



October 21, 2016

The Honorable Ron Wyden  
Ranking Member  
United States Senate Committee on Finance  
219 Dirksen Senate Office Building  
Washington, DC 20510-6200

Re: Middle Income Housing Tax Credit proposal

Senator Wyden:

The National Housing Conference appreciates your attention to the challenges of rising housing costs, which afflict a wide range of American households, from people experiencing homelessness to those beginning homeownership. Your proposal for a Middle Income Housing Tax Credit addresses need in a particular and sometimes under-served segment of the housing market, but it also raises practical challenges with potential impacts beyond its intended scope. We therefore write to highlight specific issues in hopes of assisting you as you continue work on this and other housing legislation.

## **I. About the National Housing Conference**

The National Housing Conference (NHC) represents a diverse membership of housing stakeholders including tenant advocates, mortgage bankers, nonprofit and for-profit home builders, property managers, policy practitioners, real estate professionals, equity investors, and more, all of whom share a commitment to safe, decent and affordable housing for all in America. We are the nation's oldest housing advocacy organization, dedicated to the affordable housing mission since our founding in 1931. We are a nonpartisan, 501(c)3 nonprofit that brings together our broad-based membership to advocate on housing issues.

## **II. Markets vary in affordability challenges**

In places of particularly high housing demand, even some middle income households face rising costs and lack of options. As one moves down the income scale, housing challenges mount dramatically and are far more common. Households earning 30% of the area median income(AMI) struggle to afford housing everywhere.

Middle-income housing affordability challenges are localized to places of high cost. Extremely low income housing affordability challenges are nationwide. The chart below compares two metro areas to illustrate: Portland, Oregon and Kalamazoo, Michigan. Portland is a land-constrained city with an urban growth boundary, high incomes, and high demand for housing. Kalamazoo has lower incomes, less demand for housing, and much greater affordability. The data in the chart come from Census household income data and NHC's Paycheck to Paycheck survey of housing affordability.

**Comparison of housing affordability**

Metro area		Portland, OR		Kalamazoo, MI	
Median income		\$63,850		\$ 51,167	
Income needed to afford			% of AMI		% of AMI
	1 BR apt	\$ 40,840	64%	\$ 24,480	48%
	2 BR apt	\$ 48,320	76%	\$ 30,760	60%
	Homeownership	\$ 84,970	133%	\$ 32,919	64%
	30% AMI	\$ 19,155		\$ 15,350	
	60% AMI	\$ 38,310		\$ 30,700	
	80% AMI	\$ 51,080		\$ 40,934	

Additional metro areas appear in Attachment 1

For a median income household in Portland earning \$63,850 per year, a one or two bedroom apartment at HUD's Fair Market Rent is affordable, meaning that the household would pay less than 30% of its income for rent. The two bedroom apartment becomes cost burdensome when the household's income drops below 76% of AMI, and the one bedroom is cost burdensome below 64% of AMI. Homeownership is well out of reach even for a median income household, however, suggesting that homeownership options should be part of the middle income affordability response along with rental. In some neighborhoods of Portland, like Central City or Northwest, costs are much higher, but in others rents are much lower. Metro-wide figures necessarily obscure some of these differences.<sup>1</sup>

In Kalamazoo, both homeownership and rental options are affordable for a median income household, and a household just below 50% of AMI can still afford a one bedroom unit. By contrast, a household at 30% of AMI, earning just \$15,350 per year, could not afford even a one bedroom apartment.

Many communities nationwide have a similar profile to Kalamazoo, where the market serves the median household reasonably well but fails to serve much poorer households. The expanded chart in Attachment 1 presents the same analysis for a selection of additional metro areas. It shows cost burdens for 80% AMI renter households in a few places like Boston, Miami, and New York City, and homeownership affordability challenges for median income households in many more places. Extremely low income households struggle in all of the metro areas shown.

<sup>1</sup> Additional detail on Portland's rental housing affordability is available from Portland Housing Bureau, *State of Housing in Portland*, October 2015, <https://www.portlandoregon.gov/phb/article/546056>.

