Making the Best Use of Your LIHTC Dollars: A Planning Paper for State Policy Makers

PD&R

U. S. Department of Housing and Urban Development
Office of Policy Development and Research

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Making the Best Use of Your LIHTC Dollars: A Planning Paper for State Policy Makers

Prepared for:

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Prepared by:

Jill Kadduri
David Rodda

Abt Associates, Inc.
Bethesda, MD

C-OPC-21895

July 2004

Making Best Use of Your LIHTC Dollars: A Planning Paper for State Policy Makers

Jill Khadduri and David Rodda
Abt Associates Inc.

This paper is intended to help state officials think about how to make strategic use of the Low Income Housing Tax Credit (LIHTC), which since the late 1980s has been the primary vehicle for building or rehabilitating housing with rents affordable to low income families and individuals. The paper provides a framework for state decision-making, based on research and theory about where and for whom the development of subsidized rental housing is most effective. The paper draws heavily on a literature review and empirical analysis conducted for HUD's Office of Policy Development and Research in 2003 and early 2004. It presents the implications of findings from a large body of research.[1]

The paper takes no account of "political reality," because every state has its own. Every state could implement some of the approaches that the growing expert literature suggests, and many states are already trying to do so.

After an introductory description of the way in which states make decisions about the LIHTC, the first section of the paper discusses the geographical allocation of the LIHTC resource among metropolitan housing markets within a state, based on different levels of need for: 1) rental housing assistance in general and 2) *project-based* rental housing assistance in particular.[2] The second section discusses the targeting of LIHTC to housing developments designed for occupancy by different types of households: the poorest households, large families, the frail elderly, and people with disabilities. The third section relates to the use of LIHTC developments as part of a strategy for individual metropolitan areas within the state. It discusses the potential roles of LIHTC developments in enabling low-income families to live in high quality neighborhoods and in revitalizing neighborhoods that are fragile or distressed.

The Role of States in Shaping Rental Housing Policy

Each state receives an annual "budget" of tax credit authority that can be used to reduce the federal tax liability of investors in affordable rental developments. The state passes

---

[1] Jill Khadduri, Kimberly Burnett, and David Rodda, *Targeting Rental Production Subsidies: Literature Review*. Cambridge MA: Abt Associates Inc., 2004. Jill Khadduri, Kimberly Burnett, Bulbul Kaul, and David Rodda, *Targeting Rental Production Subsidies: Needs and Allocation Factors.* Cambridge MA: Abt Associates Inc., 2004.

[2] The emphasis of the paper is on metropolitan areas, although it includes a brief discussion of allocations between metropolitan and non-metropolitan areas within states.

on this tax credit authority to individual developments, based on a Qualified Allocation Plan (QAP). The QAP establishes criteria for the annual selection of developments around the state that will be built or preserved using LIHTC.

Through the QAP and through review of individual proposals for housing developments, state policy-makers shape the way in which affordable rental housing is distributed geographically and to different types of families and individuals. The QAP is developed through a consultative process that also gives advocates at the state level an opportunity to affect housing policy.

The Low Income Housing Tax Credit is part of a complex system of rental housing subsidies that includes federally funded vouchers, federally funded public and assisted rental developments, and rental housing that may be produced under the HOME block grant program. Administration of HOME is split between state and local governments (40 percent of funds go to states and 60 percent to local governments). State agencies sometimes administer portions of the voucher program. Thus, a complicating factor in strategic planning for housing is that responsibility for key decisions is split among the three levels of government. Nonetheless, states have the most powerful tools and the greatest responsibilities for planning and implementing rental housing policy in the US.

Qualified Allocation Plans vary widely from state to state and over time. Many states hold competitions based on set-asides of the tax credit to specific metropolitan areas and non-metro areas within the state, while most others establish preferences for specific types of geographic areas. Sometimes sub-allocation largely follows population, while sometimes areas believed to have greater relative need for affordable housing are favored. Developments serving specific types of households, such as the frail elderly, typically get “points” in the competition, as do developments that serve other policy objectives, such as favoring specific types of non-profit developers.[3]

A study that analyzed how the presence or absence of particular types of QAP sub-allocations and preferences affect the characteristics of the LIHTC units actually developed found that relationships often are weak.[4] The same study also used the 1990 census to assess whether LIHTC developments are “targeted” to areas of the states that have two often-used indicators of housing need, vacancy rate and severe rent burden, regardless of whether the state’s QAP has included a preference for such areas. The study found that neither indicator predicts well the counties within the state in which LIHTC units will be developed.[5]

---

[3] Jeremy Gustafson and J. Christopher Walker, *Analysis of State Qualified Allocation Plans for the Low-Income Housing Tax Credit Program.* Washington, DC: The Urban Institute, 2002.

[4] *Ibid.*, pp. 24-32.

[5] *Ibid.*, pp. 33-34.

However, it can be difficult to understand the real effect (intended or actual) of QAPs—or changes to QAPs—because a small number of points at the margin can distinguish one application from another when both are typical of low income rental developments. In addition, a preference may be a "check the box" affair, or it may require a more substantial demonstration that the development will serve the intended policy purpose. What is clear is that—through the QAP or through the selection of individual LIHTC developments—state policy makers are making critical choices about rental housing policy that affect the well-being of individual households and the economic health of the state's metropolitan areas. The following discussion is intended to illuminate some of the most important implications of those choices.

1. Sub-State LIHTC Allocations and Housing Needs

States Should Concentrate Tax Credit Developments in Areas that Have Both Needy Households and Shortages of Rental Housing

In general, state should use severe rent burden (a very high percentage of income spent for rent and utilities) rather than poverty as a proxy for need for affordable rental housing among both geographic areas and types of households. Rent burden has come to dominate "worst case needs" and other estimates of housing deprivation, as the percentage of rental housing with serious physical problems or insufficient space for the number of occupants has diminished greatly in recent decades.[6] Worst case need (or a similar estimate of severe rent burden) is preferable to simply favoring areas with a large number of poor people, because rent burden is an indication that the income problems of households are creating a *housing* problem.

In particular, very-low-income renters are considerably more likely to have worst case needs in metropolitan than in non-metropolitan areas.[7] Therefore, using poverty as a proxy for housing need is likely to exaggerate the percentage of a state's need that is located in non-metro areas of the state.

---

[6] Khadduri, Burnett, and Rodda, p. 19. The latest HUD report on worst case needs is Kathryn P. Nelson, David A. Vandenbroucke, Jeffrey M. Lubell, Mark D. Shroder, and Arthur J. Reiger, *Trends in Worst Case Needs for Housing, 1978-1999.* US Department of Housing and Urban Development, Office of Policy Development and Research, December 2003. The Harvard University Joint Center for Housing Studies analyzes housing needs and reports on them each year in *The State of the Nation's Housing*.

