

BALANCING PRIORITIES:

Preservation and Neighborhood Opportunity in the Low-Income Housing Tax Credit Program Beyond Year 30

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A joint report by the National Low Income Housing Coalition and the
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NATIONAL LOW INCOME
HOUSING COALITION

PAHRC

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Preservation and Neighborhood Opportunity in the Low-Income Housing Tax Credit Program Beyond Year 30

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ABOUT NLIHC:

Established in 1974 by Cushing N. Dolbeare, the National Low Income Housing Coalition is dedicated solely to achieving socially just public policy that assures people with the lowest incomes in the United States have affordable and decent homes. NLIHC educates, organizes, and advocates to ensure decent, affordable housing for everyone.



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The Public and Affordable Housing Research Corporation (PAHRC) at HAI Group is a non-profit research center dedicated to conducting research that promotes the national conversation about the importance of affordable housing. PAHRC spotlights the impact, outcomes, and value affordable housing brings to the families it serves and to the communities it supports, delivering data and tools that assist researchers, practitioners, and advocates to build an evidence-based case for why affordable housing matters. For more information, visit www.housingcenter.com/research.

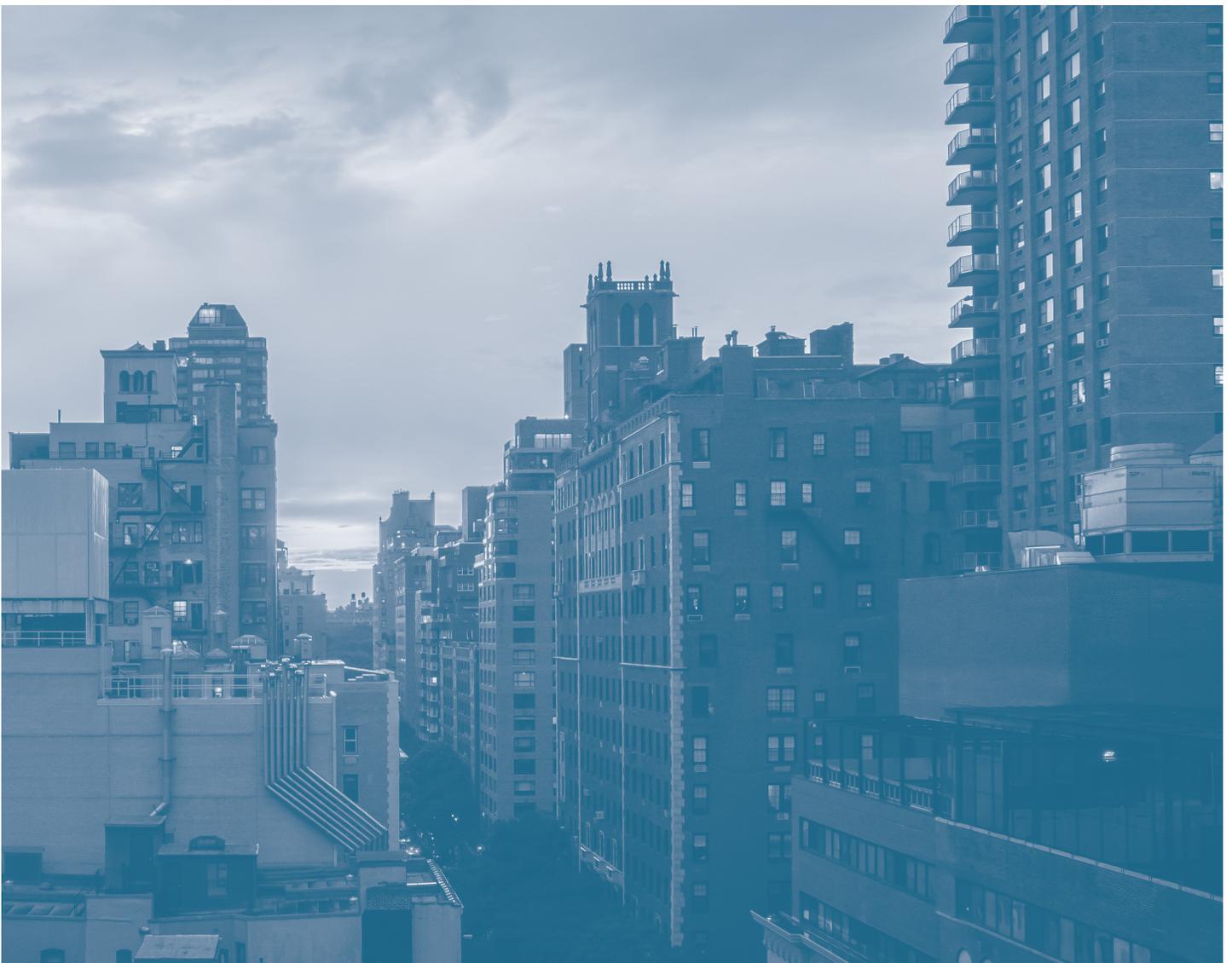


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Introduction

The Low-Income Housing Tax Credit (LIHTC) has financed the construction, rehabilitation, or preservation of approximately three million rental housing units affordable to low-income households since its inception in 1987 (HUD, 2017), making it the largest national affordable housing program in the U.S. With some limited exceptions, federal law requires existing LIHTC housing to remain affordable for a minimum of 30 years, with some states extending the affordability period even longer. As the LIHTC program ages, the risk of current LIHTC units being lost from the affordable housing stock grows. Between 2020 and 2029, nearly half a million current LIHTC units, or nearly a quarter of the total stock, will reach their 30-year mark and the end of their federally mandated affordability restrictions (i.e. Year 30). Many of these units, without new capital investment for rehabilitation and renovation, are also at-risk of physical deterioration.

“AS MANY AS 8,420 LIHTC PROPERTIES ACCOUNTING FOR 486,799 AFFORDABLE RENTAL UNITS WILL REACH YEAR 30 BETWEEN 2020 AND 2029, AND DO NOT RECEIVE OTHER TYPES OF SUBSIDIES THAT EXTEND THEIR AFFORDABILITY RESTRICTIONS.”

This report sheds light on the scope of the preservation challenges ahead. Utilizing data from a range of sources, including the National

Housing Preservation Database (NHDP), we examine the features of the LIHTC program, risk-factors for preservation, the number of LIHTC units at-risk of being lost from the affordable housing stock by 2030, and the neighborhood desirability and opportunity of at-risk units. We define neighborhood desirability as the preference for and quality of a given neighborhood as measured by the percent of households with annual incomes above \$200,000, the percent of the population in poverty, median housing values, the personal crime index, and the housing vacancy rate. We define neighborhood opportunity as the degree to which neighborhoods provide amenities integral to economic mobility such as labor market access, educational opportunity, transit access, and a healthy environment. Our findings indicate:

- As many as 8,420 LIHTC properties accounting for 486,799 affordable rental units will reach Year 30 between 2020 and 2029, and do not receive other types of subsidies that extend their affordability restrictions.
- Nine percent of LIHTC units reaching Year 30 between 2020 and 2029 are in neighborhoods that rank high or very-high in both desirability and opportunity.
- Forty-two percent of expiring LIHTC units reaching Year 30 between 2020 and 2029 are in neighborhoods that rank very-low or low in both desirability and opportunity.
- Thirteen percent of expiring LIHTC units reaching Year 30 between 2020 and 2029 are in neighborhoods that rank high or very high in opportunity and moderate, low, or very low in desirability.
- The expiring LIHTC units in neighborhoods of very-high or high opportunity could be at greater risk for converting to higher cost market-rate or owner-occupied housing, because demand for housing tends to be stronger in higher opportunity neighborhoods.

- The greatest demand for preservation resources, however, may come from LIHTC owners in lower opportunity and less desirable neighborhoods where lower rents might not cover the cost of capital repairs and additional subsidies would be needed to address the units' physical deterioration.

The lowest income renters face a national shortage of more than 7 million affordable and available rental units, and only one in four eligible low-income renters receives the assistance they need (NLIHC, 2018a; Fischer & Sard, 2017). The insufficient resources we commit nationally to affordable housing leads to difficult policy choices between preserving the affordability and quality of existing affordable housing and maintaining housing stability for current tenants, on one hand, and promoting desegregation and access to opportunity (i.e. mobility) through new development, on the other. While we need to preserve as much of the existing affordable housing stock as possible, given the significant shortage, we must also make efforts to provide greater access to higher opportunity neighborhoods for disadvantaged households.

