Freddie Mac
MULTIFAMILY

Spotlight on

Underserved Markets

LIHTC in Rural Persistent Poverty Counties

LIHTC in Rural Persistent Poverty Counties

A Comprehensive Overview of the Region's LIHTC Market and the Structural Drivers that Present Challenges and Opportunities for the Broader Multifamily Rental Market

The areas of the United States where poverty is both high and persistent are also commonly the areas where renters struggle to find safe, quality and affordable housing. In these areas, policy initiatives and market incentives that advance the development of housing are crucial in combating the negative economic effects of an inadequate housing supply.

Areas of poverty can be defined in many different ways. One measure that takes both severity and pervasiveness of poverty into account is the designation of a Persistent Poverty County (PPC), defined under federal law as a county that has had a poverty rate of at least 20% in each of the last three decennial censuses (1990 to 2010). Today, 7.9 million people live in the rural parts of PPCs, which constitute 38.1% of the population of these counties.

Developing unsubsidized rental housing in rural PPCs is challenging since household incomes are often too low to support units that can charge enough rent to cover construction and operating expenses. Consequently, subsidized housing is far more common in these areas than in other regions. However, even subsidized housing faces challenges both in terms of economic feasibility and allocation of limited federal, state and local funding.

In this paper, we explore the multifamily housing market in rural PPCs with a special focus on the primary means by which the federal government supports the development of affordable housing nationwide: the Low-Income Housing Tax Credit (LIHTC) program. To support our analysis, we compiled and analyzed multiple data sources, conducted market research and consulted market participants. Our goal is to provide clarity regarding the market size and distribution of tax credits in the rural parts of PPCs and examine housing and demographic characteristics of these areas that influence the LIHTC and overall rental housing market. Market participants can use our findings to inform future research, guide housing policy and identify market opportunities.

Below are some of the key findings of our research:

- There are 7.9 million residents in rural PPCs. This represents 2.5% of the total U.S. population and 10.7% of the nation's rural population.
- Income in rural PPCs is about 43% lower than the national average and 28% lower than the rural average.
- Rental housing, and multifamily rental housing in particular, is relatively uncommon in rural PPCs. Only 32.6% of households are renters (compared with 36.2% nationally). Single-family housing is the primary form of rental housing.
- The multifamily stock that does exist is supported by LIHTC at a higher rate than elsewhere in the country. LIHTC supports 40.1% of the multifamily housing market in rural PPCs, a rate that is more than three times greater than the national average and one and a half times greater than all rural areas.
- In rural PPCs, an average of 54 properties and 2,370 units have been supported by LIHTC annually since 2000, although the rate has declined in the past decade (consistent with the national trend).
- LIHTC development faces many challenges, but still plays a vital role in addressing the rental housing needs for lower-income families in rural PPCs.

Overview of LIHTC and its Supporting Role in Subsidizing Multifamily Rental Housing

The LIHTC program is one of the primary means of creating and preserving affordable rental housing across the country, in both large and small markets. Since the program's inception in 1986, it has created or preserved over 3.2 million units of rental housing affordable to those making 60% of the area median income (AMI) or less.[1] Subsidy programs like LIHTC are commonly needed to provide capital for affordable rental housing in markets where it would otherwise be uneconomical to develop. However, while the LIHTC program has national reach, its efficacy in meeting local needs can vary by market and is highly dependent upon a variety of local conditions, state priorities, and developer interest and capabilities. This dependency is especially apparent in the nation's hardest to serve rural markets, where a lack of resources on the local level are more likely to be insufficient given the unfavorable economics.

As part of our Spotlight on Underserved Market series, we have detailed the rural housing and LIHTC markets in Middle Appalachia and Lower Mississippi Delta, both of which are identified as high-needs rural regions under the Duty to Serve (DTS) regulation.[2] In both of these reports, we found that LIHTC-supported units comprised a disproportionately high percentage of the multifamily rental market. Part of the reason for this is that household income in these regions is very low; LIHTC is often the only economically viable way of providing affordable housing. This theme – high LIHTC development activity driven in part by low incomes – continues in the rural PPCs as we find that market conditions in these areas are similar to those of other high-needs regions and populations.

