



NEW LOW-INCOME HOUSING TAX CREDIT PROJECT DATA AVAILABLE

The U.S. Department of Housing and Urban Development's (HUD's) Office of Policy Development and Research has just released an update of the Low-Income Housing Tax Credit (LIHTC) Database to include LIHTC-financed projects placed in service through 2004. The LIHTC Database is the only comprehensive source of information on the federal government's largest subsidy program for the construction and rehabilitation of low-income rental housing. This article provides a brief synopsis of the LIHTC Program, discusses some of the findings from the recently added data, and explains how the public can access the LIHTC Database.

Although HUD has almost no direct administrative responsibility for the LIHTC Program, the LIHTC's importance as a source of funding for low-income housing compels HUD to collect information on this program and provide it to the public. The LIHTC Database serves as a complete list of LIHTC projects and provides a set of basic data on each project within the universe of projects. The database can be used in its entirety or representative samples can be drawn for more indepth analysis. The database is available to the public and used not only by HUD but also by other federal, state, and local government agencies as well as academic and private-sector researchers.

Overview of the LIHTC

The low-income housing tax credit was created by the Tax Reform Act of 1986 as section 42 of the U.S. Internal Revenue Code. The act eliminated a variety of tax provisions that had favored rental housing and replaced them with a program of credits for the production of rental housing targeted to lower income households. Under the LIHTC Program, 58 state and local agencies are authorized, subject to an annual per capita limit, to issue federal tax credits

for the acquisition, rehabilitation, or construction of affordable rental housing. The credits can be used by property owners to reduce federal income taxes and are generally taken by outside investors who contributed initial development funds for a project. To qualify for credits a project must have a specific proportion of its units set aside for lower income households, and the rents on these units are limited to a maximum of 30 percent of qualifying income.¹ The amount of the credit that can be provided for a project is a function of the development cost (excluding land), the proportion of units that is set aside, and the credit rate (which varies based on the development method and whether other federal subsidies are used). Credits are provided for a period of 10 years.²

Congress initially authorized state agencies to allocate roughly \$9 billion in credits over 3 years: 1987, 1988, and 1989.³ Subsequent legislation modified the credit, both to make technical corrections to the original act and to make substantive changes in the program.⁴ For example, the commitment period (during which qualifying units must be rented to low-income households) was extended from 15 years to 30 years.⁵ States were also required to ensure that no more tax credit was allocated to a project than was necessary for financial viability. The LIHTC was made a permanent part of the federal tax code in 1993, and, in 2000, the per capita allocation of credit authority of the states was increased from the original \$1.25 per capita to \$1.50 in 2001, \$1.75 in 2002, and indexed to inflation thereafter.

Since 1987—the first year of the credit program—the LIHTC has become the principal federal subsidy mechanism for supporting the production of new and rehabilitated rental housing for low-income households. The number of units actually developed under the program, however, is difficult to determine. Given the decentralized nature of the program, no single federal source of information on tax credit production exists. Although the Internal Revenue Service (IRS) administers the program, the data on LIHTC projects held by the IRS are oriented toward enforcing the tax code rather than measuring a housing production program. Thus, the IRS is not a potential source for compiling this information. Through competitive application processes in which LIHTC allocation decisions are made, state and local allocation agencies collect more information on the nature of the housing that would be produced by the LIHTC applicants. Therefore, HUD collects the data from these state and local agencies.

Most of the data about the early implementation of the program was compiled by the National Council of State Housing Agencies, an association of state housing finance agencies, the entities responsible for allocating tax credits in most states. HUD and its contractor Abt Associates Inc. have been collecting and publishing the LIHTC Database since 1996. The recent update of the database makes available data on projects placed in service through 2004.

Characteristics of Tax Credit Projects

HUD's LIHTC Database contains data on 25,461 projects and 1,415,431 units placed in service between 1987 and 2004. The best data coverage is available in the 1995-through-2004 period, when data were obtained from all 58 tax credit-allocating agencies and data reporting was most complete. The LIHTC Database contains the following information:

- Project location, including address, county, state, place,⁶ census tract, and latitude and longitude geocodes.
- Contact information for project sponsors.
- Number of total units and credit-eligible units.
- Unit distribution by number of bedrooms.
- New construction or rehabilitation status.
- Credit type (30 or 70 percent of present value).
- For-profit or nonprofit sponsorship status.
- Tax-exempt bond or Rural Housing Service (RHS) Section 515 financing.
- Increased basis due to location in a Qualified Census Tract (QCT) or Difficult Development Area (DDA).
- Year placed in service and year credits were allocated.