The conflict between preservation and mobility, however, would not exist if we committed adequate resources to meet the needs of low-income renters. Looking beyond the status quo, we conclude with a vision for a housing safety net that provides expanded access to Housing Choice Vouchers (HCVs) and targets expanded supply-side subsidies for the preservation and production of affordable housing to markets and populations where they are most needed. Vouchers, ideally, provide recipients with greater mobility as long as housing is available and landlords are willing or required to accept them. Vouchers also help the lowest income renters afford LIHTC units and potentially protect them from harm if their housing drops out of the rent-restricted housing stock. At the same time, LIHTC and other supply-side

subsidies like the national Housing Trust Fund (HTF) and the Public Housing Capital Fund provide capital investment in housing for low-income renters that would otherwise not exist in some markets.



LIHTC Background

Conceived as part of the Tax Reform Act of 1986, LIHTC is the largest affordable housing production program in the U.S. Unlike other affordable housing programs like Public Housing or HCVs, LIHTC is not funded through the Congressional appropriations process. Instead, Congress provides the Internal Revenue Service (IRS) with the authority to issue tax credits to each state based on its population size. The credits are administered by state-designated entities, typically state housing finance agencies (HFAs), who allocate their credits to specific housing developments.

Each state must have a qualified allocation plan (QAP), developed by the HFA with public input, which sets forth application guidelines, eligibility criteria, and funding priorities for the allocation of the credits. At least 10% of a state's tax credit allocation

must be dedicated to projects undertaken by non-profit developers. Though, in practice, approximately 19% of LIHTC properties have non-profit owners (NLIHC & PAHRC, 2017).

Two types of tax credits exist: 9% and 4% credits. Through a competitive allocation process, 9% credits are available for new construction and substantial rehabilitation projects not utilizing other federal resources. Four percent credits can be used for new construction or substantial rehabilitation utilizing other federal funding, or rehabilitation projects with average costs of less than \$3,000 per unit. Four percent credits are issued outside of the competitive allocation process for 9% credits and in conjunction with tax-exempt bonds.

The amount of tax credit for which a developer can apply is first determined by the proposed project's cost of development, known as the eligible basis. A project's eligible basis excludes land and building acquisition costs and some other expenses like marketing and permanent financing fees. The eligible basis is multiplied by the proportion of total square footage or units that are reserved for low-income households to determine the qualified basis. Projects located in HUD-designated qualified census tracts (QCTs) or difficult to develop areas (DDAs) are eligible for a 30% basis boost. QCTs are census tracts with high concentrations of low-income households, while DDAs are areas with high development costs. The qualified basis is multiplied by the applicable percentage of either the 9% or 4% tax credit to determine the size of the credit that can be taken annually over a 10-year period (NLIHC, 2018b). HFAs are not obligated to award the full amount of the credit for which a developer can apply.

Developers awarded tax credits sell them to investors, usually through a syndicator, in exchange for cash equity to develop their project. Tax credits provide investors with a reduction in their tax liability taken annually

during the first 10 years after the project is placed in service. Project costs not covered through syndication of the tax credits are typically financed through a conventional mortgage. In many cases, projects will also utilize additional gap financing like grants and soft second mortgages from public and philanthropic entities to cover remaining costs.

Program Eligibility and Rent Affordability

To be eligible for the tax credit, at least 20% of a project's units must be set aside and affordable for households with incomes at or below 50% of the area median income (AMI), or 40% of the units must be set aside and affordable for households with incomes at or below 60% of AMI. The Consolidated Appropriations Act of 2018 established a new income averaging option that allows LIHTC units to serve households with incomes up to 80% of AMI in exchange for serving even lower income households, so long as the average income limit for all tax credit units is 60% or less of AMI and at least 40% of all units in a development are affordable for eligible households. It is not uncommon for all or most units in a tax credit project to be designated for low-income occupancy, as this increases a project's qualified basis (O'Regan and Horn, 2013; Schwartz & Melendez, 2008).

LIHTC units' gross rents can be set at a maximum rent affordable to a hypothetical household with income at the chosen income threshold, such as 50% or 60% of AMI. In other words, rents are determined not by the occupying tenants' incomes, but are instead typically set at 30% of the AMI threshold. Absent additional rental assistance like an HCV, households with incomes below the eligibility threshold will often pay more than 30% of their income on rent, making them cost-burdened. Some states provide incentives in their QAPs to encourage developers to set aside units for households of even lower income.

Rental assistance is a key factor in achieving affordability for the lowest income renters in the LIHTC program. More than 44% of LIHTC households report incomes at or below 30% of AMI and 32% report incomes between 31% and 50% of AMI (HUD, 2018). In a national sample of LIHTC households, O'Regan and Horn (2013) observed that 28.4% of LIHTC households with incomes at or below 30% of AMI and 11.4% of those with incomes between 31% and 50% were severely cost-burdened, devoting more than half of their income to housing costs. Approximately 70% of LIHTC households with incomes at or below 30% AMI received some form of additional rental assistance. Among LIHTC households with income at or below 30% of AMI who did not receive rental assistance, 58% reported severe cost-burdens.

The Duration of Affordability Requirements

LIHTC projects allocated credits prior to 1990 were subject to a minimum 15-year affordability period. For projects placed in service since 1990, federal law requires the affordability period to remain in place for a minimum of 30 years. The first 15 years are commonly referred to as the compliance period and the subsequent 15 years are known as the extended use period.¹ Reporting by the owners to the IRS ceases and program compliance monitoring becomes the responsibility of HFAs at the end of the compliance period (i.e. Year 15).² Following the end of the extended use period in Year 30, LIHTC properties are no longer subject to LIHTC requirements, including income and affordability restrictions, and mandatory non-discrimination against HCV holders. The devolved administration of the LIHTC program, however, allows state HFAs to incentivize or require affordability periods beyond 30 years.

Federal law still allows owners to exit the LIHTC program after Year 15 under certain conditions. Owners of properties placed into service after 1989 can submit a qualified contract (QC) starting in the first year of the extended use period. Once an owner initiates the QC process, the state HFA has one year to find a buyer who will purchase the property at the qualified contract price and continue to operate it as affordable housing under program guidelines. If the HFA cannot find a buyer during this time, affordability restrictions for the property are eliminated over a three-year period, after which the owner can operate the property free of LIHTC requirements in the private-market.

“ MORE THAN 44% OF LIHTC HOUSEHOLDS REPORT INCOMES AT OR BELOW 30% OF AMI AND 32% REPORT INCOMES BETWEEN 31% AND 50% OF AMI. ”

HFAs also have regulatory flexibility in implementing the QC process. Some HFAs provide incentives or requirements in their QAPs for LIHTC developers to forego their right to a QC. Some HFAs also appear to make the QC process so burdensome as to be unworkable (Khadurri, Cilmaco, & Burnett, 2012; Schwartz & Meléndez, 2008). Based on their review of QAPs and interviews with key stakeholders, Khadurri et al. (2012) concluded that QC sales tend to be concentrated in a few states and are uncommon. Results from a recent survey of 35 HFAs affirm that QC sales tend to be concentrated in a few states,

1 The extended use period was established in the Revenue Reconciliation Act of 1989.

2 It is uncertain how extensively HFAs currently track and enforce affordability requirements after the end of the compliance period. Further research is needed on this issue.

though sales in those states appear to be somewhat common resulting in an average loss of approximately 10,000 units per year from 2014 to 2016 (Kincer & Shelburne, 2017).

Extended affordability requirements associated with gap financing or additional project-based subsidies for a LIHTC property can provide further affordability protections. Additional subsidy layers might include project-based Section 8, HOME program funds, USDA Rural Development funds, or state or local funding. Table 1 displays the percentage of active LIHTC properties with additional federal place-based subsidies by program.

Preservation Issues and the Potential for Displacement

Affordability and physical quality are two primary concerns in the preservation of LIHTC units as affordable housing. The loss

of affordability and the physical deterioration of units can put tenants at risk of housing instability. Research on LIHTC units at Year 15 suggests these risks are determined by factors at both the property and neighborhood levels. Neighborhood characteristics, in particular, play an important role.

At the property-level, the expiration of affordability requirements is an obvious risk factor for the preservation of LIHTC units as affordable housing. Absent additional affordability requirements imposed by states or other subsidies, the loss of affordability restrictions can mean higher rents that render LIHTC tenants cost-burdened, or lead to their displacement. The vast majority of older LIHTC units have remained affordable, because of the extended use period requiring rent restrictions for 30 years, but those restrictions are soon ending (Khadurri et al. 2012; Schwartz & Meléndez, 2008).