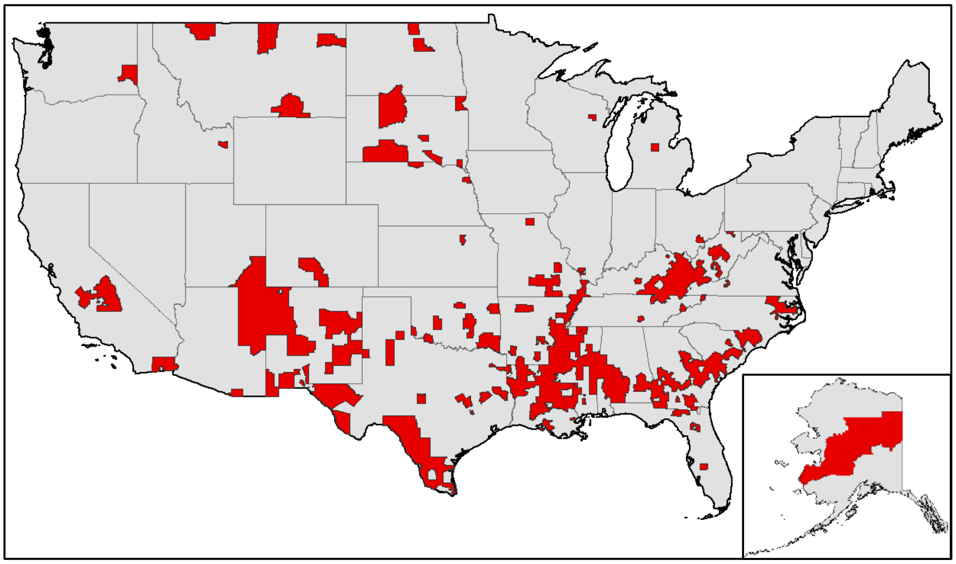
Characteristics of Rural Persistent Poverty Counties and How They Affect the LIHTC Market

There are numerous demographic, economic and topographic factors that influence the ability to create and preserve affordable rental housing through LIHTC in these areas. Because of this, the LIHTC market should not be viewed in isolation but instead with consideration to exogenous factors that are prominent in these areas. A unique aspect of this geography, when compared with the other high-needs regions, is that rural PPCs are spread out across the country. As a result, there is a wider variety of developers, which we will discuss later in this report.

Geographic Definition

In this paper, we view rural PPCs as consisting of census tracts identified by the Federal Housing Finance Agency (FHFA) as part of DTS. The definition of rural PPCs was ultimately derived from the U.S. Department of Treasury's Community Development Financial Institutions (CDFI) fund. The CDFI fund classifies PPCs as counties having a poverty rate of 20% or higher as measured by the 1990, 2000 and 2010 censuses.[3] Non-rural census tracts are removed, resulting in census tracts designated as rural PPCs. In this way, rural PPC refers to all tracts that are classified as belonging to PPCs and are rural, per the DTS guidance. The designation of non-rural PPCs refers to all other tracts.

