economic development through

tax credits

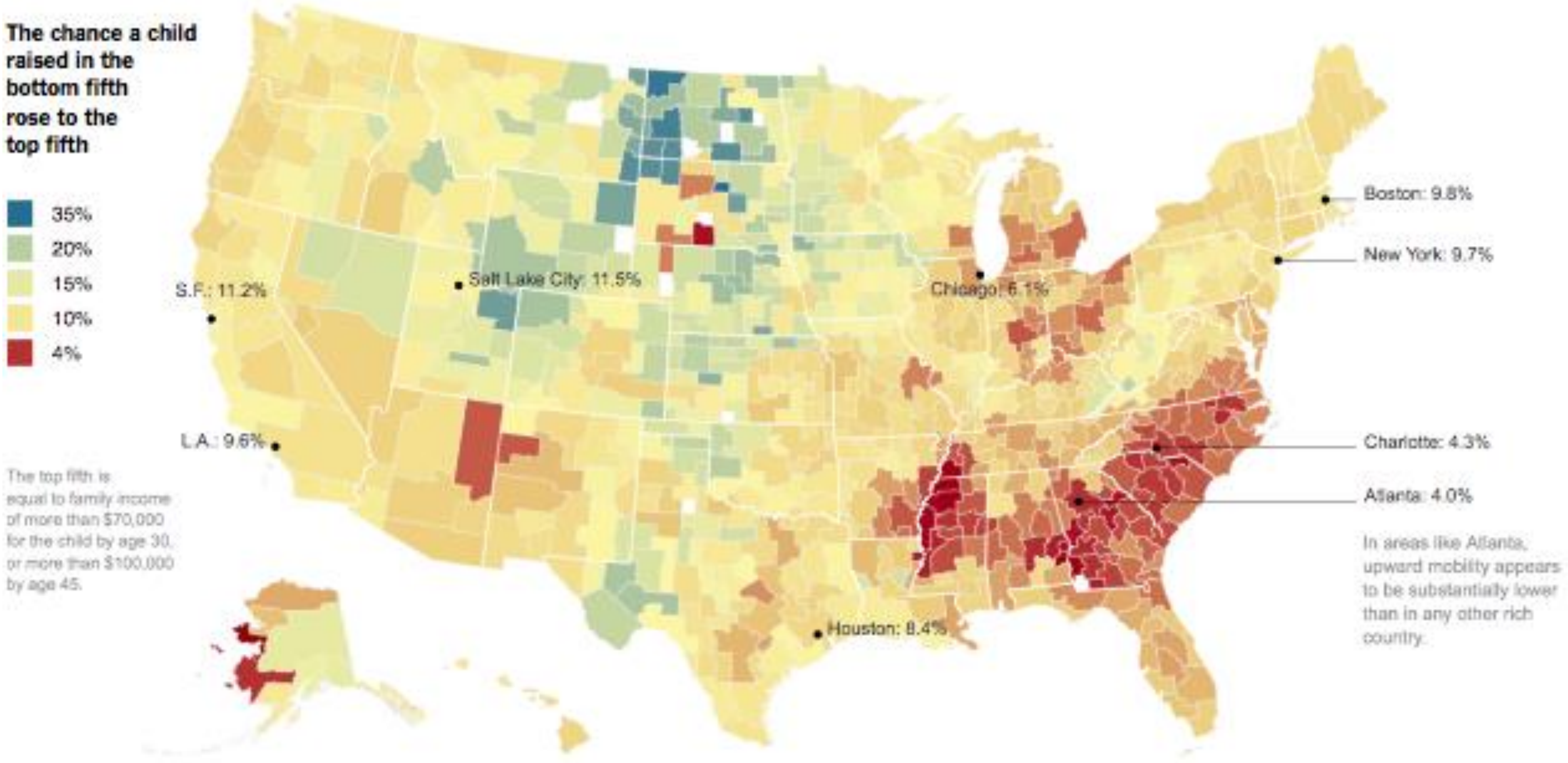
The NMTC and LIHTC Programs

Jesse Lecy · Spring, 2020

PLACE MATTERS:
SOCIAL MOBILITY AS A FUNCTION OF PLACE

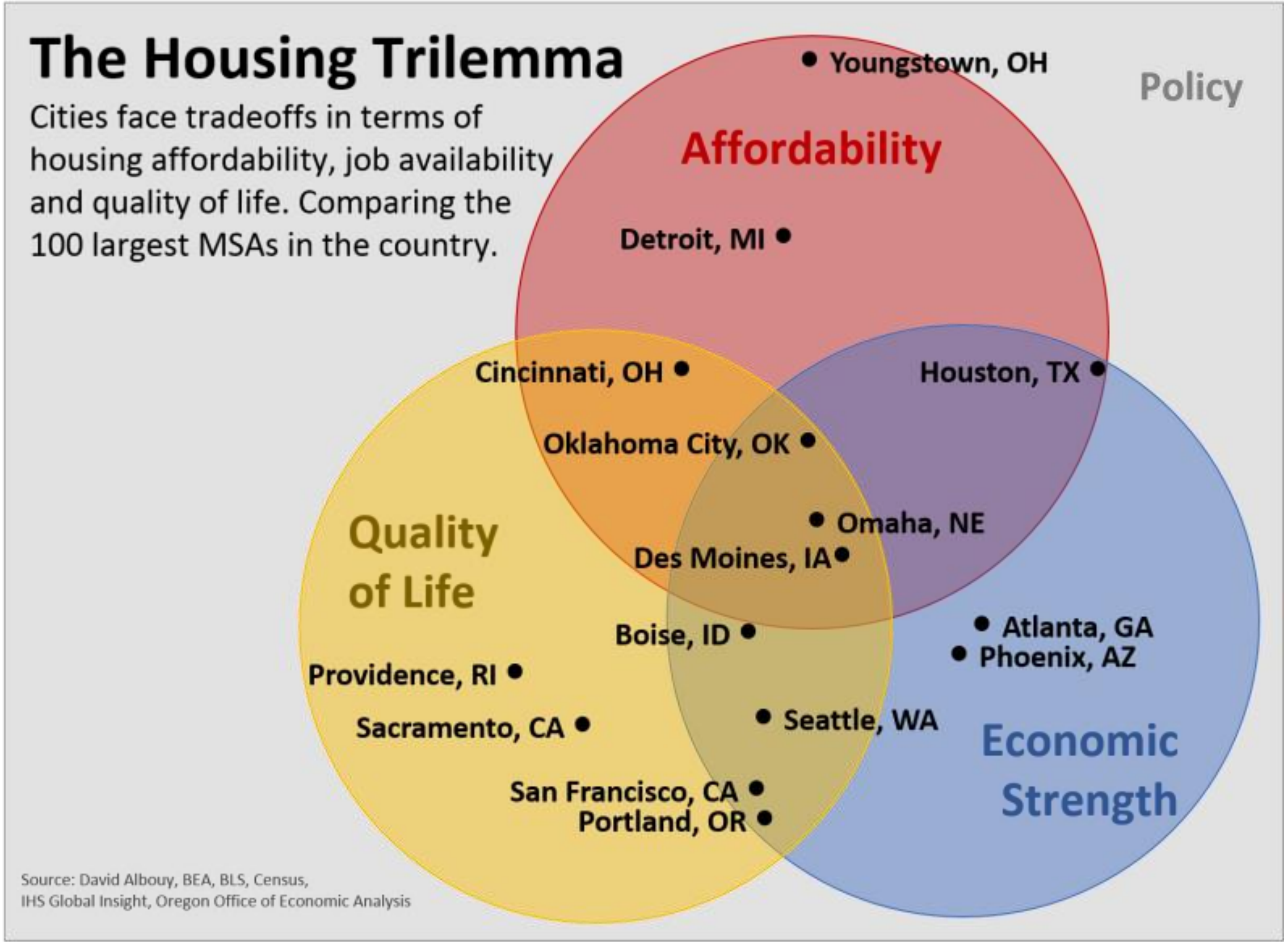
In Climbing Income Ladder, Location Matters

A study finds the odds of rising to another income level are notably low in certain cities, like Atlanta and Charlotte, and much higher in New York and Boston.