TABLE 1: LIHTC PROPERTIES AND UNITS ASSISTED BY OTHER FEDERAL PLACE-BASED SUBSIDY PROGRAMS

Federal Subsidy	Properties	% of Properties	Units	% of Units
HOME	4,466	13.0%	270,228	11.1%
Section 8	3,304	9.6%	355,052	14.5%
<i>HFDA NC/SR</i>	579	1.7%	56,368	2.3%
<i>Section 8 NC/SR</i>	896	2.6%	91,890	3.8%
<i>Section 202 (any)</i>	393	1.1%	33,536	1.4%
<i>Section 811 (any)</i>	110	0.3%	7,872	0.3%
<i>LMSA</i>	898	2.6%	124,199	5.1%
<i>RAD</i>	68	0.2%	8,490	0.3%
<i>Section 521</i>	186	0.5%	8,622	0.4%
<i>Other</i>	315	0.9%	45,704	1.9%
Section 236	10	0.0%	2,025	0.1%
Section 202 Direct Loan	4	0.0%	350	0.0%
Section 538 Loan	608	1.8%	32,141	1.3%
Section 515 Direct Loan	3,839	11.2%	135,632	5.6%
HUD Insured Mortgage	2,796	8.1%	322,096	13.2%
Multiple Subsidies of Any Type	13,391	38.9%	1,016,821	41.7%

Source: National Housing Preservation Database, 2018

Ownership is another important property-level factor that influences whether LIHTC properties continue to operate as affordable housing. LIHTC properties with non-profits in the ownership structure are less likely to convert to market-rate (Meléndez, Schwartz, & Montrichard, 2008). A non-profit or mission-driven owner may be less interested in maximizing the return on their investment in a strong housing market than in protecting the availability of affordable housing for low-income households. For-profit ownership is a well-documented risk-factor for market-rate conversion in other affordable housing programs (Ray, Kim, Nguyen, & Choi, 2015; Reina & Begley, 2014; Finkel, Hanson, Hilton, Lam, & Vandawalker, 2006).

With regard to location, profit-minded owners in more desirable neighborhoods and tighter markets have a greater incentive to reposition their LIHTC units to market-rate housing with higher rents after the end of affordability restrictions, or to convert to another use such as owner-occupied housing, because the market will allow for it. Owners of LIHTC units in these locations likely face less difficulty than owners in weaker markets in addressing maintenance and rehabilitation needs given the potential for stronger rental income.

Tenants in LIHTC properties in tighter rental markets or more desirable neighborhoods are at greater risk for rent increases following the end of affordability requirements than tenants in weaker markets. Tenants, especially those with the lowest incomes and without additional rental assistance, are likely unable to absorb the financial impact of higher rents and are vulnerable to displacement. LIHTC tenants are not provided Tenant Protection Vouchers as they are when HUD-assisted project-based housing changes affordability status, such as when a property opts-out of a Section 8 affordability contract. If forced to move, securing a different affordable home in the same community could pose a challenge. Tenants with portable rental assistance, such

as HCVs, may have some limited protection from cost-burdens and displacement. In strong markets, however, market-based rents might exceed voucher payment standards. Beyond market-based rents, another challenge for voucher holders is that private landlords of unsubsidized housing can often discriminate against them and may be less inclined to accept vouchers when units are in high demand (Graves, 2016).



In less desirable neighborhoods or softer markets, profit-minded owners have less of an incentive or lack the ability to reposition LIHTC units as unaffordable market-rate housing at the end of affordability restrictions, yet preservation remains a potential challenge. Research on LIHTC at Year 15 suggests that the most significant preservation challenges arise in economically depressed areas with weak housing markets, where limited rental income creates challenges for financing maintenance and rehabilitation needs (Schwartz & Meléndez, 2008). Absent additional subsidy, LIHTC units located in the least desirable neighborhoods and softest markets are potentially at the greatest risk for physical deterioration, especially after 30 years of use. Owners of LIHTC units located in less desirable, but gentrifying neighborhoods, however, might have a significant opportunity to invest in their properties if they can charge higher rents, or convert to another use.

LIHTC rents can be similar to market-based rents in softer markets or less desirable neighborhoods. In these neighborhoods, expiring affordability restrictions or physical deterioration could pose less of a threat to housing stability for higher income LIHTC tenants, or those with portable rental assistance, who could move to other housing. Absent rental assistance, however, the lowest income households find it difficult to afford unsubsidized market-rate rents in any market (NLIHC, 2018a).

LIHTC and Neighborhood Opportunity

While neighborhood characteristics bear directly on preservation risks for LIHTC units, these characteristics are also relevant to other housing policy objectives such as desegregation and mobility. A growing body of research documents the critical role neighborhood characteristics play in long term outcomes for low-income residents. Recent research, for example, sheds light on the negative effects of concentrated poverty on long term physical and mental health outcomes among adults, and educational and economic outcomes among children (Chetty, Hendren, & Katz, 2016; Ludwig et al., 2012). Other studies have found correlations between child outcomes and specific neighborhood characteristics like access to healthy food and exposure to crime (McArdle & Acevedo-Garcia, 2017).

Yet, there is an historical pattern of subsidized housing in racially segregated and higher poverty neighborhoods (McClure & Johnson, 2014; Rohe & Freeman, 2001; Galster, 1999). This pattern extends to LIHTC properties, although LIHTC properties are less likely to be sited in high poverty neighborhoods than public housing (McClure & Johnson, 2014; McClure, 2006). Until recently, little attention has been paid to how the preservation of affordable housing relates to other neighborhood characteristics (Lens & Reina, 2016).

Methodology

We used a range of data sources to estimate the number of LIHTC units expected to reach the end of all of their affordability restrictions by the end of 2029, and their neighborhood characteristics in terms of desirability and opportunity. We define neighborhood desirability as the preference for and quality of a given neighborhood. Opportunity represents the degree to which the neighborhood provides access to transit, jobs, quality education, and a positive health environment which are thought to be pathways for economic mobility.

Measuring Property Characteristics

We used the National Housing Preservation Database (NHPD) to identify LIHTC properties reaching the end of their extended use period. The NHPD is a national database of federally-assisted properties, which includes property-level information like contract or affordability expiration dates, loan maturity dates, recent physical inspection scores, number of units, type of owner, and address and census tract. For LIHTC properties, the NHPD identifies subsidy start and end dates, as well as the presence of other federal subsidies that might carry additional affordability restrictions.

We reviewed 2016-2017 QAPs from every HFA in all 50 states and the District of Columbia to determine the presence of voluntary incentives or requirements for affordability restrictions extending past 30 years. For the nine states that require affordability beyond 30 years, we reviewed past QAPs and contacted HFA staff to determine when those requirements were imposed. We included these longer affordability periods in our final estimates. The earliest start year we observed for such a requirement was 2000, so the impact of state-level affordability requirements beyond 30 years will likely not be realized until at least 2030. Incorporating

voluntary state incentives for longer affordability periods in the estimates of LIHTC units reaching the end of their affordability period was beyond the scope of this report, as was accounting for locally imposed affordability restrictions.³

Measuring Neighborhood Characteristics

Based on a review of the literature and confirmatory factor analysis, we created two indices at the census tract level to measure neighborhood characteristics. The first index ranked neighborhood desirability to represent the likely preference for and quality of the neighborhood. The index consisted of the percent of households with incomes above \$200,000 annually, percent of the population in poverty, median housing value, personal crime index, and housing vacancy rate. We ranked census tracts by each of the measures individually and then by a composite index, which standardized the direction of desirability for each indicator. We identified each neighborhood as very-low, low, moderate, high, or very-high desirability based on quintiles of the neighborhood desirability scores within a given metropolitan or micropolitan area (CBSAs).⁴ Census tracts outside CBSAs were ranked relative to all other non-metropolitan census tracts within the state.

We assume that owners of LIHTC properties in more desirable neighborhoods, where the market will likely bear higher rents, have a greater incentive to reposition their units as market-rate housing with higher rents after the end of affordability restrictions. We assume LIHTC owners in the least desirable neighborhoods, where the market is soft,

will face challenges financing capital needs for renovation by Year 30 due to lower rental income (Schwartz & Melendez, 2008).

