

# Where to Build Affordable Housing? Evaluating the Tradeoffs of Location\*

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## Abstract

How does the location of affordable housing affect tenant welfare, the distribution of assistance, and broader social objectives such as racial and economic integration? Using administrative data on households living in units funded by the Low-Income Housing Tax Credit (LIHTC), we first show that tenant characteristics such as income, race, and education vary widely across neighborhoods, despite common eligibility thresholds. To quantify the welfare implications, we develop and estimate a residential choice model in which households choose from both market-rate and affordable housing options, where the latter must be rationed. Using the estimated model, we show that moving a new development to a more opportunity-rich neighborhood increases aggregate tenant welfare and reduces both racial and economic segregation, but is also more costly and disproportionately benefits more moderate-need, non-Black/Hispanic households. This change in the distribution of assistance arises in part because of the rationing: households that only apply for assistance in opportunity-rich neighborhoods crowd out other households willing to apply anywhere. Relative to the initial choice of location, other policy levers—such as lowering the eligibility thresholds—have limited effects.

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