Enterprise LISC

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Affordable Housing for Families and Neighborhoods:

The Value of Low-Income Housing Tax Credits in New York City

Thanks and Acknowledgements

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LISC combines corporate, government and philanthropic resources to help nonprofit community development corporations revitalize distressed neighborhoods. Since 1980, LISC has raised more than $9.6 billion to build or rehab more than 252,000 affordable homes and develop 38 million square feet of retail, community and educational space nationwide. LISC support has leveraged nearly $30 billion in total development activity. For more information, visit www.lisc.org.

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Executive Summary

Since the late 1980s, the federal Low-Income Housing Tax Credit (LIHTC) has acted as an engine of affordable housing production, building about 2 million high-quality units that rent for amounts working families can afford to pay. Organizations working to improve conditions in low-income communities have also used the program to revitalize hundreds of once-downtrodden neighborhoods. Drawing on the program's experience in New York City, this report joins a growing body of technical research examining the tax credit's value to communities and low-income families nationwide.

To carry out this research, the Local Initiatives Support Corporation (LISC) and Enterprise Community Partners (Enterprise) commissioned New York University's Furman Center for Real Estate and Urban Policy (Furman Center) to assess the effects of LIHTC projects throughout New York City on property values, which reflect the market's assessment of neighborhood quality. LISC and Enterprise staff and consultants followed up this broad statistical analysis with in-depth interviews in two sample housing developments in the Bronx. Findings from this research include:

- Families paying affordable rents averaging $290 per month less than market rates more than doubled their discretionary income by 77 percent, putting them in position to buy health insurance, pay down debt, or amass savings to pay for education or buy a home. The total monthly benefit for one of the examples, which includes 46 units in four buildings, is $13,340 – translating into an 8 percent immediate annual "return" on the original $2.1 million investment.

- A cluster of developments in the Belmont commercial area in the Bronx boosted estimated local purchasing power by about 5 percent, contributing to the retail vitality of the neighborhood and the availability of goods and services to residents.

- Throughout New York, project investments produced a significant increase in property values, reducing the difference in the value of properties that were located near the LIHTC projects and those that were farther away. On average, that gap was closed by six percentage points right away, reflecting improved neighborhood quality as perceived in the marketplace. Within five years, the gap decreased by nearly 10 percentage points as revitalization effects took hold. Based on one of the sample developments, the boost in property tax revenues from the newly increased values of nearby properties, if reassessed, would amount to an immediate return of as much as 50 percent on the original housing development investment.

- Statistical results validate community development practice in a number of areas, including the benefits of affordable housing development to lower-income and higher-income neighborhoods alike and the wisdom of clustering smaller projects within neighborhoods instead of concentrating units on one site.

Introduction

Every American family aspires to live in a decent house it can afford, in a community with safe streets, good schools, and attractive public spaces. Unfortunately, millions of low- and moderate-income families across the nation live in housing they cannot afford in neighborhoods that are unsafe and unsightly. That is why nonprofit community developers have dedicated themselves to improving the quality of neighborhoods where low- and moderate-income people live, often beginning with construction or renovation of the affordable housing working families need. Especially when sponsored by organizations founded by community leaders themselves, this housing development is linked to more active policing, diverse and better-quality retail, refurbished parks, and other efforts to improve neighborhood quality.

Most housing in the United States is built by private developers using their own money and funds borrowed from banks. But this housing costs more to build or renovate than lower- and moderate-income people can afford to pay. To make development of affordable units possible, government funding is required. In recent years, much of this financing has been provided by the federal LIHTC program. The 22-year-old program has built or renovated more than 2 million units nationwide.[1]

Through their efforts with the tax credit program and other affordable housing programs, community developers have amassed considerable practical knowledge of the value these investments produce for families and neighborhoods. But the public has every right to demand independent evidence that these major investments actually result in higher-quality neighborhoods and produce real benefits to low-income families. That is why LISC and Enterprise jointly conducted this research, aided by scholars at the Furman Center at New York University. The research relies on data collected from developers and residents of two tax credit housing developments in the Bronx, and statistical analysis of data collected on the prices of homes located near all 660 New York City tax credit developments built between 1987 and 2003.

