

United States Senate Committee on Finance

Hearing: America's Affordable Housing Crisis: Challenges and Solutions
August 1, 2017, 10:00 am
215 Dirksen Senate Office Building, Washington, D.C. 20510

Testimony of: Kirk McClure, Ph.D.

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Good morning and thank you for giving me the opportunity to address the committee on the important topic of housing affordability.

The Low-Income Housing Tax Credit program is our primary affordable housing production program. It is a good program that can be made better.

I would like to make three observations about the performance of the program and use those observations to support recommendations to help it better fit with current market conditions.

1. Does the LIHC program produce units in the price range where there is a shortage of units?

The answer is no.

Generally, rents on tax credit units fall into the range of \$500 to \$1,000 per month.

If households are to spend no more than 30 percent of income to afford these units, their incomes need to be in the range of \$20,000 to \$40,000 per year.

When we examine the rental markets of the nation we find that there is no shortage of units in this price range. Rather, the number of units is far in excess of the number of households.

When we examine the rental market at the lowest tier, the mismatch between supply and demand is very different.

The number of households with incomes below \$20,000 is far greater than the number of units renting for less than \$500 per month.

What this means is that the LIHTC program is adding units to a market segment that is in surplus but not helping the market segment with a severe shortage.

A first reform would require that state housing finance agencies certify to the need for each tax credit development, supported by independent—not developer driven—market analysis.

A second reform would permit state housing finance agencies to exchange tax credit authority for voucher authority. The vouchers could be free-standing or attached to the projects. The vouchers

would permit a poorer population to afford a unit with the tenant contribution set to 30 percent of income, eliminating the high housing cost burden for these households.

2. Does the LIHTC add new units to tight markets and rehabilitate existing units in soft markets?

The answer is not very well.

Typically, the program should add new construction units to tight markets, those with low vacancy rates, and rehabilitate existing units in soft markets, those with high vacancy rates.

The LIHTC program favors new construction over rehabilitation in all markets without regard to vacancy rates. Nine percent credits are awarded against new construction costs, and four percent credits are awarded against rehabilitation costs, independent of market conditions.

Developers have responded by developing 45 percent more new construction units than rehabilitation units and favoring new construction in all markets whether tight, normal or soft.

This problem could be rectified by reconfiguring the benefits of the LIHTC program to favor rehabilitation in soft markets and to permit new construction only where a market is very tight or severely dilapidated units are being replaced.

3. Does the LIHTC program support mixed-income housing?

The answer is no.

Research demonstrates that projects wholly populated by the poor are not good for the households, the developments or the surrounding neighborhoods. Mixed-income housing is a more beneficial format for everyone involved.

The LIHTC program does not provide any incentives to develop mixed-income housing. As a result, 76 percent of all LIHTC developments are occupied entirely by subsidized low-income households. Fewer than 3 percent are configured with more than one-half of all units offered at market-rates.

The program could be improved by reconfiguring the benefits of the LIHTC program to favor mixed-income developments and prohibit wholly subsidized developments except in very distressed markets where a mixed-income development is not feasible and the development is part of a community revitalization strategy.

The LIHTC programs remains an important tool for resolving the nation's housing affordability problems. With improvements, it can better address market needs and market conditions through mixed-income housing.

Thank you.

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Reform of the Low-Income Housing Tax Credit Program

How does the Low-Income Housing Tax Credit (LIHTC) program work?

Tax credit authority is allocated annually from the federal government to each state which, through its Housing Finance Agency (HFA), awards the tax credits to development proposals. The annual allocations totaled to about \$7.6 billion in fiscal year 2015 (Gramlich, 2015).

Each developer sells the tax credits to investors who join into the ownership of the development with the proceeds from the sale of the tax credits used to pay for a portion of the development costs. In exchange for receiving the tax credits, developers agree to limit the rents on the housing units to levels affordable to low-income households and to maintain low-income occupancy in the tax credit supported units for a period of at least 15 years.

How has the program performed?

The program began in 1987 and produced about 2.6 million low-income units since its inception. Annually, the program typically produces about 90,000 units in 1,400 projects.

Who is served by the program?

The income ceilings for participation in the LIHTC program vary with the metropolitan area or with the county if the location is outside of a metropolitan area. The maximum income for a household occupying a tax credit unit is a set percentage of the Area Median family Income (AMI). The LIHTC program limits the highest income of households who reside in LIHTC units at either 50 percent or 60 percent of the AMI, depending upon developer selection and state HFA preferences. In 2015, the national median family income was \$66,011. Thus, the program tends to serve households with incomes below either \$33,000 or \$40,000.