[7] Nelson *et al.*, p. 43.

Among metropolitan areas, relative poverty may or may not be a good proxy for relative shares of worst case need. The distortion from using poverty depends on the state. In Michigan, poverty is not too bad a proxy. Exhibit 1 is based on 2000 census data and shows that in metropolitan areas in Michigan the distribution of the poverty population is very similar to the distribution of worst case needs. The estimates of worst case needs (family households[8] with incomes below 50 percent of area media income and rental costs greater than half their income) are based on the Comprehensive Housing Affordability Strategy (CHAS) tabulations of 2000 census data that are available for housing planning.

On the other hand, poverty makes a bad proxy in Washington State. Exhibit 2 shows that worst case needs among family households in Washington are distributed quite differently from the distribution of all poor people living in family households.[9]

---

[8] We use family households rather than all households, because local estimates of both worst case needs and poverty can be dominated by students with housing costs not necessarily related to income reported to the Census or to income expectations. When all households are used, the percentage of worst case needs in metropolitan Michigan located in Ann Arbor rises from 1.5 to 4.1 and in East Lansing from .6 to 2.5.

[9] The choice of states to use for this illustration was essentially arbitrary, but we avoided both the largest states and those with only one metropolitan area. Khadduri, Burnett, Kaul, and Rodda includes tables on the distribution of worst case housing needs among the metropolitan areas and their central cities for all 50 states and the District of Columbia.

Exhibit 1.
Poverty and Worst Case Needs Among Family Households in Metropolitan Michigan

Name	Share of Statewide Metro Population	Share of Statewide Metro Poverty Population	Share of Statewide Metro WCN
Benton Harbor, MI MSA	2.0%	2.5%	2.4%
Benton Harbor city, MI	0.1%	0.7%	0.9%
Detroit–Ann Arbor–Flint, MI CMSA	66.8%	70.5%	72.6%
Ann Arbor, MI PMSA	7.1%	3.6%	4.8%
Detroit, MI PMSA	54.4%	59.6%	60.3%
Flint, MI PMSA	5.3%	7.3%	7.5%
Ann Arbor city, MI	1.4%	0.6%	1.5%
Dearborn city, MI	1.2%	2.3%	1.8%
Detroit city, MI	11.6%	32.7%	33.3%
Flint city, MI	1.5%	4.3%	5.2%
Pontiac city, MI	0.8%	1.8%	2.1%
Port Huron city, MI	0.4%	0.6%	0.8%
Grand Rapids–Muskegon–Holland, MI MSA	13.3%	10.4%	9.5%
Grand Rapids city, MI	2.4%	3.6%	3.9%
Holland city, MI	0.4%	0.3%	0.3%
Muskegon city, MI	0.5%	0.9%	0.8%
Jackson, MI MSA	1.9%	1.6%	1.5%
Jackson city, MI	0.4%	0.8%	1.0%
Kalamazoo–Battle Creek, MI MSA	5.5%	5.1%	4.4%
Battle Creek city, MI	0.7%	0.9%	0.8%
Kalamazoo city, MI	0.9%	1.2%	1.5%
Lansing–East Lansing, MI MSA	5.5%	4.2%	4.9%
East Lansing city, MI	0.6%	0.3%	0.6%
Lansing city, MI	1.5%	2.3%	2.7%
Saginaw–Bay City–Midland, MI MSA	4.9%	5.7%	4.7%
Bay City, MI	0.5%	0.6%	0.5%
Midland city, MI	0.5%	0.4%	0.4%
Saginaw city, MI	0.8%	2.4%	2.1%
Total	**100%**	**100%**	**100%**

Exhibit 2.
Poverty and Worst Case Needs Among Family Households in Metropolitan Washington

Name	Share of Statewide Metro Population	Share of Statewide Metro Poverty Population	Share of Statewide Metro WCN
Bellingham, WA MSA	3.6%	4.0%	3.0%
Bellingham city, WA	1.4%	1.4%	1.7%
Richland–Kennewick–Pasco, WA MSA	4.1%	6.5%	3.9%
Kennewick city, WA	1.2%	1.8%	1.4%
Pasco city, WA	0.7%	2.1%	1.3%
Richland city, WA	0.8%	0.7%	0.7%
Seattle–Tacoma–Bremerton, WA CMSA	75.7%	63.1%	72.3%
Bremerton, WA PMSA	4.9%	4.6%	4.5%
Olympia, WA PMSA	4.4%	3.7%	3.9%
Seattle–Bellevue–Everett, WA PMSA	51.4%	37.9%	46.8%
Tacoma, WA PMSA	14.9%	16.9%	17.0%
Bellevue city, WA	2.3%	1.2%	2.2%
Bremerton city, WA	0.8%	1.5%	1.5%
Everett city, WA	1.9%	2.6%	3.4%
Olympia city, WA	0.9%	0.7%	1.2%
Seattle city, WA	12.0%	9.2%	11.2%
Tacoma city, WA	4.1%	6.7%	6.7%
Spokane, WA MSA	8.9%	10.4%	9.1%
Spokane city, WA	4.2%	6.2%	5.9%
Yakima, WA MSA	4.7%	11.9%	6.1%
Yakima city, WA	1.5%	4.1%	2.8%
Vancouver city, WA in Portland–Vancouver, OR–WA PMSA	3.1%	4.2%	5.6%
Total	**100%**	**100%**	**100%**

Places within a state that have a heavy concentration of renters with severe housing costs may or may not be the same places where production of rental housing is needed to make housing more affordable. If there is a steady turnover of rental units that can be made available for families to use tenant-based vouchers to reduce their housing costs, LIHTC units may be more needed in other locations within the state. Therefore, some combination of needs among low-income renters *and an indication that there is a shortage of rental housing in the area* is better than simply targeting areas within the state where many people have high rent burdens.

There is no simple and foolproof way of identifying places within a state that have housing shortages. In theory, it should be possible to identify areas in which builders do not respond to demand for rental housing and, therefore, the additional demand represented by housing vouchers may drive rents up rather than making housing affordable. However, time series data on housing production and rents are not good enough at this point to support an easy identification of such places.[10]

Nonetheless, there are several things that state policy makers can do, based on information available to them now:

- **Option 1: Use census vacancy rates as an indicator of low supply response.** Low vacancy rates for rental housing can mean that investors in the area do not respond adequately to demand phenomena such as population growth, income growth, and subsidies that support housing demand.