The Value of LIHTC Housing to Individuals and Families

For many years, the federal government and its state and local partners have supported construction of affordable housing for low- and moderate-income people, who otherwise could not afford to provide stable, high-quality housing for their families. In the period just before the recent real estate downturn, rents escalated out of reach for increasing numbers of renters in New York City and many other areas. Throughout these years, affordable housing provided a crucial economic support, which now becomes even more important as job losses mount.

An increasing body of research points to the considerable value conveyed by residence in affordable apartments. Discounted rents free up dollars people need to buy health insurance, accumulate savings for education or a down payment on a home, or just take the day-to-day pressure off family finances.[2] Children benefit as parents can pay for school supplies, create a less stressful, more nurturing home environment, or remain in their homes, thereby avoiding disruptive moves that pull children from their classrooms.[3]

Two LIHTC housing developments built in the Bronx in the early 2000s illustrate the benefits affordable housing conveys to families.[4] In 2001, the nonprofit Belmont-Arthur Avenue Local Development Corporation completed its Tri-Bel project – a 10-building, 134-unit renovation in neighborhoods west and north of Belmont Avenue. That same year, a small for-profit, socially motivated developer redeveloped three small apartment buildings with a total of 80 units on Creston Avenue.[5] Each of these projects can be thought to have an "impact ring" that extends 1,000 feet (two or three blocks) from the project site itself, as shown in Figure 1. (To simplify the presentation and avoid a clutter of overlapping rings, only one ring is drawn in the figure around each "core" group of Creston Avenue and Tri-Bel project buildings. In the impact analysis described below, rings are created for each building address.)

Researchers analyzed Tri-Bel rent rolls for the 46 units located in four buildings clustered just west of Belmont Avenue (those at the center of the right-hand ring in the figure) to calculate the economic benefit that the tax credit rent subsidy conveyed to project residents.[6] Most residents were employed, but earned poverty-level incomes, averaging only one-third the area median for New York City and the surrounding metropolitan area. But the rents they paid are fully 50 percent below prevailing neighborhood rents.[7] In 2005, residents paid an average $572 per month in rent, which over the course of the first year came to about $6,900, compared with the $10,350 they would have paid on the market.

This rent savings produced a dramatic boost to scarce household discretionary income. Other households with children earning the same average incomes as Tri-Bel residents – $21,900 – spend $17,350 on the essentials – housing, food and clothing – leaving them $4,500 to spend on health care, child care and education, transportation, entertainment, and savings.[8] But the rent discount effectively gave residents a 16 percent raise in their income and increased their discretionary income 77 percent, to an average $8,000 after paying for these essential items. To put this in perspective, this 16 percent increase corresponded to a raise of $1.68 per hour on top of an existing wage of $10.50.

This $290 per month increase in discretionary income affords dramatic relief from everyday financial stress. Throughout financially precarious periods, many low-income households accumulate debts they cannot easily repay; the additional income could enable progress toward financial strength, even to the point of accumulating savings to pay for a home or further education. Alternatively, the additional income enables every resident of the Tri-Bel property to pay for health insurance for themselves and their families. Nearly all Tri-Bel parents earn incomes above

