Indianapolis Neighborhood Housing Partnership

Single & Multi-Family Affordable Housing

RESEARCH COMPLETED IN JANUARY 2020, IN PARTNERSHIP WITH REINVESTMENT FUND

STATE OF THE RESEARCH

There is increasing interest in understanding how to effectively produce and preserve affordable single and multi-family homes. An emerging body of literature has explored different policy tools and mechanisms deployed at the federal, state, and local levels to encourage affordable housing provision. Some research focuses upon providing or preserving affordable housing in neighborhoods experiencing rising property values and rapid development. Other research has analyzed the costs and benefits of situating affordable housing in particular areas. Researchers are also beginning to assess how opportunities and challenges have been shaped by federal policy and local decisions following the recession of the late 2000s.

BACKGROUND

In many cities throughout the country the limits of suburban expansion have led to renewed interest in, and demand for, housing in city centers. In many communities, this increased demand is occurring in neighborhoods that had previously experienced varying degrees of disinvestment, leading to improved housing quality and the revitalization of these neighborhoods. As reinvestment brings new people to these communities, many neighborhoods are seeing the socioeconomic and racial/ethnic character of the neighborhoods changing. These changes may be exacerbated when increased market-based rents, due to increased demand become out of reach for residents who have long resided in the neighborhood. In these neighborhoods, the creation and preservation of affordable housing units is a critical need to enable residents to remain in their community.

There are several federal, state, and local tools to contribute to the supply of below-market affordable housing; nevertheless, the resources to support these tools may, at present, be inadequate to address the scale of the challenge of ensuring widespread access to affordable housing. Community development practitioners and researchers are only beginning to understand the potential residual benefits and impacts of certain types of investments and policies relative to other policy choices. These housing related policy decisions are happening within an emergent federal housing finance and policy framework that is still finding normalcy following the last recession.

SUMMARY OF RESEARCH FINDINGS

A number of programs and policies support the creation and preservation of affordable housing:

Programmatic Resources:
Low Income Housing Tax Credits (LIHTC), a product of the Tax Reform Act of 1986, is the largest source of funds available to support affordable housing development. This program provides a dollar-for-dollar tax credit to developers of affordable housing in return for the production of affordable housing. Through the program, the housing must remain affordable for a minimum period of time (usually 30 years). The program has produced nearly 3 million affordable housing units since 1987.

The LIHTC program is authorized through federal tax law, but the program itself is operated by state housing finance authorities in each of the 50 states. Credits are separated into 9% credits and 4% credits. The 9% credits are highly competitive and are awarded in accordance with each state's Qualified Allocation Plan (QAP); 4% credits are available for financing through tax exempt bonds.

LIHTC involves a complex web of actors: owners and developers, equity investors, and local governments are involved in structuring a LIHTC development, and often draw upon several other federal and private funding sources with different requirements. LIHTC has demonstrated strong program performance and appeals to a bipartisan audience: increasing the supply of affordable housing while leveraging private investment.

LIHTC may be supplemented through other resources such as the US Department of Housing and Urban Development's HOME program. Other sources of resources for affordable housing may be available through Community Development Financial Institutions (CDFIs), the Federal Home Loan Bank system, locally controlled resources allocated through the US Department of Housing and Urban Development or local funding sources.

Research suggests the manner in which these resources are targeted to different geographies and for different purposes (e.g., revitalization of a disinvested community versus creation/preservation of affordable housing in a wealthier neighborhood) yield different benefits and impacts. Decision-makers will want to consider specific desired outcomes in maximizing the use of these affordable housing resources.

Local Policies:

Local government can shape opportunities for the creation and preservation of affordable housing through a variety of locally adopted policies as well. Because what tools are available to local governments throughout the United States varies from state to state (as well as within states in many instances), the applicability and impact of these various policies may vary accordingly.

One widely promoted tool to ensure development of affordable housing is inclusionary zoning (IZ) policy. Inclusionary zoning policies will either require or incentivize residential developers to include a set-aside of affordable units within new residential developments. Inclusionary requirements are generally set as a percentage of the total units produced as part of a development; inclusionary incentives may include density bonuses, an expedited permitting process, fee waivers, or even relaxed development standards. Since IZ programs do not require direct subsidy dollars to create affordable homes and rentals, they are viewed as a market-based solution for affordable housing.