A few states already use this indicator in their QAPs, while others make it part of the market study required to demonstrate that there is a need for new housing development in the location of an individual proposed LIHTC development.[11] However, sometimes a high or low vacancy rate can merely reflect a short-term situation in the market. For example, a high rate may be associated with a large rental complex that has come on line and is in the process of lease up, or a low rate may not capture housing development well under way but not yet completed.[12] Therefore, vacancy rates should be supported by other information that confirms that there is a systematic shortage of rental housing in the area.

- **Option 2: Use Other Indicators of Places Where the Private Market is Not Responsive to Increases in Rents.** There are other possible indicators of housing markets that have structural problems, so that increased demand does not lead to the normal pattern in which production of new housing leads to the filtering down of older housing into the affordable range. For example, state policy makers can look for places where rents (or sales prices) of housing are rising without an accompanying rise in construction permits.

Another possible indicator of a shortage is that the rent (or sales price) of existing housing units is high compared to the cost of construction (based on construction cost estimates from commercial data sources such as the R.S. Means index). In such places, investors are

[10] Chapter 2 of Khadduri, Burnett, Kaul, and Rodda summarizes an attempt to measure unresponsive supply for this study using decennial census data. The American Community Survey, by providing annual information at the metropolitan level, will make it easier to identify places with unresponsive housing supply and to relate that phenomenon to other characteristics of metropolitan areas.

[11] Gustafson and Walker, pp. 7-8.

[12] Khadduri, Burnett, and Rodda, pp. 12-14.

failing to respond to relatively high housing prices by building additional housing, often because regulations add to land costs or create indirect costs such as delays and fees.[13]

- **Option 3: Encourage the development of LIHTC units in Difficult Development Areas.** The law governing the LIHTC permits a larger tax credit (a credit based on a higher percentage of the eligible development costs) to be taken by investors in developments located in areas that HUD has designated as Difficult Development Areas (DDAs). This aspect of the LIHTC program was introduced to make development feasible in places where the maximum rents allowed by the program (18 percent of area median income)[14] are very low compared with the local costs of developing housing. Low rents compared with costs increase the gap between the rental income permitted the project and the costs that must be covered by rental income, investor equity raised through the tax credit, and (when available) subsidies raised from other sources.

As a proxy for the costs of developing and operating rental housing, HUD uses the rent estimates behind the Fair Market Rents (FMRs) that are published annually and used for various programs.[15] The ratio of FMRs to median incomes is then used to rank order metropolitan and non-metropolitan areas. Those places with the worst (highest) ratios are designated as DDAs, until the limit of such areas established by law is reached. The limit is that no more than 20 percent of the US population may live in DDAs.[16]

The original intention behind the DDA designation was to make development feasible in high cost areas, but places with unusually high rents compared with median incomes may also be places where the dynamics of the rental housing market have not worked well. In theory, additional housing should have been built (or converted to rental use) in these high-cost markets, bringing rents around the middle of the market down to a level affordable by households with typical incomes.[17] Instead, rents have increased—or stayed high.

The factors behind housing markets with unresponsive supply (low supply elasticity, in economic terms) are not well understood. A large body of research suggests that regulatory barriers play a substantial role, but limitations on developable land caused by

---

13 Edward L. Glaeser and Joseph Gyourko, "The Impact of Zoning on Housing Affordability," Harvard Institute of Economic Research, Discussion Paper Number 1948, March 2002, summarized in Khadduri, Burnett, and Rodda, pp. 34-38.

14 Often expressed as 30 percent of 60 percent of median income, because 60 percent of median is the income limit used for most LIHTC units.

15 The original and still primary use of FMRs is to set limits for subsidy costs in the voucher program. FMRs are a proxy rather than a direct measure of costs, because rents are influenced by the local demand for rental housing as well as the local costs of supplying housing.

16 *Federal Register*, December 19, 2003, p. 70984.

17 Khadduri, Burnett, and Rodda, pp. 11-14.

geography and nature (water, mountains) are also relevant.[18] The population dynamics of an area may also affect the ability of supply to keep up with demand. Areas with large in-migrations and urban areas that already have very large populations may not be able to respond quickly to demand for housing (especially if there are regulatory barriers to development), so instead rents go up. Areas with broad income distributions (so that low income renters are much poorer than typical homeowners and high-income renters) may also have constrained supply of rental housing.

A look at the list of DDAs in metropolitan areas designated for 2004 (Exhibit 3) confirms that places with high housing costs relative to incomes also often are places where it has been relatively difficult at times for low-income families to use housing vouchers.[19] It has also been demonstrated that places with high rents compared with incomes have lower vacancy rates for rental housing than other areas.[20]

Exhibit 3.
Metropolitan Difficult Development Areas, 2004

Los Angeles – Long Beach, CA PMSA	Miami, FL PMSA
Flagstaff AZ [HUD FMR]	Barnstable – Yarmouth, MA MSA
Santa Cruz – Watsonville, CA PMSA	San Jose, CA PMSA
Salinas, CA MSA	Santa Rosa, CA PMSA
Jersey City, NJ PMSA	Vineland – Millville – Bridgeton, NJ PMSA
Boston, MA-NH PMSA	San Luis Obispo – Atascadero – Paso Robl
New York, NY PMSA	Nassau – Suffolk, NY PMSA
San Diego, CA PMSA	San Francisco, CA PMSA
Oakland, CA PMSA	Orlando, FL MSA
Santa Barbara – Santa Maria – Lompoc, CA	Dutchess County, NY PMSA
Vallejo – Fairfield – Napa, CA PMSA	Sacramento, CA PMSA
Yuma, AZ MSA	Atlantic – Cape May, NJ PMSA

Federal Register, December 19, 2003, pp. 70987-70989.

The list shows that not all states have metropolitan DDAs, although some states not on the 2004 list have had DDAs in the past.

The list of non-metropolitan DDAs is longer and includes more states. Areas with rental properties that attract non-resident vacationers are common among the non-metropolitan

---

18 *Ibid.*, pp. 33-38.

19 Meryl Finkel and Larry Buron, *Study on Section 8 Voucher Success Rates.* Cambridge, MA: Abt Associates Inc., August 2001. Meryl Finkel, *et al.*, *Costs and Utilization in the Housing Choice Voucher Program.* Cambridge, MA: Abt Associates Inc., July 2003. The relationship between DDAs and low voucher success rates does not always hold. Among other reasons, PHAs in difficult housing market situations sometimes find ways to help households use their vouchers successfully. Steven Sullivan, Larry Buron, *et al., Housing Choice Voucher Success Rates and Administrative Practices.* Bethesda, MD: The QED Group LLC and Abt Associates Inc., June 2003.