Exhibit 1 shows the rates of missing data for the various variables in the database for projects placed in service between 1992 and 2004. The exhibit shows the percentage of projects and units missing

the indicated data elements. For comparison purposes, the exhibit breaks the data into two periods: one representing the best data from an earlier collection effort and one representing the years included in more recent updates. Thanks to the cooperation of the state and local agencies, data coverage for the 1995-through-2004 period is vastly improved over that for the 1992-through-1994 period.

Exhibit 2 presents information on the basic characteristics of LIHTC properties by year placed in service for 1995 through 2004, the period with the most complete data coverage. Placed-in-service projects are those that have received a certificate of occupancy and for which the state has submitted the IRS Form 8609 indicating the property owner is eligible to claim low-income housing tax credits.⁷

On average, almost 1,400 projects and 99,000 units were placed into service during each year of the covered period. LIHTC projects placed in service during this period contained an average of 72 units, with the average size of the properties and, thus, the average number of units increasing over the period. Tax credit properties tend to be larger than the average apartment property. Fully 44 percent of LIHTC projects are larger than 50 units, compared to only 2.2 percent of all apartment properties nationally.⁸

Of the total units produced, most were qualifying units—that is, units reserved for low-income use, with restricted rents, and for which low-income tax credits could be claimed. Overall, more than 95 percent of the total units placed in service from 1995 through 2004 were qualifying units. The distribution of qualifying ratios shows that the vast majority of projects (83 percent) are composed almost entirely of low-income units. Only a very small proportion of the properties have lower qualifying ratios, reflecting the minimum elections set by the program (that is, a minimum of 40 percent of the units at 60 percent of median income or 20 percent of the units at 50 percent of median).

Exhibit 2 also presents information on the size of the LIHTC units based on the number of bedrooms they contain. As shown in the exhibit, on average, the units had 1.93 bedrooms. More than 23 percent of LIHTC units in the study period had three or more bedrooms, compared with only 11 percent of all apartment units nationally and 17 percent of all apartments built between 1995 and 2004.⁹ Over the 10-year period, the distribution of units by bedroom count fluctuated around the average distribution for the period with no clear trends.



Exhibit 3 presents additional information on the characteristics of the LIHTC projects and units, beginning with the type of construction: new, rehabilitation, or a combination of new and rehabilitation (for multibuilding projects). As shown in the exhibit, LIHTC projects placed in service from 1995 through 2004 were predominately new construction, accounting for close to two-thirds (63.5 percent) of the projects. Rehabilitation of an existing structure was used in 34.8 percent of the projects, while a combination of new construction and rehabilitation was used in only a small fraction of LIHTC projects.¹⁰

The tax credit program requires that 10 percent of each state's LIHTC dollar allocation be set aside for projects with nonprofit sponsors. As shown in Exhibit 3, overall, 29.2 percent of LIHTC projects placed in service from 1995 through 2004 had a nonprofit sponsor.

Exhibit 3 also presents information about two common sources of additional subsidy: (1) the use of tax-exempt bonds (which generally are issued by the same agency that allocates the LIHTC) and (2) RHS¹¹ Section 515 loans (which imply a different regulatory regime and different compliance monitoring rules). Overall, RHS Section 515 loans

were used in slightly more than 12 percent of the projects placed in service during the study period, with the proportion of RHS projects dropping fairly steadily throughout the period related to the dramatic decrease in funding for the Section 515 program over the study period. At the same time, the proportion of projects with mortgages financed by tax-exempt bonds increased nearly every year, with 19 percent of projects receiving bond-financed mortgages over the 10-year period. Properties with bond-financed mortgages may be eligible for tax credits outside the annual per capita state allocation limits.

The final characteristic presented in Exhibit 3 is the credit type that was used by LIHTC projects. The 30-percent present value credit is used for acquisition and when other federal financing, such as tax-exempt bonds, is used for the rehabilitation or new construction; the 70-percent present value credit is available for nonfederally financed rehabilitation or construction. A little under two-thirds (63 percent) of the LIHTC projects placed in service during the study period have 70-percent credits, nearly 29 percent have 30-percent credits, and just over 8 percent have both types of credit.