### III. Local action is essential to expanding housing affordability

Housing subsidies are essential to creating sufficient new housing supply for households of low income. Subsidy alone, however, cannot make up for swiftly rising costs. Without local and state action to reduce the cost of creating and preserving housing, subsidy alone will be insufficient. Chasing rising housing costs with finite federal resources is a losing race.

The consensus about the need for local and state action to control costs cuts across partisan and ideological divides. Recent reports from the American Enterprise Institute, the White House, Harvard's Joint Center for Housing Studies, and NHC's own research, among many others, all point to the centrality of local land use to promote smarter denser growth, more efficient zoning and permitting, reducing NIMBY opposition, and otherwise encouraging affordability at the local level.<sup>2</sup>

Federal resources will go farther if they accompany state and local actions to reduce the cost of creating and preserving affordable housing. Federal resources that flow to places that do not help to rein in the rising cost of housing will have less and less effect over time.

### IV. Existing programs can expand and adapt

As your office considers legislative options to address housing affordability, we encourage you to examine options for expanding and adapting existing housing programs like the Low Income Housing Tax Credit and the Housing Choice Voucher program. Small modifications can improve the reach and flexibility of proven mechanisms. We highlight two examples here and would gladly explore others in conversation with your staff.

#### A. LIHTC income averaging and expansion

The Low Income Housing Tax Credit (LIHTC) creates and preserves rental housing for people earning 60% of AMI or less. Over 30 years, the LIHTC has a track record of nearly 3 million affordable apartments, strong property performance, and committed private sector investors who help the properties succeed. With the expansion of resources and programmatic improvements your office is already supporting in the Affordable Housing Credit Improvement Act of 2016 (S. 3237), the LIHTC could serve a wider range of incomes and ease supply pressure in high-cost markets.

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<sup>2</sup> Edward J. Pinto, Thomas W. White, Charles S. Wilkins, "Economical Rental Housing by Design for Communities That Work," American Enterprise Institute, September 29, 2016, <https://www.aei.org/publication/economical-rental-housing-by-design-for-communities-that-work/>. The White House, "Housing Development Toolkit," September 2016, [https://www.whitehouse.gov/sites/whitehouse.gov/files/images/Housing\\_Development\\_Toolkit%20of.2.pdf](https://www.whitehouse.gov/sites/whitehouse.gov/files/images/Housing_Development_Toolkit%20of.2.pdf). "America's Rental Housing – Evolving Markets and Needs." Joint Center for Housing Studies of Harvard University, 2013, [http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs\\_americas\\_rental\\_housing\\_2013\\_1\\_0.pdf](http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf). Lisa Sturtevant, "Separating Fact from Fiction to Design Effective Inclusionary Housing Programs," National Housing Conference, May 12, 2016, <http://www.nhc.org/2016-fact-and-fiction>.

The income averaging provision in S. 3237 in particular would allow LIHTC properties to serve households up to 80% of AMI as long as the property also serves households of lower income such that the weighted average of households remains below 60% of AMI. In places of high cost, this added flexibility would assist more households further below the 60% AMI range and while creating more mixed-income housing. In places of lower cost, LIHTC properties could operate just as they do now, or they could use income averaging to improve occupancy if there were limited number of 50-60% AMI potential residents. The attached handout illustrates in more detail how income averaging could improve the reach of the program without increased cost to the federal government.

### **B. Expansion of housing vouchers**

The Housing Choice Voucher program provides households with portable rental assistance for housing in the private market. It serves primarily very low income households, including families with children, veterans, seniors, people experiencing or at risk of homelessness and people with disabilities. Because vouchers are administered by local public housing authorities, they can target particular community needs that vary from place to place.

Vouchers have proven their effectiveness at relieving housing cost burden and empowering families to succeed, most recently documented in HUD's interim report from the Family Options Study.<sup>3</sup> However, budget cuts over the past several years have put the program at \$228 million below its 2010 funding level in real terms.<sup>4</sup> Of all the households eligible for housing help in America, only 25% actually receive help. Expanding funding for vouchers would be a quick and direct method to relieve housing cost burdens for the most vulnerable residents, especially in high-cost places.