The second index measures neighborhood opportunity and is used represent the degree to which each neighborhood provides access to amenities thought to provide pathways for economic mobility. The neighborhood opportunity index was constructed using a similar method to the neighborhood desirability index using sub-indices for each aspect of neighborhood opportunity. We included measures for labor market access, educational opportunity, transit access, and a healthy environment. Our indicators for labor market access included the percent of workers with a commute less than 30 minutes, a job density index, the labor force participation rate, the unemployment rate, and the percent of the population over age 24 with at least a high school degree; our educational opportunity indicators included HUD's school proficiency index, student-to-teacher ratios, SAT and ACT participation rates for 11 and 12th graders, and pre-school enrollment⁵; our transit access indicators included the percent of workers commuting by public transit, average commute time to work, distance to the CBSA centroid, and the percent of households with a car; and our health environment indicators included a cancer risk index, a measure of grocery store access, the proportion of older housing in the census tract, proximity to environmentally hazardous sites, and primary care doctors per capita.

We matched the location of LIHTC properties with their census tracts to categorize them by neighborhood desirability and opportunity.

3 There is no centralized source of data on properties subject to affordability requirements beyond 30 years due to state or local requirements or QAP incentives. Our estimates of properties losing affordability restrictions by 2029 inevitably include some properties with longer affordability restrictions stemming from state or local incentives.

4 Scores were reversed for some indicators, so that higher scores always indicate greater desirability.

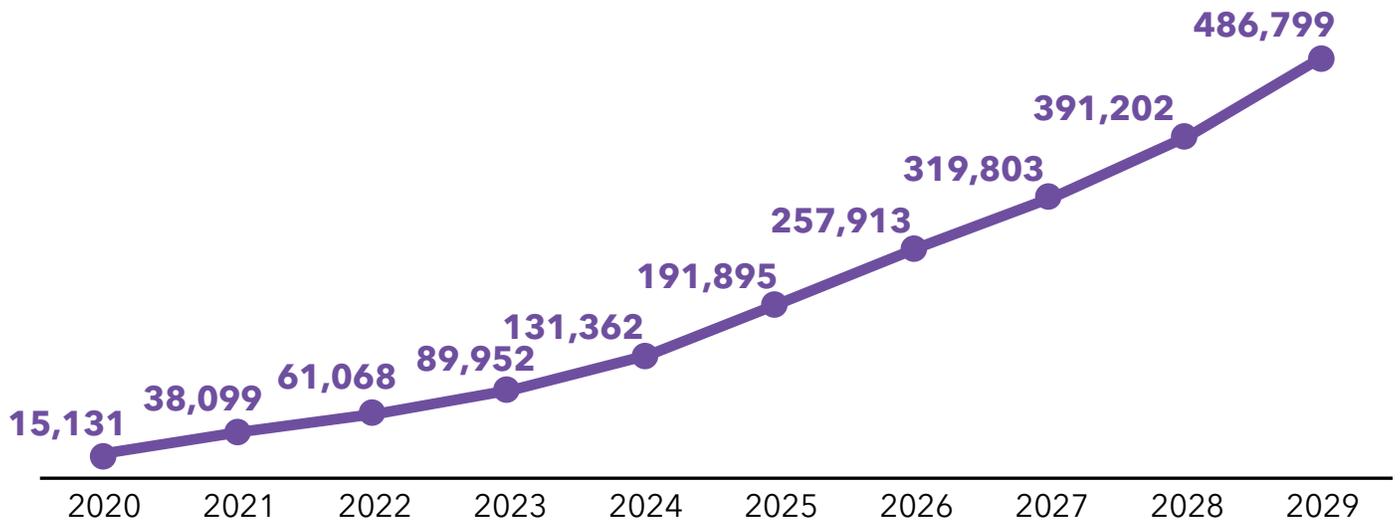
5 The values for the student-teacher ratio, SAT/ACT participation rate, and pre-school enrollment indicators in a given neighborhood were derived from the average value for all schools in the census tract or the school closest to the census tract centroid, depending on what data permitted.

Findings

As many as 8,420 LIHTC properties accounting for 486,799 affordable rental units will reach Year 30 between 2020 and 2029 and will have no other subsidies in place extending their affordability restrictions (Figure 1). This amounts to nearly a quarter of all current

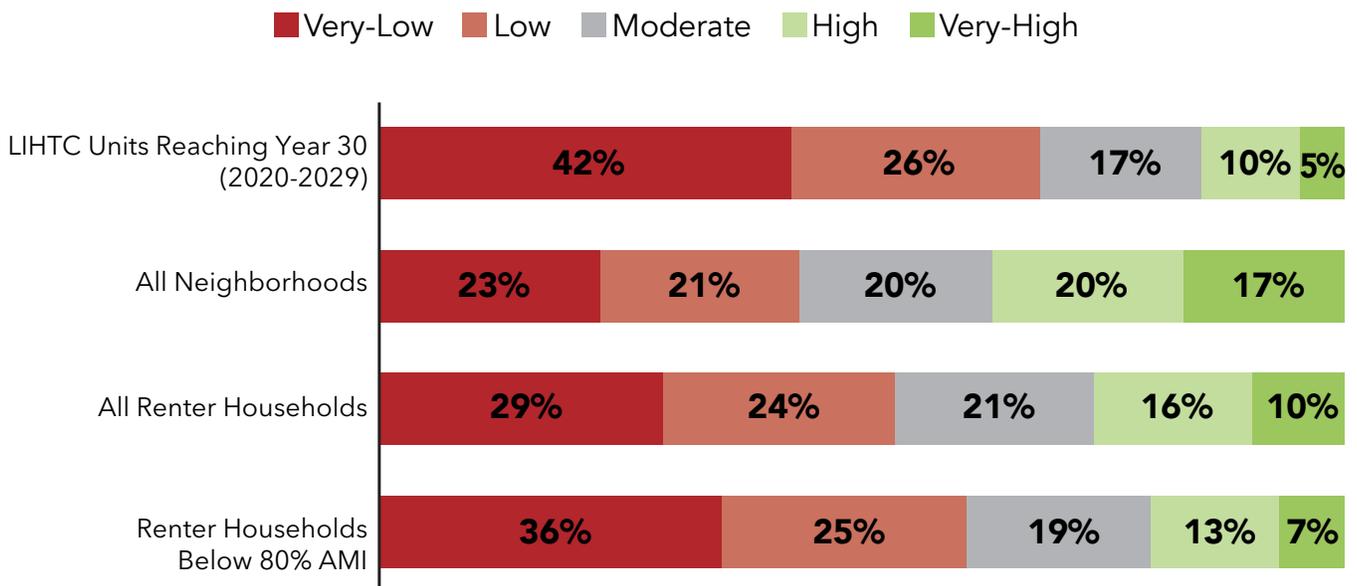
LIHTC units. The majority of these LIHTC units will reach Year 30 between 2025 and 2029. At least 81,513 (17%) of LIHTC units reaching Year 30 between 2020 and 2029 with no other subsidies carrying affordability further affordability restrictions have non-profit

FIGURE 1: CUMULATIVE COUNT OF LIHTC UNITS LOSING ALL AFFORDABILITY RESTRICTIONS (2020-2029)