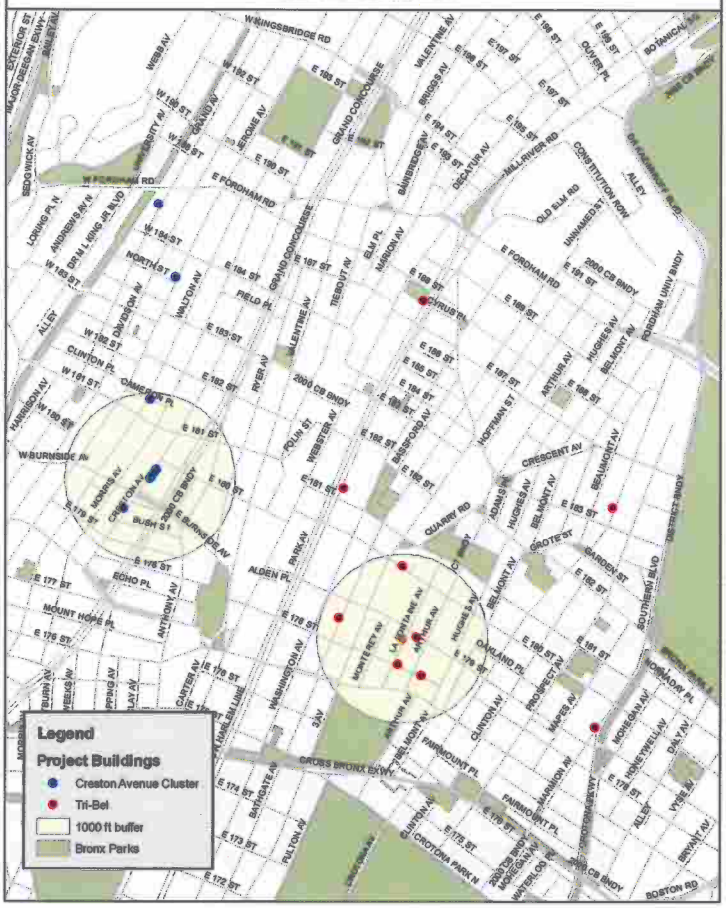
the eligibility cut-offs for Medicaid coverage, although about two-thirds of children appear eligible.[9] The additional $290 could pay the $250 to $300 Healthy New York insurance premiums for a single adult, or more than one-half of the $475 to $525 premiums needed to cover both parents and children in families that are not Medicaid-eligible.[10]

Although residents clearly value the affordable rents and the high quality of their buildings and units, they are not happy with all aspects of their residential situations. Researchers convened a group of eight Tri-Bel residents from two of the buildings to speak about their experiences in the development and neighborhood. Nearly all complained of being annoyed by the behavior of other residents, particularly people without steady employment. Unemployed residents tend to keep different hours than working residents, and sometimes associate with people engaged in illegal activities. Building managers, however, said they worked very hard on the buildings' social environments.

More troublesome, despite the dramatic drop in crimes throughout the 46th precinct surrounding the developments, residents pointed to remaining crime problems in the neighborhood. Between 1990 and 2006, crime rates in the 46th dropped 76 percent across all categories of crime, although the numbers of robbery and grand larceny complaints increased slightly (6 percent and 6 percent, respectively) since 2000-2001 when the developments were placed in service.[11] That said, other crimes that tend to shape popular perceptions of community safety continued their decline: burglaries and auto thefts dropped 47 percent between 2001 and 2006; felonious assaults dropped 26 percent.

Even though signs point toward an increase in the relative quality of project neighborhoods compared to other low-income neighborhoods, crime remains a problem. Although the next section of this paper shows that affordable housing development lends a discernable boost to neighborhood quality, housing alone cannot solve all neighborhood challenges. This is why the most knowledgeable and experienced community developers strive to improve public safety, help people prepare for and obtain jobs, support local schools, expand urban retail, and carry out other initiatives to strengthen the fabric of urban neighborhoods.

Creston and Tri-Belt Credit Project Impact Areas
The Bronx, NYC



The Value of LIHTC Housing to New York City Neighborhoods

As in other cities throughout the United States, lower-income New Yorkers tend to live in areas that are segregated, in effect, from neighborhoods where middle-income and higher-income people live. This isolation of poorer neighborhoods brings a host of other problems in its wake, such as unattractive and sometimes blighted physical surroundings, higher rates of crime, and poor-quality schools. Yet many of these same neighborhoods offer valued family, social, and public supports, fostering residents' loyalty to their communities and commitment to making them better places to live. Community developers – often nonprofit organizations and sometimes private developers – and their public and private supporters aim to create neighborhoods that are both affordable and safe.

Beginning in the mid-1980s, the city of New York through its Department of Housing Preservation and Development began a 10-year housing development program of unprecedented scope, targeting blocks of blighted city-owned buildings for extensive renovation.[12] Funded under what became known as the Ten Year Plan, the Tri-Bel and Creston buildings were the first redevelopment projects in many years in their immediate neighborhoods, which had otherwise suffered the same abandonment, disinvestment and crime as the rest of the Bronx throughout the 1970s and 1980s.