Social mobility may not vary much across time. But it does vary by geography….It has to do with the quality of local schools, the level of local income, inequality, racial segregation, the extent of sprawl, the quality of social capital, and the number of two-parent households in a region.

How do we create strong communities?



http://gizmodo.com/only-three-us-cities-have-good-jobs-housing-and-cultu-1781562314

POLICY MECHANISMS FOR NEIGHBORHOOD IMPROVEMENT

Supply-Side Mechanisms – incentivize construction in low-income / high-risk communities

- Public Housing
- Low Income Tax Credits

Demand-Side Mechanisms

- Vouchers – increase number of people that can afford to rent in a neighborhood
- New Market Tax Credits - increase quality and desirability of a neighborhood

Place-Based

POLICY

Improving Housing Stock

PUBLIC HOUSING: PART I

The Federal Government creates the Housing Act legislation (1949)

- Governance mechanisms was poorly structured (each community that wanted to receive funding had to creating its own housing authority, meaning that communities that wanted to block public housing could just refuse to create an authority).
- Projects concentrated poverty.
- Because of challenges with governance, they did not keep up with demand for housing.
- Those that were implemented were poorly designed and built, resulting in poor-quality housing.

PRUITT–IGOE HOUSING PROJECTS, ST. LOUIS

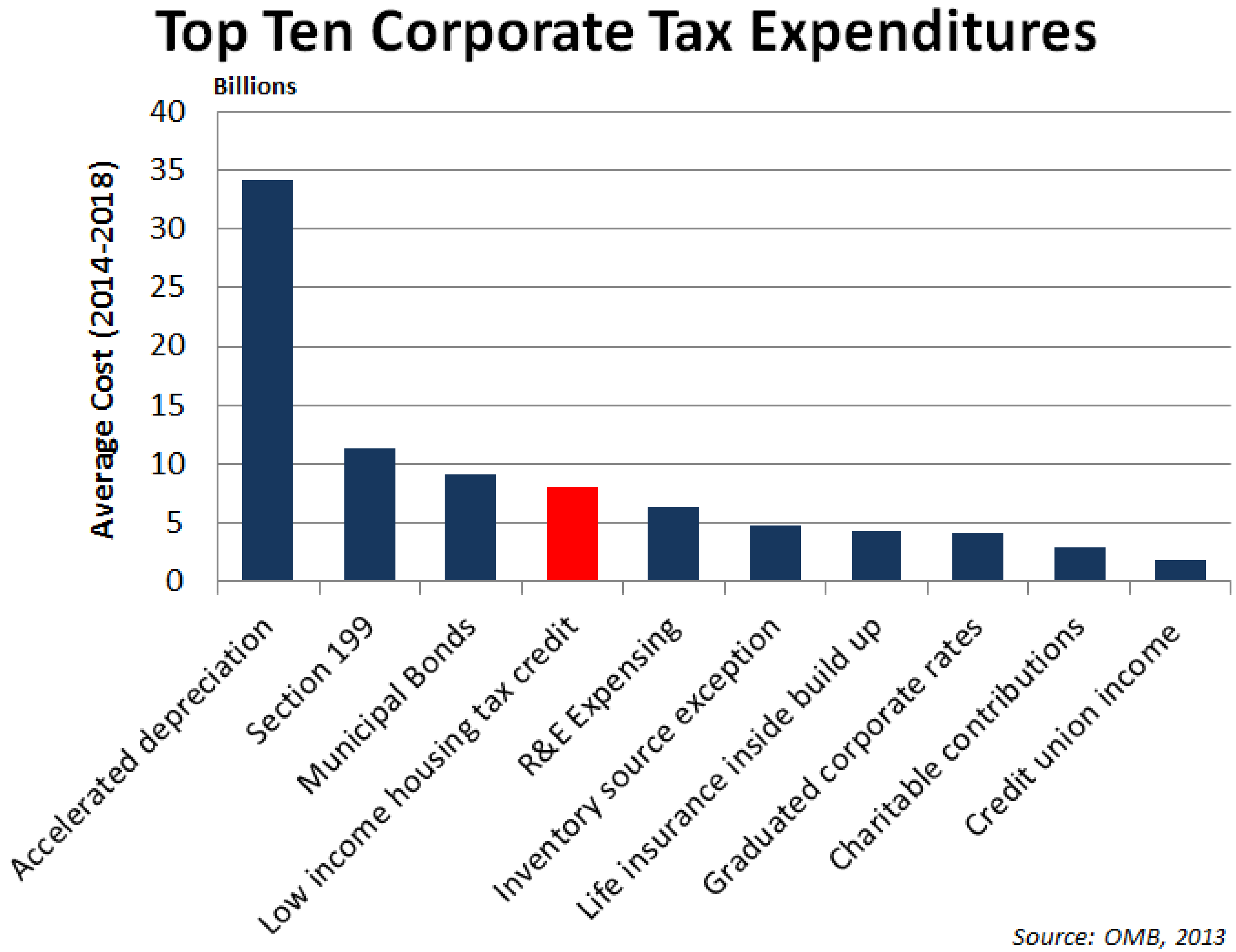
http://en.wikipedia.org/wiki/Pruitt%E2%80%93Igoe