Beyond inclusionary zoning, there is a patchwork of policies that promote affordable housing development in local communities. These may include other incentives for developers of affordable housing, local government or nonprofit site acquisition and land-banking for affordable housing development, local housing trust funds and/or tax-increment finance districts, and policies that protect renters from eviction and/or provide right of refusal in condominium conversions.

These policies generally require a heightened capacity among the local public, private, and philanthropic sectors. Further, these policies often benefit from advanced planning to address community concerns. Further, in the wake of increased housing costs, renewed attention is being granted to the regulatory barriers that impede new development and increased housing supply.

FINANCING AFFORDABLE HOUSING — SUMMARY OF KEY STUDIES

Lubell, J. (2016) Preserving and Expanding Affordability in Neighborhoods Experiencing Rising Rents and Property Values. Cityscape: A Journal of Policy Development and Research 18 (3), 131-150.

<table>
<tr><td>STUDY FOCUS</td><td>This report proposes a framework for organizing a variety of local policy options available to local governments seeking to preserve and expand housing opportunities in neighborhoods that are seeing reinvestment. It also examines a number of cross-cutting issues to which local government must be attentive in advancing affordable housing policies.</td></tr>
<tr><td>METHODOLOGY</td><td>A review of a variety of mechanisms used to support the preservation and creation of affordable housing units and protect families experiencing increased housing costs due to neighborhood reinvestment.</td></tr>
<tr><td>SUMMARY OF FINDINGS</td><td>The authors propose a six-pronged policy framework for organizing affordable housing approaches. The components of the framework include:

• Preservation: Identify and preserve existing units of affordable units through re-syndication tax credits or other efforts as well as working with owners of unsubsidized, yet affordable, housing units, and preserving public housing.
• Protection: Consider a wide array of policies that protect existing renters from displacement — including, but not limited to, rent stabilization programs, eviction protections, condo-conversion protections, and property tax caps — or other mechanisms that promote additional access to affordable housing (e.g., community land trust).
• Inclusion: Using zoning or other development regulations to require or incentivize the development of new affordable housing units with any new residential development.
• Revenue Generation: Using tools such as tax-increment financing, housing trust funds, or development/impact fees to develop a pool of resources to facilitate affordable housing development.
• Incentives: The use of tax or parking incentives, or other development incentives, in exchange for affordable housing development within new developments.
• Property Acquisition: The strategic acquisition and banking of land to reduce risk and holding costs to developers in exchange for the development of affordable housing units on future development.

Cross cutting issues—such as advance and long-range planning, developing capacity, increasing density, reducing barriers to development, developing community will and political support, and targeting investments — are additional key considerations that influence the broader affordable housing policy environment.</td></tr>
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IMPLICATIONS FOR PRACTITIONERS	A wide array of tools is available to local governments to promote access to affordable housing. The local policy environment is a key factor in shaping the opportunities and challenges in promoting access to affordable housing, especially in neighborhoods seeing considerable reinvestment.

Freeman, L. and Schuetz, J. (2017) Producing Affordable Housing in Rising Markets: What Works? Cityscape: A Journal of Policy Development and Research 19 (1), 217-236.

STUDY FOCUS	The authors examine a variety of tools available to local governments seeking to retain housing affordability in appreciating markets and assess the evidence on the efficacy of these tools.
METHODOLOGY	The authors provide a literature review of several policy tools intended to produce affordable housing in rising markets.
SUMMARY OF FINDINGS	The most widely used policy tools to facilitate the incorporation of affordable housing in appreciating housing markets include local inclusionary zoning (IZ) policies and statewide 'fair share' laws. IZ policies require or incentivize developers to provide affordable housing as part of new residential developments; state fair share laws require municipalities across regions of a state to carry a relative share of the 'burden' of providing affordable housing within their jurisdictions. The authors suggest that while these approaches are popular because it reduces the direct cost to local government and residents, these policies have been largely ineffective at having a broad scale impact on meeting demand for affordable housing.
IMPLICATIONS FOR PRACTITIONERS	**Increasing the supply of affordable housing will require a multi-faceted, long-term, and coordinated effort across all levels of government. These efforts will have to tackle challenging issues such as overcoming regulatory barriers to development, increasing density to increase housing supply, and improving underlying conditions in disadvantaged neighborhoods.** This concerted effort should likewise occur within a broader framework that seeks to improve other aspects of the lives of low-income families.