Exhibit 1: Map of Rural Persistent Poverty Counties

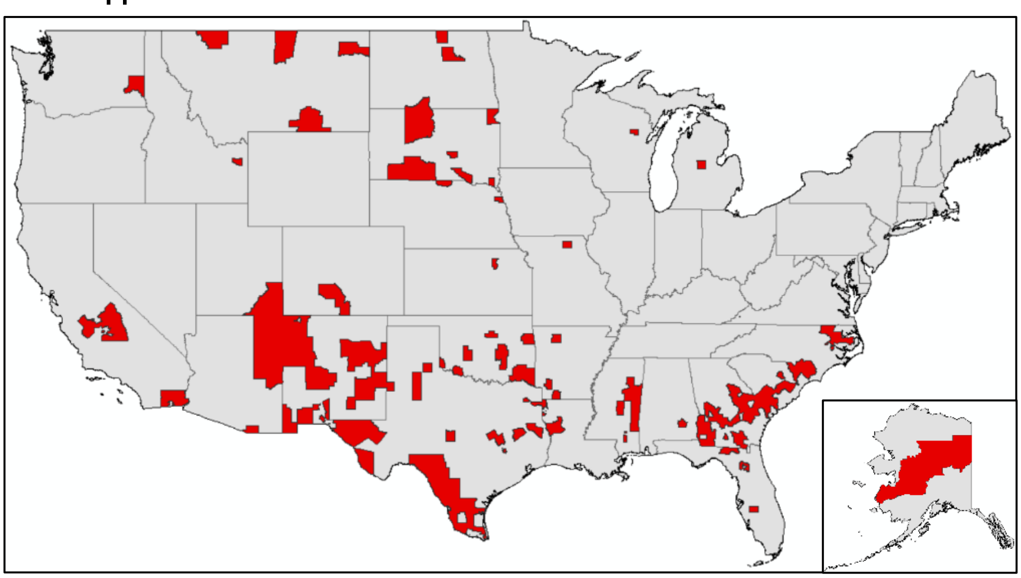


Source: Mapping of Duty to Serve data (12 CFR 1282). Hawaii is not shown because it does not contain any PPCs.

Although rural PPCs are found all over the country, there are high concentrations in certain areas. The Middle Appalachia and Lower Mississippi Delta regions, two of the other high-needs regions as defined under DTS, have significant concentrations. In fact, nearly half of all rural PPCs are in one of these two regions.

Exhibit 2 shows rural PPCs with these two regions removed. However, in this paper, we will include all rural regions in PPCs regardless of whether they also fall in Middle Appalachia or the Lower Mississippi Delta.

Exhibit 2: Map of Rural Persistent Poverty Counties, with Middle Appalachia and the Lower Mississippi Delta Removed



Source: Mapping of Duty to Serve data (12 CFR 1282). Hawaii is not shown because it does not contain any PPCs.

General Demographics

Approximately 7.9 million people live in rural areas of PPCs, which represents 10.7% of the nation's rural population and 2.5% of the nation's total population. The age distribution is similar to the rest of the nation but with higher concentrations at the low and high end. In rural PPCs, 19.8% of the population is under the age of 15, compared with 28.9% in the nation. On the other end of the distribution, 16.1% of people in rural PPCs are 65 or older, compared with 15.2% in the nation.[4]

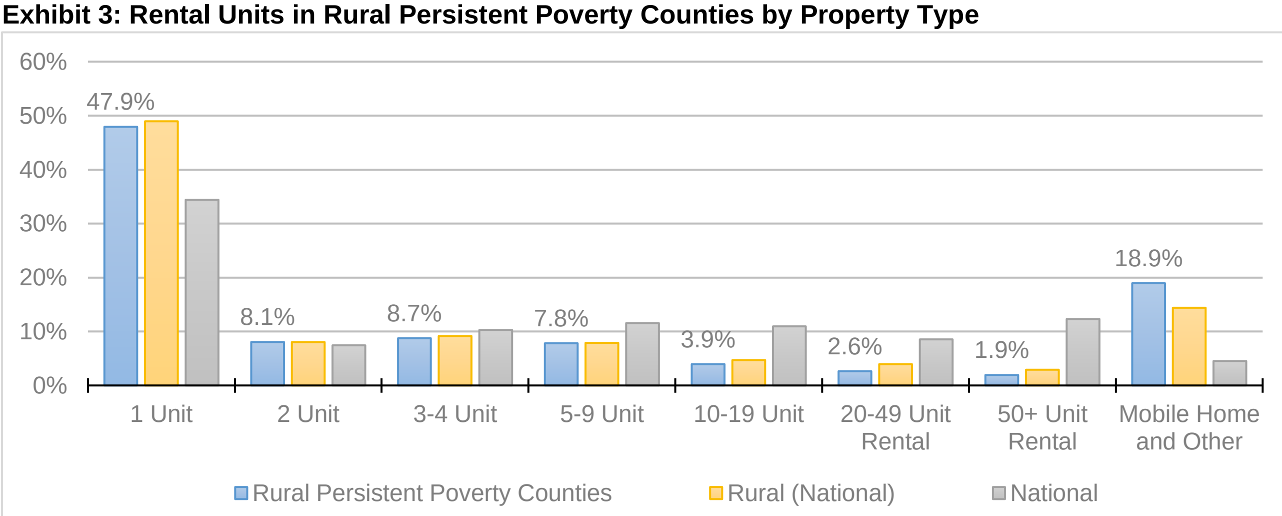
These seemingly small disparities are important because they represent a high dependency ratio. This ratio is a rough gauge of what proportion of the population is economically dependent on the workforce and is defined as the number of people under 14 years old and above 65 years old divided by the number of workers age 15 to 64. The higher this rate is, the lower the percentage of working adults there are for the presumed non-working population.[4]