Exhibit 1. LIHTC Database: Percent Missing Data by Variable, 1992–2004

| Variable | 1992–1994 | | 1995–2004 | |
|--|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| | Projects With Missing Data (%) | Units With Missing Data (%) | Projects With Missing Data (%) | Units With Missing Data (%) |
| Project address ^a | 1.1 | 1.4 | 0.3 | 0.1 |
| Owner contact data | 14.4 | 13.8 | 4.1 | 3.3 |
| Total units | 0.9 | — | 0.4 | — |
| Low-income units | 1.9 | 2.9 | 0.9 | 1.2 |
| Number of bedrooms ^b | 46.7 | 51.5 | 13.6 | 13.6 |
| Allocation year | 8.5 | 9.8 | 0.4 | 0.6 |
| Construction type (new/rehabilitation) | 20.0 | 21.9 | 2.6 | 3.3 |
| Credit type | 41.4 | 42.4 | 8.2 | 8.6 |
| Nonprofit sponsorship | 27.8 | 25.3 | 12.8 | 12.5 |
| Increase in basis | 42.5 | 39.4 | 15.9 | 12.8 |
| Use of tax-exempt bonds | 21.3 | 23.2 | 7.4 | 8.4 |
| Use of RHS Section 515 loans | 30.7 | 27.4 | 17.4 | 18.0 |

LIHTC = low-income housing tax credit.

RHS = Rural Housing Service.

^a Indicates only that some location was provided. Address may not be a complete street address.

^b For some properties, bedroom count was provided for most but not all units, in which case data are not considered missing. The percent of units with missing bedroom count data is based on properties where no data were provided on bedroom count.

Exhibit 2. Characteristics of LIHTC Projects, 1995–2004

| Characteristics | Year Placed in Service | | | | | | | | | | All Projects 1995–2004 |
|---|------------------------|--------|--------|--------|---------|--------|---------|---------|---------|---------|---------------------------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | |
| Number of projects | 1,411 | 1,328 | 1,359 | 1,331 | 1,472 | 1,346 | 1,363 | 1,300 | 1,431 | 1,307 | 13,648 |
| Number of units | 81,179 | 82,716 | 88,533 | 93,298 | 108,160 | 98,640 | 100,210 | 102,835 | 119,532 | 110,457 | 985,560 |
| Average project size (number of units) | 57.5 | 62.3 | 65.1 | 70.1 | 73.5 | 73.3 | 73.5 | 79.1 | 83.5 | 84.5 | 72.2 |
| Distribution (%) | | | | | | | | | | | |
| 0–10 units | 13.3 | 14.6 | 7.6 | 7.6 | 6.2 | 6.1 | 4.7 | 4.2 | 2.8 | 4.3 | 7.1 |
| 11–20 units | 11.7 | 12.1 | 12.2 | 10.8 | 12.2 | 11.5 | 10.5 | 10.1 | 8.0 | 8.2 | 10.7 |
| 21–50 units | 41.8 | 36.5 | 41.2 | 39.1 | 37.3 | 34.8 | 40.4 | 35.2 | 35.6 | 34.0 | 37.6 |
| 51–99 units | 16.9 | 17.6 | 19.6 | 21.2 | 21.5 | 23.3 | 21.5 | 23.6 | 24.6 | 24.2 | 21.4 |
| 100 units or more | 16.2 | 19.3 | 19.4 | 21.4 | 22.8 | 24.3 | 22.8 | 26.9 | 29.0 | 29.3 | 23.1 |
| Average qualifying ratio (%) | 97.4 | 96.7 | 96.0 | 95.7 | 94.9 | 94.4 | 94.4 | 92.4 | 94.0 | 94.3 | 95.1 |
| Distribution (%) | | | | | | | | | | | |
| 0–20 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 21–40 | 0.6 | 1.5 | 1.3 | 1.5 | 1.2 | 1.1 | 1.1 | 1.7 | 0.8 | 1.5 | 1.3 |
| 41–60 | 2.6 | 2.2 | 2.5 | 2.4 | 2.9 | 3.8 | 2.5 | 3.9 | 2.1 | 2.0 | 2.7 |
| 61–80 | 1.8 | 2.6 | 5.0 | 5.6 | 7.5 | 7.5 | 9.8 | 12.7 | 12.2 | 8.5 | 7.3 |
| 81–90 | 2.3 | 1.8 | 2.1 | 2.1 | 2.4 | 3.3 | 4.2 | 6.1 | 6.5 | 7.8 | 3.8 |
| 91–95 | 1.8 | 1.8 | 1.5 | 1.6 | 2.6 | 2.6 | 2.9 | 2.4 | 1.6 | 2.3 | 2.2 |
| 96–100 | 90.9 | 90.2 | 87.8 | 86.7 | 83.3 | 81.7 | 79.5 | 73.2 | 76.8 | 77.9 | 82.9 |
| Average number of bedrooms | 1.94 | 1.97 | 1.93 | 2.00 | 1.94 | 1.88 | 1.91 | 1.89 | 1.87 | 1.95 | 1.93 |
| Distribution (%) | | | | | | | | | | | |
| 0 bedrooms | 3.3 | 3.9 | 4.1 | 3.0 | 4.2 | 3.6 | 2.9 | 2.7 | 5.6 | 4.5 | 3.8 |
| 1 bedroom | 30.4 | 28.9 | 29.4 | 28.0 | 28.4 | 32.3 | 29.1 | 32.0 | 31.1 | 31.7 | 30.1 |
| 2 bedrooms | 44.1 | 44.5 | 42.5 | 43.2 | 42.9 | 42.0 | 44.0 | 42.3 | 40.6 | 40.7 | 42.7 |
| 3 bedrooms | 19.1 | 19.7 | 20.7 | 22.0 | 21.0 | 19.8 | 20.8 | 20.2 | 20.0 | 20.0 | 20.3 |
| 4 bedrooms or more | 3.1 | 3.0 | 3.3 | 3.9 | 3.5 | 2.4 | 3.2 | 2.7 | 2.7 | 3.6 | 3.1 |