The U.S. Department of Housing and Urban Development (HUD) defines low-income somewhat differently than does the LIHTC program, but the HUD definitions are helpful for understanding which households are served by the various low-income housing programs. HUD defines any household as low-income if its income is below 80 percent of the AMI. HUD further defines two subsets of the low-income households as: 1: Very low-income, those with income between 30 and 50 percent of AMI; and 2: Extremely low-income, those with income below 30 percent of AMI. These distinctions are important because markets very widely in terms of which category of low-income renter households suffer from shortages of units.

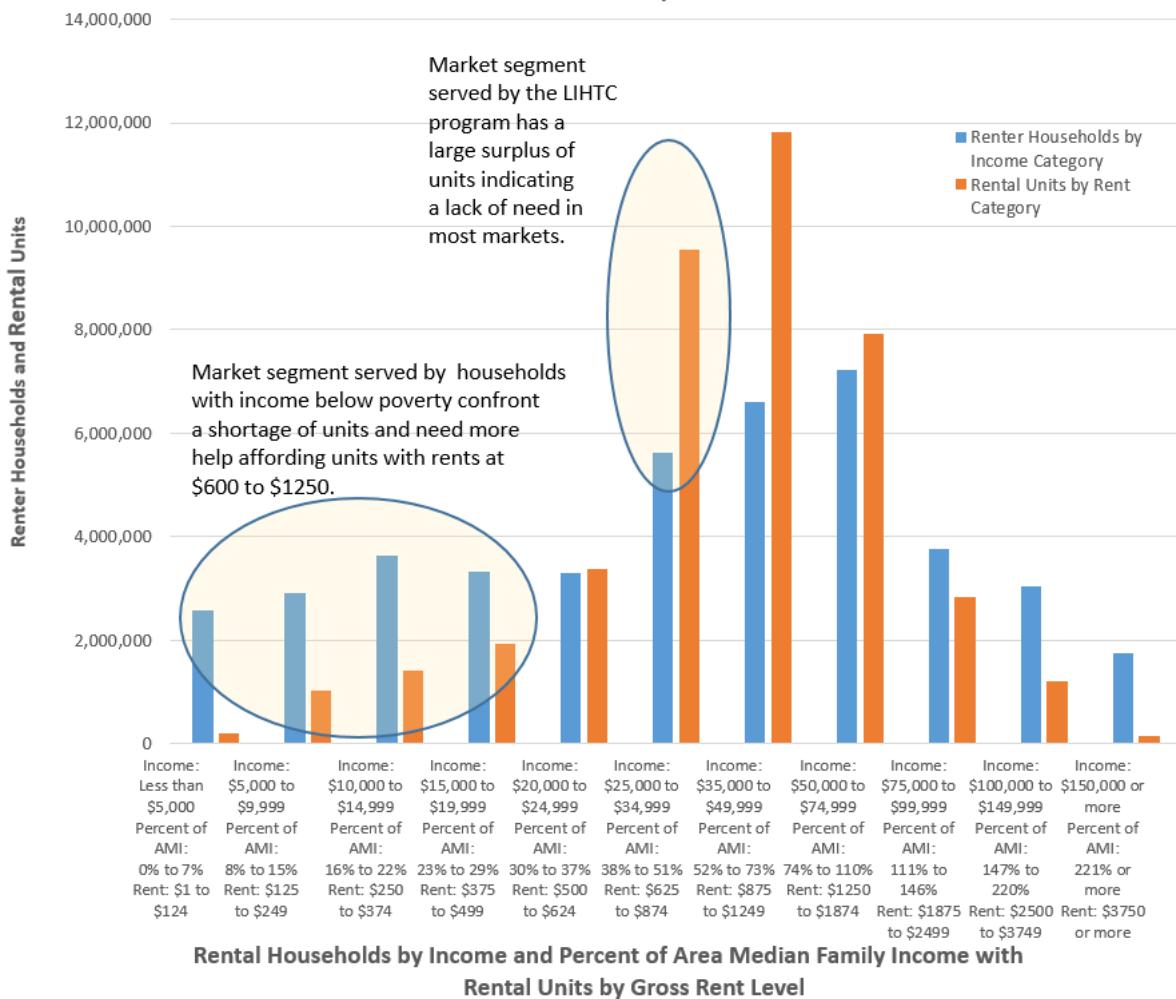
O'Regan and Horn (2013) find that about 45 percent of LIHTC households have incomes below 30 percent of AMI, and 55 percent have incomes between the 30 percent and the 60 percent ceiling level. Low-income households with income in the upper tier, between 60 and 80 percent of AMI, are not permitted into the units as their income is too high. Households with incomes in the lowest tier, below 30 percent of AMI, can usually afford the rents charged in LIHTC developments only if they have additional subsidy through the Housing Choice Voucher (HCV) program. Williamson (2011) found that about 10 percent of Florida LIHTC households had vouchers. Thus, most non-voucher LIHTC households tend to have income at the middle tier of the low-income levels or about \$20,000 to \$40,000. For comparison, public housing and the HCV programs serve the poorest tier of the low-income renter population, households with an average income of about \$14,000 (Calculated from HUD data for 2015).