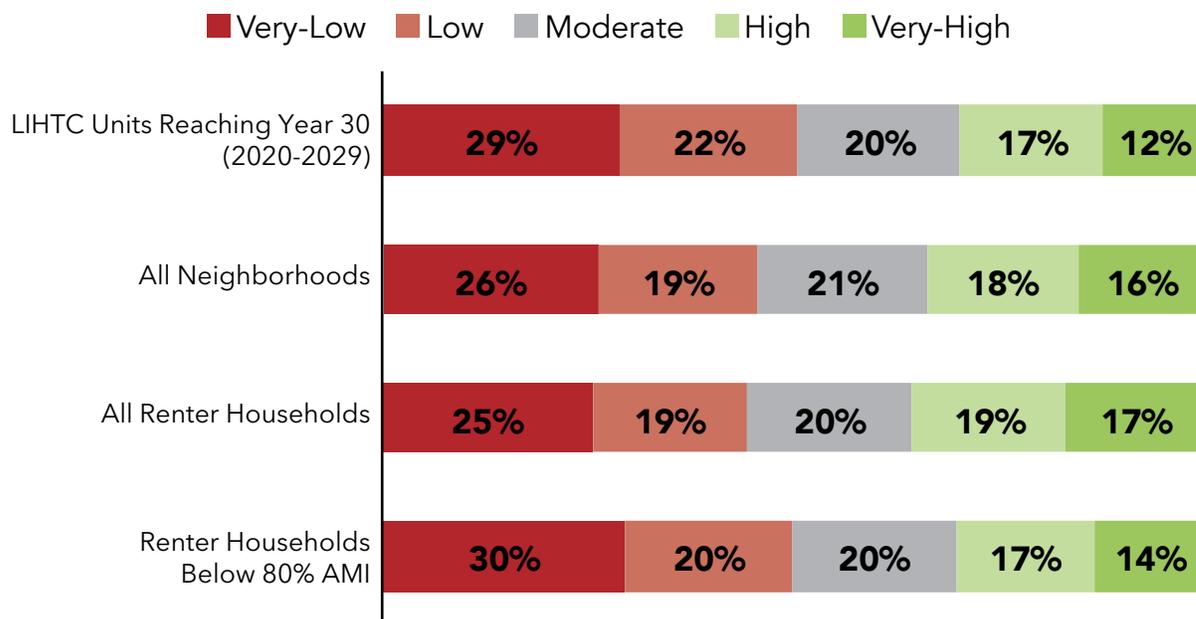
Source: NLIHC and PAHRC, 2018

FIGURE 2: OVERALL NEIGHBORHOOD DESIRABILITY



Source: NLIHC and PAHRC, 2018

FIGURE 3: OVERALL NEIGHBORHOOD OPPORTUNITY



Source: NLIHC and PAHRC, 2018

owners and will likely continue to operate as affordable housing given adequate support.⁶ Of the remaining LIHTC units expiring between 2020 and 2029, an estimated 336,089 (69%) have for-profit owners, according to HUD's LIHTC data. The owner type is not identified for the remaining units.⁷

Neighborhood Desirability

LIHTC units reaching Year 30 and the end of their affordability restrictions are disproportionately located in neighborhoods with low and very-low desirability compared to all neighborhoods, the neighborhoods of all renter households, and the neighborhoods of renter households below 80% AMI. Between 2020 and 2029, 42% of LIHTC units losing all affordability restrictions are located in neighborhoods with very-low desirability and 26% are in low desirability neighborhoods (Figure 2). Units located in very-low desirability neighborhoods likely face the most significant challenges meeting capital needs for

rehabilitation due to lower rental income.

Approximately 10% of LIHTC units with expiring affordability restrictions between 2020 and 2029 are located in neighborhoods of high desirability and 5% are located in neighborhoods of very-high desirability. LIHTC units located in these neighborhoods with for-profit owners are likely at the greatest risk for being repositioned as market-rate housing with higher rents. Altogether, 36,282 LIHTC units with for-profit owners and expiring affordability restrictions between 2020 and 2029 are located in high desirability neighborhoods, and another 16,641 units are in very-high desirability neighborhoods.

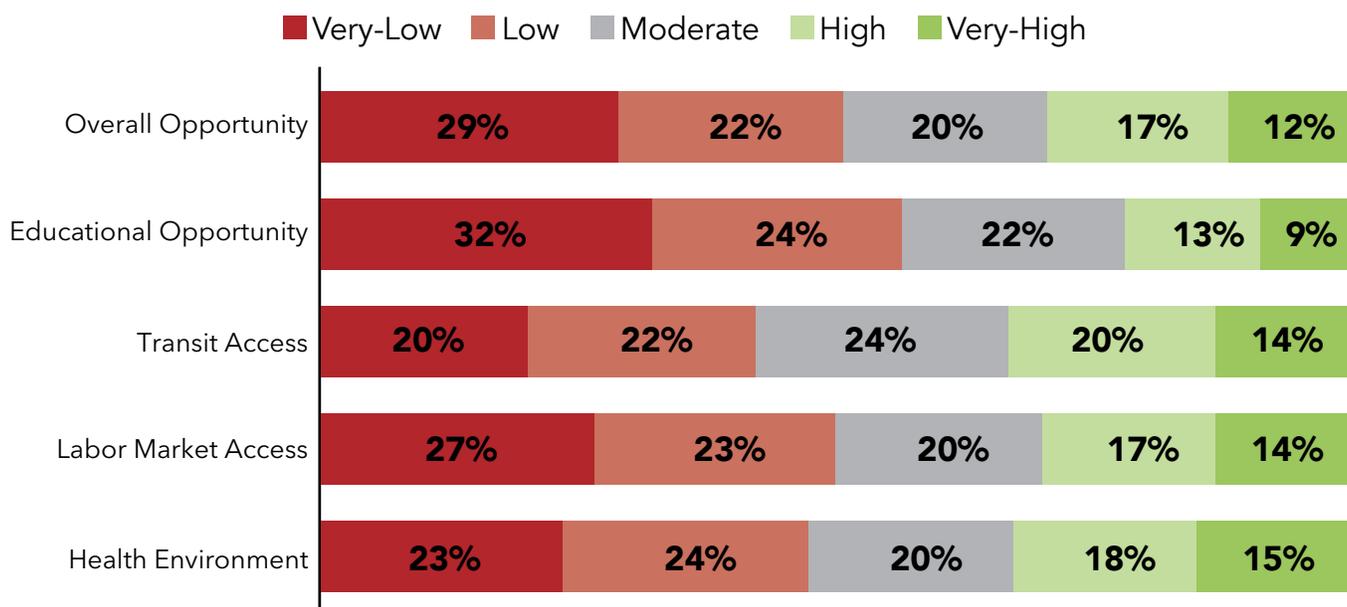
Neighborhood Access to Opportunity

Figure 3 shows the distribution of LIHTC units reaching the end of affordability restrictions between 2020 and 2029 in terms of overall neighborhood opportunity. Twenty-nine percent are in neighborhoods with very-low overall opportunity and another 22%

⁶ We categorize LIHTC units with both non-profits and for-profits in their ownership structures as having "non-profit" owners.

⁷ 69,197 or 14% of LIHTC units losing all affordability restrictions between 2020 and 2029 are missing information on ownership type.

FIGURE 4: DISTRIBUTION OF LIHTC UNITS REACHING YEAR 30 BETWEEN 2020-2029 BY OVERALL NEIGHBORHOOD OPPORTUNITY AND NEIGHBORHOOD OPPORTUNITY SUB-INDICES



Source: NLIHC and PAHRC, 2018

are in neighborhoods with low opportunity. Meanwhile, 17% are in neighborhoods of high opportunity, and 12% are in neighborhoods of very-high opportunity. LIHTC units reaching Year 30 tend to be sited in neighborhoods with lower overall opportunity than neighborhoods of all renter households, but similar to the neighborhoods of low-income renter households with incomes below 80% AMI.

There is a notable concentration of LIHTC units reaching Year 30 in neighborhoods with very-low educational opportunity (Figure 4). LIHTC units reaching Year 30 fare significantly better in terms of neighborhood access to transit and health environment, and somewhat better in labor market access. Our finding that LIHTC units are sited in neighborhoods with low educational opportunity, but relatively better access to transit is consistent with other research on LIHTC and neighborhood opportunity (Ellen, Horn, and Kuai, 2018).

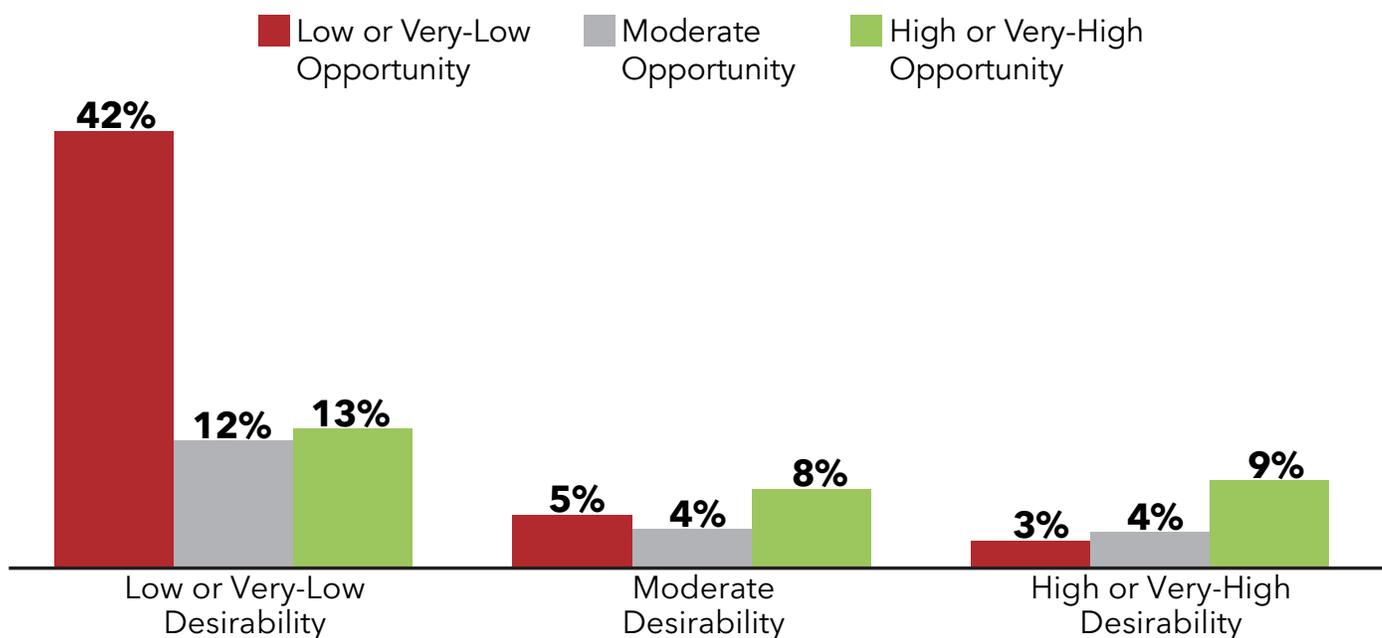
The Intersection of Neighborhood Desirability and Opportunity

