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Articles

The low income housing tax credit and racial segregation

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Abstract

This paper addresses a critical but almost unexamined aspect of the Low Income Housing Tax Credit (LIHTC) program – whether its use (and in particular, the siting of developments in high-poverty/high-minority neighborhoods), is associated with increased racial segregation in the metropolitan area. Using data from the Department of Housing and Urban Development (HUD) and the Census, supplemented with data on the racial composition of LIHTC tenants in three states, we examine three potential channels through which the LIHTC could affect segregation: where LIHTC units are built relative to where other low income households live, who lives in these tax credit developments, and changes in neighborhood racial composition in neighborhoods that receive tax credit projects. The evidence on each of these channels suggests that LIHTC projects do not contribute to increased segregation, even those in high poverty

neighborhoods. We find that increases in the use of tax credits are associated with declines in racial segregation at the metropolitan level.

Acknowledgements

Notes

[1]Picture of Subsidized Housing 2008, Department of Housing and Urban Development.

[2]Poverty and Race Research Action Council (PRRAC).

[3]In 2007 each state received $1.95 per capita in allocations.

[4]Although these developments were intended to be mixed-income developments, in fact most are predominantly low income. Eighty-five percent of projects built by 2007 consist of over 90 percent low income units.

[5]States must submit yearly Qualified Allocation Plans (QAPs) that relate the priorities for use of LIHTC credits to local housing conditions and needs. The majority of criteria are shared across allocating agencies, which reflect federal requirements, but states also impose their own priorities.

[6]Many states also provide 'points' in their ranking criteria for developments located in QCTs.

[7] In a letter to the IRS Assistant Secretary for Financial Institutions, Domestic Finance, dated October 26, 2010.

http://www.prrac.org/pdf/civil_rights_letter_to_Michael_Barr_10-26-10.pdf

[8] The issues raised by fair housing advocates are broader than this, including antidiscrimination enforcement in the implementation of the LIHTC and affirmatively furthering the goals of fair housing. We don't address these additional concerns in our work.

[9] In Re Declaratory Ruling on Connecticut Low Income Housing Tax Credit Program. The Connecticut Civil Liberties Union challenged the lack of civil rights guidelines in the siting of projects under the LIHTC in Connecticut and sought restrictions on future placement of low-income rental units in racially concentrated neighborhoods.

[10] While the court ruled that the New Jersey Housing Mortgage Finance Agency was obligated under the Fair Housing Act to prevent discrimination and promote integration, the court also found that the state agency did not have to take race into account in the QAP to promote integration, and that in fact the state was doing all that it could to promote integration given its other statutory duties and that New Jersey's 2003 QAP did not directly encourage racial segregation. In re 2003 QAP, 848 A.2d at 15.

[11] For a good review of the legal issues and advocates position, see Orfield (2005).

[12] For a good overview of program details, see Schwartz et al. (2006).

[13] In 2000, the definition of QCT was modified so that localities could use a 25 percent poverty threshold instead, which on average is equivalent. Our empirical work ends in 2000, so we employ the original definition of QCT.

[14] HUD 1990 QCT list and NCDB.

[15] LIHTC Database, HUD. This number is based on all three decades of development and calculated as a percentage of units for which non-profit status is not missing (80 percent of observations).

[16] This estimate is based on Census Public Use Micro data, for all metropolitan areas in the LIHTC data.

[17] While some tenants could come from the surrounding neighborhood, developers are prohibited from prioritizing residents of the surrounding neighborhoods in their tenant

selection process.

[18] They report that 61 percent of projects built by non-profit developers are located in neighborhoods categorized as high minority.

[19] An alternative counter-factual is to consider where these households would live if the LIHTC siting patterns differed – i.e., QCTs were not prioritized. We do not address this directly, but believe our MSA regression results shed some light on such a comparison.

[20] As of 2010, states are now required to collect and provide to HUD data on tenants but providing data on race is currently voluntary.

[21] Specifically, they find that 44 percent have about the same share of minorities as the neighborhood, and only 5 percent have a substantially lower share of minority households than the neighborhood.

[22] They also found that for-profits were much more likely than non-profit developers to build in neighborhoods that have a similar share of minorities as the neighborhood, 65 percent as compared with 26 percent.

[23] Additionally Deng (2007) finds that LIHTC projects built in the highest poverty neighborhoods are the most highly correlated with positive changes whereas similar investments in middle class neighborhoods are the most highly correlated with negative changes.

[24] We use 2000 MSA definitions and reconstruct the same MSAs for 1990 and 1980 using constant counties.