LIHTC = low-income housing tax credit.

Notes: The analysis data set includes 13,648 projects and 985,560 units placed in service between 1995 and 2004. Projects placed in service in 2004 do not include updates for Louisiana. The average number of units per property and the distribution of property size both are calculated based on the 13,600 properties with a known number of units and not on the full universe of 13,648 properties. The database contains missing data for number of units (0.4%), qualifying ratio (percentage of tax credit units) (1.2%), and bedroom



Exhibit 3. Additional Characteristics of LIHTC Projects, 1995–2004

| Characteristics | Year Placed in Service | | | | | | | | | | All Projects 1995–2004 |
|------------------------------------|------------------------|------|------|------|------|------|------|------|------|------|---------------------------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | |
| Construction type distribution (%) | | | | | | | | | | | |
| New | 65.9 | 62.6 | 62.2 | 63.7 | 64.5 | 59.9 | 60.6 | 62.1 | 68.0 | 66.0 | 63.5 |
| Rehabilitation | 32.8 | 36.1 | 35.1 | 34.7 | 33.9 | 39.1 | 37.9 | 35.9 | 30.2 | 32.1 | 34.8 |
| Both | 1.3 | 1.3 | 2.7 | 1.6 | 1.6 | 1.1 | 1.6 | 2.0 | 1.9 | 1.9 | 1.7 |
| Nonprofit sponsor (%) | 18.0 | 24.9 | 35.0 | 37.1 | 35.2 | 31.1 | 31.8 | 27.7 | 25.0 | 26.4 | 29.2 |
| RHS Section 515 loan (%) | 25.9 | 16.6 | 13.7 | 12.0 | 11.3 | 9.7 | 10.6 | 7.1 | 5.6 | 9.2 | 12.1 |
| Tax-exempt bonds (%) | 3.6 | 5.8 | 8.0 | 12.3 | 18.0 | 25.1 | 23.6 | 30.7 | 31.2 | 30.6 | 18.9 |
| Credit type distribution (%) | | | | | | | | | | | |
| 30 percent | 26.1 | 20.9 | 20.6 | 25.6 | 28.4 | 32.0 | 30.3 | 33.8 | 34.3 | 33.3 | 28.5 |
| 70 percent | 64.4 | 70.6 | 71.3 | 65.6 | 64.2 | 61.7 | 60.9 | 58.0 | 55.3 | 59.4 | 63.1 |
| Both | 9.5 | 8.6 | 8.1 | 8.8 | 7.4 | 6.3 | 8.8 | 8.3 | 10.4 | 7.3 | 8.4 |

LIHTC = low-income housing tax credit.

RHS = Rural Housing Service.