PUBLIC HOUSING: PART II

Low Income Housing Tax Credits (Tax Reform Act of 1986)

- Introduces some elements of market discipline to public housing.
- Private developers are subsidized to build affordable housing units (Section 42 tax credits).
- Rent is capped relative to median income of the city.
- Approximately 90% of all new affordable rental units are built using LIHTC credits.
- On average it costs about $50,000 in subsidies per unit built (see Glaeser), and they last 15 years then convert to market rates.
- **Pros:** almost all new affordable housing units being built utilize LIHTC support, implying it increases supply. Has leverages $75 billion in private sector equity for low income housing.
- **Cons:** Further concentration of poverty.

PUBLIC HOUSING: PART II



Cost $6.7 billion in 2014.

The program is a corporate tax expenditure.

http://crfb.org/blogs/tax-break-down-low-income-housing-tax-credit

SIDE EFFECT: THE POOR DOOR

Toll Brothers' One Northside Piers have a separate entrance from the building tower and neighboring Two Northside Piers.

Toll Brothers' 1 Northside Piers, for instance, includes 134 affordable rental units, allowing the developer to offer 421a tax abatements, which rewarded developers with 10 to 25 years of tax abatements for the inclusion of affordable rental units.

Luxury buildings complete segregate residents so people with subsidized rent do not mix with those paying full rent. This often includes amenities like gyms and group event spaces.

In some extreme cases they have built separate entrances to the building, what have come to be known as **"poor doors"**.

http://therealdeal.com/blog/2013/08/27/how-common-are-nycs-poor-doors-photos/

PUBLIC HOUSING: PART II

Housing Vouchers (Section 8 of the Housing and Community Development Act of 1974)

- Program participants pay 30% of income towards housing, and the rest is subsidized by the government.
- Landlords apply to be part of the program and must pass an inspection to ensure minimum quality standards.

- Pro: a market-based mechanism that gives participants choice regarding where they would like to live.
- Pro: it is a relatively efficient mechanism.
- Con: There were over 100,000 applications for 10,000 spots on a wait list.
- Con: It can raise rent prices in the market slightly.

The Best Affordable Housing Plan in the U.S. Isn't Good Enough

Right before the new year, the application process for two housing developments in New York City's outer boroughs opened. The result: **92,000 people applied for 924 available affordable apartments** at a complex in Queens, and **70,000 people applied for 38 available affordable apartments** at a complex in Williamsburg, the Brooklyn neighborhood where one-bedrooms rent for an average of more than $3,000.