Diamond, R. and McQuade, T. (2017) Who Wants Affordable Housing in their Backyard?: An Equilibrium Analysis of Low Income Property Development. Stanford Graduate School of Business.

STUDY FOCUS	This study examines the residual costs and benefits of Low-Income Housing Tax Credit (LIHTC) developments to surrounding neighborhoods and how those benefits vary based upon broader contextual characteristics of the neighborhoods in which the investment occurs.

METHODOLOGY	Using an innovative spatial-temporal difference in difference modeling approach, the authors compare house prices very close to the LIHTC site before and after LIHTC development versus house price trends slightly further away from the LIHTC site.
SUMMARY OF FINDINGS	The spillover effect to LIHTC construction on neighborhoods varies under different circumstances. The authors found that LIHTC investments contributed to the revitalization of and reinvestment in lower-income communities, resulting in increasing house prices, lowered crime rates, and increased diversity. Conversely, LIHTC in upper-income neighborhoods contributed to decreased house prices and the attraction of lower-income households.
IMPLICATIONS FOR PRACTITIONERS	As with most government policies, there are tradeoffs to be considered in directing LIHTC investments in communities. The study finds that, as a place-based policy, there is a greater return on investment in targeting LIHTC investments in lower-income communities, attributable to the residual benefits that reverberate through the community following the investment.

Lubell, J. and Wolff, S. (2018) Variation in Development Costs for LIHTC Projects. National Council of State Housing Agencies.

STUDY FOCUS	This report analyzes Low-Income Housing Tax Credit (LIHTC) awards to assess the factors that influence the costs of those developments.
METHODOLOGY	The authors conduct a regression analysis to evaluate a variety of potential cost factors on LIHTC development, normalized by the number of units.
SUMMARY OF FINDINGS	The authors find that the following are significant influencers of "per-unit total development cost": • Location: Developments are more expensive in central cities of regions, difficult development areas, and qualified census tracts. There is regional variation in costs as well, with development being more expensive in New England, the Mid-Atlantic, and in states along the Pacific. • Project and unit size: Projects with fewer units have higher per-unit costs, and projects in which the average bedroom size was 2.5 or greater (family housing) was likewise greater. Tax credit deals involving 9% tax credits — generally with more complex financing structures — were more expensive than those using 4% credits. • Project Type: New construction was typically more expensive than rehabilitation.

IMPLICATIONS FOR PRACTITIONERS	The findings in variation among cost drivers represent tradeoffs in resource allocation and welfare maximization. There will continue to be a need for LIHTC projects and affordable housing developments in areas where per-unit total development costs are higher; nevertheless, it is valuable to recognize that those investments consume more of the resources available for affordable housing development relative to less expensive areas and project types.

Schwartz, A. (2015) Housing Finance. Housing Policy in the United States, 69-115. Routledge: New York.

STUDY FOCUS	A chapter in a larger book exploring housing policy in the United States, this chapter provides a comprehensive overview and history of the housing finance system, from its emergence in the Great Depression through the subprime mortgage crisis.
METHODOLOGY	Review of the history and implications of the nation's housing finance system, placed within the context of explaining the nation's current approach to housing finance policy.
SUMMARY OF FINDINGS	This chapter walks through the history of the US housing finance system, starting with the creation of the Federal Home Loan Bank, Federal Housing Administration, Fannie Mae, and other Depression-era reforms. It continues through the important role of thrifts into the 1980s through to the complexities that caused and have resulted from the housing-driven recession of the late 2000s.
IMPLICATIONS FOR PRACTITIONERS	**Federal involvement in the housing market — and in particular the housing finance system — shapes opportunities and challenges experienced by the wide array of actors connected to the housing finance system. Government involvement in the housing finance system has resulted in much broader access to housing finance for homeowners, and the potential for the US to meet affordable housing goals continues to be strongly influenced by government regulations and governmental institutions. Following the recession, there is greater uncertainty in the future of the US housing finance system, and national leaders have been slow to coalesce around a comprehensive vision for the future of the system.**

ADDITIONAL RECENT RESEARCH

Advocates' Guide: A Primer on Federal Affordable Housing & Community Development Programs (2019). *National Low-Income Housing Coalition.* https://nlihc.org/explore-issues/publications-research/advocates-guide