Notes: The analysis data set includes 13,648 projects and 985,560 units placed in service between 1995 and 2004. The database contains missing data for construction type (2.6%), nonprofit sponsor (12.8%), RHS Section 515 loan (17.4%), bond financing (7.4%), and credit type (8.2%). Totals may not sum to 100 percent because of rounding.

LIHTC and Housing Markets

As part of the Omnibus Reconciliation Act of 1989, Congress added provisions to the LIHTC Program designed to increase production of LIHTC units in hard-to-serve areas. Specifically, the act permits projects located in Difficult Development Areas (DDA) or Qualified Census Tracts (QCT) to claim a higher eligible basis (130 percent of the standard basis) for the purposes of calculating the amount of tax credit that can be received. Designated by HUD, DDAs are defined by statute to be metropolitan areas or nonmetropolitan areas in which construction, land, and utility costs are high relative to incomes, and QCTs are tracts in which at least 50 percent of the households have incomes less than 60 percent of the area median income (AMI) or have a poverty rate of at least 25 percent. The data are based on DDA designations for the year placed in service. For LIHTC projects placed in service from 1995 through 2002, QCT designations are from 1999,¹² based on 1990 Census tract locations. For LIHTC projects placed in service in 2003 and 2004, QCT designations are based on 2000 Census tract locations.

Exhibit 4 presents the distribution of LIHTC projects across DDAs and QCTs. As shown in the

exhibit, 20.7 percent of projects are located in DDAs and 27.9 percent are located in QCTs, with a total of 41.6 percent in designated areas.¹³ When examining units, the DDA and QCT proportions are similar.

Note: Not all projects located in a DDA or QCT actually received a higher eligible basis. The data indicate that more than one-third of properties located in a DDA and almost one-fourth of those in a QCT did not receive a higher eligible basis.¹⁴

Exhibit 5 presents information on project characteristics for properties located inside and outside designated areas. As shown in the exhibit, projects tend to be slightly larger and qualifying ratios slightly higher in nondesignated areas compared with projects in DDAs or QCTs. The exhibit also shows minimal differences in average unit size across DDAs, QCTs, and nondesignated areas. Projects in QCTs and in DDAs are considerably more likely to be rehabilitated than projects in nondesignated areas, which are more likely to be newly constructed. Projects in QCTs and to a lesser extent those in DDAs are more likely to have nonprofit sponsors than projects in nondesignated areas. Only 2.1 percent of projects in QCTs have RHS Section 515 financing compared with 15.8 percent in nondesignated areas. QCTs also have the smallest proportion of tax-

Exhibit 4. Distribution of LIHTC Projects and Units by Location in DDAs and QCTs, 1995–2004

| Location | Year Placed in Service | | | | | | | | | | All Projects 1995–2004 |
|--------------------|------------------------|--------|--------|--------|---------|--------|--------|--------|---------|---------|---------------------------|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | |
| Number of projects | 1,275 | 1,216 | 1,196 | 1,198 | 1,350 | 1,248 | 1,262 | 1,203 | 1,353 | 1,353 | 12,570 |
| DDA (%) | 14.6 | 12.1 | 20.2 | 22.0 | 24.4 | 23.9 | 23.9 | 22.5 | 22.2 | 21.6 | 20.7 |
| QCT (%) | 21.2 | 23.2 | 25.7 | 26.4 | 29.6 | 24.1 | 27.5 | 30.4 | 36.8 | 34.2 | 27.9 |
| DDA or QCT (%) | 31.0 | 31.3 | 39.2 | 41.4 | 46.1 | 41.0 | 43.2 | 45.7 | 49.5 | 47.5 | 41.6 |
| Number of units | 77,309 | 77,897 | 83,739 | 86,392 | 102,805 | 92,866 | 94,589 | 97,820 | 114,181 | 104,972 | 932,570 |
| DDA (%) | 12.7 | 9.7 | 16.1 | 20.4 | 23.5 | 23.2 | 20.3 | 21.5 | 20.6 | 22.9 | 19.1 |
| QCT (%) | 16.3 | 20.1 | 22.2 | 22.7 | 30.7 | 22.7 | 25.3 | 30.8 | 41.6 | 40.5 | 27.3 |
| DDA or QCT (%) | 25.5 | 26.6 | 33.9 | 39.0 | 48.5 | 40.2 | 39.9 | 46.5 | 52.7 | 56.1 | 40.9 |

DDA = Difficult Development Area.

