

# Comment on Kirk McClure’s “The Low-Income Housing Tax Credit Program Goes Mainstream and Moves to the Suburbs”

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## *Abstract*

The news that the Low-Income Housing Tax Credit (LIHTC) program has gone mainstream and moved to the suburbs is to be welcomed, but we should not have unrealistic expectations. The program is likely to lead to only a limited amount of income mixing in the surrounding area. These developments work against social mixing since so many of the residents have low incomes. Also, it would be a mistake to view the program as a substitute for the Housing Choice Voucher Program because it outperforms the latter as a device for deconcentrating poverty in the nation as a whole.

In places like Alameda County, CA, voucher recipients have been suburbanizing in large numbers, and this model needs to be replicated. Finally, suburban LIHTC developments will achieve their full potential only if community groups are involved early in the application process and if tenants are carefully screened and rules are strictly enforced.

**Keywords:** Housing assistance programs; Low-income housing; Poverty

## **Introduction**

McClure’s article provides a high-level national assessment of the degree to which the Low-Income Housing Tax Credit (LIHTC) program places housing units that are subsidized to be affordable to very low-income households in low-poverty and suburban census tracts at a higher rate than the Housing Choice Voucher Program (HCVP) does. This is a particularly interesting exercise; as the LIHTC program concludes 20 years of operation, this is a useful time to see how it has performed in serving the needs of recipient households.

I agree with the article’s main thesis, that the LIHTC program is playing an increasingly important role in expanding the supply of affordable rental hous-

ing in the suburbs. LIHTC developments have become more common in the suburbs in general and in low-poverty census tracts in particular. However, I am far less sanguine about the value of the LIHTC program as a tool for income mixing, relative to the HCVP. Existing research (1) raises questions about the extent to which meaningful income mixing occurs at the project and neighborhood levels for LIHTC residents, (2) shows that the HCVP operates far better in particular areas than the national norm, and (3) suggests that the LIHTC program has achieved a mixed record in the suburbs—with some of the developments beset by crime and other social problems—and consequently that improvements in management quality are essential to maintaining high rates of production for family projects in the suburbs. McClure's article can play an important role in stimulating research in these and related areas.

In this comment, I concentrate on how our understanding of the LIHTC program might be improved with more detailed spatial analysis and a more careful examination of how the program intersects with other housing programs. I have organized my thoughts around three subjects: geographic scale, the false LIHTC/HCVP dichotomy, and the questionable superiority of the LIHTC program. I close with a consideration of the implications of “problem projects” for the future of the suburban LIHTC program.

### **The importance of geographic scale**

One of the article's main conclusions is that the LIHTC program is as effective, and possibly more effective, than the HCVP in introducing low-income renters into low-poverty neighborhoods. A key problem with this argument is its operationalization of the term “neighborhood.” As is common in urban and housing research, a householder's neighborhood is defined as the surrounding census tract. But because suburban census tracts tend to be relatively large and heterogeneous, this strategy provides a very low resolution picture of the socioeconomic characteristics of the area immediately surrounding the household, an area that is likely to affect residential satisfaction levels and propensity for mobility. Indeed, a particular LIHTC development may be located in a poor neighborhood within a majority middle-income census tract, but this fact would be masked by the use of the census tract as the spatial unit of analysis. A smaller unit, such as the census block group, would have told a more detailed story in comparing the LIHTC and voucher programs.

While the former seems to have achieved some success in deconcentrating poverty at the census tract level, it appears to have failed at the level of the individual development. As McClure states, “With nearly all LIHTC units located in developments occupied entirely by households whose incomes are less than

60 percent of the AMFI, there is very little income mixing within the developments; the residents are all very low income” (424). This being the case, it would seem that the LIHTC program is unlikely to achieve many of the presumed social benefits of income mixing such as access to middle-class social networks and good schools, as well as information about good jobs. LIHTC residents are unlikely to meet middle-income people within their own developments. The degree to which they interact with such people in the neighborhood is likely to depend on how well their LIHTC development is integrated into the surrounding area. Determining this would require much more intensive research, which should be pursued if we are to truly understand how LIHTC projects are performing in increasing income integration and promoting residents’ self-sufficiency.

