP were innovative solutions implemented during one such period of struggle, the Great Recession, but they were only temporary and did not come close to addressing affordable housing needs across the county. We need longer-term solutions to maximize the LIHTC’s effectiveness and minimize negative effects from future investment shocks. The future of LIHTC should be shaped by answers to key questions about its past achievements:

- Within which types of housing markets does LIHTC work best? Where does it fill an important void in creating or preserving a supply of long-term affordable units? Where is LIHTC investment needed but missing?
- How dependent is LIHTC on other federal funding streams, including capital development and rental assistance programs? How does this vary across geographies? How can this inform the distribution of federal resources to most efficiently support LIHTC properties?

- Taken together, where is LIHTC development and preservation most needed? How can states best target those areas through the allocation process of both LIHTC and other federal funding streams under their jurisdiction?
Appendix: Data Overview

The following report sections use existing geo-coded national data to examine the spatial distribution of LIHTC properties and units to understand past patterns of production and discuss possible implications for the uncertain future. A full discussion of the data is available in the accompanying technical documentation (Gold et al. 2018).

Data Sources

National Housing Preservation Database

Our analysis relies on data from the National Housing Preservation Database (NHPD). The NHPD draws data about each financial deal from the HUD LIHTC database, which collects information each time a tax credit is processed on a property. The HUD LIHTC database intends to track production and preservation activity at the property level, collecting information each time a tax credit is processed on a property and then updating the existing record with any information that has changed. However, the database does include a number of duplicated records. The NHPD geocodes their data and aggregates records together that are at the same address to create unduplicated property-level counts of properties and units that have received any LIHTC investment. The NHPD also excludes properties with missing or incomplete address data. This means that the NHPD reports fewer total properties and units compared with HUD’s LIHTC database.

This analysis uses the NHPD’s unduplicated count of LIHTC properties and assisted units, which provide the total number of units that benefit from a LIHTC subsidy. A property and its units can receive more than one LIHTC subsidy, and up to two subsidies will be included in the NHPD. To establish the whole universe of assisted units (figure 6 and table 1), we discuss total units as the greater number of assisted units across the two most recent tax credits on a property. For all other levels of analysis in this report, such as when we consider only active properties or post-2000 properties, we use the assisted unit information for only one LIHTC tax credit.

In addition to providing an unduplicated count of LIHTC properties and assisted units over time, the NHPD has systematically geo-coded property addresses to address gaps in HUD’s LIHTC database. We rely on the NHPD for these data as well as to determine the current status of properties in the LIHTC
program, identify properties as new construction or preservation, and determine the type of tax credit investment.

**Tax Credit Exchange Program and Tax Credit Assistance Program**

The American Recovery and Reinvestment Act of 2009 authorized two programs to offset declining LIHTC investments during the Great Recession: the TCEP and the Tax TCAP. Data on the TCEP are available in the NHPD, but data on the TCAP are not. TCAP data are publicly available, though, on HUD’s website. Because they are not included in the NHPD, these TCAP data represent unique transactions rather than unique properties, and TCAP property and unit counts may not be unduplicated. The TCAP data were last updated in 2012.

**American Community Survey**

A variety of demographic and housing characteristics were selected from the American Community Survey five-year estimates for 2012–16, primarily for four local profiles described in the report. Data pulled include population size, race and ethnicity, poverty rate, unemployment rate, median age, total county rental units, median gross rent, total county occupied housing units, and total county occupied rental housing units.

**Office of Management and Budget County Classification**

To explore variation across different geographies, we rely on the Office of Management and Budget 2013 classification of counties as either metropolitan or nonmetropolitan. We define counties with a metropolitan classification as “urban” and counties with a nonmetropolitan classification as “rural.”

**Limitations**

Our study has several limitations because of its data sources and project scope.

**Detailed information is available for the two most recent LIHTC tax credits only.** The NHPD’s property-level file only includes information on up to the two most recent LIHTC tax credits on a property. If a property has had more than two LIHTC investments, detailed information, such as type of tax credit, the number of assisted units, and construction type, is not available in the property-level file. Consequently, we may undercount the number of units subsidized if additional tax credits financed a
larger number of units than either of the two unit counts included in the property-level file. However, only 2 percent of properties have more than two tax credits, so the possibility of undercounting would affect a small number of properties.

**Recent LIHTC investments are undercounted in published national data.** Publicly available data on LIHTC are limited by undercounting in recent years. The HUD LIHTC database was last updated in fall 2016, reflecting properties placed in service in 2015. For a property to be reported as “placed in service,” it must meet stringent legal requirements. For most local agencies, it generally takes three to four years to meet the requirements to report a property as “placed in service,” which results in a corresponding lag in the database. The information on the properties that submitted to the database between 2013 and 2015 are accurate, but they do not reflect the full portfolio of LIHTC projects placed in service during those years. The full universe of properties placed in service is only complete through 2012. More details on LIHTC data and its limitations are discussed in an accompanying technical report (Gold et al. 2018).