For LIHTC units reaching Year 30 from 2020 to 2029, a moderate positive correlation exists between neighborhood desirability and opportunity.⁸ It stands to reason that LIHTC units located in more desirable neighborhoods tend to provide greater access to opportunity, while units located in less desirable neighborhoods tend to provide lower access to opportunity.

Figure 5 shows the intersection of neighborhood desirability and opportunity. Nine percent of LIHTC units (40,509 units) reaching Year 30 between 2020 and 2029 are in neighborhoods that rank high or very-high in both desirability and opportunity, while 2% (7,312) of units are in neighborhoods that are very-high in both desirability and opportunity (not shown in Figure).⁹ These units are at greatest risk for

8 Correlation coefficient = 0.404

9 Neighborhood characteristics were available for 469,075 units with expiring affordability restrictions.

FIGURE 5: LOCATION OF LIHTC UNITS REACHING YEAR 30 BETWEEN 2020-2029 BY NEIGHBORHOOD DESIRABILITY AND OPPORTUNITY

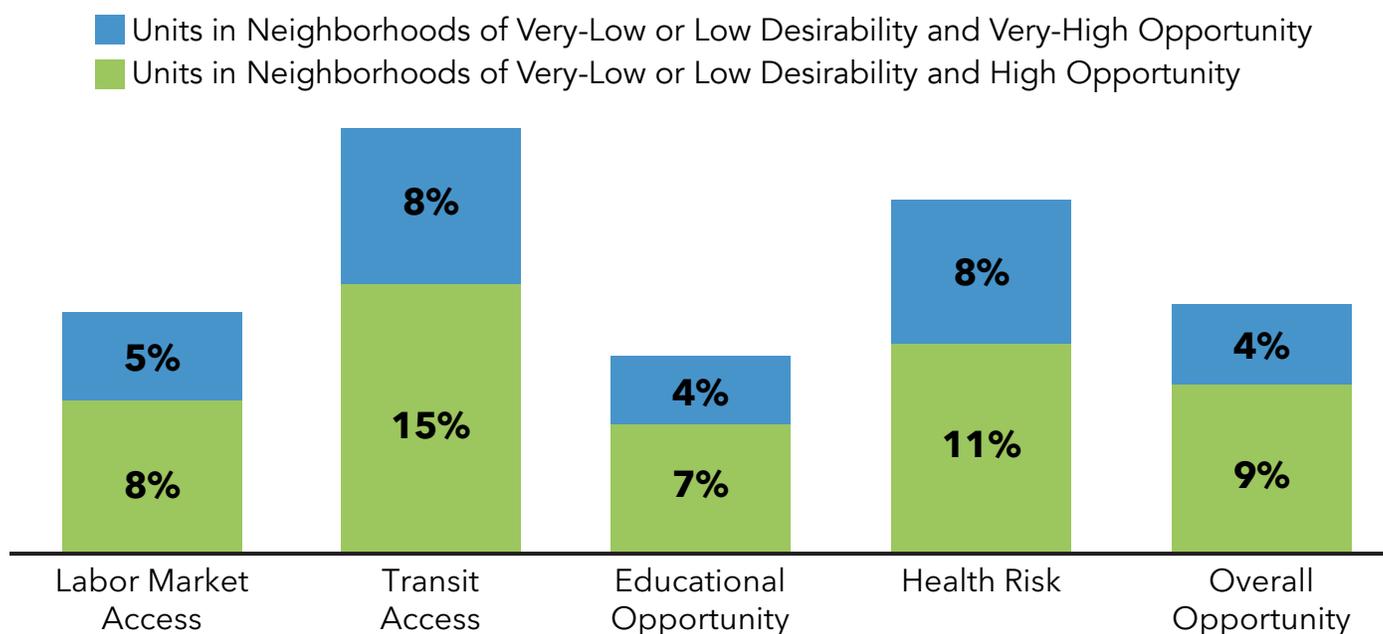
Source: NLIHC and PAHRC, 2018

market-rate conversion, offer the highest degree of opportunity, and would be the most difficult to replace if lost from the affordable housing stock. It would likely be difficult for displaced tenants, with or without portable rental assistance, to find affordable housing in the same neighborhoods, or one offering a similar degree of opportunity.

Expiring LIHTC units are most concentrated in neighborhoods that rank low in both neighborhood desirability and opportunity. Overall, 42% of expiring units (199,316) are in neighborhoods that rank very-low or low in both desirability and opportunity, while 19% (88,843) of units are in neighborhoods that rank very-low in both desirability and opportunity (not shown in Figure). These findings suggest that demand for preservation resources in the future may be greater from LIHTC owners seeking to address the physical deterioration of units in lower opportunity neighborhoods than to maintain affordability in higher opportunity neighborhoods.

Some LIHTC units reaching Year 30 between 2020 and 2029 are in neighborhoods of low desirability, but high opportunity (Figure 6). Thirteen percent of expiring LIHTC units in this time period are in very-low or low desirability neighborhoods but offer high or very-high levels of overall opportunity. Expiring units sited in neighborhoods with lower desirability might only offer higher levels of specific components of opportunity, which underscores the importance of looking beyond aggregate opportunity metrics when making actual decisions about preservation (Goetz, 2018). Educational opportunity, for example, is likely more relevant to LIHTC properties primarily serving families than those serving primarily seniors. Owners of LIHTC units reaching Year 30 in neighborhoods of low desirability that score high in neighborhood opportunity might face difficulty addressing maintenance and rehabilitation needs without subsidies for

FIGURE 6: PERCENT OF LIHTC UNITS REACHING YEAR 30 BETWEEN 2020-2029 IN NEIGHBORHOODS WITH LOWER DESIRABILITY BUT HIGHER OPPORTUNITY



Source: NLIHC and PAHRC, 2018

preservation. These neighborhoods, however, may provide value in terms of opportunity.¹⁰ LIHTC units in such neighborhoods should not be overlooked for preservation.

“THE END OF INCOME ELIGIBILITY AND AFFORDABILITY REQUIREMENTS IN LIHTC UNITS PRESENTS A CHALLENGE TO DECISION-MAKERS WHO MUST BALANCE THE NEED FOR PRESERVATION OF AFFORDABLE HOUSING WITH THE NEED TO EXPAND SUPPLY THROUGH NEW PRODUCTION.”

Discussion

The end of income eligibility and affordability requirements in LIHTC units presents a challenge to decision-makers who must balance the need

for preservation of affordable housing with the need to expand supply through new production (Collignon, 1999). With significant demand for insufficient subsidies, decision-makers need to strategically establish preservation priorities. The need for preservation in the LIHTC program and the degree of opportunities offered by neighborhoods raise important questions about the relationship between preservation and mobility, policy priorities that are sometimes viewed as conflicting (Crowley & Pelletiere, 2012). In what follows we consider the dilemma decision-makers will likely face in establishing priorities in the context of scarce resources. We then consider how a broader vision for the housing safety net could help address this dilemma.

On the one hand, if decision-makers want to pursue an affordable housing policy that promotes access to opportunity and desegregation, then expiring affordability restrictions might present an opportunity to reallocate place-based housing assistance to neighborhoods of higher opportunity.

