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What is affordable housing? There are multiple meanings - by Rose Perrizo

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The term “affordable housing” has a number of meanings. One is generic and simply means reasonably priced apartments or homes. In high-priced places like Boston, it essentially refers to any housing that is not high-end, luxury, or built for the very wealthy. The generic term “affordable housing” conjures up a vision of a modest place to return to at the end of the day that doesn’t cost an arm and a leg.

The technical definition of “affordable housing” is a special asset class of housing that is affordable by people who earn less than the area median income. The Department of Housing and Urban Development (HUD) considers affordability to be no more than 30% of gross household income. Maximum allowable rental rates are restricted to 30% of tenant income at most affordable properties.

Development and maintenance of affordable housing is a public value, similar in many respects to other public priorities funded by the government, such as education, public safety, mass transit, and highways. Mayor Marty Walsh believes “Creating affordable housing and addressing housing costs is critical to preserve the diversity and character that makes Boston a city for all residents.”

Affordable housing would not be built without public funding sources. The costs to develop and maintain affordable housing exceed what the restricted rental income streams would support in the conventional market. Accordingly, affordable properties suffer from economic obsolescence from the very outset of their development. Government financing support is essential.

Prior to 1986, affordable housing was built and financed by the federal government under Section 8 of the Housing Act of 1937. They have a Section 8 project-based subsidy and may be owned by both private investors and non-profits. They have long-term, government backed guarantees that fund the difference between what tenants can afford and the HUD-determined maximum allowable rents. These guarantees make Section 8, project-based properties attractive to private investors seeking cash flow stability.

The Tax Reform Act of 1986 ended the Section 8 building program and created the Low Income Housing Tax Credit Program (LIHTC) in an effort to take the federal government out of the development business. The LIHTC program is administered under Section 42 of the Internal Revenue Code and gives investors a reduction in their federal tax liability in exchange for providing financing to develop affordable housing. Without this incentive, affordable projects would not generate sufficient profit to attract private capital. Investors’ equity contribution subsidizes low-income housing development and allows some or all of the units to rent at below-market rates. The LIHTC program has created over three million units in the last 30 years, representing the vast majority of new affordable rental housing developed in that time frame.

Affordable housing assets have long-term deed restrictions and regulatory documents that limit how much rent can be charged. The regulatory restrictions extend from 30 to 99 years. In return, investors receive tax credits paid in annual allotments over ten years. However, LIHTC-financed projects must meet eligibility requirements for at least 30 years after project completion. In other words, owners must keep the units rent restricted and available to low-income tenants for the long term. At the end of the period, the properties remain under the control of the owner.

Boston’s booming economy can be a double-edged sword for workers. In most recent surveys of apartment rental prices, Boston ranks among the top five most expensive cities in the U.S. Average market-rate rents for two-bedroom apartments range from $2,700 to $3,600 per month. Because housing is considered affordable if it costs less than 30% of gross income, annual earnings of $108,000 to $144,000 are required for the rent to be considered “affordable.” In Boston, it takes a lot of money to live in affordable housing.

Household eligibility and maximum allowable rental rates for affordable housing are determined by HUD’s local measurements of area median income (AMI). The 2018 Boston area AMI for a family of four is $107,800.

LIHTC properties require that most units be affordable to “low income” residents. In Boston “low income” is defined as 60% of AMI, or $64,700 for a family of four.

LIHTC properties may also have to provide some units for “extremely low income” residents, defined as 30% of AMI, or $32,350 for a four person household. To put this in perspective, a worker earning the federal minimum wage of $7.25 per hour, who works 40 hours per week, 52 weeks per year, earns an annual income of only $15,080. Assuming two full time workers in the household, earnings total only $30,160, which is still below the “extremely low income” line.

Using HUD guidelines, maximum allowable rent is calculated as the median household income of 1.5-person per bedroom, and includes base rent, heat, hot water, and tenant electric. Therefore, the maximum allowable rent that can be charged for a two-bedroom “low income” unit is $1,563. Maximum rent for an “extremely low income” unit is $781. These rents are well below the market-rate apartment prices cited above and underscore the importance of continued, robust public support for affordable housing.

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