According to Tri-Bel and Creston developers, their staff and long-time neighborhood observers, these renovated buildings sent a powerful signal to residents – as well as developers seeking financially feasible project sites – that the neighborhoods were poised for renewal. New York City policy also called for connecting homeless individuals and families to the services they needed. As formerly homeless residents who occupied the blighted properties received assistance with finding services-enriched housing, the Tri-Bel and Creston buildings underwent a shift in occupancy, away from desperately poor formerly homeless residents, to working individuals and families.[13] What followed was the classic sequence of government and nonprofit-led revitalization: the new visual attractiveness of the buildings, their changes in occupancy and creation of other affordable housing projects have over time spurred renovation and construction of owner-occupied housing in these largely rental neighborhoods. And as the market picked up, privately-financed for-profit projects have followed in the footsteps of nonprofit government-subsidized housing.

Using powerful statistical techniques that adhere to strict social scientific standards and take full account of (or "control for") the generally rising prices in New York City during this period, Furman Center research confirms the perceptions of local observers: these two tax credit development projects indeed seeded market renewal.[14] To show this, they took advantage of the well-known phenomenon of "capitalization." When people decide where to buy a house and

how much to pay, they usually weigh the features of their prospective neighborhood at the same time. This means that the quality of schools, community character, and physical appearance of buildings and public spaces are reflected in the prices people are willing to pay for their homes. Improvements to neighborhoods are signaled by higher home prices.[15]

Both sample development projects demonstrate this capitalization effect. Prior to development of the Tri-Bel buildings, nearby property prices were 6.5 percent below those of properties 1,000 feet away, reflecting the deteriorated condition of the properties themselves and the vacant lots dotted throughout the neighborhood. After renovation, home prices not only closed this 6.5 percent gap, but wound up 12.7 percent higher than more distant properties, for a total increase of 19.2 percentage points. This increase reflects the perceived increase in neighborhood quality *relative to other neighborhoods* that the new units and their occupants produced. Very similar results were achieved on Creston Avenue: the gap between prices of nearby properties and those further away fell by 15 percentage points after completion of the project.

In addition to the improved neighborhood quality as signaled by price increases that grew above and beyond prevailing prices throughout the city, another marker of the public value conveyed by project investment is higher city property tax yields. In any single neighborhood, these effects seem modest, but repeated many times across city neighborhoods, the cumulative effect is substantial.

Based on the Furman Center estimates of nearby property price increases, the $2.1 million tax credit investment in the Tri-Bel development project's four case study buildings[16] alone produced an immediate and lasting boost to total surrounding property values of as much as $22 million, assuming an immediate city re-assessment of values for tax purposes. At prevailing tax rates, and assuming that all properties are owned by private tax-paying owners, this property value increase should produce about $1.2 million in new tax revenue each year, an initial yield of about 50 percent on the tax credit investment.[17] (See Table 1, next page.) In effect, the stream of tax payments in years after initial tax credit investment represents substantial public recapture of the original outlays.

Table 1

Property Tax Revenue Increases Produced by LIHTC Investments in Tri-Bel and Creston Development Projects

	TAX CREDIT PROJECT	
	[illegible]	[illegible]
TOTAL PROPERTY VALUE	$115,740,000	$271,110,000
PROPERTY VALUE INCREASE	$22,222,080	$40,666,500
ANNUAL PROPERTY TAX REVENUE INCREASE	$1,192,792	$2,182,815

Neighborhood improvement effects, similar to those found for Tri-Bel and Creston, have been produced again and again throughout New York City. To study the overall impact of tax credit development projects built around the city, Furman Center researchers analyzed more than half a million property sales in New York City between 1987 and 2003, testing for the average relationship between sales prices and proximity to any of the 660 LIHTC development projects built during that period. What they found confirmed the pattern exemplified by the two Bronx projects; and with such a large sample of development projects, they were able to include even more careful statistical controls for changes in other neighborhood conditions.