¹⁰ Chetty and Hendron (2017) refer to lower-rent neighborhoods that provide positive outcomes as “opportunity bargains.”

Expiring affordability restrictions might even be desirable from this point of view given historical siting patterns of LIHTC units. From this perspective, the degree to which at-risk LIHTC units provide access to opportunity could be used to establish priorities for preservation efforts. LIHTC units, especially those owned by for-profits, reaching the end of their affordability restrictions in neighborhoods that rank high or very-high in both desirability and opportunity are obvious candidates under these criteria, since they are at greater risk for conversion to unaffordable market-rate housing, offer tenants the greatest access to opportunity, and less likely to be in segregated minority neighborhoods.¹¹ These units would be difficult to replace since development costs and neighborhood opposition are likely higher in these neighborhoods. In addition, low-income tenants in these properties would likely have a more difficult time than tenants in less desirable neighborhoods finding a similar unit in a similar neighborhood at an affordable price without additional rental assistance.

The 13% of LIHTC units reaching Year 30 between 2020 and 2029 in very-low or low desirability neighborhoods that offer high or very-high levels of opportunity would also be a priority. These units may be less likely than those in highly desirable neighborhoods to convert to unaffordable market-rate housing, but owners could face difficulty meeting capital needs for physical improvements due to lower rental income.

The 42% of expiring units in neighborhoods that rank very-low or low in both desirability and opportunity, or particularly the 19% of units in neighborhoods that are very-low in both, would be less of a priority for preservation if access to opportunity and desegregation are policy priorities. Not

preserving, or preserving fewer, LIHTC housing in these neighborhoods could result in housing instability for tenants and disproportionately affect minority families. LIHTC tenants who are the poorest, Hispanic, or black are more likely than higher income or white LIHTC tenants to reside in neighborhoods with lower opportunity (Ellen, Horn, and Kuai, 2018).



On the other hand, if decision-makers want to pursue an affordable housing policy that promotes housing stability or community development, then decision-makers have an obligation to preserve LIHTC units in neighborhoods with lower opportunity to prevent the displacement of tenants, the reduction of housing options, and community disinvestment. To this end, resources would be aimed at preserving LIHTC housing to the greatest extent possible, regardless of their neighborhoods' opportunity.

Scarce resources lead to an apparent dilemma in establishing priorities for preservation: A decision not to preserve LIHTC housing in lower opportunity neighborhoods

¹¹ Sixty-six percent of expiring LIHTC units were in neighborhoods with a relatively high share of non-white population, compared to 18% of expiring LIHTC units in neighborhoods of high/very-high opportunity and desirability, and 84% of expiring LIHTC units in neighborhoods of low/very-low opportunity and desirability. A high share of non-white population was defined as one where the neighborhood's % of population who was non-white was in the upper two quintiles (top 40%) of the region.

potentially results in housing instability and disinvestment, while a decision to preserve such housing potentially reinforces patterns of segregation and limits access to higher opportunity neighborhoods. Neither outcome is desirable.

A Broader Vision for the Housing Safety Net

Fortunately, the tension between preservation and mobility stems more from a scarcity of resources and a failure to provide low-income renters with residential choices rather than an inherent policy conflict (Turner, 2017; Crowley and Pelletiere, 2012). Theoretically, given sufficient resources, all LIHTC properties could be preserved and an adequate supply of new units could be developed to allow low-income tenants their choice of neighborhood in which to live. It is doubtful, however, that sufficient resources will soon become available to expand production subsidies to this extent and such an approach would likely be inefficient, and still require additional rental assistance to reach the lowest income households. Rather, Year 30 in the LIHTC program highlights both a need and an opportunity to expand and rebalance affordable housing production and rental assistance subsidies to create a more efficient federal affordable housing policy that is responsive to the concerns associated with both preservation and mobility.

Moving toward such a policy could begin with changes to the LIHTC program. In the immediate future, the bipartisan Affordable Housing Credit Improvement Act of 2017 (S. 548) includes important changes, including a 50% increase in LIHTC allocations for the creation and preservation of affordable housing, a 50% basis boost for developments that set aside at least 20% of units for extremely low-income households, and a provision designating Native American communities as DDAs. These changes on their own, however, are insufficient to resolve the dilemma between mobility and preservation.

Tax credits could be targeted to areas and populations where supply-side interventions will yield the greatest benefits. With regard to preservation efforts, 9% tax credits could be targeted through state QAPs toward at-risk units in neighborhoods ranked high or very-high for desirability and opportunity, and toward at-risk units that need investment in neighborhoods with very-low desirability, especially units in properties providing onsite services (e.g. permanent supportive housing), serving populations that have less success with vouchers, or contributing to a concerted community revitalization effort. LIHTC units reaching Year 30 in neighborhoods of lower desirability, but higher opportunity would be particularly worth preserving. Most other LIHTC housing would likely continue to operate as affordable housing even without affordability restrictions in place. Nine percent tax credits could also be targeted towards preserving housing in gentrifying neighborhoods.

New LIHTC production could be directed towards higher opportunity neighborhoods in tighter markets where supply is unresponsive to increased demand. The allocation of federal low-income housing tax credits to the states could be determined by each state's unmet housing needs and variations in development costs rather than each state receiving the same per capita credit. This strategy could increase the supply of units available to voucher holders in tighter markets and help housing providers meet the higher costs of developing in these areas. Meanwhile, incentives to develop in QCTs could be replaced by incentives to develop in areas with unmet housing needs and a need for production subsidies.

While the public-private nature of the tax credit program allows developers to leverage significant capital from the private sector, consideration should be given to requiring mission-driven non-profits to be part of LIHTC property ownership structures. Non-

profit ownership, or potentially even public ownership, would help ensure that LIHTC properties continue to operate as affordable housing and serve the public interest. Another reform to protect the supply of affordable housing is to eliminate the QC option from the LIHTC program. The option for owners to opt-out of LIHTC affordability restrictions after 15 years has led to a substantial loss of units from the program.

Along with these reforms, data about LIHTC properties should also be improved to allow stakeholders to better evaluate success and make strategic decisions about future efforts. HUD's LIHTC database, the primary data source about LIHTC properties, does not include information regarding state or locally-imposed affordability restrictions beyond the federal requirement of 30 years. In addition, long-term tracking of LIHTC properties is made difficult by the extent to which HFA monitoring and enforcement of program compliance after the compliance period (i.e., after Year 15) varies and, in many cases, is unknown. HFAs should report to HUD property-level affordability restrictions in addition to tenant characteristics. Also unclear is how well the LIHTC database reflects changes to a property ownership structure over time.

While LIHTC reforms are important, a broader vision for federal affordable housing policy is needed in order to secure an adequate housing safety net that addresses concerns associated with both preservation and mobility. Lengthening affordability restrictions would keep LIHTC housing in the affordable housing stock, but would not address the need for physical rehabilitation and renovation of units as they reach 30 years of age and beyond. The need for capital investment likely poses a greater threat to preservation than expiring affordability restrictions. Far greater expansion of funding would likely be needed to both preserve all LIHTC units and to increase the supply of units in higher

opportunity areas to facilitate mobility. Such a further expansion of funding is not only unlikely, but it would be inefficient and still not provide a robust safety net to protect the lowest income renters from housing instability without a corresponding increase to deeply targeted rental assistance programs.

Our current funding environment is unlikely to preserve all LIHTC units as affordable housing while sufficiently expanding the supply in higher opportunity areas. Moreover, the LIHTC program often relies on tenant-based rental assistance to meet the housing needs of the lowest income renters. These facts make it clear the program requires a safety net for tenants. The HCV program should be fully funded to serve as a housing safety net for all extremely low-income and very low-income households. With open enrollment for vouchers, the most vulnerable LIHTC tenants would either already possess or have immediate access to housing assistance in the event of a LIHTC property leaving the affordable housing stock due to expiring affordability restrictions, conversion to another use, foreclosure, or physical deterioration. Additionally, vouchers help the lowest income tenants afford LIHTC rents because voucher-holders' contribution toward rent is limited to 30% of their adjusted household income.

Vouchers, at their best, can also promote neighborhood choice by allowing tenants to choose to remain in their current homes and neighborhoods, or take their housing assistance elsewhere, regardless of preservation efforts. To an extent, the choice of whether to invest rental housing assistance in a preservation effort, or whether to move to a neighborhood offering different opportunities would be left to the tenants themselves. There is general consensus that vouchers are typically more cost-efficient than production subsidies, though the degree of efficiency depends on the local availability of housing with rents at or below the voucher payment standards (Deng, 2005; McClure, 2005;

Khadduri et al., 2003; GAO, 2002).

