NAHB

National Association of Home Builders

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 (LIHTC) was created as part of the Tax Reform Act of 1986 as a more effective mechanism for producing affordable housing.
- Nearly half of the nation's renters are rent burdened and need affordable options.
- According to the 2011 Harvard study, "America's Rental Housing: Meeting Challenges, Building on Opportunities," construction costs would have to be 28% of the current average to serve renter households earning the minimum wage. This is not possible without the LIHTC or other government programs.
- The LIHTC is a job creator, generating approximately $7.1 billion in economic income and approximately 95,000 jobs per year across all U.S. industries.

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

- The LIHTC is the most successful affordable rental housing production program in U.S. history.
- Through construction of new apartments, preservation of existing affordable housing, and rehabilitation of older multifamily buildings, the LIHTC adds to the nation's supply of affordable housing.
- Since its inception, the program has produced and financed more than two million affordable apartments.
- The LIHTC serves households earning 60% or less of the area median income with rents restricted to keep the units affordable.

How does the LIHTC work?

- 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 designed by the allocating agency to meet local housing needs.
- 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 that serve lower-income families.
- LIHTC properties must remain affordable for a minimum of 30 years.
- The state allocating agency, syndicator, investor and developer monitor project compliance, resulting in a low foreclosure rate of less than 0.1%, as reported by a recent study from Novogradac & Company LLP.
- Most administrative costs associated 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

- Using 2009 data from the National Council of State Housing Agencies Fact Book and its national impact of home building model, the National Association of Home Builders (NAHB) estimates that, annually, the LIHTC:
    - Created approximately 95,000 new full-time jobs and added $7.1 billion in income to the U.S. economy.
    - Generated approximately $2.8 billion in federal, state and local taxes.

  These impacts are broad-based and include jobs, income, and taxes in industries such as manufacturing trade, and services, in addition to construction. The jobs are measured in full-time equivalents — that is, enough work to keep a worker employed full time for a year. Income includes business profits as well as wages and salaries paid to workers.

- An NAHB study based on these considerations estimates that the first-year economic impacts of building 100 apartments in a typical LIHTC development include:
    - $8.7 million in income (wages for local workers and profits for proprietors, small businesses, and corporations),
    - $3.3 million in taxes for federal, state and local governments
    - 116 jobs, about half of which are in the construction sector

- At the local level, an LIHTC project directly impacts the community in which it is built. The community does not usually experience the employment and income impacts generated in industries such as manufacturing, because markets for most manufactured products are at least regional in scope. However, an LIHTC community will realize additional benefits when a share of the local income earned during construction is spent and recycled in the local economy.

Continuing Need for Affordable Rental Housing Production

- According to 2010 American Community Survey data, over 19 million households, or 49% of total renters are rent burdened, paying more than 30% of their household income toward rent.
- In recent years, the LIHTC has produced approximately 75,000 new apartments annually, which is not sufficient to replace the number of affordable apartments lost each year to obsolescence, conversions to other uses and demolitions.
- The latest rental dynamics study produced by the U. S. Department of Housing and Urban Development shows that between 6 million and 7 million existing affordable housing units were lost through conversions (from rental to owner) and filtering (rents increasing relative to incomes) over a two-year period, which was roughly offset by a similar number of existing units becoming affordable through conversion and filtering in the opposite direction.
- According to the 2011 Harvard study, more than 28% of the 1999 low-cost stock was lost by 2009.
- These numbers are large relative to the amount of rental housing that can be produced even with maximum effort in a given year.
- To develop new affordable apartments without assistance from the LIHTC or other housing programs, the Harvard study also reports that the construction cost would have to be 28% of the current average (which is already 30% below the 2007 peak in real terms).