## **V. Federal housing resources require setting priorities**

All else equal, a proposal to add \$4-5 billion of new federal capital assistance for rental housing would be welcome, but we believe it should flow through proven mechanisms like the Housing Choice Voucher program and the Low Income Housing Tax Credit.

In an era of scarce federal resources and strong budget pressures, proposals for new programs necessarily face the immediate question of how to pay for them. A new tax credit proposal will naturally compete with the effort to expand the LIHTC, fund the National Housing Trust Fund, or sustain the HOME Investment Partnerships program, all of which are targeted at lower-income households. If the latter were cut to fund the former, that would be a net transfer of resources from greater need to lesser need—on balance a poor outcome.

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<sup>3</sup> Department of Housing and Urban Development, *Family Options Study*, [https://www.huduser.gov/portal/family\\_options\\_study.html](https://www.huduser.gov/portal/family_options_study.html).

<sup>4</sup> Center on Budget and Policy Priorities, "Chart Book: Cuts in Federal Assistance Have Exacerbated Families' Struggles to Afford Housing," April 12, 2016, <http://www.cbpp.org/research/housing/chart-book-cuts-in-federal-assistance-have-exacerbated-families-struggles-to-afford>.

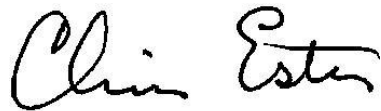
A secondary program risk is that subsidy mismatched to need can lead to property failures. In places without exceptionally high demand, a surplus of available middle income capital subsidy could result in properties that cannot meet operating targets. Even one high-profile example of a partly, occupied or blighted property with millions in public subsidy could tarnish not only the middle income program but affordable housing more generally.

Simply put, the scarcity of federal resources relative to the need demands that we all be careful stewards, as we know you and the other members of the committee strive to be.

## VI. Conclusion

NHC is pleased to see your office focusing on housing need. The gaps in housing assistance for middle income households in places of exceptional housing cost are a challenge that demands creative solutions for renters and homeowners. We request a meeting with your staff to discuss potential solutions further, and we offer our assistance as you continue your efforts.

Sincerely,



Chris Estes  
President and CEO

**Attachment 1: Housing affordability at median income in selected metro areas**

Metro area	Portland, OR	Kalamazoo, MI	Seattle, WA	Salt Lake City, UT	Des Moines, IA	Boise, ID	Denver, CO	
Median income	\$ 63,850	\$ 51,167	\$ 75,331	65,792	\$ 62,024	\$ 51,925	\$ 70,283	
Income needed to afford	% of AMI		% of AMI		% of AMI		% of AMI	
1 BR apt	\$ 40,840	\$ 24,480	\$ 49,000	\$ 30,280	\$ 27,280	\$ 24,680	\$ 38,600	
2 BR apt	\$ 48,320	\$ 30,760	\$ 60,920	\$ 37,520	\$ 33,760	\$ 31,560	\$ 49,080	
Homeownership	\$ 84,970	\$ 32,919	\$ 111,136	\$ 72,027	\$ 47,831	\$ 64,712	\$ 92,848	
30% AMI	\$ 19,155	\$ 15,350	\$ 22,599	\$ 19,738	\$ 18,607	\$ 15,578	\$ 21,085	
60% AMI	\$ 38,310	\$ 30,700	\$ 45,199	\$ 39,475	\$ 37,214	\$ 31,155	\$ 42,170	
80% AMI	\$ 51,080	\$ 40,934	\$ 60,265	\$ 52,634	\$ 49,619	\$ 41,540	\$ 56,226	