LIHTC = low-income housing tax credit.

QCT = Qualified Census Tract.

Notes: The data set used in this analysis includes only geocoded projects. For LIHTC projects placed in service between 1995 and 2002, QCT designation is based on the 1990 Census tract location. For LIHTC projects placed in service in 2003 and 2004, QCT designation is based on the 2000 Census tract location. Totals may not sum to 100 percent because of rounding.

Exhibit 5. Characteristics of LIHTC Projects by Location in DDAs or QCTs, 1995–2004

| Characteristic | In DDA | In QCT | Not in DDA or QCT | Total |
|--|--------|--------|-------------------|-------|
| Average project size (number of units) | 68.4 | 73.0 | 75.3 | 74.4 |
| Average qualifying ratio (%) | 91.5 | 94.2 | 95.6 | 94.8 |
| Average number of bedrooms | 1.8 | 2.0 | 1.9 | 1.9 |
| Distribution of units by size (%) | | | | |
| 0 bedrooms | 7.1 | 8.0 | 2.0 | 3.9 |
| 1 bedroom | 33.5 | 29.9 | 29.5 | 30.2 |
| 2 bedrooms | 37.0 | 36.9 | 46.2 | 42.7 |
| 3 bedrooms | 19.4 | 20.4 | 20.0 | 20.0 |
| 4 bedrooms or more | 3.0 | 4.8 | 2.4 | 3.0 |
| Construction type distribution (%) | | | | |
| New construction | 51.0 | 46.3 | 70.7 | 62.4 |
| Rehabilitation | 47.4 | 50.4 | 28.4 | 35.8 |
| Both | 1.6 | 3.4 | 0.9 | 1.7 |
| Nonprofit sponsor (%) | 33.2 | 38.5 | 24.3 | 29.4 |
| RHS Section 515 loan (%) | 6.0 | 2.1 | 15.8 | 11.0 |
| Tax-exempt bond financing (%) | 23.5 | 15.8 | 20.2 | 19.8 |
| Credit type distribution (%) | | | | |
| 30 percent | 28.2 | 20.8 | 31.5 | 28.6 |
| 70 percent | 66.3 | 68.9 | 60.6 | 63.0 |
| Both | 5.4 | 10.4 | 7.9 | 8.4 |

DDA = Difficult Development Area.

LIHTC = low-income housing tax credit.

QCT = Qualified Census Tract.

RHS = Rural Housing Service.

Notes: The data set used in this analysis includes only geocoded projects. For LIHTC projects placed in service between 1995 and 2002, QCT designation is based on the 1990 Census tract location. For LIHTC projects placed in service in 2003 and 2004, QCT designation is based on the 2000 Census tract location. The data set contains missing data for bedroom count (13.7%), construction type (2.4%), nonprofit sponsor (13.0%), RHS Section 515 loan (16.4%), bond financing (7.0%), and credit type (8.0%). Metropolitan areas are defined according to the metropolitan statistical area and primary metropolitan statistical area definitions published June 30, 1999. Totals may not sum to 100 percent because of rounding. Some properties are located in both a DDA and a QCT.



exempt, bond-financed projects and projects with the 30-percent credit; the latter indicates the presence of subsidized financing. Tax-exempt bond financing is most common in DDAs, accounting for 23.5 percent of projects.

As noted previously, DDAs are defined as metropolitan areas or nonmetropolitan counties in which construction, land, and utility costs are high relative to incomes. Although developers have an incentive to place tax credit properties in DDAs because they can claim a higher eligible basis, it is assumed that, all other things being equal, developers would favor locations with low development costs relative to incomes. To test this hypothesis, it would be optimal to examine development costs relative to incomes. Local development costs are not available, but, assuming that development costs are correlated with local market rents, HUD-defined fair market rents (FMRs) relative to local incomes can serve as a measure of development costs relative to incomes. The analysis uses the LIHTC maximum income limit (60 percent of AMI) as the measure of local

income.¹⁵ For the analysis, non-DDA metropolitan areas and nonmetropolitan counties in the United States were sorted based on the ratio of FMR to 30 percent of 60 percent of AMI (the maximum LIHTC rent), from lowest to highest. They were then classified into three categories, each with approximately one-third of all renter households not in DDAs; that is, low-cost areas, moderate-cost areas, and high-cost areas. The same sorting and classification procedures were done using multifamily building permits issued between 1994 and 2003.¹⁶ Exhibit 6 presents the distribution of tax credit projects and units in these categories.

