The Low Income Housing Tax Credit:
The Most Successful Affordable Rental Housing Production Program in our Nation's History

Summary

- The Low Income Housing Tax Credit was created as part of the Tax Reform Act of 1986 to produce affordable housing
- Over 40% of the nation's renters are rent burdened and need affordable options
- Recently, the program has added approximately $6.8 billion in income and 90,000 full time jobs per year across all U.S. industries.

What is the Low Income Housing Tax Credit (LIHTC)?

- The Low Income Housing Tax Credit is the most successful affordable rental housing production program in U.S. history.
- Since its inception, the program has produced and financed more than two million affordable apartments
- The LIHTC serves households making 60% or less of the area median income, with rents restricted so that households with this income pay 30% or less of their income towards rent

How does the LIHTC work?

- Created as part of the Tax Reform Act of 1986, the LIHTC is a public/private partnership bringing together the federal government, state allocating agencies and the private sector.
- Developers receive an allocation of LIHTCs from the allocating agency through a competitive application process.
- The tax credits are then sold to private investors to raise equity for an LIHTC project. The investors are part owners of the project, usually as limited partners. LIHTC syndicators typically bring the developer and investors together.
- The Federal tax credit allows private equity to be raised at lower cost, in turn allowing rental projects to be developed, built, and operated successfully with below-market rents, and to serve lower-income families. Both the incomes of the tenants and the rents they can be charged are restricted to make sure the rental properties remain affordable
- LIHTC properties must remain affordable for a minimum of 30 years.

- Project compliance is monitored by the State allocating agency, syndicator, investor and developer resulting in a very low foreclosure rate, as reported by Ernst & Young.

- Most administrative costs associated with allocating the credits and monitoring compliance are thus borne by State allocating agencies, rather than the Federal Government.

The LIHTC has a Positive Impact on the U.S. and Local Communities

- According to a report from the National Association of Home Builders, the estimated <u>one-year</u> local impacts of building 100 apartments in a typical LIHTC development include:
  - $7.9 million in local income,
  - $827,000 in taxes and other revenue for local governments, and
  - 122 local jobs.
- Further, the additional, annually <u>recurring</u> impacts of building 100 apartments in a typical LIHTC development include:
  - $2.4 million in local income,
  - $441,000 in taxes and other revenue for local governments, and
  - 30 local jobs.
- Using 2008 data from the National Council of State Housing Agencies Fact book, NAHB estimates that nationally, the LIHTC
  - Created approximately 90,000 new full-time jobs and added $6.8 billion in income across all U.S. economies.
  - Generated approximately $2 billion in Federal taxes and approximately $675 million in local taxes.

Continuing Need for Affordable Rental Housing Production

- According to 2009 data from the U.S. Census Bureau, over 15 million Americans, or 40% of total renters, are paying at least 35% of their household income toward rent.
- By most Federal housing program standards, these households are considered rent burdened.
- In recent years, the LIHTC produced approximately 75,000 new apartment homes annually. Not enough to replace the number of affordable apartments lost each year.
- The latest rental dynamics study produced by the Department of Housing and Urban Development shows that the affordable housing stock is very fluid. The number of rental units added to, and subtracted from, the affordable rental housing stock through conversions (from rental to owner or vice versa) and filtering (rents going up or down) were each in the range of 6 to 7 million units over a 2-year period. These numbers are much larger than the 240,000 affordable rental units added through new construction over the same period.
- Once the economy starts to improve, rising rents and renter-to-owner conversions could easily create a shortage of affordable rental apartments that would be difficult to overcome quickly through new construction, even with maximum effort.