Providing low-income renters with the opportunity to live in small pockets of poverty in the suburbs is not all bad, if indeed this is what is occurring. It could conceivably lead to increased access to good jobs and access to better schools. Empirical research is needed to determine whether LIHTC developments do in fact promote these policy goals. This research should indicate where LIHTC developments are located in comparison to jobs with decent pay and how school test scores in areas with LIHTC developments compare with scores in the central-city school district. Varady and Walker (2000) found that the availability of jobs and good schools was not much better in Southwest Baltimore County than it was in the city. Helping people move to the suburbs will not necessarily change their lives. Understanding what types of suburban areas contain LIHTC units would give us a better understanding of the impact of suburbanization.

### **A false dichotomy**

In his comparison of the LIHTC and voucher programs, McClure misses an important component of many LIHTC developments, namely, that they contain a high proportion of voucher recipients.<sup>1</sup> My colleague Xinhao Wang and I demonstrated in a 2005 *Housing Studies* article that at least three of Hamilton County’s (Cincinnati’s) Section 8 voucher concentrations (i.e., hot spots) were in fact composed largely of LIHTC developments.

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<sup>1</sup> Up to now, there has been little national research on the composition of LIHTC developments with respect to voucher recipients. Climaco et al.’s 2004 study indicates “that over 40 percent of LIHTC properties have residents receiving tenant-based rental subsidies through the Housing Choice Voucher Program” (50), but the report provides no detailed information on variations among LIHTC developments with respect to the proportion of voucher recipients.

Hot spot analysis provides a density estimate of housing voucher recipients that can help us understand the extent and variation of the concentration of recipients in a community. The technique yields more localized results (for neighborhoods rather than for larger communities) than is the case for traditional census tract analysis. Our map spotlighted two suburban Hamilton County (OH) LIHTC developments as highest-density hot spots. In the Columbia Township voucher hot spot, recipients live in two relatively new adjoining developments, Hilltop Apartments and Eagle's View Apartments (Wang and Varady 2005). These are next to a major shopping complex with national chains such as Kmart, Wal-Mart, and other big box stores. All of the 196 units at Hilltop/Eagle's View are subsidized by the LIHTC program, and housing voucher recipients occupy 119 units (over 60 percent of the total). Similarly, the voucher recipients in the Springdale hot spot that lies just north of I-275, Cincinnati's main circumferential highway, live in a tax credit development called Hunter's Glen Apartments. This development is close to the Tri-County Shopping Center, a large shopping mall, and potential employment opportunities. Voucher recipients occupy 119 apartments and account for more than 30 percent of the 383 LIHTC units.

The analysis indicated that a third suburban Hamilton County LIHTC development—Galbraith Pointe in Springfield Township—constituted a secondary hot spot. A total of 66 Section 8 housing voucher recipients lived in this development, accounting for more than half of the 108 LIHTC units (Wang and Varady 2005).

Our study highlights the greater sensitivity of hot spot analysis over census tract analysis. The census tract analysis that we conducted missed the hot spot in Springdale despite the concentration of 119 Section 8 families. The hot-spot analysis calculated a high density of voucher recipients (more than 150 Section 8 families per square kilometer) for the area where the apartment complex is located. The census-tract analysis produced a much lower density estimate of 14 Section 8 families per square kilometer. The lower estimate reflects the fact that the census tract in which the complex is located is large (8.6 square kilometers) and that there are only 2 additional voucher families outside the complex in the census tract (Wang and Varady 2005).

If the social benefits of income mixing are to be achieved, it may be necessary for the Treasury Department and local state housing finance agencies (the key actors for this program) to more energetically manage the tenant selection process to achieve a viable income mix. This might include creating regulations that limit the number of lower-income families, particularly those with vouchers. Considering this option would force an interesting policy debate: Would low-income households be better served by increasing the income mix in their

developments and their neighborhoods or by maximizing the number of housing units affordable to them without regard to surrounding income diversity? This is not a new debate, but clearly it is one that has not been resolved.