As shown in Exhibit 6, LIHTC projects are disproportionately located in favorable development cost areas; that is, metropolitan areas and nonmetropolitan counties where development costs are low relative to incomes. As shown in the first panel of Exhibit 6, 40.6 percent of tax credit projects are located in areas where development costs are low, compared with 25.4 percent of all U.S. renter households. Projects in these low-cost

Exhibit 6. Distribution of LIHTC Units and Projects by Development Cost Category, 1995–2004

| Development Cost Category Based on Renter Units | Ratio of FMR to Maximum LIHTC Rent | All U.S. Rental Units (%) | LIHTC Projects (%) | LIHTC Units (%) | LIHTC Projects in QCTs (%) | LIHTC Units in QCTs (%) |
|--|------------------------------------|---|--------------------|-----------------|----------------------------|-------------------------|
| Low | .411 to .687 | 25.4 | 40.6 | 28.8 | 30.3 | 21.9 |
| Moderate | >.687 to .782 | 24.8 | 26.9 | 24.8 | 28.7 | 28.5 |
| High (non-DDA) | >.782 to 1.144 | 25.4 | 17.2 | 27.2 | 21.1 | 28.0 |
| In DDAs | | 24.4 | 15.3 | 19.1 | 19.9 | 21.6 |
| Total | | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Development Cost Category Based on Units Issued Multifamily Building Permits | Ratio of FMR to Maximum LIHTC Rent | Multifamily Building Permit Units 1994–2003 (%) | LIHTC Projects (%) | LIHTC Units (%) | LIHTC Projects in QCTs (%) | LIHTC Units in QCTs (%) |
| Low | .411 to .723 | 28.6 | 49.4 | 35.0 | 37.4 | 26.9 |
| Moderate | >.723 to .807 | 28.9 | 21.2 | 25.0 | 25.0 | 31.0 |
| High (non-DDA) | >.807 to 1.144 | 26.5 | 14.2 | 20.8 | 17.6 | 20.5 |
| In DDAs | | 16.0 | 15.3 | 19.1 | 19.9 | 21.6 |
| Total | | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

DDA = Difficult Development Area.

FMR = fair market rent.

LIHTC = low-income housing tax credit.

QCT = Qualified Census Tract.

Notes: Maximum LIHTC rent equals one-twelfth of 30 percent of area median income (or one-twelfth of 30 percent of 120 percent of very-low-income limit). All U.S. rental units are from the 2000 Census. Annual building permit data for metropolitan areas and nonmetropolitan counties are from the Census Bureau. LIHTC units placed in service from 1995 through 2004 are compared to multifamily building permits issued between 1994 and 2003 because it generally takes 1 year from issuance of building permits for a multiunit residential building to be completed. The percentages for all U.S. rental units and building permit units are not exactly equal for each of the three non-DDA development cost categories because metropolitan statistical areas (or nonmetropolitan counties) lying on the cutoffs for one-third and two-thirds of units could not be split.

locations tend to be smaller than projects in high-cost areas, so that the proportion of tax credit units in low-cost areas—28.8 percent—is closer to the national total. Exhibit 6 also displays the distribution of tax credit projects and units located in QCTs by development cost category. As shown, 30.3 percent of LIHTC projects and 21.9 percent of LIHTC units in QCTs are located in the lowest development cost category, slightly lower than the distribution of all renter households.

The second panel of Exhibit 6 presents the same analysis using multifamily building permit data instead of all renter units. Using this analysis, tax credit projects and units are disproportionately located in areas where development costs are low. Nearly 50 percent (49.4 percent) of tax credit properties and 35.0 percent of tax credit units are in low-cost areas, compared with 28.6 percent of units issued multifamily building permits between 1994 and 2003.

Additional analysis of the data, including more comparisons to the earlier data and further location analysis, is available in *HUD National Low-Income Housing Tax Credit (LIHTC) Database: Projects Placed in Service Through 2004* which is available for download at <http://www.huduser.org/datasets/lihtc/tables9504.pdf>.