A fully-funded voucher program, however, comes with significant challenges. Voucher recipients experience discrimination, especially in markets without source of income protections (Cunningham et al., 2018; Graves, 2016; Metzger, 2014). And vouchers do not provide recipients assistance with security deposits or moving costs, two potential financial barriers to moving. Research on Tenant Protection Vouchers for tenants in expiring project-based Section 8 properties suggests limits to the utility of vouchers as a safety net from expiring subsidies, particularly for seniors, black heads of household, and large households (Reina & Winter, 2017). Other research finds that voucher holders tend to live in higher poverty neighborhoods than LIHTC tenants (Ellen et. al., 2018; McClure, 2006). They, however, live in lower poverty neighborhoods than tenants in other HUD programs and unassisted poor households (Ellen, 2017).

Further steps are needed to improve voucher utilization rates and access to higher opportunity neighborhoods for voucher holders. A federal ban on source of income discrimination (i.e. refusing to rent to voucher holders), mobility counseling, and assistance with security deposits and other moving costs may increase voucher utilization and access to higher opportunity neighborhoods (Cunningham et. al., 2018; Myhre & Watson, 2017; Freeman, 2012; Finkel and Buron, 2001). Outreach by Public Housing Authorities and mobility advocates to educate and recruit landlords may also expand housing choice for voucher holders (Ellen, 2017). Small Area Fair Market Rents (SAFMRs) also offer the potential to improve access to higher opportunity neighborhoods by providing greater assistance (higher payment standards) in higher-cost neighborhoods and less assistance (lower payment standards) in lower-cost neighborhoods. HUD found that SAFMRs generally increase the number of units available to voucher holders in high-rent

zip codes, though they appear to decrease the number of units available to voucher holders in low-rent zip codes (Finkel et al., 2017).

If enacted, the bipartisan Housing Choice Voucher Mobility Demonstration Act of 2018 (HR 5793) would provide resources to implement and study strategies to enhance voucher utilization and mobility, including: landlord recruitment, mobility counseling, and assistance with security deposits.

Vouchers work best in rental markets where the demand from voucher holders can be met with the current housing stock and the market is responsive to further demand by increasing supply. Voucher utilization rates are lower in tighter housing markets (Finkel & Buron, 2001). Deeply targeted production subsidies are needed in tighter and unresponsive housing markets. Production subsidies might also better serve certain populations that have lower success rates with vouchers, such as families of five or more members who face difficulty securing appropriately large rental units, single adults, and seniors residing in metropolitan areas (Khadduri et al., 2003). Production subsidies can also play a role in improving or preserving the quality of the housing stock as part of a broader community development effort.

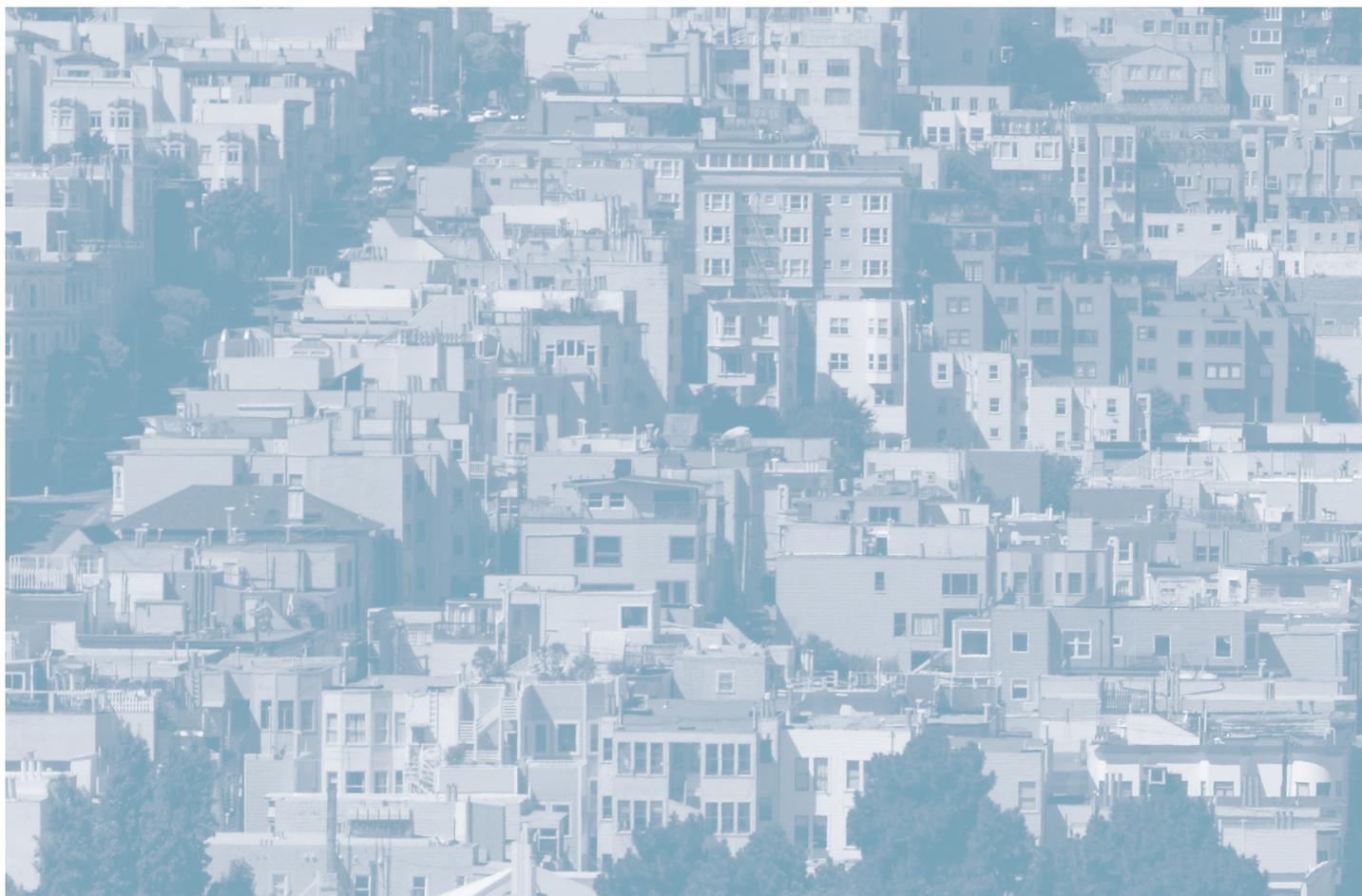
Given the challenges of the LIHTC program highlighted in this report and the continued need for production subsidies to supplement the voucher program, other housing production programs are also needed to reinvest and expand our current stock of affordable housing. Funding should be expanded for other supply-side programs like the national Housing Trust Fund (HTF) and public housing, programs that target the nation's lowest income families and hard-to-serve populations. The national HTF is a block grant to states for the production, preservation, or rehabilitation of housing for the lowest income households. At least 90% of national HTF money must be used for rental housing, and at least 75% of rental funds must benefit extremely low-income renters with

incomes below 30% of AMI or poverty.¹² The remaining funds can be used to benefit very low-income households with incomes up to 50% of AMI. Unlike LIHTC's per capita allocation to each state regardless of housing needs, the national HTF state allocation formula is based on the unmet housing needs of the states' lowest income households and development costs. Greater funding for capital improvements to the current public housing stock is also needed to ensure this important component of the affordable housing supply is adequately maintained and not lost to disinvestment.

Conclusion

The 486,799 LIHTC units reaching Year 30 between 2020 and 2029 and losing affordability restrictions provide an opportunity to reconsider the way housing

assistance is delivered. Continuing with the status quo of scarce resources in the face of growing demand leads to difficult choices between important housing policy objectives such as preservation and housing stability on the one hand and desegregation and access to opportunity on the other. We find these difficult choices both unacceptable and largely unnecessary. Taking a broader view of the housing safety net, we propose sufficient funding for universal access to HCVs, reforms to the allocation of tax credits in the LIHTC program, and the expansion of funding for the national HTF and Public Housing. The success of such a proposal is contingent upon further research into strategies for improving voucher utilization and mobility, as well as improving our understanding of where supply and demand-side housing subsidies are most needed and effective.



12 100% of the national HTF funds must benefit extremely low-income households in the years that the HTF has less than \$1 Billion.

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