**Properties that stop receiving the LIHTC.** Because LIHTC is not structured as a permanent investment, properties can exit the program once the compliance period is over and affordability restrictions are lifted. The NHPD defines a LIHTC tax credit as active if its expiration date, based on a 30-year affordability period, is in the future as of the most recent NHPD data refresh. If the expiration date is in the past, the year placed in service and year project received allocation are missing, or if the tax credit is classified as nonprogrammatic, the NHPD defines the property as inconclusive. All properties for which data is missing from subsequent NHPD data refreshes are labeled inactive. Inactive properties have left the LIHTC program; it is not clear if inconclusive properties still have LIHTC units.

**Missing data.** Missing data for older properties, such as those with tax credits dating before 2000, continues to be a challenge. Data quality for properties with a tax credit dating to 2000 or later is better, particularly for considering active properties with a start date of 2000 or later.

**Units can be financed by more than one LIHTC investment.** The NHPD includes assisted unit information for up to the two most recent LIHTC tax credits on a property. For properties with more than one LIHTC investment, the NHPD does not include data on which units were financed more than once. Summing LIHTC assisted units for the two most recent LIHTC tax credits therefore likely double-counts units, providing more of a global number of LIHTC-assisted units. We apply different levels of analysis to determine which tax credit to use for assisted-unit information to avoid double-counting.

**Geographic shifts over time are not captured.** Based on the structure of the NHPD, we do not know the precise year a property was first financed through a LIHTC investment. Some counties and census
tracts may have had a different Rural-Urban Commuting Area designation at the time of the initial investment. This analysis uses the 2013 Rural-Urban Commuting Area codes, which may not reflect the original environment in which the property was first financed with LIHTC.

**No analysis of factors influencing LIHTC distribution.** Our analysis is predominantly descriptive, outlining general trends and patterns of investment across the country and over time. However, the distribution of properties and units can be influenced by any number of positive factors (e.g., need for housing or state priorities) and negative factors (e.g., discrimination or community opposition). This study does not shed light of these factors beyond two local case studies (Choctaw County, Alabama, and Corson County, South Dakota).

**No analysis of impact of LIHTC on communities.** Moreover, our analysis does not look at the impact of LIHTC in communities. Subsequently, we do not explore issues surrounding poverty and segregation that could be exacerbated or curtailed by new construction through this program.
Notes


4 Michael Novogradac, “Final Tax Reform Bill Would Reduce Affordable Rental Housing Production by Nearly 235,000 Homes.”

5 Michael Novogradac and Peter Lawrence, “Omnibus Spending Bill Contains Affordable Housing Credit Improvement Act Provisions,” Notes from Novogradac (blog), March 21, 2018.

6 Using American Housing Survey data, HUD defines poor-quality housing, or what it calls severely inadequate housing, as housing units with at least one serious physical problem that is related to plumbing, heating, and electrical systems or maintenance. See “HUD Reports ‘Worst Case Housing Needs’ Increased in 2015,” US Department of Housing and Urban Development, news release, HUD 17-061, August 9, 2017.


8 Some housing authorities also allow vouchers to be used toward mortgage payments on a new home, but this is rare. A HUD study found that 3,400 households did so in the first six years of the program (HUD 2006).

9 A newer provision allows local housing authorities to convert a portion of their tenant-based vouchers to project-based vouchers that function as a hybrid between a voucher and the project-based housing assistance programs described below. The largest difference is that a household living in a unit with a project-based vouchers can move out of the unit and continue receive housing assistance.


12 About 86 percent of all LIHTC properties have had a single LIHTC transaction. The remaining 14 percent of properties have had two or more tax credits used. For properties that had received two or more tax credits, we take the larger of the assisted unit counts to estimate our global number. More details on how we get to the global number of unduplicated units, as well as our estimate of the total number of units placed in service over the same period, can be found in the technical documentation for this report (Gold et al. 2018).

13 There are 37,727 LIHTC properties in the National Housing Preservation Database between 1987 and 2015. Of those properties, 2,848 have missing LIHTC assisted information. Tables describe LIHTC unit information for the remaining 37,727 properties, excluding the 2,848 properties with missing unit information.

14 The National Housing Preservation Database classifies tax credits as active (if the year placed in service date is less than 29 years in the past), inconclusive (the year placed in service date is in more than 29 years in the past), or inactive (data on the project has not been included in subsequent refreshes of the HUD database and assumed to no longer be active). Our analysis includes inconclusive properties in our universal number of LIHTC properties, but they are excluded when we look at active properties, since we cannot be sure if they still contain affordable units.
The NHPD does provide data on federal subsidies other than LIHTC at the property level, which can be used to determine how many of the inactive or inconclusive LIHTC units still have active subsidies from other programs that would make the units affordable. Validating and analyzing those data was outside the scope of this research.


References


SDHDA (South Dakota Housing Development Authority). 2018. “Low Income Housing Tax Credit Qualified Allocation Plan.” Pierre, SD: SDHDA.


Errata

An earlier version of this report mistakenly stated in several places that HUD’s LIHTC database included each tax credit transaction but that they were not aggregated at the level of the property or address. They are aggregated by property. We have corrected these statements throughout the document. This did not affect any part of our data analysis or findings.
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