20 Nelson, *et al.*, pp. 75-76.

DDAs.[21] Contrary to common belief, households do not generally have a more difficult time using vouchers in rural areas.[22] In general, therefore, state policy makers should attempt to resist pressures to allocate substantial amounts of tax credit authority to rural areas. Non-metropolitan DDAs may be an exception, as they are places with substantial demand for rental housing that may also have supply limitations.[23]

There is inevitably a trade-off between using the LIHTC in high-cost areas and producing a larger number of LIHTC units in lower-cost areas. However, development in DDAs is still warranted, given the benefits both to the low-income households that are able to occupy the subsidized rental housing and to other low-income renters who may benefit from the easing of competition for housing with middle-range rents.

QAPs have frequently given preferences to proposed LIHTC projects located in DDAs, although there have been no set-asides for DDAs. The preferences do not appear to have been sufficient to overcome the cost or other barriers to locating developments in DDAs. In the period between 1993 and 1998, states *without* DDA preferences developed more units within DDAs than states with such preferences.[24] Furthermore, analysis of the location of LIHTC units placed in service between 1995 and 2001 shows that, for states that have DDAs, most develop a smaller proportion of LIHTC units in DDAs than the proportion of all rental housing that is located in DDAs.[25] It appears that many states could use DDAs (or places chosen through a similar analysis) more effectively as a way of directing LIHTC units to locations that need an increased supply of rental housing.

HUD can make available a more complete list of areas that shows places that fell below the cut off but still have relatively high FMRs compared with median incomes. The evidence from 1996-2001 suggests that areas just below the DDA threshold have a lower share of LIHTC units than of the private rental units, and states should not neglect these areas. For example, Orange and Modesto Counties in California are not DDAs, but have rent to income ratios almost as high as Sacramento County, which is.

---

[21] *Federal Register*, December 19, 2003, pp. 70990-70994.

[22] Linda Pistilli, *Study on Section 8 Voucher Success Rates: Qualitative Study of Five Rural Areas.* Cambridge, MA: Abt Associates Inc., April 2001.

[23] High demand for rental housing is not in itself an indicator of a shortage. Case studies of voucher success in rural areas found that proximity to a military base actually made vouchers easier to use, as the demand for rental housing stimulated by military personnel led to the production of middle-market rental housing. Pistilli, p. 36.

[24] Gustafson and Walker, pp. 8 and 31-32.

[25] Sandra Nolden, Carissa Climaco, Jessica Bonjorni, Meryl Finkel, and Karen Rich, *Updating the Low Income Housing Tax Credit (LIHTC) Database: Projects Placed in Service Through 2001.* Cambridge, MA: Abt Associates Inc., 2004, pp. 55-57. There are exceptions: Connecticut, Rhode Island, Delaware, Florida, California, Montana, and Oregon are all states with significant amounts of rental housing in DDAs that have developed a yet higher proportion of tax credit units in DDAs. Some other states either are almost entirely DDAs (Maine, New Hampshire) or have very little geography within DDAs.

- **Option 4: Use Local Experience with the Voucher Program to Indicate Where LIHTC Units Are Most Needed.** Finally, state policy makers should look directly at the experience of the voucher program in different parts of the state to determine places where housing should be available to voucher holders, but nevertheless is difficult for subsidized renters to access. Given the way the voucher program's Fair Market Rents (FMRs) are set, at around the middle of the market, [26] there is some housing available in any metropolitan area that, in theory, is affordable for a voucher family. However, where there is a constrained supply of rental housing, it is easy for owners to rent voucher-qualifying units only to unsubsidized households.

Housing vouchers are now called Housing Choice Vouchers to emphasize the point that the subsidized household chooses from among units available in the rental market. The rental market includes LIHTC developments, and vouchers are often used in rental housing that also has the tax credit subsidy. Recent analysis of the addresses of voucher and LIHTC units (LIHTC units placed in service between 1995 and 2001 and voucher units as of December 2001) confirms an earlier finding that just over a third of all LIHTC developments have at least one resident using a choice-based voucher.[27] In some cases, these LIHTC developments may be expanding the amount of rental housing available to families with vouchers in the places where this is most needed. In other places they may simply be among the many rental housing units readily available to voucher holders. In some of these latter situations, LIHTC developments may be attracting voucher families away from other nearby affordable housing developments, causing them to have vacancy problems.[28]

State policy makers can use local voucher *success rates* as a direct way of determining where there are shortages of rental housing around the state. The voucher success rate is the percentage of all households issued a voucher that find rental housing that qualifies for the program and begin receiving the subsidy. Success rates range widely from place to place and from one voucher administrator to another, even within the same state or region, as illustrated in 4, which is drawn from a study of voucher success rates conducted in 2000.[29]

A particular family or individual may not use a voucher for a variety of reasons, so success rates close to 100 percent should not be expected. However, an unusually low

---

[26] The FMRs for the voucher program generally are set at the 40th percentile of rental units of standard quality that have changed occupants within the past two years (that is, at a higher level than the 40th percentile for all rental units). In some metropolitan areas, FMRs are set at the 50th percentile. PHAs administering the voucher program have the discretion to set payment standards up to 110 percent of the published FMR.

[27] Nolden, *et al.*, 2004, pp. 35-38.

[28] There is anecdotal evidence that this is occurring in some places.

[29] Finkel and Buron, pp. C3-C4.

success rate (for example, a rate under the national average, which is about 70 percent) may indicate housing market difficulties. Since a low rate may reflect, instead, poor administrative practices on the part of the local public housing authority (PHA)[30] voucher success rates should be combined with other evidence (such as low vacancy rates or a high ratio of rents to incomes) when state policy makers select areas to prefer in their selection of LIHTC developments.

Exhibit 4.
Voucher Success Rates for Selected PHAs in Texas in 2000

Local Public Housing Authority Serving:	Percentage of voucher holders leasing units (success rate)
El Paso	96%
Corpus Christi	67%
Dallas	66%
Grand Prairie	78%

State agencies can obtain information on voucher success rates by canvassing PHAs around the state. The request for this data should be explicit, relating the records of all households issued a voucher to records that the same households have or have not used a voucher some months later. HUD now requires each PHA to create household-level records at the time vouchers are issued and to report both this information and information on the actual use of vouchers to the program's central management information system. Therefore, PHAs should be able to report factual information (rather than staff impressions) on voucher success rates.[31]

- **Option 5: Make LIHTC Allocations Part of a State Housing Strategy That Also Reduces Regulatory Barriers to Affordable Housing.** Developing new units of affordable housing is only one way, and a fairly limited way, of alleviating shortages of rental housing. There is substantial evidence that high or increasing rents and house prices are associated with regulations that add to development costs.[32]

While many of the regulations affecting housing are local, states set the framework within which these regulations are established and administered. Therefore, in addition to encouraging the development of LIHTC units in housing markets within the state that have structural problems, state housing policy makers also should take actions to reduce

---

30 Finkel, *et al.*, pp. 10-30 and 76, Finkel and Buron, pp. 3-23.
31 HUD is in the process of creating a data file based on the same information, and, in the future, will be able to provide the information directly to states.
32 Khadduri, Burnett, and Rodda, pp. 33-38.

the regulatory barriers that contribute to making housing unaffordable in the same metropolitan areas.