If one of the most ambitious housing plans in the U.S. can't create even a fraction of the affordable housing a city needs, that doesn't bode well for places like San Francisco, Austin, and anywhere else where housing demand is outpacing supply. And it exposes why, for reasons largely outside of local officials' control, shrinking **affordable housing in American cities remains an almost impossible problem to solve, at least without something that may be utterly impossible right now: an ambitious national housing policy.**

http://www.slate.com/articles/business/moneybox/2015/01/nyc_affordable_housing_plan_de_blasio_s_efforts_are_ambitious_and_laudable.html

Place-Based

POLICY

Improving Neighborhood Amenities

ATTRACTING INVESTMENT TO LOW-INCOME COMMUNITIES

New Market Tax Credits (Community Renewal Tax Relief Act of 2000)

- Tax credits to support businesses in distressed communities.
- Channeled through Community Development Entities (induces public-private partnerships).
- Investments made in grocery stores, hospitals, charter schools, and other businesses that help poor communities but are high-risk because of their location.
- Roughly $1.4 billion in tax credits granted in 2011.

REFLECTION:

REDISCOVERY OF CITIES IS AN OPPORTUNITY FOR CHANGE

Revival of cities and gentrification of some spaces offers the opportunity to get the mix of housing right – some low-income, some middle-income, and some high-income.

http://www.strongtowns.org/journal/2015/2/18/podcast-show-206-joe-cortright-on-gentrification

GETTING HOUSING RIGHT:

Glaeser, E., & Gyourko, J. (2009). Rethinking Federal Housing Policy.

- Use vouchers to subsidize the poor, not LIHTC.
- Reform the home mortgage interest deduction.
- Reform historical preservation and zoning practices to increase supply.
- Use federal policy to punish municipalities that restrict too much construction when prices are high.

- *No one-size fits all solution, focus on supply or demand sides depending on the conditions.*

This implies that there will be meaningful differences in the impacts of the home mortgage interest deduction versus Section 8 vouchers, even though both are demand-side policies. Thus, not only does one size not fit all, but not all subsidies have the same effects. Consider the users of the home mortgage interest deduction, who tend to be among the richest Americans (Glaeser and Shapiro 2003). In highly regulated markets that permit little new construction, the policy ends up redistributing from the poor to the rich because the poor, who do not itemize and take the standard deduction, have to pay higher home prices without receiving any subsidy. Consequently, if we wish to increase equity, it makes sense to reduce the home mortgage interest deduction in communities with inflexible (inelastic) housing supplies.

IS HOUSING POLICY PLACE-BASED POLICY?

Affordable housing is important for keeping a city's economy viable.

Efforts to use housing to address poverty have been a failure.

- Policy mechanisms have been weak
- Have resulted in concentration of poverty

One of the key weaknesses of housing policy is that it tends to locate affordable housing in poor communities, thus accelerating the feedback process of decline.

POLICY-MAKERS NEED TO BE CLEAR

Which problem are you trying to solve?

A. Housing is expensive (relative to income) in a metropolitan area

B. The poor can’t afford housing

Policy recommendations will be very different for each problem.

Note the difference between place-based and people-based anti-poverty policies.

PRO-POVERTY PROGRAMS CAN HURT THE POOR

Robert P. Inman. Making Cities Work: Prospects and Policies for Urban America

Not all cities grow, and leaders in declining places also need to understand how the workings of housing markets impact them. Recognizing **that cheap housing is disproportionately attractive to the relatively poor**, who tend to be among the less skilled, is particularly important. Mayors in cities experiencing weak demand should not exacerbate the situation by providing additional low-cost housing, **even though it is subsidized by various existing federal programs**. That being said, there is a good case for policy to address the negative externalities that arise from concentrated poverty in such places. Individual cities should not be held responsible for the financial burden of these policies, so there is a key role for higher levels of government here, too. For example, housing voucher programs should be made national in scope so that poor recipients can use them anywhere in the country. This encourages mobility of the less skilled to places with stronger labor markets by counterbalancing the incentives to stay in depressed markets with cheap housing that is priced well below construction costs.