### **The questionable superiority of the LIHTC program in terms of the deconcentration of poverty**

One of the key findings of McClure's article is that these "tax credits are making entry into low-poverty suburban areas at a rate equal to or greater than that experienced by the HCVP. In this respect, the LIHTC program is performing better than the HCVP *in its standard implementation*" (emphasis mine) (442). This statement fails, however, to recognize the success stories—the housing authorities that have been able to successfully promote deconcentration of poverty using the portability feature of vouchers. If the lessons drawn from these success stories were applied elsewhere, then the gap between the LIHTC and voucher programs might very well decrease.

The HCVP in Alameda County, CA, is one such success story (see Varady and Walker 2003). In contrast to many other U.S. metropolitan areas where householders receiving voucher assistance frequently make only short-distance moves and remain in the central city, 1 family in 10 receiving assistance from the Oakland and Berkeley housing authorities in the urban part of the county has moved to the suburban part of the county (the jurisdiction of the Housing Authority of Alameda County [HACA]) and remained there. Further, compared with local movers, nonmovers, or returnees (those moving to the suburbs and then back to the central city), suburban-bound movers experienced larger declines in the proportion of black residents in their surrounding census tract and larger increases in median income levels and housing values. In addition, far higher proportions of suburban-bound movers than either local movers or returnees reported that they were more satisfied with their current neighborhood than with their previous one. Significantly, this migration has been accomplished through the normal administration of the Section 8 rental voucher and rental certificate program (not through intensive counseling or requirements on destination neighborhoods as in the Moving to Opportunity demonstration). HACA's success in deconcentrating poverty is due in part to the close and effective working relationships it has with the other two housing authorities serving the East Bay (Oakland and Berkeley).

It is important to note that this model—vouchers without intensive counseling—may not be applicable in all metropolitan areas. In some places, it may be necessary to provide counseling and special social services to help hard-to-house families move to the suburbs, tell them what they can expect in middle-

income areas, and develop special outreach programs to involve more landlords in the program.

But generally, it is reasonable to expect that if increased numbers of public housing authorities in metropolitan areas work together to facilitate mobility within their respective metropolitan statistical areas, the HCVP should improve its track record of helping recipient households move to the suburbs. Incorporating mobility counseling can further improve this track record.

### **What about problem projects?**

Even in Minnesota's liberal Twin Cities, it has been difficult to expand the supply of affordable housing in the suburbs because of residents' concerns about possible "negative externalities" like crime and depressed property values (Goetz 2003). Where problematic LIHTC developments exist, this could reinforce existing concerns about additional subsidized developments and make it difficult to build them.

Galbraith Pointe (in Hamilton County) is such a case. The fact that many of the apartments are occupied by black, female-headed households helps set this physically isolated development apart from the middle-class white community that surrounds it. In recent years, the development has been in a state of turmoil because of an increase in crime.<sup>2</sup> In April 2006, Chevis Jackson, who was a sophomore and star athlete at Finneytown High School, was shot to death during a gang dispute in the parking lot of the complex. He was an innocent bystander. In June, his mother sued Galbraith Pointe for not providing adequate security. For budgetary reasons, the complex had stopped hiring off-duty police officers to patrol the property earlier in the year (Horn 2006).

The problems at Galbraith Pointe are partly due to poor management. The development was built under the tax-exempt bond feature of the LIHTC program whereby developments receive a 4 percent annual credit rather than the 9 percent available under the regular LIHTC program. The lower subsidy means that developers must charge higher rents to cover the higher level of debt

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<sup>2</sup> Auffrey (2006) was the source for information on the demographic makeup of Galbraith Pointe and the perceived severity of crime at the development. Two of the other large LIHTC developments in suburban Hamilton County (Hilltop/Eagle's View and Hunter's Glen) have experienced problems related to crime and inadequate physical upkeep (Brown 2006a; Schrider 2006; Walsh 2006). I strongly suspect that only a minority of LIHTC developments experience such problems, but when they occur, they may tarnish the image of the program and lead to community opposition to projects elsewhere (Henry 2006). Therefore, research is urgently needed to determine the incidence of problem developments, the types of developments that are most likely to experience problems, and the underlying causes of decline. Case studies of individual developments should include open-ended interviews with both "good" and "bad" landlords.

financing. Galbraith Pointe's owner willingly accepted voucher recipients because this enabled him to charge more.<sup>3</sup> (In Hamilton County and elsewhere, owners can often charge higher rents under the voucher program than would be dictated by the private market.) As noted earlier, the management company has recently cut costs by reducing security. A Cincinnati fair housing official explained Galbraith Pointe's decline in the following way.