Airgood-Obrycki, W. and Molinsky, J. (2019) Estimating the Gap in Affordable and Available Rental Units for Families. *Joint Center for Housing Studies of Harvard University.* https://www.jchs.harvard.edu/sites/default/files/harvar d_jchs_family_sized_rental_housing_2019.pdf

America's Rental Housing: Evolving Markets and Needs (2013). *Joint Center for Housing Studies of Harvard University.* https://www.jchs.harvard.edu/sites/default/files/jchs_a mericas_rental_housing_2013_1_0.pdf

An, B. and Bostic, R., Jakabovics, A. Orlando, A. and Rodnyansky, S. (2015) Small and Medium Multifamily Housing Units: Affordability, Distribution, and Trends. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2 938809

Goldstein, I., Dowdall, E., Rosch, J. and Reeves, K. (2019) Maybe it Really Does Take a Village: Supporting the Creation of High-Quality Unsubsidized Affordable Rental Housing in Legacy Cities—Working Paper. *Reinvestment Fund*. https://www.reinvestment.com/wp- content/uploads/2019/05/Reinvestment-Fund-Policy-Report-Working-Paper-NOAH.pdf

Kingsley, G. (2017) Trends in Housing Problems and Federal Housing Assistance. *The Urban Institute*.

Payton Scally, C., Gold, A., DuBois, N. (2018) The Low- Income Housing Tax Credit: How It Works and Who ItServes. *The Urban Institute.* https://www.urban.org/sites/default/files/publication/98758/lithc_how_it_works_and_who_it_serves_final_2.p df

Payton Scally, C., Gold, A., Hedman, C., Gerken, M., Dubois, N. (2018) The Low Income Housing Tax Credit: Past Achievement, Future Challenges. *The Urban Institute.* https://www.urban.org/research/publication/low- income-housing-tax-credit-past-achievements-future- challenges

Schreiber, M. (2018) Proactive Preservation of Unsubsidized Affordable Housing in Emerging Markets: Lessons from Atlanta, Cleveland, and Philadelphia. *Joint Center for Housing Studies of Harvard University.* https://www.jchs.harvard.edu/sites/default/files/harvar d_jchs_schreiber_gramlich_2018.pdf

Federal and State Housing Finance Agencies are a valuable resource for information on affordable housing lending programs i.e.:

- Expanding Housing Opportunities and Revitalizing Neighborhoods (2016). Philadelphia Housing Trust Fund. https://housingtrustfundproject.org/wp- content/uploads/2013/09/Philadelphia-HTF-2012-Report.pdf
- Multifamily Lending Program Guidelines (2019). Ohio Housing Finance Agency. https://ohiohome.org/ppd/documents/2019- MLP-Guidelines.pdf

The HUD website offers information on specific affordable housing subsidy programs: https://www.hud.gov/program_offices/comm_planning/affordablehousing