The Council of State Community Development Agencies (COSDA) and the National Council of States on Building Codes and Standards (NCSBCS) have developed a large number of practical suggestions for approaches that states can tailor to their circumstances, including establishing mandatory, preemptive building codes and standards; establishing one-stop permitting to reduce delays that add to development costs; and mandating the conditions under which local governments may establish impact fees.[33]

2. Targeting LIHTC to Particular Types of Households

States Should Concentrate Tax Credit Developments on Households That Are Well Served by Dedicated Rental Developments.

All groups of low-income renters do not have the same levels of need for subsidized housing. Housing needs differ both by the severity of the household's income problem and by household characteristics such as presence of children or of adults with disabilities. At the same time, some types of families and individuals have more difficulty using tenant-based vouchers or can benefit from the special housing features and services that may be associated with a development dedicated to serve as affordable rental housing.

- **Group 1: Households with Extremely Low Incomes.** Many states provide incentives in their QAPs for developments that serve households in lower income ranges than demanded by the rules of the LIHTC program. For most LIHTC developments, units must be affordable to—and serve—households with incomes below 60 percent of area median income. In 2001, about a quarter of the states provided extra points for serving households below 50 percent of area median income, and a quarter also gave preference to developments targeting households below 40, 30, or 20 percent of median.[34] These preferences reflect the fact that housing needs are particularly acute among the lowest income households (those with incomes below 30 percent of area median) and become less so as household income approaches the 60 percent of median cut-off.[35] Indeed, in some locations, 50-60 percent of median is a typical renter income, and the private market produces new unsubsidized developments for renters in that range.

However, the poorest households do not necessarily need housing developments *with use restricted to affordable housing*. Those with incomes below 30 percent of median

---

[33] *Making Housing Affordable: Breaking Down Regulatory Barriers: A Self-Assessment Guide for States.* March 1994.

[34] Gustafson and Walker, pp. 10-11.

[35] Nelson *et al.*, pp. 22-24.

succeed in using choice-based vouchers at just as high a rate (in fact, a significantly higher rate) than those with relatively more income.[36] Given the substantial numbers of federal housing vouchers that are available to extremely low income households in most localities, state policy makers might make better use of the LIHTC resource by favoring developments that will be affordable to voucher holders (that is, will have rents below the FMR) and that have policies or practices that encourage occupancy of some units (but not necessarily all units) by voucher families.[37] The appropriate income targeting of LIHTC developments and the way in which they are linked to housing vouchers is also related to the type of neighborhood in which a development is located, a point that will be discussed later.

- **Group 2: Large Families.** There are some types of households that are less well served than others by vouchers. Large families—those needing units with three or more bedrooms—often have difficulty using vouchers.[38] This may be in part because three bedroom rental units are relatively rare,[39] and in part because owners of single-family houses that have multiple bedrooms are reluctant to rent them to families with children. Discrimination on the basis of race or ethnicity undoubtedly is present in some cases.[40]

Throughout the 1990s many states responded to the need for larger-unit rental housing by providing extra points in the LIHTC competition for developments that have such units, and, starting in 2000, federal law governing the QAPs mandated a preference for families with children.[41] It appears, however, that these preferences were offset during the 1990s by competing preferences for other types of housing contained in the same QAP. They may also have been offset by the additional costs and other barriers to developing housing for large families, as states with such preferences were slightly *less* likely to have large units than states without them.[42]

---

36 Finkel and Buron, pp. 3-11.

37 This model, sometimes called "slit subsidy," in which a production program pays for the capital costs of the housing while a tenant-based voucher makes the development affordable for the poor, was pioneered by the state-level housing policy of Massachusetts during the 1980s. Owners of LIHTC developments are prohibited by law from refusing to lease to voucher holders "solely because of the family's participation in the Section 8 tenant-based program." PIH Notice 2001-2, January 18, 2001.

38 Finkel and Buron, p. 3-9.

39 Only about 7 percent of rental apartment units have three or more bedrooms. *Quick Facts: Apartment* Stock, National Multi Housing Council website, www.nmhc.org. Vacancy rates for rental units with three or more bedrooms are lower than for other size units in all parts of the country. Nelson, *et al.*, pp. 69-70.

40 Susan J. Popkin and Mary J. Cunningham, *Searching for Rental Housing with Section 8 in the Chicago Region.* Washington, DC: The Urban Institute, 2000, pp. 40-48.

41 Section 132(a) of the Community Renewal Tax Relief Act of 2000.

42 Gustafson and Walker, pp. 12, 24, and 25. The authors did not have the data needed to assess the effect of the *set-asides* for large units that have been established by a small number of states.

The percentage of 3 and 4 bedroom units produced by the LIHTC did increase slightly nationwide in the 1995-2001 period, compared with 1992-1994,[43] so preferences may have prevented the number of large units produced in some states from being even lower.

In any case, this is an area in which state housing officials could make stronger efforts to encourage the development of a type of rental housing that is not well provided by the private market. The LIHTC is not the only policy tool available for states to ensure that the needs of families with children are met. In addition to strong and effective preferences for LIHTC developments for large families, states might also consider using the allocation of state education funds to reward communities that accept the development of family rental housing.

- **Group 3: Frail Elderly.** The frail elderly—those above a certain age or who have mobility limitations or cognitive impairments—are particularly well served by developments dedicated to affordable housing. Such households may have a more difficult time using vouchers. The elderly in general have lower voucher success rates than other types of households, and success rates for elderly individuals who report disabilities are very low compared with other types of households.[44] In addition, the physical features, supervision, and services that can be associated with project-based subsidized rental developments may be especially beneficial for the frail elderly.[45]

The frail elderly do not always cluster in the same communities as the overall elderly population. Special tabulations of 2000 Census data produced to aid in housing planning, the Comprehensive Housing Affordability Strategy (CHAS) data, make it possible for states to determine if there are areas within the state that have high concentrations of the types of elderly people who would be particularly appropriate targets for LIHTC developments.[46] For example, Exhibit 5 shows that in Arizona, the elderly population as a whole and the older elderly are not distributed among the state's metro areas in quite the same way as very low-income elderly renters who are aged 75 or older or have mobility and self-care limitations.

---

[43] Nolden, *et al.*, pp. 17-18. The states with the highest average size for units placed in service between 1995 and 2001 (with 2.3 bedrooms on average) were Minnesota, Nebraska, Wisconsin, and Mississippi. Nolden *et al.*, pp. 45-47.

