What is Affordable Housing?: LIHTC/Affordable Housing Requirements & Guidelines

At The Annex Group we are working to ensure everyone has access to a home that is a catalyst for both personal and community growth. We firmly believe that a place to call home should be a necessity.

Affordable housing is absolutely foundational to thriving communities.

However, there are a variety of myths and misconceptions about affordable housing. This is what you need to know.

Modern affordable housing attracts a wide, diverse range of residents and is built of quality that matches – and sometimes exceeds – that of market-rate housing. On top of that, affordable housing can be a much-needed boost to the local economy, including neighborhood businesses.

Unlike luxury properties with occupancy rates that fluctuate with the economy, affordable housing rentals remain steady.

What is affordable housing?

In the United States, "affordable housing" is housing, rent or a mortgage plus utility payments, totaling 30% or less of a household's gross income. Households required to pay more are considered "cost-burdened" and therefore may have difficulty paying for and affording other necessities such as transportation, food, clothing, and medical care.

Affordable housing can provide modern affordable apartments that are located conveniently to workplaces, grocery stores, public transportation and recreation. They often mean access to additional community resources, such as referrals to food and clothing pantries, financial literacy training, credit counseling, employment services, etc. And you'll also find that modern amenities are included in many affordable housing developments just like their more expensive counterparts, such as playgrounds, walking trails and shared community spaces.

Low-Income Housing Tax Credits (LIHTC)

Created in 1986 and administered by the Internal Revenue Service (IRS), the Low Income Housing Tax Credit (LIHTC) program is the largest source of new affordable housing in the United States. Today there are about 2,000,000 tax credit units—a number that continues to grow by an estimated 100,000 annually.

The LIHTC program does not provide housing subsidies. Instead, the program **provides tax incentives**, written into the Internal Revenue Code, **to encourage developers to create affordable housing,** according to data from the National Housing Law Project, NHLP. These tax credits are provided to each state based on population and are distributed to the state's designated tax credit allocating agency. In turn, these agencies distribute the tax credits based on the state's affordable housing needs with broad outlines of program requirements from the federal government. This is done through the Qualified Allocation Plan (QAP) process.

On their own, tax credit subsidies provide a moderate level of affordability through rent restrictions. However, many units or tenancies are subsidized through additional sources of federal or state funding, which allow for deeper affordability to lower-income families.

Affordable Housing Requirements and Guidelines

Low income housing tax credits (LIHTCs) are provided to the owners of rental properties to finance construction or substantial rehabilitation of rental properties. In return, *property owners must maintain federally set income and rent restrictions for a minimum of 30 years.*

The tax credits are taken over a period of 10 years, and are determined based on the construction or rehabilitation costs of a rental property so that the present value of the tax credits are equal to either 30 or 70 percent of these costs.

Owners can obtain the tax credits either through a HFA- administered process, or through the use of state-issued private activity bonds. Owners may begin claiming the tax credits after the property is placed in service and the administering state HFA has confirmed the property is in compliance with IRS regulations.

How the LIHTC Program Works

Here is a short breakdown of how the LIHTC program works, according to the National Housing Law Project.

1. A fixed amount of tax credits are allocated by the IRS to each state-based population.
2. State housing agencies allocate the credits to developers based on a state-designed application process and pursuant to the goals laid out in the Qualified Action Plan (QAP).
3. Two types of tax credits are available: 9% (which is often competitive) and 4% (which is often combined with state bond financing).
4. The developers who have been awarded the credits sell the credits to investors. This creates cash equity which provides a significant portion of the funds the developers need to develop affordable housing. A 9% tax credit raises about 70% of the cost of a development and a 4% credit raises about 30% of the cost of a development.
5. The developers build the housing and agree to rent the housing at an affordable rent that is usually below market. This is called a use restriction. Developers have a choice of two use restrictions (although some states require or give preference to projects with even deeper subsidies):
    1. >20% of the units occupied by tenants @ <50% AMI (Area Median Income), **or**
    2. >40% of units occupied by tenants @ <60% AMI
6. For properties developed between 1986 and 1989, the use restrictions last only 15 years. Post-1989 developments have at least 30-year use restrictions and some states require up to 55 years.

Getting Started in the Affordable Housing Development Process

Affordable housing matters because having a place to call home can improve the quality of life for any person – whether they are renting, utilizing affordable housing, or owning a home. Everyone deserves to have quality housing that they can afford available to them.

To learn more about The Annex Group, affordable housing development, or our affordable housing portfolio, contact us today to get started.