Economic decline

↓

Weak housing markets

↓

Federal housing subsidies

↓

Concentration of Poverty

↓

Public services more expensive

↓

Accelerated cycle of decline

WHAT DETERMINES THE PRICE OF A HOUSE?

Year	City	1 1990 population	2 2000 median house value	3 2000 construction cost for home 2,000-sq-ft. home	4 Population growth, 1990–2000 (%)
1	New York City	7,322,564	$211,900	$136,937	9.4
2	Los Angeles	3,485,398	$221,600	$112,543	6.0
3	Chicago	2,783,726	$132,400	$113,927	4.0
4	Houston	1,630,553	$79,300	$91,782	19.8
5	Philadelphia	1,585,577	$59,700	$114,792	–4.3
6	San Diego	1,110,549	$233,100	$109,256	10.2
7	Detroit	1,027,974	$63,600	$107,872	–7.5
8	Dallas	1,006,877	$89,800	$89,100	18.1
9	Phoenix	983,403	$112,600	$91,695	34.4
10	San Antonio	935,933	$68,800	$86,246	22.3
11	San Jose	782,248	$394,000	$126,903	14.4
12	Baltimore	736,014	$69,100	$93,512	–11.5
13	Indianapolis	731,327	$98,200	$97,405	8.3
14	San Francisco	723,959	$396,400	$126,903	7.3
15	Jacksonville	635,230	$87,800	$87,803	15.8
16	Columbus	632,910	$101,400	$96,799	12.4
17	Milwaukee	628,088	$80,400	$103,547	–5.0
18	Memphis	610,337	$72,800	$87,284	6.5
19	Washington	606,900	$157,200	$98,702	–5.7
20	Boston	574,283	$190,600	$119,463	2.6
21	Seattle	516,259	$259,600	$108,304	9.1
22	El Paso	515,342	$71,300	$79,585	9.4
23	Cleveland	505,616	$72,100	$105,104	–5.4
24	New Orleans	496,938	$87,300	$87,803	–2.5
25	Nashville	488,374	$113,300	$86,765	16.7