Accessing the LIHTC Database

The complete LIHTC Database is available for download through an interactive web-based system at <http://lihtc.huduser.org>. The interactive system allows users to:

- Select only the variables of interest.
- Retrieve data on all projects in a particular state or group of states.
- Restrict the search to projects with a particular characteristic or set of characteristics.
- Select projects only in a particular city.
- Select projects within a user-selected radius of the center of a city.

Notes

¹ Owners may elect to set aside at least 20 percent of the units for households at or below 50 percent of area median income (AMI) or at least 40 percent of the units for households with incomes below 60 percent of AMI. Annual rents in low-income units are limited to a maximum of 30 percent of the elected 50 or 60 percent of AMI.

² The credit percentages are adjusted monthly but fall in the range of 4 to 9 percent of the qualifying basis (that is, the proportion of the property devoted to low-income tenants). In general, credits are intended to provide a stream of benefits with a present value equal to either 30 percent (for the 4-percent credit) or 70 percent (for the 9-percent credit) of the property's qualifying basis. The 30-percent credit is used for the acquisition of an existing building or for federally subsidized new construction or rehabilitation. The 70-percent credit is used for rehabilitation or construction of projects without additional federal subsidies.

³ Assumes approximately \$300 million in allocation authority in each year, with annual credits taken for 10 years.

⁴ See the Technical and Miscellaneous Revenue Act of 1988, Omnibus Budget Reconciliation Act of 1989, Omnibus Reconciliation Act of 1990, and Community Renewal Tax Relief Act of 2000.

⁵ The Omnibus Reconciliation Act of 1989 extended the commitment period from 15 to 30 years. However, project owners are permitted to sell or convert the project to conventional market housing if they apply to the state tax credit allocation agency and the agency is unable to find a buyer (presumably a nonprofit) willing to maintain the property as a low-income project for the balance of the 30-year period. If no such buyer is found, tenants are protected with rental assistance for up to 3 years.

⁶ Place is defined by the Census Bureau as a concentration of population either legally bounded as an incorporated place or identified as a Census Designated Place (CDP). A CDP is a statistical entity, defined for each decennial census according to Census Bureau guidelines, comprising a densely settled concentration of population that is not within an incorporated place but is locally identified by a name.

⁷ Internal Revenue Service reporting is on a building-by-building basis. In this study, however, the Department of Housing and Urban Development uses the low-income housing tax credit project as a unit of analysis. A project could include multiple buildings and/or multiple phases that were part of a single financing package.



⁸ National Multi Housing Council, tabulation of unpublished data from the Census Bureau's 1995–1996 Property Owners and Managers Survey. Data do not include public housing projects.

⁹ Census Bureau, American Housing Survey for the United States: 2005. Data refer to renter-occupied units in buildings with two or more units and that were built through 2004. Units built in 2005 were excluded.

¹⁰ The combination of new construction and rehabilitation is possible in multibuilding properties, where one building was rehabilitated and one building was newly constructed.

¹¹ The Rural Housing Service was formerly called the Farmers Home Administration.

¹² Because Qualified Census Tract (QCT) designations are based on decennial census data, the designations are fairly static between decennial censuses. The 1999 QCTs are nearly identical to those in force throughout the 1995-to-2001 period. For 2002, about 2,000 additional 1990 Census tracts with poverty levels of 25 percent or more were designated as QCTs in accordance with the Community Renewal Tax Relief Act of 2000. For the 2002 projects, the 2002 QCT list was used to determine QCT status.

¹³ Some properties are located in both a Difficult Development Area and a Qualified Census Tract.

¹⁴ In addition, according to the allocating agency, 467 projects received a higher basis but, according to our geocoding, are located in neither a Difficult Development Area (DDA) nor a Qualified Census Tract. About half of these projects were located in areas that were designated DDAs at some point, often the year a project was allocated tax credits. These projects were probably allocated credit under the “10-percent rule,” allowing them to get the DDA-level allocation even though they were a year or more from completion and placement in service.

¹⁵ Specifically, the data used were the 2003 two-bedroom fair market rents and 60 percent of 2003 area median income.

¹⁶ Data on low-income housing tax credit units placed in service from 1995 through 2004 are compared to multifamily building permits issued between 1994 and 2003 because it generally takes 1 year from the issuance of a building permit for a multiunit residential building to be completed. According to Census Bureau data on the construction of new residential multiunit buildings between 1994 and 2003, the average length of time from permit issuance to the start of construction was 1.4 to 1.9 months, and the average length of time from the start of construction to completion was 8.9 to 10.1 months.

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