My word-on-the-street impression is that they [Galbraith Pointe] have gone through cycles of being well managed and then things slip and we begin to hear from tenants who want to move because of security concerns. All three large LIHTC developments [Hilltop/Eagle's View, Hunter's Glen, and Galbraith Pointe] are currently managed by the same company. My sense is that they are not inherently "problems," but any large apartment complex takes a high degree of management skill and willingness to maintain standards. Often for-profit management companies become so focused on minimizing costs that standards slip and problems arise. (Brown 2006b)

In Ohio, concerns about problem developments (including LIHTC ones) are embedded in the LIHTC application process. Not only is there a required public notification process, but the application review in Ohio, as in other states, includes a competitive scoring system that was initiated in 1993 and rewards developments with a high level of local government support.<sup>4</sup> To prove that this high level of support exists, the Ohio Housing Finance Agency (OHFA) raised the bar a few years ago. Applications claiming strong local government support must now include a resolution from the municipal council or from the township trustees in the case of unincorporated areas (OHFA 2005).

Ohio's LIHTC program is highly competitive. In the most recent round, only 42 out of 143 applications were funded. Only 1 out of the 42 successful ones lacked a council or trustees' resolution, and it was approved because of a technicality. Since developers want to get the projects approved as quickly as possible (and therefore are concerned about community resistance), they are shifting their attention to developments for the elderly population, which are

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<sup>3</sup> Keller (2006) was the source for the preceding statements in this paragraph. In Cincinnati, community activists have criticized the Cincinnati Metropolitan Housing Authority for setting unrealistically high rent payment standards that are beyond what could be justified based on the private rental market and that have increased the concentration of poor people in particular buildings and neighborhoods (Monk 2006).

<sup>4</sup> The initiation of government support points was in response to input from elected officials who wanted to become better informed about proposals in their community early in the process (Parise 2006).

more likely to be formally welcomed by local government (Keller 2006). At the same time, many LIHTC developments are being built in Over-the-Rhine and other inner-city sections of Cincinnati with the strong endorsement of community groups (Parise 2006). Thus the competitive scoring system and emphasis given to documented public support in the LIHTC application process may be one factor among many slowing the production of family developments in suburban parts of Ohio, although I do not know of any research that supports this assertion.

Hal Keller, Director of the Ohio Capital Corporation for Housing, argues that the local government support and public notification requirements are only one obstacle to subsidized housing production in Ohio's suburbs and likely not the most important one:

In most places in Ohio, there is no political support for affordable housing development in the suburbs. Opponents of these developments talk about traffic, burden on the schools, and things like that, but in fact other aspects may be involved, such as a resistance to minorities and low-income people and resistance to low-income developments in general. (2006)<sup>5</sup>

Similarly, Parise (2006) notes that there are many localities that do not allow property to be zoned for multifamily units, thereby impeding the development of new affordable rentals.

OHFA board members encourage close communication between developers and community residents as early in the process as possible, believing that early interaction can lead to better-designed and better-managed developments (Henry 2006). OHFA tries to avoid assuming the role of developing standards on what should be built at particular sites, preferring instead that developers and community residents work this issue out among themselves.<sup>6</sup>

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<sup>5</sup> Since 1996, no new family LIHTC developments have been built in suburban Hamilton County (Schridder 2006). The three relatively large suburban developments discussed earlier were opened in the early 1990s using the tax-exempt bond feature of the LIHTC program. The lack of any new suburban LIHTC developments in Hamilton County since 1996 probably reflects (1) the lack of developable land (Walsh 2006) and (2) the strong neighborhood attachments of suburban Hamilton County residents, combined with their desire to avoid the shift of perceived urban ills from the city of Cincinnati to their community (Henry 2006).