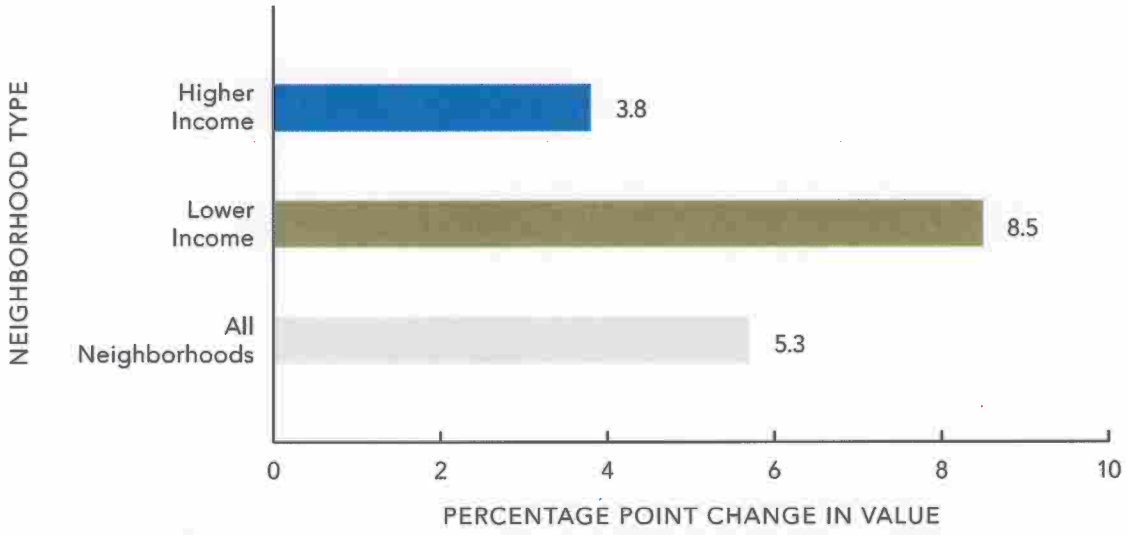
As with Tri-Bel and Creston, buildings and sites chosen for revitalization tended to be in pockets of urban blight. Many of the buildings and sites selected for development were among the tens of thousands of vacant properties acquired by the city because the owners no longer paid taxes on properties they deemed worthless. Reflecting the undesirable features of these locations, property prices were nearly 15 percent lower than those in the surrounding neighborhood. But after completion of tax credit development projects, that gap fell by 6 percentage points almost immediately. (Even as far as two blocks away, the price gap fell by two percentage points.) Moreover, the development projects appear to have unleashed a chain reaction of improvement: within five years, the price gap had closed by nearly 10 percentage points, closing two-thirds of the gap between the property prices before development and the surrounding neighborhood.[18]

The example development projects of Tri-Bel and Creston produced demonstrable results in two very low-income neighborhoods, where more than 30 percent of households were below the federal poverty line in 1999. But the Furman Center's research concludes that new or rehabilitated buildings improve a neighborhood regardless of its income level.

Although payoffs from tax credit investments are higher in poorer neighborhoods than in other areas, even middle-income neighborhoods, despite the common misconception that affordable housing threatens property values, saw upswings in property values immediately after tax credit project development. The same 64-unit project produces a 3.8 percent boost to nearby values in middle-income neighborhoods[19] (where families earned more than $39,000 in 1989), compared to an 8.5 percent increase in lower-income neighborhoods. (See Figure 2, next page.) This also means that creating housing for working families in middle-income neighborhoods

Figure 2

Immediate Increases in Average Home Sales Prices Nearby LIHTC Development Projects in New York City 1986–2003



does not drag down property values, as existing residents sometimes fear. In fact, just the opposite occurs.