[44] Finkel and Buron. pp. 3-8 to 3-10.

[45] Khadduri, Burnett, and Rodda, p. 67.

[46] The CHAS database can be found at http://socds.huduser.org/odbic.exe/chas/index.htm

Exhibit 5.
Frail Elderly Who May Need LIHTC Developments in Arizona

Name	Percent of state's metro elderly 62+ population	Percent of state's metro extra elderly 75+ population	Percent of state's VLI metro elderly 62+ renters	Percent of State's Metro VLI renters 75+ or with mobility or self-care limitations
Flagstaff, AZ–UT MSA	1.8%	1.3%	1.5%	0.7%
Flagstaff city, AZ	0.6%	0.4%	0.6%	0.1%
Phoenix–Mesa, AZ MSA	71.4%	71.8%	73.5%	74.7%
Mesa city, AZ	9.4%	10.5%	10.0%	11.8%
Phoenix city, AZ	20.1%	19.1%	31.8%	29.3%
Scottsdale city, AZ	6.3%	6.2%	6.4%	5.8%
Tempe city, AZ	2.2%	2.0%	1.8%	0.9%
Tucson, AZ MSA	21.9%	22.6%	22.1%	21.6%
Tucson city, AZ	10.6%	11.5%	16.8%	16.6%
Yuma, AZ MSA	4.9%	4.2%	2.9%	3.0%
Yuma city, AZ	1.9%	2.0%	2.0%	1.9%
Total	**100%**	**100%**	**100%**	**100%**

Note: A small part of the Las Vegas, NV—AZ MSA lies in Arizona (10% of the population) although no central cities.
95% of the population in the Flagstaff, AZ—UT MSA lives in Arizona

Many states have preferences for housing for the elderly. However, QAPs often define the elderly in such a way (over 50, 55, or 62) that these preferences might encourage use of LIHTC for empty nesters or other singles and couples for whom the private market does a good job of supplying rental housing.[47] If they need rental assistance, such households do not have difficulty using a voucher in unsubsidized housing developments.

It could be difficult and perhaps unfair to establish occupancy policies that restrict a development to people older than 75. While the older elderly are more likely to be frail, 75 plus does not indicate frailty for any particular individual. At the same time, it is unlikely that those without special needs will choose a development that has such features as congregate meals and housekeeping assistance. Thus, it should be possible to examine the design features of a development and the services that it will provide to determine whether it should qualify for a QAP preference or set-aside that is intended to meet the special needs of the frail elderly.

- **Group 4: People with Disabilities.** Another group for which dedicated housing developments that serve special needs may be appropriate is people with disabilities. While in general people with disabilities are just as successful using

[47] Gustafson and Walker, p. 12.

> vouchers as other voucher-holders, there is suggestive evidence that those with certain types of disabilities and service needs have a more difficult time finding housing that meets their needs and has willing owners.[48]

Those with disabilities have a wide range of housing needs and preferences. In recent years people with disabilities and their advocates—supported by the U.S. Supreme Court's Olmstead decision—have focused on the right of those with disabilities to live as independently as possible. This has led to increased targeting of tenant-based vouchers (both federal vouchers and vouchers funded by the HOME program) for people with disabilities. At the same time, there are some people with disabilities who can benefit from the additional supervision made possible by project-based subsidized housing or who prefer to live in a community of people with similar needs.[49]

State housing planners are in a particularly good position to design housing options for people with disabilities, since other support systems for the same populations are funded and regulated at the state level. Through both QAPs and the selection of individual LIHTC developments, state housing program administrators can encourage the development of housing that fills gaps in the current system of housing alternatives, including types of housing or types of disabilities not heavily served in the state by rental housing funded by the federal Section 811 program.

3. Using LIHTC as a Tool for Metropolitan-Wide Housing Strategies

States Should Target LIHTC Developments to Achieve Maximum Effect on Opportunities for Low-Income Families

Economic Opportunities. State housing policy makers are in a unique position to design and implement metropolitan-wide housing strategies that counteract the pattern through which some metropolitan areas are becoming segregated by income and race and that help families to achieve economic self-sufficiency. The availability of affordable housing near jobs and around transportation nodes is important for helping individual low-income families enter the economic mainstream.[50] It also enhances the capacity for

---

48 Finkel and Buron , pp. 3-10 to 3-11, found that single non-elderly men had a low rate of success. Many of these voucher holders had recently been homeless and may have had disabilities that often are associated with homelessness.

49 Gretchen Locke, Caryn Nagler, and Ken Lam, *Project Size in Section 811 and Section 202 Assisted Projects for Persons with Disabilities.* Cambridge, MA: Abt Associates Inc., 2004.

50 Bruce Katz and Margery Austin Turner, *Rethinking Affordable Housing Strategies: An Action Agenda for Local and Regional Leaders.* Washington, DC: The Brookings Institution Center on Urban and Metropolitan Policy and The Urban Institute, December 2003, p. 5.

economic growth for the state as a whole, which is held back when potential workers are isolated in the few places within metropolitan areas where housing is affordable.[51]

The LIHTC gives states a powerful tool for overcoming the barriers to locating housing in a way that serves this economic development objective. While there may still exist barriers to locating affordable housing in particular jurisdictions or neighborhoods, offering a resource such as the tax credit can be a powerful lever for overcoming those barriers and for finding good locations for rental developments—for example, in growth areas where market-rate housing development is also occurring.

How precisely such objectives can be pursued by state policy makers will vary depending on the configurations and growth patterns of the state's metropolitan areas. For example, in some states it may be effective for the QAP to provide additional points (or a set-aside) for new family housing within jurisdictions that meet census-based criteria, such as relatively high income levels or a relatively low percentage of housing that currently is rental. In other states, jurisdictional boundaries may not be useful for defining where housing developments would expand access to jobs and other economic supports (such as good schools), and it may be necessary to draw target areas in a more complex way and to link them more explicitly to data on job growth.

A particular target of opportunity in many metropolitan areas is to preserve affordable housing that already exists in neighborhoods where housing prices are increasing rapidly (so-called "gentrifying" areas), which may exist both in central cities and in inner suburbs. Preserving these developments as affordable housing will enable low-income families to live, in the future, in mixed income neighborhoods and neighborhoods with transportation nodes, proximity to economically revitalized central business districts, or other advantages that are fueling the neighborhood change. This is a particularly effective approach, for a variety of reasons. The developments already exist, so it is not necessary to overcome regulatory or other barriers to creating them. Furthermore, in many cases it will be possible to preserve federal project-based rental subsidies to help cover the developments' costs.