Does the LIHTC program produce units in a price range where there is a need?

If the LIHTC program tends to serve households with incomes in range of \$20,000 to \$40,000, does this income segment suffer from a shortage of rental units priced so that they can afford the units?

Figure 1 below divides the rental housing stock of the nation into market segments. Renter households are divided into income categories from the American Community Survey, 2015. Rental units are divided into categories based on gross rents (rents plus utilities). These rent categories correspond to the renter income categories assuming that these households spend 30 percent of income on housing, which is about the median level of spending for renters nationwide.

Figure 1. **Renter Households by Income and Rental Units by Rent**
United States, 2015



**Rental Households by Income and Percent of Area Median Family Income with
Rental Units by Gross Rent Level**

Source: American Community Survey 2015 1-Year Estimates Tables B25119 and B25063

For example, a household with income of \$25,000 per year can afford a unit with rent at \$625, and a household with an income of \$35,000 can afford rent of \$875. Thus, the rental units with gross rents from \$625 to \$875 can be compared to the numbers of households with incomes from \$25,000 to \$35,000. In rent categories where the number of units exceeds the number of renter households, a surplus exists, and where households exceed units, a shortage exists.

The segment of the rental housing market served by the LIHTC program has a large surplus of units. There are many more units renting in the price range of \$625 to \$875 per month than there are households with incomes in the range of \$25,000 to \$35,000, the households who can afford units in this price range. This is the market segment where the LIHTC is adding units.

It is a very different story in the rental housing market segment served by the HCV program. This program assists households with incomes below \$20,000. Households in this market

segment can only afford rental units with much lower rents, averaging about \$350 per month. All the market segments with rents below \$500 have fewer units than there are households.

Thus, the LIHTC program is adding units to a market segment with a large surplus of units indicating a lack of need in most markets.

Does the LIHTC program locate units in tracts with a shortage of units?

What is true for the nation as a whole is not necessarily true for individual markets. While the nation may have a surplus of units in the market segment with rents from \$625 to \$875, many individual markets may have a shortage. The LIHTC could be the right form of governmental intervention to resolve this problem if it is targeting those locations with shortages.

Table 1 indicates that LIHTC units are being located in census tracts that do not have a shortage of rental units in the price range serving low-income renter households. Table 1 categorizes the 73,000 census tracts in the nation by comparing the number of renter households with income between \$25,000 to \$35,000 to the number of rental units with rents between \$625 and \$875. If the LIHTC program is working well, it should be locating units in tracts with a shortage of units in this price range compared to the number of households in the income range.

Table 1. **Low-Income Housing Tax Credit Units by Tract Rental Market Need**

Number of rental units with rents \$625 to \$875 minus renter households with income of \$25,000 to \$35,000

<i>Rental market need category</i>	<i>Tracts (Percent)</i>	<i>LIHTC Units (Percent)</i>
Shortage 200 or more units	231 (0.3%)	18,013 (0.7%)
Shortage 50 to 199 units	5,102 (7.0%)	190,868 (7.9%)
Balanced -49 to +49 units	39,033 (53.4%)	687,597 (28.3%)
Surplus 50 to 199 units	21,966 (30.1%)	929,850 (28.3%)
Surplus 200 or more units	6,724 (9.2%)	603,944 (24.9%)
Total	73,056 (100.0%)	2,430,272 (100.0%),

Source: American Community Survey, 2015, 1-year estimates; HUD LIHTC Database, 2017.

Fewer than 9 percent of LIHTC units are located where there is a shortage. This is not entirely surprising as fewer than 8 percent of all the tracts in the nation have a shortage suggesting that the need for units in the price range served by the LIHTC program is small. Over one-half of all LIHTC units are in tracts with a surplus of more than 50 units. One-fourth of all LIHTC units are in tracts with a surplus of 200 or more units.

Does the LIHTC add new units to tight markets and rehabilitate existing units in soft markets?