From experience, community developers know that affordable housing development projects produce neighborhood benefits. This same experience has enabled community developers to devise strategies to obtain the best results from these developments, often by sizing projects so they fit into their neighborhoods. Furman Center research confirms the wisdom of some of these strategies, commonly used in New York City and elsewhere around the country:

- With average-sized projects, developers achieve the same neighborhood effect whether they renovate buildings or construct new ones. But as development projects get larger, the benefits from rehabilitating already-existing buildings outpace those of constructing new ones, most likely because renovations replace large and blighted properties, whereas new buildings are usually placed on previously vacant lots.
- Although development projects produce benefits even in middle-income neighborhoods, such neighborhoods appear to be more sensitive to the disadvantages that very large buildings sometimes create. Typically, as the number of units in a development project goes up, community benefits tend to go up as well; but in higher-income communities, the opposite is true: smaller development projects do better.
- Community developers sometimes try to cluster smaller development projects within a neighborhood to achieve a market effect. This phenomenon may explain why, for any given number of housing units in a tax credit development project, the neighborhood benefits become greater as these units are divided among multiple buildings, rather than concentrated in just one.

Community developers also seek to connect housing development to other forms of neighborhood improvement. Sometimes this happens directly, as when a building that harbors drug activity is redeveloped as part of a crime-fighting strategy. But these effects also can be indirect, as when introducing new housing units and their occupants into a community increases the overall purchasing power available to support local business. Even if newly affordable housing becomes occupied only by those already living in the neighborhood, total purchasing power increases as residents save money by paying more affordable rents.

To return to the Tri-Bel example, as the buildings' affordable rents boosted discretionary income, some of the increase was certainly captured by retailers in the Belmont commercial area and other neighborhood locations. Rent savings from 90 units in the five Tri-Bel buildings alone generated an additional $313,000 in total annual income. Within one-eighth of a mile of the Belmont commercial district (one common measure of neighborhood trade area size), there are another five tax credit buildings, totaling 320 units. Assuming the same order-of-magnitude boost to buying power estimated for the Tri-Bel project, the total LIHTC-induced increase in resident buying power comes to $1.4 million. This compares with total retail demand within one-eighth of a mile of the Tri-Bel project of about $29 million per year, or a 5 percent increase in total retail purchasing power.[20] These results seem typical: the 932 tax credit units located near three other business districts in the Bronx generate approximately $5 million in new purchasing power, an increase of 2.4 percent over existing demand.[21]

Concluding Comments

Since the mid-1980s, New York City has pursued one of the most ambitious affordable housing development programs ever carried out by a municipal government. To do this, the city has relied on support from many sources, including the LIHTC program. Throughout the city, thousands of tax credit-supported units continue to help parents better support their families and encourage improvements to neighborhoods.

These affordable housing development projects have taken on a new importance in recent months. With the worst economic crisis in a generation beginning to exact its toll on jobs and incomes, affordable tax credit housing lends crucial financial support to struggling families. For this reason, the tax credit program should attract new supporters to partner with affordable housing advocates and community developers struggling to preserve the hard-won gains of the last two decades of work.

ENDNOTES

[1] National Council of State Housing Agencies (NCSHA), 2007 Annual Factbook.

[2] The best overall summary of the value of affordable housing to low-income children and families comes from Steven Jacob and Paul Leonard, *Impact of Affordable Housing on Individuals and Families: Report to the Community* (Impact of Affordable Housing on Children and Families, June 2005).

[3] Two recent reports summarize the various benefits of affordable housing to children, especially benefits pertaining to education. See Maya Brennan, *The Positive Impacts of Affordable Housing on Education: A Research Summary,* and Rebecca Cohen, *The Positive Impacts of Affordable Housing on Health: A Research Summary* (Center for Housing Policy and Enterprise Community Partners, 2007).

[4] To help understand the ways in which projects benefited residents and neighborhoods, LISC staff and consultants conducted a series of interviews in the summer of 2007 with project developers, their staff and neighborhood leaders, such as elected officials, police precinct officers, community organization and social service agency directors, and others. Researchers also held a focus group of eight to 10 development project residents for each of the Tri-Bel and Creston buildings.

[5] These two development projects displayed the strongest statistical effects on surrounding property values from among larger projects completed between 1999 and 2001 for which there were a substantial number of sales within 1,000 feet of the project before and after completion.

[6] To simplify discussion, calculations are based on the 33 households residing in their units from rent-up in 2000 and 2001 through 2007.

