Federal Low-Income Housing Tax Credits Aren't Helping Low-Income People

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Tax credits provided by the federal government to developers of low-income housing are poorly monitored and have suffered from mission creep. Instead of providing housing to households whose incomes are below the poverty line, many states are using these funds to socially engineer people into living in high-density housing projects along transit corridors.

Low-Income Housing Tax Credits (LIHTCs) is the federal government's largest program for building affordable housing, costing the Treasury $10 billion a year. This compares with less than $3 billion a year spent on the Department of Housing & Urban Development's (HUD's) public housing capital program. Yet LIHTCs are administered not by HUD but by the Internal Revenue Service, which relies on state housing agencies to oversee the program.

Many states, however, are more interested in using the funds to boost transit ridership than to provide housing for people living in poverty. The housing that is built is anything but affordable, often costing three times as much per square foot as housing built without subsidies. Only a few units of subsidized housing are affordable to people living below the poverty line; most are available to any household earning less than the urban area's median income, which literally means half the households in the region.

As the Los Angeles Tenants Union complains, "U.S. housing policy has become a market-driven, mixed-income program of 'Affordable Housing' for carefully selected, mostly middle-income tenants, largely excluding the very poor."

Each year, the IRS apportions out LIHTCs to the states based on population. The states then give the tax credits to various for-profit or non-profit developers, which can use the credits to offset their federal income taxes or sell the credits to other companies. LIHTCs can be used to pay for up to 70 percent of the cost of supposedly affordable housing, with other state and local funds often making up most of the other 30 percent.

The result is that developers put up almost none of their own money to build low-income housing. The rents they collect are restricted to keep the housing affordable but certainly pay for the costs of operating the housing. After 30 years, the restrictions are lifted and the property owners can charge market rates, sometimes leading to a doubling or tripling of rents.

To see how this program works in detail, I recently examined dozens of housing projects funded in Seattle since 2008. Almost all of these projects were built or are being built by non-profit organizations such as Mercy Housing, which has low-income housing projects in 18 states ranging from California to Georgia.

These projects cost an average of about $300,000 per apartment unit, which sounds affordable in a region where the median home price is $780,000. But while the median home in Seattle is around 2,000 square feet in size, the average unit built with low-income housing funds is less than 700 square feet.

Current home construction costs in Seattle average $141 per square foot. The affordable housing projects, however, cost an average of $532 per square foot. This included basic construction costs (including contingencies) of $260 per square foot, plus all sorts of additional fees and costs including $40 of "developer fees" (meaning money for the non-profit), $38 per square foot for land acquisition, and the costs of constructing common areas such as hallways in multifamily dwellings. For comparison, new homes in Buckeye, Arizona sell for as low as $126.55 per square foot, including the land, all permits and hookups, developer fees, and other costs.

One reason construction is more expensive in Seattle is that Seattle has an urban-growth boundary that has driven average land prices to $1.3 million an acre, compared with under $300,000 an acre in fast-growing urban areas that have no urban-growth boundaries such as Atlanta, Houston, and Raleigh. Yet none of the non-profits that build low-income housing in Seattle make any effort to repeal the state's growth-management law, which has more than doubled inflation-adjusted rental rates in Seattle since it was passed in 1990. Why should they, when high housing costs increase the demand for their projects?

An even bigger problem is that most of the Seattle projects weren't really built to provide affordable housing; instead, they were built to provide customers to the region's light-rail system. To be eligible for state and city housing funds covering the 30 percent of costs that LIHTCs won't pay, Seattle projects have to comply with an "Evergreen Sustainable Development Standard" that requires, among other things, "compact development," "access to public transportation," and "walkable neighborhoods." As a result, all but two of the 30 projects whose applications I examined in detail were mid-rises (4- to 6-story) or high-rises (7-plus stories). Such projects are much more expensive to build due to the need for more structural steel and concrete, not to mention all of the common areas they require that aren't needed for single-family homes.

These rules are based on assumptions that high-density housing and public transit are somehow more energy efficient and climate-friendly than single-family homes and driving. In fact, midrise and high-rise construction uses far more energy and emits more greenhouse gases per square foot than low-rise construction. Multifamily housing also uses more energy per square foot than single-family housing. Furthermore, public transit uses more energy and emits more greenhouse gases per passenger mile than driving an average car. High-density housing is only more "sustainable" if people are willing to live in cramped apartments—but even then, smaller single-family homes would use even less energy.

“Government will malperform if an activity is under pressure to satisfy different constituencies with different values and different demands,’’ wrote Peter Drucker in his 1989 book, *The New Realities*. ‘‘Performance requires concentration on one goal.” Agencies administering affordable housing funds have lost sight of their goal and so the money they spend doesn’t help as many people as it could.

Not that the housing built in Seattle’s project helps many low-income people. Many of the units are available to any household that earns less than the Seattle-area’s median income, which was $93,000 in 2019, and only a few are affordable to those who truly have low incomes. Despite the fact that the non-profits that built the projects spent none of their own money on the capital costs, the rents they charge for most of the apartments are higher than truly low-income people can afford to pay.

According to the Census Bureau, the poverty line for a Seattle family of four is under $33,000 a year. Given requirements that households spend no more than 30 percent of their incomes on housing, a family earning $33,000 a year can afford to spend $825 a month on rent and utilities. Yet only ten of the 110 units of the Capitol Hill TOD (for transit-oriented development), a project now being built with low-income housing tax credits, will be priced this low, and only five of those are large enough for a family of four. The average unit in the complex will require an income of $40,000 a year, and the most expensive $56,000. This means that most of the 110 units are really middle-income housing.

Nor does low-income housing have much influence on the housing market as a whole. Since 2008, Seattle has built or under construction 6,700 units of low-income housing, which is about 8 percent of the growth in the number of homes in the city. But it is actually less than that on net because hundreds of homes were demolished to make room for some of these projects. This simply isn’t enough homes to significantly influence overall housing prices. To make matters worse, Seattle’s share of affordable housing subsidies is funded by a property tax on existing homes, reducing the affordability of homeownership.

This isn’t just a Seattle problem: such high-cost, high-density housing is being built using affordable housing subsidies in California, Colorado, Hawaii, Oregon, and many other states. The real aim of such housing is often to boost transit ridership as many of the high-density housing projects springing up along light-rail lines are partially or entirely financed with LIHTCs and other low-income housing funds.

For example, in another recent study I found 33 high-density projects costing $383 million built with low-income housing subsidies along Phoenix, Arizona’s light-rail line. To add insult to injury, Phoenix’s transit agency claimed that these projects were “stimulated” by the light-rail line when in fact they wouldn’t have been built, at least not in that form, without the housing subsidies.

It is clear that the low-income housing tax credit program is not accomplishing its goals and should be abolished. Voters in general should be suspicious of ballot measures that would supposedly fund low-income housing but really fund transit-oriented developments most of whose housing units will rent at rates that won’t be affordable to families below the poverty line.

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