It would be expected that the program would add new construction units to tight markets, those with low vacancy rates, and rehabilitate existing units in soft markets, those with high vacancy rates.

Table 2.

**LIHTC Units by Construction Type
in Tracts by Rental Vacancy Rate**

Rental Vacancy Rate	LIHTC Units		
	New Construction	Units Rehabilitation	Type Known
Tight 0 to 4.9%	440,692 38%	305,227 39%	745,919 38%
Normal 5.0 to 6.9%	155,153 13%	113,323 14%	268,476 14%
Soft 7.0% to 9.9%	207,558 18%	139,446 18%	347,004 18%
Very soft 10%+	357,266 31%	232,960 29%	590,226 30%
Total	1,160,669 100%	790,956 100%	1,951,625 100%

Source: American Community Survey, 2015, 1-year estimates; HUD LIHTC Database, 2017.

The LIHTC program favors new construction over rehabilitation in all markets. Nine percent credits are awarded against new construction costs, and four percent credits are awarded against rehabilitation costs, independent of market conditions.

Developers have responded by developing 47 percent more new construction units than rehabilitation units. There is a strong tendency for the program to produce new construction units over rehabilitation units without regard to the rental vacancy rate.

Does the LIHTC program support mixed-income housing?

Research demonstrates that projects wholly populated by the poor are not good for the households, the developments or the surrounding neighborhoods (Smith 2002). Mixed-income housing is a more beneficial format for everyone involved (Kleit 2005).

The LIHTC program does not provide any incentives to developers to generate mixed-income housing. Rather, the program sets minimums, rather than maximums, on the percentages of households with incomes below 50 percent and 60 percent of AMI. As a result, 76 percent of all LIHTC developments are occupied entirely by low-income households. Fewer than 3 percent are configured with market-rate units comprising more than one-half of all units.

Conclusions and recommendations

It can be concluded that the LIHTC program is:

- Serving a segment of renters with a surplus of units and not serving the lowest-income segment with a shortage of units.
- Adding units to neighborhoods with a surplus of units and failing to add units where there are shortages.
- Favoring new construction over rehabilitation independent of market condition.
- Not promoting mixed-income housing.

It is time to rethink how the LIHTC program works. Four changes are recommended:

More rigorous market analysis: State Housing Finance Agencies should have to justify each LIHTC allocation by demonstrating a market need. Each HFA should have to show that both neighborhood and metropolitan vacancy rates justify production subsidies. The HFA should have to find that vacancy rates are low and that a shortage of units exists at the price point to be served by the proposed LIHTC development. There is little value in adding units to a market that has a high rental vacancy rate or in adding units to a market segment that is saturated.

Exchange tax credit authority for voucher authority: Currently, housing authorities can convert up to 20 percent of tenant-based voucher contract authority into project-based voucher authority. HFAs should be permitted the same latitude to convert project-based LIHTC funding into vouchers. These vouchers could be tenant-based vouchers, permitting extremely low-income households to rent apartments in the market if market conditions suggest this to be the preferred approach. These vouchers could also be project-based vouchers that could be layered

on top of LIHTC subsidy to serve households who could not otherwise afford the tax credit units. These vouchers would help the LIHTC program both serve households with extremely low income as well as permit these households to pay a rent based on their incomes, rather than a flat rent now used in the LIHTC program. This approach prevents a high housing cost hardship among these households.

Favor Rehabilitation over New Construction: the LIHTC program should be modified so that it favors the appropriate type of development for each market. The higher 9 percent credits should be given for rehabilitation and the lower 4 percent credits should be given to new construction developments. The higher 9 percent credits would only be available to new construction units if the market is truly tight (the rental vacancy rate is very low) or the new units are replacing severely deteriorated units.

Favor Mixed-Income Development: The LIHTC should mandate mixed-income occupancy in most developments. A majority of the units in each tax credit supported development should be set-aside for market-rate occupancy. A development that is configured with a majority of units for low-income occupancy should be permitted only in a highly distressed area where mixed-income housing is not feasible and the tax credit development contributes to a community revitalization strategy.

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- U.S. Department of Housing and Urban Development. (2017). LIHTC Database. At: <https://lihtc.huduser.gov>.
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Background from Senate Committee on Finance website

I have an appointment to meet with committee staff. Where should I go?

Please check in with the front office staff located in room 219 of the Senate Dirksen Office Building.

Can I watch hearings and open executive sessions online?

Streaming video of committee hearings and open executive sessions can be found in the Hearings section of the Finance Committee website. Hearings in progress can be accessed from the Committee's home page and also through Hearings.