[7] Researchers analyzed data from the New York Housing and Vacancy Survey for 2005 to estimate market rents for units at each unit size (defined by number of bedrooms) in the Bronx. The market-wide comparison was limited to renters paying cash rents (excluding people living rent-free), residing in rent stabilized or market rate units (primarily excluding public housing and HUD-subsidized units) in buildings in "sound" condition and constructed after 1990. As an example, renters in two-bedroom units that satisfied these conditions paid a median contract rent of $862. Renters living in the newly renovated Tri-Bel properties and occupying two-bedroom units paid a median contract rent of $572 in 2005.

[8] See Fred Eggers and Fouad Moumen, *Trends in Housing Costs: 1985 – 2005 and the 30-Percent-of-Income Standard* (U.S. Department of Housing and Urban Development, Office of Policy Development and Research, June 2008.) Estimates in the study are based on national figures from the U.S. Department of Commerce, Consumer Expenditure Survey.

[9] Figures are based on figures supplied by the State of New York and the Healthy New York premium rates for Bronx County, found at www.HeathlyNY.com; downloaded September 2008.

[10] Ibid.

[11] Crime figures for the Bronx, New York City, and the 46th Precinct are from NYPD Crime Statistics at www.newyorkcity.us/html/nypd/html/crime_prevention/crime_statistics.shtml. Downloaded October 3, 2007

[12] See Alex Schwarz, "New York City and Subsidized Housing: Impacts and Lessons of the City's $5 Billion Capital Budget Housing Plan," *Housing Policy Debate,* 10:4 839-877 (Washington, D.C.: Fannie Mae Foundation, 1999).

[13] In the Tri-Bel case, households in need of services were relocated to services-enriched housing units.

[14] The Furman Center analysis uses a so-called difference-in-differences approach to determine whether home sales prices near tax credit properties trend higher or lower relative to property price levels and trends further away. Technical details on the statistical approach are available in the Center's unpublished paper, Ingrid Gould Ellen and Ioan Voicu, "The Impact of Low-Income Housing Tax Credit Housing on Surrounding Neighborhoods: Evidence from New York City," available from the authors or from LISC. A published paper drawing on these findings has been written by Ingrid Ellen, Katherine O'Regan and Ioan Voicu, "Siting, Spillovers, and Segregation: A Reexamination of the Low-Income Housing Tax Credit Program," in *Housing Markets and the Economy: Risk Regulation and Policy,* Edward Glaeser and John Quigley, editors (Cambridge: Lincoln Institute of Land Policy, 2009).

[15] These increases are relative to other neighborhoods, and reflect an increase in relative neighborhood quality. That means that even declines in prices, if they are less severe than those occurring in nearby neighborhoods, also signal improvements in relative neighborhood quality.

[16] The $2.1 million figure represents the 46-unit pro-rata share of the $16.1 million in tax credit equity invested in all 134 units. All other public funding is invested in the form of loans.

[17] Following Schwartz et al., we assume property valuations that are 70 percent of sales prices. We then apply the appropriate assessment ratios and tax rates for Class 2 (multifamily) properties to produce estimates of tax revenues generated from the increased values. To roughly estimate unit value, we capitalized area average rents at a rate of 9 percent. For a more carefully constructed analysis, see Amy Ellen Schwarz, Ingrid Gould Ellen, Ioan Voicu and Michael H. Schill, "The External Effects of Place-Based Subsidized Housing," (NYU, Law and Economics Research Paper No. 05-05 and NYU Law School, Public Law Research Paper No. 05-03, March 2005). Available at SSRN: http://ssrn.com/abstract=720103 or DOI: 10.2139/ssrn.720103.

[18] These figures, of course, are averages; not every development project produces these same results.

[19] The $39,000 figure corresponds to 80 percent of the 1989 average family income for the New York City Metropolitan Statistical Area. This year was chosen to reflect program experience throughout the last part of the 1980s and the 1990s.

[20] Estimate is from Retail MarketPlace Profile from ESRI and InfoUSA, Business Analyst Online, downloaded December 17, 2008.

[21] These three are the 161st Street, Southern Avenue, and HUB/3rd Avenue Business Improvement Districts. Purchasing power figures also are from ESRI and InfoUSA Business Analyst Online. See note 19.

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