Metro area	Topeka, KS	Miami, FL	Dallas, TX	Wilmington, DE	Sioux Falls, SD	Charlotte, NC	Toledo, OH	
Median income	\$ 51,674	\$ 50,441	\$ 61,644	\$ 56,778	\$ 59,844	\$ 54,836	\$ 47,093	
Income needed to afford	% of AMI		% of AMI		% of AMI		% of AMI	
1 BR apt	\$ 21,760	\$ 39,000	\$ 31,840	\$ 40,120	\$ 23,720	\$ 29,800	\$ 21,240	
2 BR apt	\$ 29,080	\$ 50,000	\$ 39,440	\$ 48,400	\$ 29,800	\$ 34,560	\$ 27,800	
Homeownership	\$ 31,259	\$ 80,665	\$ 68,370	\$ 37,421	\$ 49,687	\$ 54,021	\$ 31,231	
30% AMI	\$ 15,502	\$ 15,132	\$ 18,493	\$ 17,033	\$ 17,953	\$ 16,451	\$ 14,128	
60% AMI	\$ 31,004	\$ 30,265	\$ 36,986	\$ 34,067	\$ 35,906	\$ 32,902	\$ 28,256	
80% AMI	\$ 41,339	\$ 40,353	\$ 49,315	\$ 45,422	\$ 47,875	\$ 43,869	\$ 37,674	

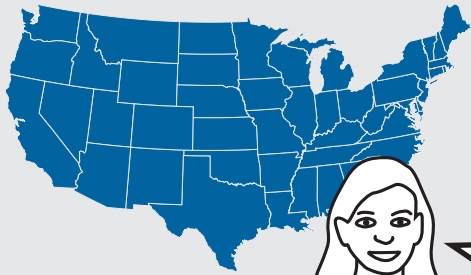
Metro area	New York, NY	Boston, MA	Richmond, VA	Pittsburgh, PA	Las Vegas, NV	Indianapolis, IN
Median income	\$ 68,743	\$ 78,800	\$ 60,713	\$ 54,080	\$ 51,552	\$ 54,322
Income needed to afford	% of AMI		% of AMI		% of AMI	
1 BR apt	\$ 54,280	\$ 50,440	\$ 33,400	\$ 26,280	\$ 31,240	\$ 26,040
2 BR apt	\$ 62,840	\$ 62,680	\$ 38,640	\$ 33,080	\$ 38,720	\$ 32,360
Homeownership	\$ 113,949	\$ 103,258	\$ 56,271	\$ 36,576	\$ 58,804	\$ 34,888
30% AMI	\$ 20,623	\$ 23,640	\$ 18,214	\$ 16,224	\$ 15,466	\$ 18,214
60% AMI	\$ 41,246	\$ 47,280	\$ 36,428	\$ 32,448	\$ 30,931	\$ 36,428
80% AMI	\$ 54,994	\$ 63,040	\$ 48,570	\$ 43,264	\$ 41,242	\$ 48,570

Blue indicates affordable to household at median income  
 Red indicates cost burdensome to household at median income  
 Affordability percentage 30% of income

10/12/2016

Sources: National Housing Conference Paycheck to Paycheck 2016 data on housing affordability  
 Census Bureau's American Community Survey 2015 data on median household income for metropolitan statistical areas

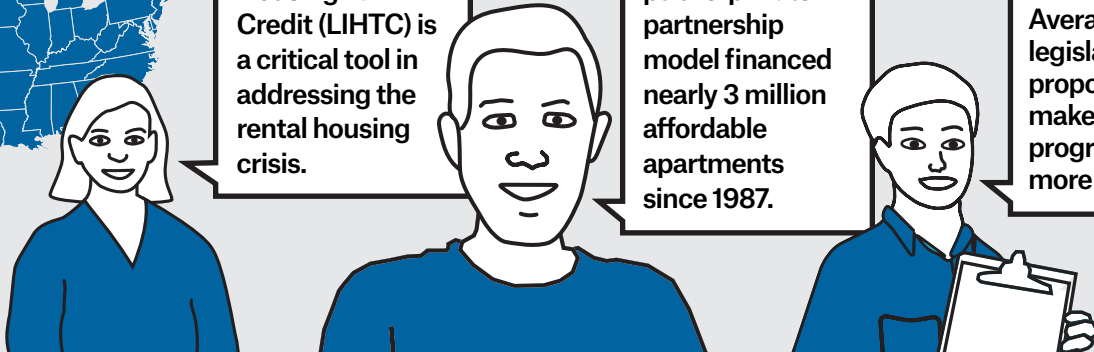
# LIHTC Income Averaging



The Low-Income Housing Tax Credit (LIHTC) is a critical tool in addressing the rental housing crisis.

LIHTC's public-private partnership model financed nearly 3 million affordable apartments since 1987.

