Stateline

# Here's One Way States Are Boosting Affordable Housing

STATELINE ARTICLE

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Visitors tour an open house at an affordable housing community in Phoenix, Ariz., in 2019. Arizona is among the states looking for ways to boost affordable housing options as rents increase nationwide.

Ross D. Franklin / The Associated Press

Brian Swanton is the president of Gorman & Company, a development firm that builds and manages low-income housing nationwide, including some 2,000 affordable housing units in Arizona, where he is based.

The demand for such apartments greatly exceeds the supply. Every year, Swanton said, managers of his properties turn away thousands of families who want to rent units, because there's none available. During the coronavirus pandemic, the waiting list in Arizona has grown to more than 10,000 people, up from a few thousand before March 2020.

"We've never seen waiting lists this long, but there's just not enough units available," Swanton said. "And we have the capacity to do more, we just don't have the resources."

Nationwide, there is a shortage of some 7 million rental homes that are affordable to the lowest income households, according to an annual report released in October by the Public and Affordable Housing Research Corporation and the National Low Income Housing Coalition.

By 2031 that number could be closer to 8 million, as rent restrictions expire on some 745,000 homes where, because of federal programs, tenants pay less than market rent. That means landlords would be able to rent the homes at market rates, putting them out of reach for many low-income families, according to the report.

In response, a handful of states are debating whether to join the 23 that already offer state tax breaks to developers willing to construct low-income housing. The state programs are designed to supplement the federal Low-Income Housing Tax Credit program, known as LIHTC, which was created in 1986.

Under the federal LIHTC program, which is jointly administered by the IRS and state housing agencies, private developers compete for federal tax credits, which they generally sell to private investors. The influx of cash makes it profitable for them to build units they can rent at below-market rates, which they are required to do for 15 to 30 years.

The federal LIHTC is estimated to cost the government an average of about $10.9 billion annually, according to a 2021 Congressional Research Service report. In 2020, some 2.48 million homes were supported by the program.

At least five states—Iowa, Kansas, Kentucky, North Carolina and Ohio—have pending legislation that would establish state versions of the program. A bill introduced in Mississippi failed Feb. 23. Pushed by Swanton and other affordable housing advocates, Arizona last year became the latest state to create a state program.

"The demand was just outrageous, and the federal credit program isn't keeping up with demand, so we thought the state credit program was needed in Arizona," Swanton said.

Arizona's new program went into effect this year, and the state's housing agency received its first round of applications a few weeks ago.

Swanton's company is seeking federal and state credits for a two-phase, $90 million project that would add some 400 affordable housing units for extremely low-income people in Glendale, Arizona. The state's tax credit program would provide about $6 million in credits over four years, while federal tax credits would total about $20 million over 10 years for each phase, according to Swanton.

## Looming Expiration

The owners of federal LIHTC properties are supposed to maintain affordability for 30 years, but the federal government can recapture the credits only during the first 15 years of that period. After that, owners of LIHTC properties can ask for permission to exit the program and convert their properties to market-rate units.

The federal LIHTC program is more than 35 years old, so many projects that received the credits early on are nearing the end of their affordability restrictions. The owners of properties that outlive their tax credits can reapply and use the money to fix up or invest in their properties, but they must compete against new projects for the credits.

Between this year and 2031, it is expected that more than 500,000 LIHTC-assisted homes will reach the end of their affordability restrictions, according to the Public and Affordable Housing Research Corporation. Kelly McElwain, a senior research analyst at the group, said older properties that have not received new subsidies in the past 20 years are most likely to convert to market rates.

Some analysts think that many tax credit properties will continue to offer relatively affordable rents in the private market after subsidies expire. Swanton of Arizona said three or four of his firm's properties expire every year, and most stay affordable because they are older units.

"But our whole purpose, from the day we were founded to today, is investing in community development and improving neighborhoods," Swanton said. "That's not always the case in a for-profit enterprise."