Are Finance Committee hearings open to the public?

Finance Committee hearings are open to the public, unless otherwise noted. The Finance Committee hearing room is located in room 215 of the Dirksen Senate Office Building. Under the normal configuration, the room can accommodate approximately 150 members of the public. Admission to hearings is on a first come, first served basis, and members of the public are encouraged to arrive early to ensure they will be seated. Finance Committee hearings are generally placed on the Committee Calendar seven days in advance of the event. Generally, open executive sessions are placed on the schedule at least two days in advance of the event.

How do I submit a statement for the record?

Any individual or organization wanting to present their views for inclusion in the hearing record should submit a typewritten, single-spaced statement, not exceeding 10 pages in length. Title and date of the hearing, and the full name and address of the individual or organization must appear on the first page of the statement. Statements must be received no later than two weeks following the conclusion of the hearing.

Statements should be mailed (not faxed) to:

Senate Committee on Finance
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Press Release

JULY 25,2017

Press Contact:

Julia Lawless, Katie Niederee | 202-224-4515

Hatch to Convene Hearing on Increasing Access to Affordable Housing

WASHINGTON – Senate Finance Committee Chairman Orrin Hatch (R-Utah) will convene a hearing on **Tuesday, August 1, 2017**, to examine the difficulties and solutions to increasing access to affordable housing in America. The hearing, “America’s Affordable Housing Crisis: Challenges and Solutions,” will take place at **10 a.m. in Room 215 of the Dirksen Senate Office Building**.

“By bringing in experts in urban policy and housing, this hearing is an opportunity to learn more about what can be done to increase access to affordable housing,” **Hatch said**. “It will highlight challenges, as well as ways to encourage investment in our communities to give individuals and families with limited means the chance to find affordable housing.”

The following witnesses are scheduled to testify:

- **Mr. Daniel Garcia-Diaz**, Director, Financial Markets and Community Investment, United States Government Accountability Office, Washington, D.C.;
- **Mr. Grant S. Whitaker**, President, National Council of State Housing Agencies, Washington, D.C.;
- **The Honorable Katherine M. O'Regan**, PhD, Professor of Public Policy and Planning; Faculty Director, Furman Center for Real Estate and Urban Policy, Robert F. Wagner Graduate School of Public Service, New York University, New York, NY;
- **Mr. Kirk McClure**, PhD, Professor, Urban Planning Program, School of Public Policy and Administration, College of Liberal Arts and Sciences, University of Kansas, Lawrence, KS; and
- **Mr. Granger MacDonald**, Chairman of the Board of Directors, National Association of Home Builders, Washington, D.C.

Who: Senate Finance Committee

What: Hearing on America's Affordable Housing Crisis: Challenges and Solutions

Where: 215 Dirksen Senate Office Building; Washington, D.C. 20510

When: Tuesday, August 1, 2017 at 10 a.m.

For media inquiries and additional information, including webcast and testimony details, please visit:
<http://finance.senate.gov/hearings>.

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Panel

1. Daniel Garcia-Diaz

Director, Financial Markets and Community Investment
United States Government Accountability Office
Washington, DC



2. Grant S. Whitaker

President
National Council of State Housing Agencies
Washington, DC



3. The Honorable Katherine M. O'Regan, PhD

Professor of Public Policy and Planning;
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5. Granger MacDonald

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July 26, 2017

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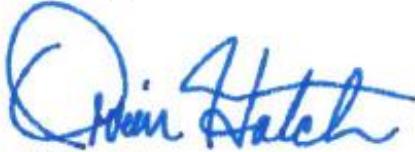
Dear Dr. McClure,

I invite you to present testimony before the Senate Committee on Finance at a hearing titled "America's Affordable Housing Crisis: Challenges and Solutions". The hearing is scheduled for Tuesday, August 1, 2017, and will begin at 10:00 am, in Room 215, Dirksen Senate Office Building. I hope that you will accept this invitation to present testimony on these important issues. Please limit your oral testimony to five minutes. Limiting the length of your testimony will ensure that there will be sufficient time available for questions. Your full written testimony will be included in the hearing record.

Please e-mail your final testimony (no drafts will be accepted) and a short biography to Alex_Monie@finance.senate.gov as soon as you are able to do so, but no later than 10:00 a.m. EST on Sunday, July 30, 2017. Please note that your testimony will be posted on the Finance Committee website at the time the hearing begins.

I look forward to hearing from you.

Sincerely,



Orrin Hatch
Chairman