[25] An alternative approach is to compare exposure to minority populations for different housing groups, which we have also done with fairly similar results.

[26] These numbers are drawn from the 1990 Decennial Census, and include all minorities. The percentage in high concentration neighborhoods is higher for African-Americans.

[27] For brevity, Tables 1 and 2 present results for units created during the 1990s (patterns are quite similar in other decades).

[28] Within renters, Census data only identify the poor versus non-poor, which nationally has been estimated to approximate 30 percent of area median income (US HUD 2000).

Given 75 percent of LIHTC tenants are estimated to have incomes below 50 percent of the area median income (US GAO 1997), we also consider a higher poverty cutoff (150 percent of poverty) for which tenure status cannot be distinguished.

[29]Where possible, our analysis relies on units: LIHTC units, overall housing units, rental units occupied by poor households. However, for measures of the near poor, this is calculated for the population as a whole, so we use the distribution of the population within the MSA.

[30]We also calculated simple minority exposure rates for each of our groups (see Appendix A for formula). The average tax credit unit is in a neighborhood with 0.409 share minority. In those same MSAs, near poor are in tracts with 0.388 share minority, and poor renters, 0.365. Creating similar ratios to take specific MSAs into account, on average, tax credit units have slightly higher exposure to minorities than do the near poor (7 percent higher) and poor renters (11 percent higher).

[31]Of course, to the extent that LIHTC tenants are more likely to be minority than poor renters or the near poor, these comparisons may overstate the ability of tenants to access lower minority neighborhoods via local housing markets.

[32]To the extent that there are existing barriers within MSAs on access to suburban housing for low income central city residents, the ratios we present may be biased upwards. Specifically, Tables 1 and 2 contrast the neighborhoods of central city LIHTC units to that of all near poor/poor renters in the MSA. Tenant selection preferences could theoretically play a role in limiting access of central city residents to suburban developments.

[33]While HUD has not required states to collect data on the race of tenants of tax credit projects, some states have collected these data for their own records. MA has a total of 27,423 tax credit (affordable) units, of which they have race data for 25,370 (92.5 percent). There are also approximately 70 projects that were placed in service before 1990 for which they no longer collect data. We have racial data for 93 percent of developments in Texas and 96 percent in Delaware.

[34]For MA, the reported data are based on the number of head of household minorities (all non-white heads of household) calculated as the share of all units for which race/ethnicity was reported. For Texas and Delaware, percentage minority includes all households who are black or Hispanic.

[35]The share of MSA poor that are minority is 44.3 percent in Massachusetts, 76.3 percent in Texas, and 56.3 percent in Delaware.

[36]These states also vary greatly in the share of minorities who live in tracts of high relative minority concentration, from a low of 40 percent of minorities in Texas to a high of 62 percent of minorities in Massachusetts.

[37]Indeed, given the ratios across all three neighborhood types, patterns in Texas might suggest LIHTC developments decrease racial segregation.

[38] Table 5 contains the full list of controls.

[39]We have also used nonlinear measures of LIHTC units (quadratics, categorical variables for various sizes), and our main results hold.

[40]Results available from the authors.

[41]For overviews of the issues and measures see Taeuber and Taeuber (1965); James and Taeuber (1985); Reardon and Firebaugh (2002).

[42]Appendix A describes these measures in more detail, including their mathematical calculation.

[43]Various state QAPs available on line.

[44]The most direct method for dealing with such selection would be to identify an instrument, something that varies with the prevalence of LIHTC units but does not otherwise affect segregation. While we have considered several instrument strategies based on population and housing market factors, such factors would also directly affect segregation and we do not believe they make credible instruments.

[45]When we model HOPE VI dollars, rather than as a dummy variable, it is no longer significant. We may well be capturing something important about areas selected for HOPE VI (and other correlated projects) rather than new developments per se. For our purposes, as a control for otherwise unobservable changes in housing markets and policy, we prefer the dummy variable.

[46]While all relevant coefficients are negative in all models, they are not uniformly significant. See Appendix B for full results.

[47]Though we may expect rehab to have a weaker relationship with neighborhood racial composition than new construction, as these developments are more likely to prioritize previous tenants, these results could potentially be driven by spillover effects of LIHTC rehab developments. Rehab developments may be improving particularly dilapidated old buildings and in this way could have an even stronger impact on neighborhood racial change. Given our current data we cannot test these hypotheses, so this is purely speculative. These impacts could also vary by type of development undertaken and location, but again we cannot identify this with the current data.

[48]Particularly relevant here, changes in these measures are not highly correlated over time.

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