<sup>6</sup> A Trotwood (Dayton, OH, area) example highlights the importance of such early communication. A developer proposed using LIHTC funding to rehabilitate a project built in the 1960s under a U.S. Department of Housing and Urban Development program, but neighboring residents wanted the troubled development torn down (Coleman 2004). Lieutenant Governor Jeanette Bradley arranged a meeting where both the developer and the community made concessions. However, events deteriorated after that meeting, with the Trotwood community opposing the project by fall 2004. In a letter to the OHFA, Donald McLaurin, Trotwood's mayor, stated,

I should emphasize that this section is based on three Hamilton County problem developments that I am familiar with. However, it is likely that other problem developments exist in other states. In considering the impact and future of the LIHTC program as it moves to the suburbs, further research is essential to better understand the various ways suburban projects are received by their neighbors and perceived to perform in practice.

## Conclusions

Clearly, the LIHTC program has gone mainstream. Not only is it the nation's largest housing assistance program for low-income renters, but it is helping to open up the suburbs for low-income renters. Suburban LIHTC production has increased three- to fourfold over the history of the program and is now split fairly evenly between the central cities and the suburbs. A final piece of good news is that unlike the LIHTC program in central cities, where developments were typically located in high-poverty areas, many suburban LIHTC developments are found in low-poverty census tracts.

The main aim of my comment has been to balance this good news against a realistic assessment of the limited social benefits of current LIHTC location patterns. Four conclusions emerge from my analysis:

1. McClure's article probably provides an overly optimistic picture of the amount of demographic mixing (let alone the amount of social mixing) that occurs in the areas immediately around LIHTC developments.
2. Our hot spot analysis of Hamilton County suggests that many larger LIHTC projects work against social mixing because the overwhelming majority of the residents have low incomes (Wang and Varady 2005).
3. The article's assertion that the LIHTC program outperforms the voucher program needs to be tempered; greater dissemination of best practice HCVPs might reduce that lead.
4. The Galbraith Pointe case study suggests that shifting the LIHTC program to the suburbs is not enough; these developments also need to be well managed. Tenants must be screened carefully for past criminal histories, and residents who do not follow the rules need to be evicted (Schriber

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"We have seen numerous such large multi-unit complexes in surrounding communities, with similar reinvestment cycles, develop into blighted areas, compromising the overall quality of housing and the safety of residents, while increasing the demand on city services" (2004). According to OHFA board member Oren Henry, the meeting between the developer and residents should have occurred earlier in the process without the state's having to intervene (2006).

2006). In addition, there should be a continuation of the trend toward greater and earlier involvement of communities where LIHTC projects are proposed.

I close with the observation that to better understand how the LIHTC program is working and how it intersects with the HCVP, additional and more detailed research needs to be done. More finely tuned geographic research is needed to identify which types of suburban communities are hosting LIHTC developments. To what extent are these developments located in fragile inner suburbs undergoing racial and income change, and to what extent are they accessible to good jobs? Such research would need to combine a variety of databases, including those dealing with voucher recipients, LIHTC developments, school performance, and job opportunities.

Case study research, including the use of qualitative methods, is needed to assess the impact of LIHTC developments on residents and surrounding areas. Among the questions that need to be answered are the following:

1. To what degree do other states besides Ohio use their application process to reward developers who receive the endorsement of local governments for LIHTC projects?
2. To what extent do such systems lead developers to focus on inner-city or rural sites where they are most likely to receive formal endorsement?
3. To what extent are smaller projects more successful than larger ones?
4. Is there a threshold with regard to project size beyond which social problems and difficulties in integrating the development into the surrounding community increase dramatically?
5. What types of management practices and local government/schooling programs have been successful in integrating low-income households into predominantly middle-income areas?

Until these analyses are performed, we will not really understand the influence of high-level LIHTC suburbanization patterns identified in this article.

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