APPENDIX

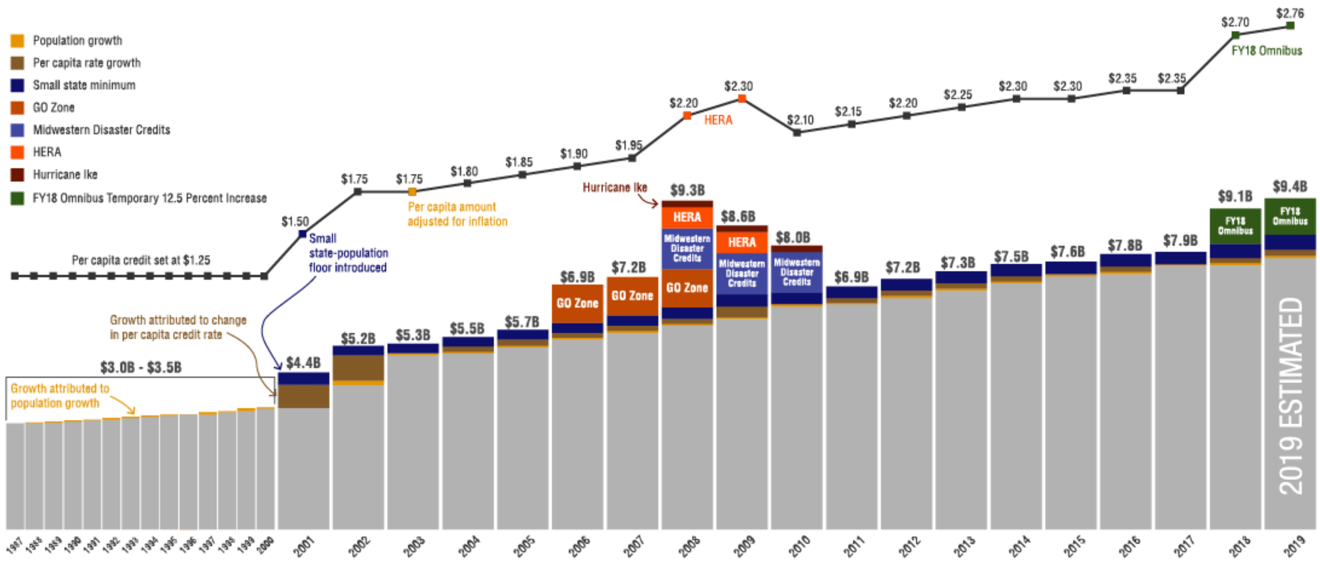
FUNDING ALLOCATIONS TO AFFORDABLE HOUSING AND RELATED ACTIVITIES

Year	CDBG (Community Development Block Grant)	COC (Continuum of Care)	HOME (Home Investment Partnerships	HOPWA (Housing Opportunities for Persons with AIDS)	HTF (Housing Trust Fund)	Emergency Shelter Grants Program	Emergency Solutions Grants
2003	$4,354,083,348	—	$1,858,845,906	$275,247,050	—	$149,025,000	—
2004	$4,346,223,988	—	$1,863,969,411	$283,214,475	—	$159,056,000	—
2005	$4,124,729,454	—	$1,789,051,305	$288,824,089	—	$158,720,000	—
2006	$3,718,181,800	$1,180,031,894	$1,682,673,690	$283,646,189	—	$158,400,000	—
2007	$3,713,768,293	$1,206,192,230	$1,681,516,834	$288,285,248	—	$160,000,000	—
2008	$3,595,096,980	$1,327,573,959	$1,633,227,931	$297,130,000	—	$160,000,000	—
2009	$3,643,985,331	$1,416,426,535	$1,816,947,050	$305,516,916	—	$160,000,000	—
2010	$3,949,540,514	$1,558,756,150	$1,813,568,921	$328,762,869	—	$160,000,000	—
2011	$3,304,882,926	$1,628,309,714	$1,598,131,084	$330,615,555	—	$160,000,000	$90,000,000
2012	$2,948,666,022	$1,674,351,578	$1,004,182,944	$331,733,188	—	—	$286,000,000
2013	$3,077,600,121	$1,682,009,633	$964,565,724	$315,507,652	—	—	$215,000,000
2014	$3,029,615,268	$1,727,242,358	$1,012,710,119	$331,869,867	—	—	$250,000,000
2015	$2,997,399,447	$1,810,559,994	$912,808,851	$326,270,455	—	—	$270,000,000
2016	$3,014,354,774	$1,939,770,967	$964,813,378	$301,500,000	$173,591,161	—	$270,000,000
2017	$3,000,218,762	$1,957,438,119	$958,594,666	$320,400,000	$219,168,374	—	$310,000,000
2018	$3,298,887,001	$2,033,244,110	$1,363,897,709	$337,500,000	$266,775,403	—	$270,000,000
2019	$3,295,025,814	$2,165,930,757	$1,253,790,011	$353,700,000	$247,666,779	—	$280,000,000
TOTAL	$59,412,259,843	$23,307,837,998	$24,173,295,534	$5,299,723,553	$907,201,717	$1,425,201,000	$2,241,000,000

Source: HUD Exchange (https://bit.ly/2ntbkKV)

New Per Capita LIHTCs Available Each Year

Growth of the per capita rate for calculating low-income housing tax credit (LIHTC) caps and the total amount of 9 percent LIHTCs available to states and territories.