Many states provide preferences for acquisition and rehabilitation of properties "at risk" of becoming unaffordable, but often these preferences are applied to any rental development that might leave the inventory of project-based federally-assisted housing, regardless of whether that development is in a location where households with tenant-based assistance could easily rent.[52] There is no special targeting to those neighborhoods that are available to some low-income renters now but may cease to be in the future. States should consider more sophisticated definitions of rental developments in need of preservation that place them in the context of metropolitan-wide economic opportunities.

---

[51] *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania.* Washington, DC: The Brookings Institution Center on Urban and Metropolitan Policy, 2003.

[52] Gustafson and Walker, pp. 12-13.

Neighborhood Revitalization. States should be skeptical about claims that an LIHTC project will revitalize a neighborhood. Reviving distressed neighborhoods and stabilizing neighborhoods in danger of becoming distressed are important policy goals for affordable housing. However, construction of affordable housing is a relatively weak tool to influence that change.[53] Therefore, skepticism about claims that a development will serve a neighborhood revitalization purpose should be built into a state's selection process for the LIHTC.

There is a growing body of evidence on the effect of subsidized rental and homeownership housing on neighborhoods. That evidence holds the following lessons that should be useful for state housing policy makers trying to use the LIHTC for neighborhood revitalization or to respond to proposals for that use from local governments, advocates, and housing developers.

- **Where Housing Subsidies Are the Only Intervention, Target Neighborhoods Should Be Relatively Strong.** Empirical evidence shows that the places where subsidized housing has a positive rather than negative effect on neighborhood quality indicators (such as house prices) usually are neighborhoods that are still in the early stages of decline or that are already showing some signs of improvement.[54]

Proposals to use a LIHTC development to stabilize or improve such a neighborhood should demonstrate how a new or rehabilitated rental property that has income and rent restrictions will arrest the decline or accelerate the improvement. For example, if the beginnings of decline have led to an influx of families using vouchers because of vacancies and relatively low rents, adding to the affordable rental stock in that neighborhood may be a mistake. If the beginnings of improvement are in a neighborhood that already has a substantial amount of housing dedicated to long-term use by low-income renters, then the LIHTC may be better used for physical upgrading of that rental housing rather than adding to it. On the other hand, if the LIHTC development will replace a vacant or boarded-up property in an otherwise stable neighborhood, or bring a troubled multifamily property under strong management, it may be a good use of the resource.

---

[53] Stuart Rosenthal, "Old Homes and Poor Neighborhoods: A Dynamic Model of Neighborhood Decline and Renewal," May 2003, demonstrates how economic and demographic forces affect the evolution of urban neighborhoods over decades-long cycles of decline and renewal. A scan of recent multi-site neighborhood revitalization initiatives suggests that they are often overwhelmed by the imbalance between the challenges of neighborhood conditions and the resources available to address them. Jennifer Turnham and Jessica Bonjorni, "Review of Neighborhood Revitalization Initiatives," Neighborhood Reinvestment Corporation, forthcoming 2004.

[54] Khadduri, Burnett, and Rodda, pp. 57-62 and 68-73.

These are complex judgments that require detailed knowledge of the neighborhood and housing market. It probably is not sufficient for the QAP to include preferences for projects in locally defined community revitalization areas. The LIHTC application should be required to make a case that includes detailed information on the current residents and housing stock of the neighborhood and the way in which the LIHTC development will affect the housing market.[55]

- **Plans to Revitalize Distressed Neighborhoods Should Be Comprehensive and the LIHTC Development Part of a Critical Mass of Resources.**

Redeveloping neighborhoods that have been distressed for a long time is a huge undertaking. It requires a comprehensive strategy that includes enhanced social services, workforce development, improved police protection and schools, reviving commercial or retail activity, and sometimes improved transportation such as adding bus lines. Such a strategy may also involve changes to land use and zoning regulations.

When state agencies are considering a proposal for a LIHTC development in a distressed neighborhood, they should look for both a comprehensive strategy and a commitment of sufficient resources that the strategy has a reasonable chance of being implemented. Housing redevelopment alone does not constitute a critical mass of resources. Even HOPE VI public housing redevelopments, despite the scale of federal funds devoted to them, are not large enough by themselves to change fundamentally the character of the neighborhoods of which they are a part. Unless they are part of a broader program of neighborhood improvement, they may not alleviate sufficiently the crime and social dysfunction that made the public housing development a candidate for HOPE VI funding.[56]

If a distressed neighborhood has older rental developments (which may include older HUD-assisted or LIHTC developments), their physical and financial health must be part of a comprehensive revitalization plan. Otherwise, the addition of a new LIHTC development or the rehabilitation of only one of several older developments with LIHTC may lead to turnover, vacancies, and physical deterioration of the neighborhood's other rental housing.

Finally, when committing resources to a LIHTC development in a distressed neighborhood, a state policy maker should look for a mixed income strategy, both within the development and across the neighborhood. For the LIHTC development itself, this may mean that the tax credit applies only to a portion of the units in the building, with other units offered at market

---

[55] Gustafson and Walker, p. 7.

[56] Khadduri, Burnett, and Rodda, pp. 69-70. Mary Joel Holin, Larry Buron, Gretchen Locke, and Alvaro Cortes, *Interim Assessment of the HOPE VI Program: Cross-Site Report.* Cambridge, MA: Abt Associates Inc., September 2003, pp. 109-141. Larry Buron, Susan J. Popkin, Diane Levy, Laura E. Harris, and Jill Khadduri, *The HOPE VI Resident Tracking Study.* Cambridge, MA and Washington, DC: Abt Associates Inc., and The Urban Institute, 2002, pp. 84-88.

rents. The tax credit units might be offered at rents at the LIHTC maximum, relying on vouchers to make them affordable to the lowest income families. In addition, the management of a LIHTC development in such a neighborhood might include a conscious effort to keep the building from becoming completely occupied by families with vouchers. (LIHTC developments may not exclude voucher holders, but this does not preclude occupancy policies and practices intended to maintain a mixed income character for the development.) From a neighborhood-wide perspective, a mixed income strategy may require that the redevelopment effort have a homeownership component. However, even large scale homeownership redevelopments often do not succeed in improving very distressed neighborhoods beyond the homeownership units themselves.[57] Again, the basic point about this type of neighborhood is that a strategy based on housing alone usually will not work.

It is also important to consider the metropolitan economy as a whole when assessing whether the redevelopment strategy for a particular distressed neighborhood is likely to succeed and, therefore, is a good investment of the LIHTC resource. The total resources needed to change a decades-long pattern of decline will be smaller in areas where job growth and in-migration of workers place upward pressure on the housing market overall and make home-seekers more willing to consider the target neighborhood (including those coming from out-of-town who may not be as affected by the neighborhood's negative reputation). LIHTC resources should be focused on areas of the state with rental shortages.

