What is affordable housing? by Rose Perrizo

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The term “affordable housing” has two meanings. One is generic and simply means reasonably priced apartments or homes. In high-priced cities like Boston, it refers to 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 require you to go bankrupt.

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

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. The long-term competitiveness of the Massachusetts economy depends on the affordability and availability of housing for its workforce.

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

Section 8 Project-Based Subsidy Program

Prior to 1986, affordable housing was built and financed by the federal government under the Section 8 Housing Act of 1937. These projects 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.

It is important to note that Section 8 project-based apartments are different from Section 8 vouchers. The Section 8 Tenant-Based Housing Choice Voucher Program allows low-income families to live in privately owned homes of their choice by subsidizing a portion of their rent. Each municipality in the state has a limited number of vouchers for income-qualified people. Demand far exceeds supply and the waitlist is one to five years. When a tenant secures a Section 8 voucher, they are responsible for finding their own apartment. The voucher is “transferrable,” meaning it stays with the tenant, not the property.

Low Income Housing Tax Credit Program

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 three and one-half million units since 1987, representing the vast majority of new affordable rental housing in the U.S.

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 Rental Rates

Boston's booming economy is a double-edged sword for workers. Boston ranks among the top ten most expensive cities in the U.S. Average monthly rent for a two bedroom apartment ranges from $3,200 to $4,800, depending on the survey source. Because housing is considered affordable if it costs less than 30% of gross income, annual earnings of $128,000 to $192,000 are required for rent to be considered "affordable."

Household eligibility and maximum allowable rental rates for affordable housing are determined by HUD's local measurements of AMI. The Boston area AMI for a family of four is $140,200. LIHTC properties require that most units be affordable to "low income" residents, which is defined as 60% of AMI, or $84,100 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 $42,050 for a four person household. To put this in perspective, a worker earning the Massachusetts minimum wage of $15.00 per hour, who works 40 hours per week, 50 weeks per year, earns an annual income of only $30,000.

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. The maximum allowable rent that can be charged for a two-bedroom "low income" unit is $1,893. Maximum rent for an "extremely low income" two-bedroom unit is $946. 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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