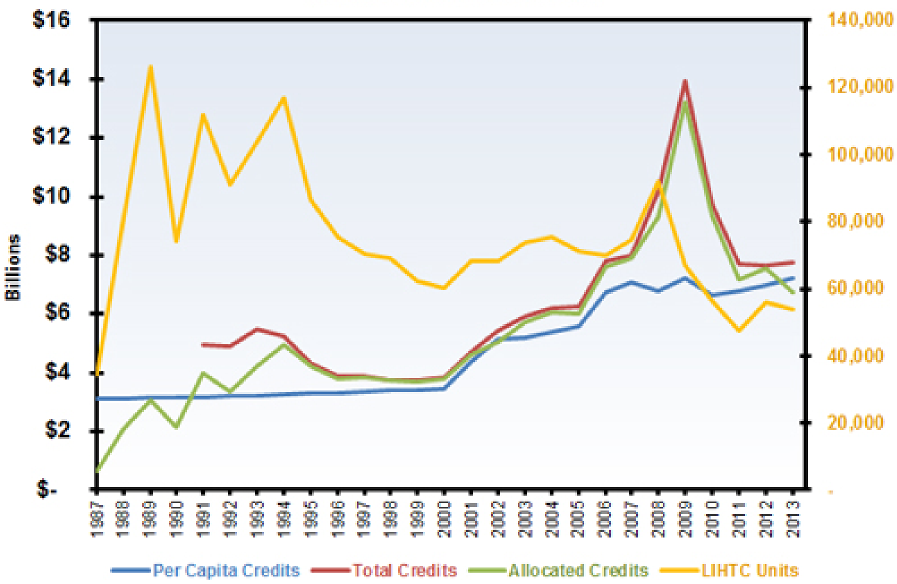
This chart is not a running balance. The amounts above are the total credits available (annual LIHTCs multiplied by the 10-year credit period), not including unused balances from previous years nor exchanges under the Section 1602 cash grant program.

Sources: Calculated by Novogradac & Company LLP from U.S. Census population figures (1987-1990) and IRS Notices and Revenue Procedures (1991-2019)

NOVOGRADAC & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

Source: Novogradic (https://bit.ly/2nskxmB)

Federal Low-Income Housing Tax Credit (LIHTC) Utilization
(9%, population-based credits only)

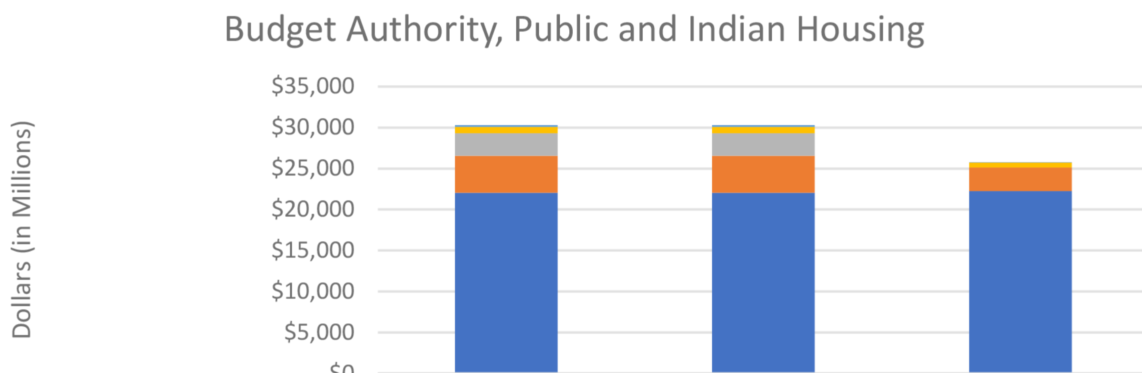


NOTES:

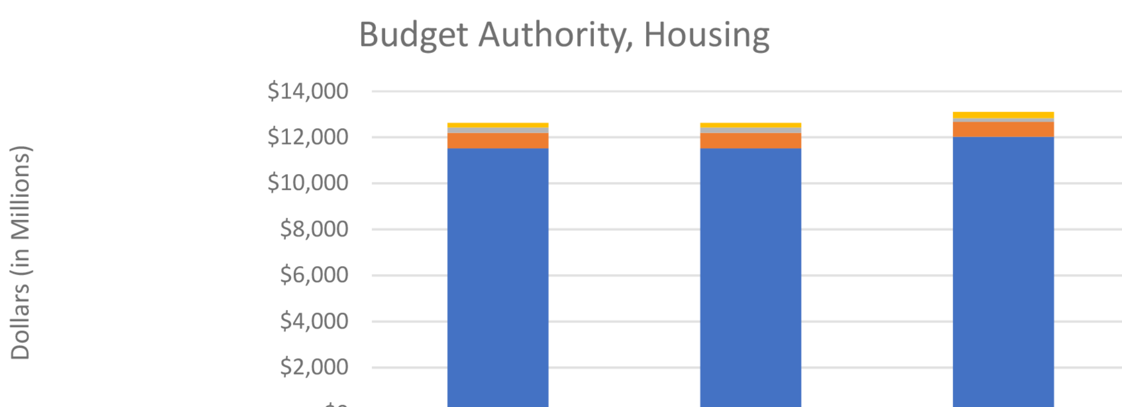
1. Per Capita Credits, Total Credits and Allocated Credits represent annual credits multiplied by ten years
2. LIHTC Units are those placed in service each year listed
3. 2009 and 2010 figures have not been published by NCSHA; 2009 and 2010 Per Capita figures are estimates
4. Per Capita Credits are based on a state's population multiplied by a factor adjusted each year for inflation ($2.10 for 2010)
5. Total Credits equals Per Capita Credits plus unallocated credits in prior years plus credits unused and returned plus Disaster Credits and unallocated GO Zone Credits
6. NCSHA did not publish Total Credits statistics before 1991
7. Total Credits represent total available: Allocated Credits represent credits awarded to LIHTC partnerships

Source: Novogradic (https://bit.ly/2nskxmB)

HUD'S AFFORDABLE HOUSING BUDGET-RELATED HIGHLIGHTS (2020 PROPOSED BUDGET)



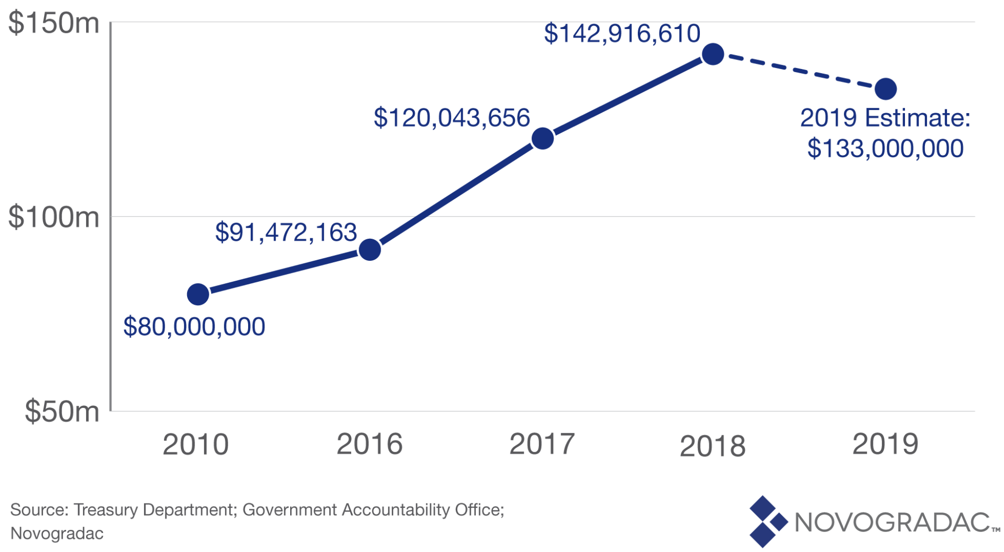
	2018 Enacted	2019 Annualized CR	2020 President's Budget
Other Programs	$228	$228	$78
Native American Housing Block Grants	$755	$755	$600
Public Housing Capital Fund	$2,750	$2,750	$0
Public Housing Operating Fund	$4,550	$4,550	$2,863
Tenant-Based Rental Assistance	$22,015	$22,015	$22,244



	2018 Enacted	2019 Annualized CR	2020 President's Budget
Other Programs	$199	$199	$274
Housing for Persons with Disabilities (811)	$230	$230	$157
Housing for the Elderly (202)	$678	$678	$644
Project-Based Rental Assistance	$11,515	$11,515	$12,021

Source: https://bit.ly/2ESdwAc

CAPITAL MAGNET FUND ALLOCTIONS



Source: https://bit.ly/2AUdt5y