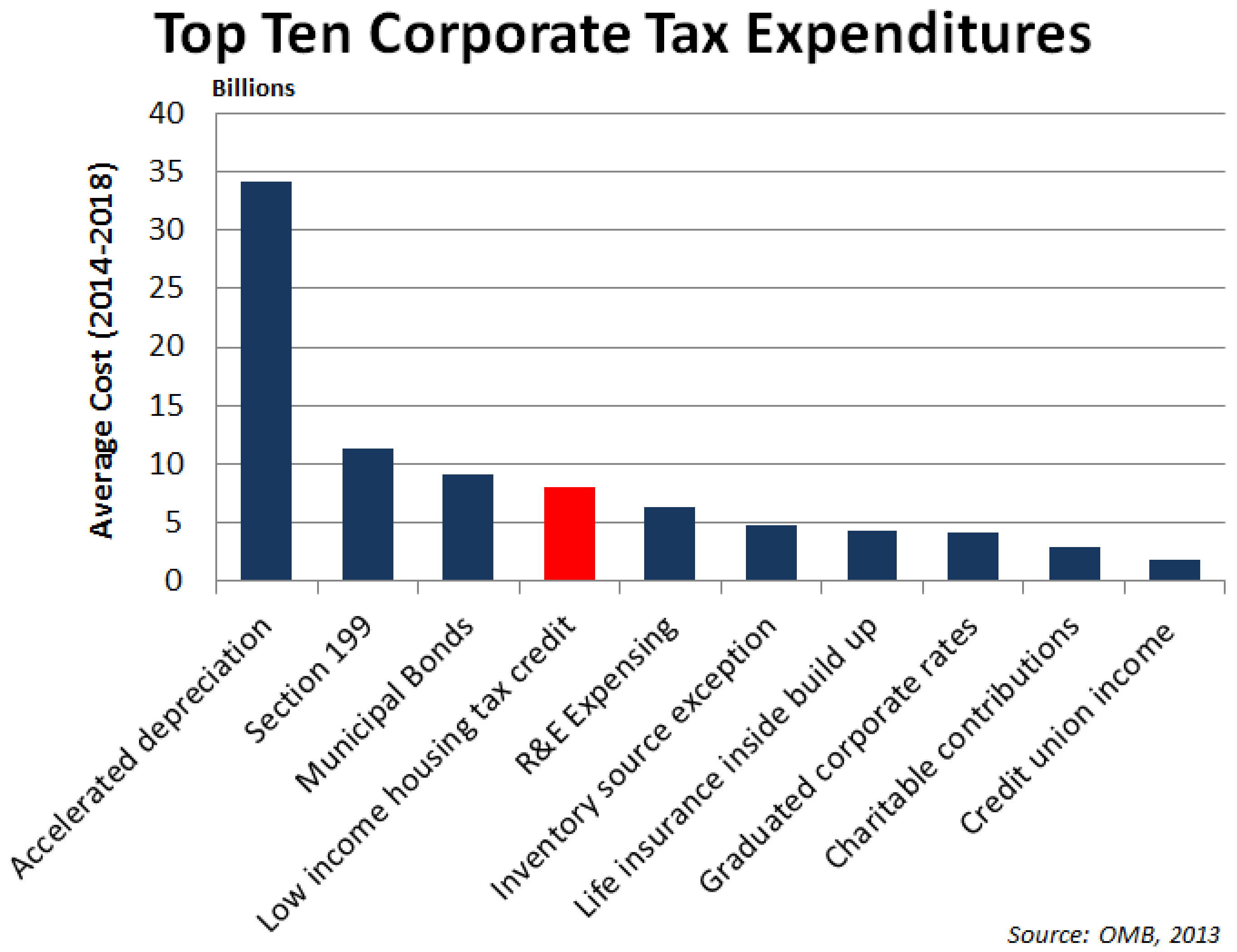
Sources: Columns 1, 2, and 4 from the U.S. Census Bureau; Column 3 from R.S. Means construction cost data, 2000.

Supply-Side Factors

Demand-Side Factors

Regulation, Zoning & Preservation ?