A new LIHTC Income Averaging legislative proposal can make the program even more effective.



**Current LIHTC rules** limit eligibility to families earning 60% of Area Median Income (AMI) and usually rely on other capital or rental assistance programs to serve extremely low-income individuals like seniors, people with disabilities, and those who have experienced homelessness.

- Household Income Limit  $\leq$  60% AMI
- Usually serves 54-60% AMI absent other subsidy
- Limits income diversity in affordable buildings

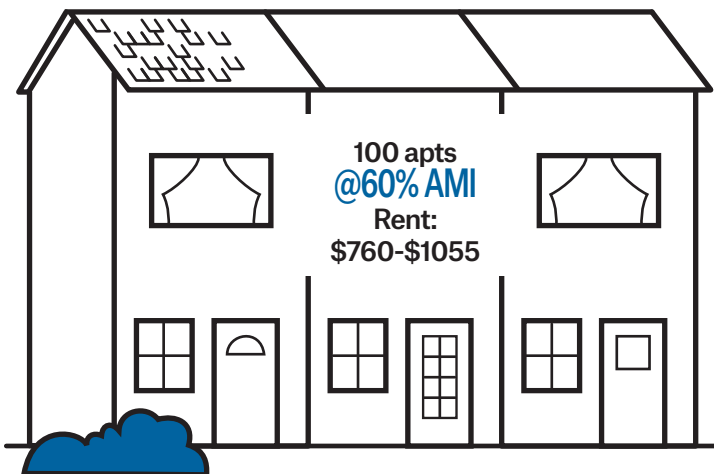
**Proposed LIHTC income averaging rules** increase flexibility to serve households across the low-income spectrum in buildings with mixed incomes.

- Household Income Limit  $\leq$  80% AMI
- Average Household Income Limit  $\leq$  60% AMI (average income of all tax-credit units in building)
- Greater ability to cross-subsidize for deeper affordability
- Optional program component for markets that need it

## How Income Averaging Will Work

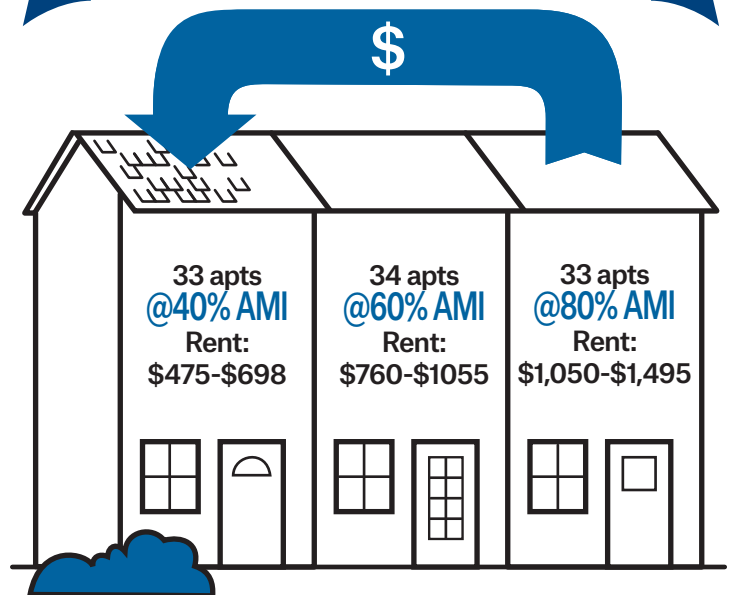
(in the same 100-apartment development)

CURRENT RULES



A typical LIHTC development with 100 apartments

WITH INCOME AVERAGING



Higher rent apartments cross-subsidize very low-income apartments

Note: Rents are based on Denver metro area tax credit rents for a mix of apartment sizes (1, 2 and 3 bedrooms)

