



Experts Detail Why American Affordable Housing Is Failing

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When tax reform discussion begins, a topic sure to get attention is the Low Income Housing Tax Credit program, an \$8 billion subsidy program lacking basic oversight that has been criticized as wildly inefficient.

According to the Government Accountability Office, of the 58 housing finance authorities that allocate subsidies through the LIHTC program, only seven have been formally audited in the past 30 years. It's a startling statistic for what GAO's director of Financial Markets and Community Investment Daniel Garcia-Diaz described on Monday as the federal government's "most important housing development program."

Administered by the Internal Revenue Service, the LIHTC program incentivizes the development of new affordable housing for tens of thousands of low-income citizens through tax credits offered to developers. While the GAO has drawn attention to the program's lack of oversight, and its potential mismatch with the IRS, a senior fellow at the Manhattan Institute said in an interview on Monday that the program is fundamentally ill-advised and should be eliminated altogether.

In Howard Husock's view, the program is extremely expensive, provides housing for a small population of people and gets in the way of a free market that offers better solutions. He added that the program's real winners are not low-income occupants but rather well-connected banks, developers and intermediaries.

According to studies from Edgar O. Olsen and other economists, between 25 and 35 percent of the value of the tax credits is captured in rent savings to tenants. The rest is gobbled up by banks, developers and intermediaries, meaning that low-income tenants are only able to make use of a small fraction of the credits. Vanessa Brown Calder, a policy analyst at the Cato Institute, described LIHTC as an inefficient, overly complex program that doesn't deliver the benefits it once promised.

"Developers, banks, all sorts of financial intermediaries, investors, even lawyers are benefited by this complex, convoluted allocation process and complicated program," she said.

Compared to the federal government's largest housing voucher program, Section 8 rental assistance, LIHTC units cost anywhere from 19 percent to 44 percent more on a per unit basis.

Husock asked when the federal government decided that the private housing market failed the American population, while arguing for free-market solutions. He said that through LIHTC, developers are able to place individuals and families with various income levels in the same building, for which they “congratulate themselves.”

“Why that is such a big deal and a good thing – I don’t know, and no one even reflects on why we’re doing it,” he said. “I take the rather Victorian view that scrimping and saving and proving your life in stages and moving up from one place to a better place is actually the best way to have a satisfying life. But if you think hitting the housing lottery and living in a pretty fancy building with a lot of people that have a lot more money than you is a really great benefit, then some people are getting that benefit. I don’t happen to think that’s a good philosophy of life, but that’s just me.”

Husock said continuing subsidies for the lowest-income groups in America is worth a discussion, but an overly complicated housing program, which lines the pockets of banks and developers, is not the best way to extend those subsidies. If people believe these populations need assistance, he suggested offering them cash subsidies, which is more in line with the Section 8 vouchers.

Calder agreed with Husock that LIHTC should be eliminated, but she said the free market isn’t just going to sort itself out. The biggest issue facing affordable housing, she said, is that local and state governments are enforcing inhibitive zoning codes. Federal programs can try to deliver public housing, she said, but it will never meet demand because local regulations limit the housing stock while also ratcheting up prices.

“No matter how much housing the program provides, the federal government can’t undo the damage of local land use and zoning regulations on affordable housing production,” she said. “So this is really a local and state problem.”