Housing advocates note that large private equity firms have been buying up tax credit properties that are near their expiration dates, counting on a windfall once they can charge market rents.

A recent analysis by *The Washington Post* of the top 40 U.S. metro areas found investors bought nearly 1 in 7 homes last year, the most in at least two decades. Those purchases came at a time when would-be buyers across the country saw wildly escalating prices, according to the February report.

"The current concern is what is their long-term intent," said Andrew Aurand, vice president for research at the National Low Income Housing Coalition. "Are they purchasing all these tax credit properties because they think they're in locations that they can flip them out of the affordable housing market and into the private market at higher rents? Or is their intention to keep them affordable housing? We don't know."

## State Programs

Ruby Dhillon-Williams, assistant deputy director of housing and community development for the Arizona Department of Housing, said her state has a critical need for affordable housing in rural areas and for rental properties close to health care providers.

Every year, she said, the federal government gives Arizona tax credits worth between $20 million and $22 million through the federal LIHTC program. The state then awards the credits to about a dozen projects, with about half of those that apply each year missing out. Under the new state program, Arizona each year will hand out additional credits worth $4 million annually.

"Having this resource available is just an incentive to drive this program to the next level," Dhillon-Williams said. "It might be small compared to other state programs, but we're just excited to have an opportunity to get anything out."

Similar state low-income tax credit programs also exist in Arkansas, California, Colorado, Connecticut, D.C., Georgia, Hawaii, Illinois, Maine, Massachusetts, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, South Carolina, Utah, Vermont, Virginia and Wisconsin.

Colorado has been one of the most successful at leveraging state tax dollars to expand affordable housing. Since 2014, Colorado's program has helped support the development and preservation of some 8,200 affordable housing units across the state, according to Jerilynn Francis, director of marketing and community relations at the Colorado Housing and Finance Authority, the nonprofit overseeing the state and federal programs.

But Colorado also illustrates the limits of the tax credits: It continues to rank among the worst states for housing extremely low-income renters, according to the latest report of available affordable rental housing by the National Low Income Housing Coalition. Extremely low-income renters are those whose household incomes are at or below the poverty guideline or 30% of their area median income.

Nationwide, only 37 affordable and available rental homes exist for every 100 extremely low-income renter households, according to the coalition. Colorado is below the national average, with 30 rental homes for every 100 extremely low-income renter households. Nevada, California and Oregon ranked the lowest with 20, 24 and 25, respectively.

Nearly 1 in 4 Colorado households is extremely cost-burdened, paying 50% or more of its income toward rent, according to the Colorado Housing and Finance Authority.

Francis said Colorado has enough money to fund only about half the projects that are submitted by developers every year.

"There are still significant affordable housing needs in our state," Francis said. "This program really helped us close that gap a little more."

In Kentucky, Republican state Rep. Randy Bridges said he is sponsoring a state tax credit bill to create jobs and address the housing shortages worsened by recent tornadoes that struck the western part of the state, where his district is located.

There's a deficit of nearly 78,000 affordable housing units for people earning extremely low incomes in Kentucky, according to the National Low Income Housing Coalition. State officials estimate at least 2,000 homes were destroyed when four tornadoes touched down in western Kentucky last month, according to the *Louisville Courier Journal*.

Bridges' bill, which has bipartisan support, would allocate $12.5 million each year in tax credits, sunsetting after five years.

"Big companies looking to move to Kentucky look at several different factors—quality of life, the inventory of employees—and they also look at housing inventory," Bridges said. "And if there's not enough adequate housing, an employer might have to look somewhere else."

Swanton, the Arizona developer, said his company has built more than 100 affordable housing projects across the United States. In Colorado, Georgia and Wisconsin, his company has received state tax credits.

"States that don't have a state low-income housing tax credit program are falling behind," Swanton said. "When you ignore the problem and don't invest in the need for housing, you