# Who would LIHTC Income Averaging Help?

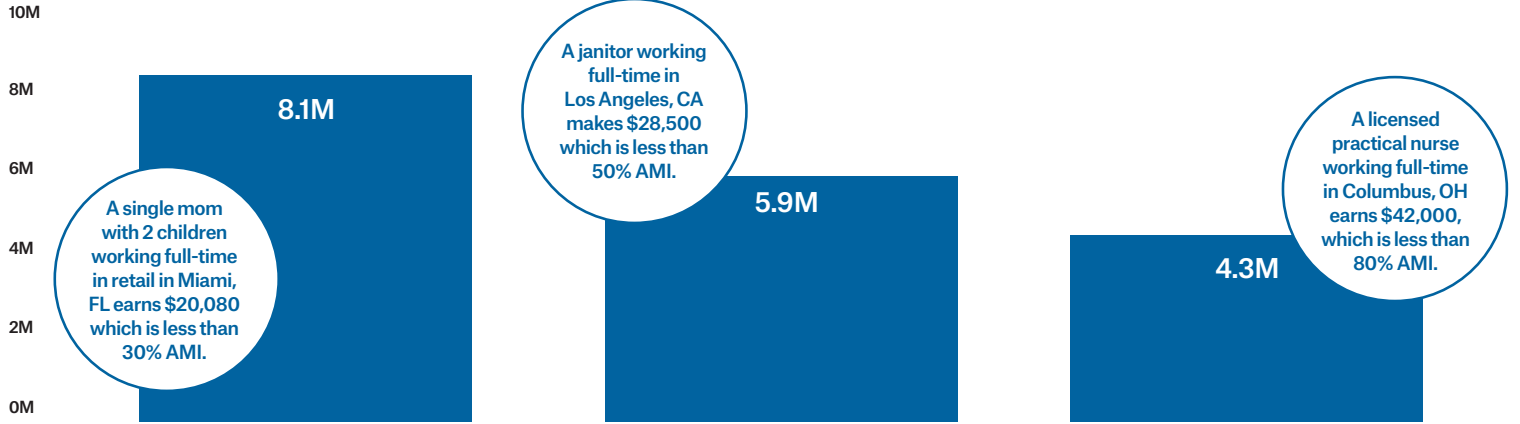
20.1 million working renter households are rent-burdened in the U.S. (Paying more than 30% of income on housing)

HUD  
Income  
Categories

## Extremely Low Income (≤30% AMI)

## Very Low Income (>30% AMI, ≤50% AMI)

## Low Income (>50% AMI, ≤80% AMI)



Source: NHC's 2016 Housing Landscape Report

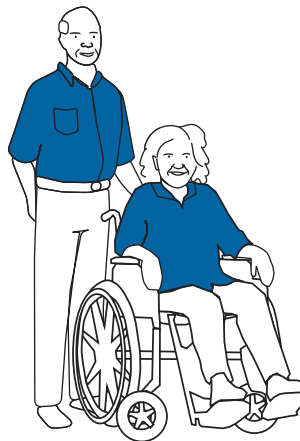
# Real Families Who Could Qualify With Income Averaging



### Young Family.

A single mom raising her two school-aged children works in a full-time job as a home health aide, dedicated to caring for the elderly in Columbus, OH. At present, she makes too little to afford a tax credit apartment in her hometown.

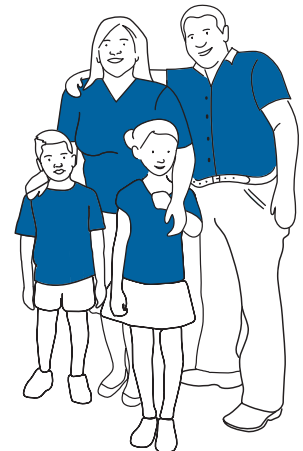
Household income: \$26,198  
40% AMI



### Disabled Household.

The husband of this family in Miami, FL is working as a security guard while his wife is currently unable to work. They make too little to afford a tax credit apartment.

Household income: \$27,244  
40% AMI



### Rent Burdened Family.

A family of four struggles to afford rent in Los Angeles, CA even with two full-time working parents supporting two young children. The dad works as a groundskeeper and the mom works as a receptionist in a local business.

Household income: \$68,602  
80% AMI

Source: NHC's 2015 Paycheck to Paycheck report

The Low Income Housing Tax Credit is a successful program with bipartisan support.

Let's make it even more effective by enacting Congressional legislation for Income Averaging.



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