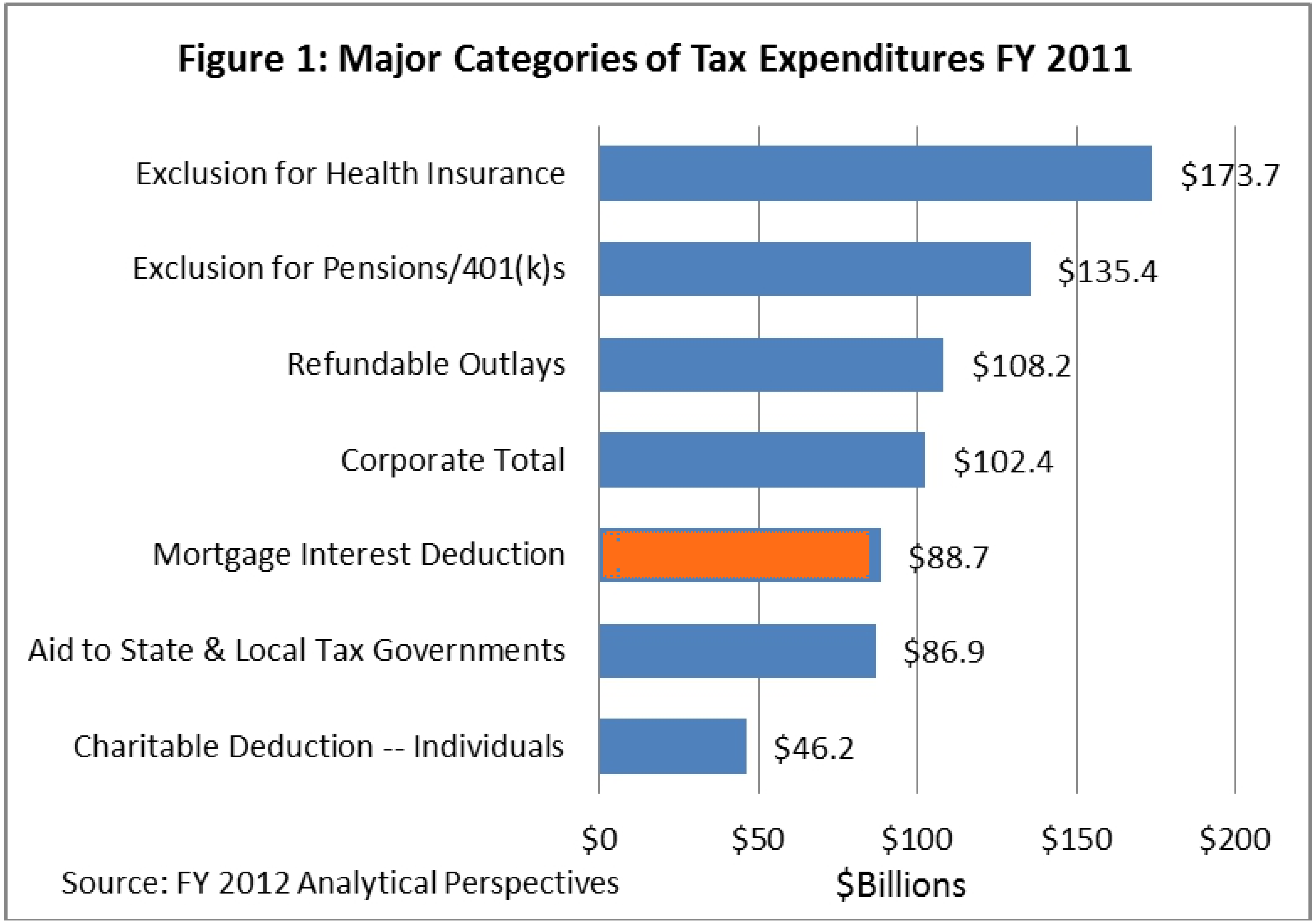
DO WE SUBSIDIZE HOUSING FOR THE RICH OR THE POOR?



We spent $6.7 billion on LIHTC in 2014.

Compare to $89 billion in mortgage interest deductions in 2011.

THE MORTGAGE INTEREST DEDUCTION DRIVES UP HOME PRICES



It disproportionately benefits the wealthy and can make houses more expensive by subsidizing the full cost, leading to people buying bigger homes to maximize tax benefits (or at least relaxes budget constraints).

http://taxfoundation.org/article/testimony-scott-hodge-us-senate-budget-committee-hearing-distribution-and-efficiency-spending-tax

HOMEOWNERS ARE A POWERFUL VOTING BLOCK

An Economic History of Zoning and a Cure for Its Exclusionary Effects

*The **Homevoter Hypothesis*** is that the way to understand local government behavior is to see it through the eyes of homeowners — and not renters, developers, business interests, or machine politicians — who are resident in the community. Homeowners have a special interest in their community that helps overcome the free-rider problem in public affairs. For most of them, a home is by far their largest financial asset, and, unlike corporate stock owners, homeowners cannot diversify their holdings among several communities. Fear of a capital loss to their major asset and desire to increase its value motivate owners of homes to become “homevoters.” They vote their homes in local elections and at public hearings.

The homevoter approach to local government can explain why zoning came into being when it did and why during the 1970s it became more generally exclusionary. New transportation technologies, specifically the bus and truck in 1910s and the development of the interstate highway system in the 1960s, put suburban homeowners at risk from value-reducing development in their neighborhoods and communities. Because homeowners had no means of insuring their assets against these new threats, they and the developers of new homes responded with public land-use regulations that have become increasingly exclusionary.