



Affordable Housing at 60: Insiders Look Ahead Three Decades

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When the Tax Reform Act of 1986 was enacted 30 years ago—Oct. 22, 1986—few thought that the low-income housing tax credit (LIHTC), a small provision in the sweeping legislation, would change affordable housing in America. Yet as it celebrates three decades, the LIHTC is widely viewed as the most successful federal affordable housing program in history, surpassing even the most optimistic views in 1986.

But what will affordable housing look like 30 years from now?

“The future in this business tends to be next week, so it’s hard to wrap your head around the distant future,” said Tom Dixon, vice president, acquisitions at Boston Capital. “[Those in the LIHTC industry are] either working to save the credit, expand the credit or doing our day job.”

Understanding that, we asked six affordable housing experts for predictions about affordable housing in 2046, in the interim and what should be done to bring about the best outcome three decades down the road.

One conclusion: The biggest change could be soon.

“Because the genesis of the program was from the Tax Reform Act of 1986, when we have tax reform in 2017 or 2018, that bill will probably have a big say in how this program and affordable housing are in 30 years,” Dixon said. “That seems like the next big federal event.”

That’s in the near term, but what’s in the future? What will affordable housing look like in 2046, when Justin Bieber turns 52, the first baby boomer turns 100 and the LIHTC (if it’s still around) celebrates 60 years?

Affordable Housing 2046

“My guess is that we’ll see the tax credit program still there, but we need to expand and increase the per-capita allocation for bonds and tax credits,” said Phil Melton, executive vice president at Bellwether Enterprise Real Estate. “We can’t [currently] keep pace with those most in need. I think we’ll see more cities using inclusionary housing, with developers having to use offsets or other ways to support affordable housing. There may be a more collaborative nature, with cities viewing affordable housing and homelessness as key policies to expand their workforce.”

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The idea of expanding workforce housing was common.

“There is a need to address workforce or middle-income housing for incomes between 60 percent and 140 percent of area median income,” said Dixon. “Developing a program modeled off the LIHTC and that could—where appropriate—work with the LIHTC would help address this market while providing public and private-sector discipline.”

Mary Tingerthal, Minnesota Housing commissioner, suggested another approach that might arrive. “Maybe a tool that gives a little more flexibility to build mixed-income communities,” she said. “Not mixed-income buildings, but housing that fits in and provides families with more opportunities.”

Richard Gerwitz, co-head of Citi Community Capital, said he expects more mixed-income housing in 2046, due partly to inclusionary zone requirements. Gerwitz said there will likely be a greater variety of project types, such as shared units with multiple bedrooms and common living areas, legal second units or micro apartments. He suspects that manufactured housing will finally become more cost-effective and will be prevalent in urban and suburban communities.

Jana Cohen Barbe, global vice chairwoman at Dentons, echoed that. “I’m struck by some of the inventiveness in the single-family home environment—like tiny houses and new forms of modular housing,” said Barbe. “I wonder if 30 years from now, we’ll be implementing similar ideas in our industry: maybe large developments of tiny houses used as multifamily rentals.”

Barbe said she expects technology to make a difference. “Affordable housing developments may operate their own energy generators, producing enough energy to run their projects at lower cost—utilizing sources of energy that go well beyond solar panels,” she said. “We may also rely on technology for property management. We

already have family homes managed from a computer panel, but in 30 years, will an entire development be managed from a computer panel?”

Several insiders expect a strengthening of the connection between affordable housing, transportation and social services. Barbe highlighted such things as the ability to work from home and increased child care options as possible changes. Melton sees employment affecting affordable housing in another way.

“I could see corporations moving into communities or expanding their workforce and playing a more active role in finding housing assistance for their employees,” Melton said. “You could see corporations being involved not only through investing in tax credits, but in providing housing assistance or teaming up with apartment communities to provide lease or subsidy payment or support services.”

Development Costs Pose Key Challenge

One trend that concerns nearly all affordable housing insiders is the rising cost of development.

“I worry about the economics of real estate developments and investments generally,” Barbe said. “Interest rates will go up at some point. The combination of higher land values, ever-increasing construction costs and higher interest rates will impact us.”

“We’ve really got to address the cost issue,” Dixon said. “There are some markets where the costs are really out of control and the gap between them and others needs to be addressed. If you find out what’s driving the costs, it helps. It’s putting too much stress on state allocating agencies.”

Barbe hopes for a fix. “I’m not sure of the solution, but we need to put our best minds on the question of how to reduce construction costs,” Barbe said. “We’ve gotten better at designing attractive projects that blend

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with the community around them, but the costs keep escalating. Per-unit costs can be ‘through the roof’ and that is unsustainable.”

What Could Be Done Now

When experts suggested what could be done now to improve affordable housing in 2046, they start with a floor for the 4 percent LIHTC and an increase in 9 percent LIHTC allocations.

“The most obvious is the proposals to expand the credit,” Tingerthal said. “As the need goes up and the demand is higher, the biggest frustration is that the resource is so small compared to the need. The most important thing is to grow.”

“Any tweaks that facilitate increased production would be good,” Dixon said. “Some markets are stressed more than others, but we’ve got unbelievable demand. On the supply side, there’s a tremendous amount of investor demand. Many investors, including those with CRA needs, understand the investment and love the investment.”

Bart Harvey, former CEO at Enterprise Community Partners and Enterprise Community Investment and a board member at Fannie Mae, said he expects that the individual mortgage-interest tax deduction could be vastly modified soon and said affordable housing advocates should fight to see that a portion of the money is reinvested in affordable housing and lower-income first-time home ownership.

“People need to address the mortgage deduction sooner or they’re going to lose it to the Treasury,” Harvey said. “[The question is] whether it goes into housing or something like debt reduction. That’s a conversation that needs to be had.”

In the Interim

Thirty years’ experience teaches that change is constant.

“I think the mix will continue to morph as different parts of the demographics shrink,” Tingerthal said. “We’ve seen homeownership levels stabilize at lower levels and I’m not sure we’ll ever get back, or should get back, to the pre-recession levels. [In 2046,] there will be a lot of renters. Millennials will be middle-aged.”

Harvey points out the changing demographics in America—both the baby boomer and millennial generations are huge, but have different looks: Millennials have a minority majority and less wealth.

“I think the trends will change out of necessity and a different mindset,” Harvey said. “Maybe there will be more community space and smaller units. Affinity groups will be together. There are more lessons to learn.”

Bright Future or Dark Clouds?

“I feel really good about what the industry has accomplished and how the LIHTC has affected lives for the better,” said Barbe. “I’m optimistic about the future. We work in a business comprised of people who are smart and capable impassioned advocates for affordable housing—it’s a formidable combination of talent and drive.”

But some see darker clouds.

“My darker thoughts are that appropriate changes aren’t made and the current morass will continue as it is,” Harvey said. “I think we could see another period of riots that are serious and destructive to the United States. There will be more income inequality and the deterioration of civic life and the answer will be safety at all costs, which means things like more profiling, gated communities and rich versus poor, which won’t end well.”

Regardless, Tingerthal cautioned the industry to beware of being sloppy. The future is coming.

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“It’s important for the affordable housing industry to be extremely vigilant,” she said. “We need to pay attention to cost containment and not allow excesses to be included ... We have to be very cognizant of the image of our portfolio and be held accountable.”◆

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