Research Brief
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INCENTIVIZING AFFORDABLE HOUSING IN HIGH OPPORTUNITY AREAS

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ABSTRACT

Affordable housing is a critical component of providing low-income children with pathways to opportunity. The federal Low Income Housing Tax Credit program (LIHTC) helps fund the development of affordable housing by providing private developers with tax credits in exchange for setting rents at an affordable level. This brief summarizes original research that examined recent policy changes to California's LIHTC program that incentivize affordable housing production in high opportunity areas.

Key takeaways of this work include:

- In 2018, California's LIHTC program adopted policy changes aimed at increasing the production of affordable housing in higher-resource areas that may provide greater opportunity for children.
- Our analysis shows that the policy changes appear to have been effective in increasing proposed and funded family affordable housing developments in higher-resource areas after 2018.
- Comparing the four years before and after these policy changes, the number of funded affordable housing units for families with children in higher resource areas increased by over 60%, from 889 to 1,431.
- Policymakers should work to identify neighborhoods that provide meaningful opportunity for children, identify and address barriers to building affordable housing in higher- resource areas, and work with affordable housing developers to better understand their decision-making processes.

BACKGROUND

Where children grow up affects their future educational, health, and social outcomes. Producing affordable housing in high opportunity neighborhoods is key to providing low-income children with pathways for upward mobility. Today, the predominant way affordable housing developments are funded is through the federal Low Income Housing Tax Credit (LIHTC) program. Private developers apply for tax credits in exchange for setting rents at an affordable level, and through a competitive process, applications are selected to receive tax credit awards.

In 2018, California's LIHTC program introduced policy changes that scored applications for large family developments — intended for families with children — higher if they were located in higher resource areas. Higher application scores increase the likelihood that a project receives tax credits, so this policy change may incentivize developers to propose projects in these areas. Higher resource areas are designated by the state's Opportunity Area Map, which classifies neighborhoods in terms of economic, education, and health/environment indicators.

RESEARCH METHODS

We analyzed all CA LIHTC applications from 2014 to 2021 to understand whether these policy changes increased the share of applications and tax credit awards for large family affordable housing developments in higher resource areas. We compared the share of applications and awards located in higher resource areas in the four years before (2014-2017) and after (2018-2021) the policy changes were introduced. To test whether any increase we observed was due to the policy changes, we compared trends between projects that were eligible for the application point incentives (large family, new construction projects) to all other types of projects. Any changes we may have observed in the location of ineligible projects were not due to the application incentives, so this serves as a benchmark of what might have happened in the absence of the policy changes.

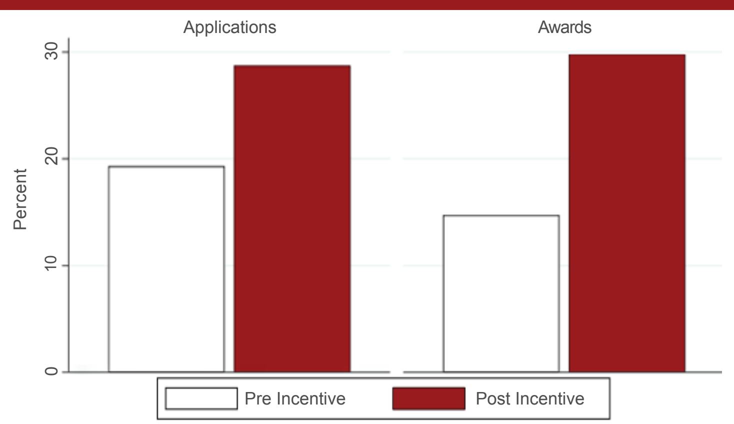
FINDINGS

1. We find that the share of applications for large family developments in higher resource areas increased by 10 percentage points — from 19% to 29% — after the policy changes were adopted. In comparison, the share of projects *ineligible* for application incentives that were located in higher resource areas declined. This suggests that applicants are responding to the policy changes, and in the absence of the application incentives, the share of large family developments in higher resource areas may have declined (Figure 1).

2. We also analyzed trends before and after the policy changes for applications that received tax credits awards — developments that will be built. The proportion of awards for large family developments in higher resource areas doubled, from 15% to 30%, while the share of awards for ineligible projects in higher resource areas did not change (Figure 1).

3. The number of funded affordable housing units in large family developments in higher resource areas increased by over 60%, from 889 in the four-year pre-incentive period to 1,431 in the post-incentive period. These numbers correspond to a 14-percentage point increase (from 12% to 26%) in the share of large family affordable units located in higher resource areas.

FIGURE 1: LARGE FAMILY DEVELOPMENTS IN HIGHER RESOURCE AREAS



Each bar represents the percentage of large family, new construction developments in higher resource areas. The gold bars represent the pre-incentive period (2014-2017) and the cardinal bars represent the post-incentive period (2018-2021). The share of both applications (left) and awards (right) in higher resource areas increased after the application incentives were introduced.

RECOMMENDATIONS

1. Ensure the Opportunity Area Map identifies neighborhoods that meaningfully provide opportunity for children. Our results suggest that the application incentives increased development of affordable housing for families with children in areas that are deemed "high" or "highest" resource by the state's Opportunity Area Map. Measuring opportunity and classifying resource areas accurately and meaningfully is thus very important, though complex and challenging.

2. Identify barriers to building affordable housing in higher resource areas. We find that the share of developments in higher resource areas is slightly higher than the share of units (30% versus 26%). This suggests that developments in higher resource areas have fewer units, perhaps because of local opposition to large developments, limited land availability, or higher costs in these places. Identifying barriers to building in higher resource areas will suggest additional supports or policy changes necessary to increase affordable housing supply.

3. Understand affordable housing developers' decision-making processes. Additional analyses show that most of the shift we observe is due to developers with large portfolios proposing more projects in higher resource areas, rather than more developers proposing projects in these areas. Smaller developers may not have the capital necessary to build in higher resource areas, if costs are higher. Further research is needed to understand how developers decide what and where to build and how application incentives like those studied here factor into their decision making.

For questions or additional information about this work, please contact Dr. Ann Owens, Associate Professor of Sociology and Spatial Sciences and Associate Director of the USC Price Center for Social Innovation at ***annowens@usc.edu***