- **Qualified Census Tracts Should Not Be Used as a Substitute for Careful Analysis of Neighborhood Characteristics.** For states to use LIHTC as part of a metropolitan-wide strategy means that they should avoid automatic targeting to the census tracts within a metropolitan area with the greatest current concentration of *people* with housing needs, measured either directly or indirectly by using poverty as a proxy. The choice of LIHTC developments in such areas should be made only when part of a well designed revitalization strategy for that neighborhood. Where such strategies are not present, the LIHTC resource may be better used to expand housing opportunities for low-income families in relatively higher-income parts of the metropolitan area.

The tax credit law creates incentives for placing LIHTC developments in Qualified Census Tracts (places where at least 50 percent of the households have incomes below 60 percent of area median or at least 25 percent of the population is poor)[58] by permitting investors in developments in QCTs a tax credit based on a higher percentage of eligible development costs. Furthermore, the law was changed in 2000 to require states to include in their QAPs

---

[57] Khadduri, Burnett, and Rodda, pp. 70-73.

[58] As is the case for DDAs, there is an upper limit on how many places can be considered QCTs. QCTs cannot cover a total area (number of census tracts) that contains more than 20 percent of the population of a metropolitan area. *Federal Register*, December 19, 2003, pp. 70982-70983.

some preferential treatment for projects that are located in QCTs and contribute to a "concerted community revitalization plan." Like other federally mandated aspects of the QAP, this does not compel states to have preferences that dominate the selection process.[59]

Many states already included in their QAPs preferences for QCTs or other broadly defined "improvement areas" before 2000.[60] Given that these preferences were combined with the higher tax credit possible in a QCT and the likelihood that acquiring land or an existing property in a relatively low-income area is less expensive than buying it elsewhere, it is not surprising that a quarter of all LIHTC projects (and 24 percent of LIHTC units) placed in service between 1995 and 2001 are in QCTs.[61] By comparison, just 16 percent of all rental units are in QCTs. Most states have a substantially greater percentage of LIHTC units in QCTs than of all rental units in the state, although there are some exceptions.[62]

State policy makers should think very carefully about allocation systems that give automatic preference to properties located in low-income areas. People are mobile and respond to changing economic and housing market conditions; housing developments in an overbuilt market can depress the value of a neighborhood over a period of many decades.[63] The strong empirical evidence that subsidized housing developments have a positive effect on property values only in neighborhoods that already have some strength should lead LIHTC policy-makers to avoid across-the-board application of a QCT or similar preference and also to avoid automatically providing to developments in QCTs the higher credit permitted by the tax law.

Summary

The devolution of substantial control over rental housing policy to the states that occurred in the late 1990s with the enactment of the Low Income Housing Tax Credit has given state policy makers an opportunity to make choices that best meet the housing needs of the people within their borders and that enhance the economic vitality of the state. LIHTC does not exist in a vacuum, but is best used strategically when related to existing spatial patterns of subsidized and unsubsidized affordable housing and to the tenant-based housing vouchers that constitute the other major housing subsidy that is not already locked in spatially.

- *States can make the best use of the LIHTC resource when they use it in housing markets that have both large numbers of families with worst case housing needs and shortages of affordable rental housing*

---

59 Section 132 (b) of the Community Renewal Tax Relief Act of 2000.
60 Gustafson and Walker, pp. 23, 30, and 31.
61 Nolden, *et al.*, p. 26.
62 *Ibid.*, pp. 54-56.
63 Rosenthal, pp. 17-23.

Worst case needs for rental housing assistance are best measured using the Comprehensive Housing Affordability Strategy (CHAS) data—special tabulations of the 2000 decennial census that can identify severe rent burden among very low income renter households consisting of related individuals.

To identify shortages of rental housing, states should consider using some combination of low rental vacancy rates; rents that are rising without an accompanying increase in construction permits; high rents compared with the costs of construction; high rents compared with incomes; and low success rates for the voucher program. A convenient way to identify high rents compared with incomes is to use an expanded version of the Difficult Development Area (DDA) list that can be provided by HUD. Voucher success rates currently can be obtained from the PHAs that administer the voucher program. A national database on voucher success rates will be available in the near future.

A state's strategy for using LIHTC to alleviate shortages of rental housing should be combined with efforts to reduce the regulatory barriers to housing production that often are associated with high or increasing rents.

- *States should also target the rental developments produced with the LIHTC to the types of households that can most benefit from project-based subsidized rental housing. These are large families, the frail elderly, and people with disabilities.*

Large families and the frail elderly are less likely than other types of households to succeed in using choice-based housing vouchers. The frail elderly and people with disabilities may benefit from the physical features, supervision, and services that can be associated with project-based subsidized rental developments. States are in a particularly good position to link subsidized housing to the supportive services for special population groups that are administered primarily at the state level.

- *States should make housing policy part of a strategy that supports the economic development of metropolitan areas within the state and provides opportunities that increase the life chances of low-income people.*

The allocation of LIHTC to particular housing developments can be used strategically to create affordable housing near jobs and around transportation nodes in order to help low-income families enter the economic mainstream. In addition to the LIHTC, state policy makers may be able to use education funding as a policy lever to overcome barriers to affordable family housing that exist in particular communities.

In some metropolitan areas within the state, a particular target of opportunity will be to preserve housing in the “gentrifying” areas of central cities and inner suburbs. Preferences for rental housing that may leave the inventory of project-based federally assisted housing should not be applied to any such housing but only in locations where families using tenant-based vouchers are unlikely to be able to rent.

- *State policies for using the LIHTC to support neighborhood revitalization should be carefully crafted and administered. If housing subsidies are the only intervention, target neighborhoods should be in the early stages of decline or already show some signs of improvement. The allocation of LIHTC to housing developments in distressed neighborhoods only makes sense if it is part of a critical mass of resources in support of a comprehensive strategy of neighborhood improvement.*

These judgments require careful analysis of neighborhood characteristics and a skeptical review of claims that the LIHTC development will contribute to neighborhood improvement. States should avoid automatic targeting of the LIHTC to distressed areas such as Qualified Census Tracts. A strategy for redeveloping a distressed neighborhood must include enhanced social services, workforce development, improved police protection and schools, and new commercial activity. The physical and financial health of older assisted housing developments must be considered as part of the overall plan, and the plan should include a mixed income strategy both within the LIHTC development and across the neighborhood.

U.S. Department of Housing and Urban Development
HUDUSER
P.O.Box 23268
Washington, DC 20026-3268

Official Business
Penalty for Private Use $300

Return Service Requested

FIRST-CLASS MAIL
POSTAGE & FEES PAID
HUD
PERMIT NO. G-795

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

EQUAL HOUSING OPPORTUNITY

July 2004