The high concentrations of children and seniors contributes to the dependency ratio of 55.8% for rural PPCs, which is materially higher than the national rate of 51.8%. A high dependency ratio can put an economic strain on an area since relatively few working age people are available to support the population of people who are far less likely to work, which ultimately leads to a lower output per capita and a smaller tax base. The high dependency ratio in an area does not fully explain the designation of persistent poverty, but it is a contributing factor in some cases.

Housing Type

The renter rate in rural PPCs is 32.6%, which is low relative to the nation (36.2%) but high relative to other rural areas (26.7%). Among rentals, there is a heavy skew toward smaller property sizes. Approximately 64.7% of all rentals are in properties with fewer than five units, which is substantially higher than the national rate of 52.1%. Even among multifamily properties (5+ units), there is an obvious skew toward lower unit-count properties, as seen in Exhibit 3.

Exhibit 3: Rental Units in Rural Persistent Poverty Counties by Property Type



Sources: Freddie Mac Tabulations of 2018 5-Year American Community

Similar to the other high-needs regions, the data reveals that a high portion of renters live in mobile homes in rural PPCs.

Economics

Poverty rates in rural PPCs are among the highest in the nation, and income levels are among the lowest. This result is intuitive given the region's name, but a compounding factor is that PPCs are, by definition, entirely rural and rural areas are generally less economically prosperous.

The poverty rate in rural PPCs is 26.4%, compared with 15.4% for all rural areas and 14.1% for the nation. Fully 29.0% of census tracts in rural PPCs rank in the top 10% of all tracts nationwide in terms of highest poverty rate. In addition, only 6.8% of rural PPC tracts rank in the bottom 50% of tracts, while the corresponding rate for PPCs, both rural and non-rural, is 16.0%.[4] These results signify that, in counties where poverty has historically been persistent, it is very rare that subsections of the county will not have high poverty rates, and that the issue is particularly profound for rural areas.

PPCs, including both rural and non-rural areas, have a median income of $41,197 and a median renter income of $30,173, both of which are significantly below the nation's median income levels. When focusing on just rural parts of PPCs, these numbers drop to $34,299 and $21,325, respectively. Median household income in rural PPCs is 43.1% lower than the nation and 28.4% lower than all rural areas. The income levels are so low that the median owner household in rural PPCs only earns 12.4% more than renters nationwide, which is far less than the national rate where owners earn roughly twice as much as renters.

Job opportunity is also more difficult to come by in rural PPCs. Nationally, there are roughly 0.58 jobs available for every person age 16 and older. However, in PPCs where at least half of the county is rural, this rate drops to only 0.41 jobs.[4] The disparity suggests that job opportunity is scarcer in these areas. However, the disparity can also be partially explained by the higher percentage of elderly residents in PPCs, since older people generally have a lower labor force participation rate and therefore are less likely to be employed.

Still, this finding suggests that fewer wage earners exist in these areas (consistent with the dependency ratio findings discussed above), and/or workers in these areas need to travel farther distances for employment. We also learned from industry experts that a weak local job market can be a hindrance for LIHTC investment, since it can signal deeper structural issues.

Rental Burden

Renters in rural PPCs often struggle to find affordable, quality housing as a result of low household incomes and general economic underdevelopment.

The housing burden experienced by renters in rural PPCs is slightly above that of the rest of the nation, where 51.8% of renters are rent burdened (paying at least 30% of income on rent and utilities), compared with 50.2% nationally. This rate is much higher than for rural areas generally, where only 45.8% are rent burdened. However, as seen in Exhibit 4, the rate is lower than in suburban and urban parts[i] of PPCs where the rent burden is 55.8%. This shows that the rate in both rural and non-rural portions of PPCs is substantially higher than elsewhere.

[i] In this paper, the designation of "suburban and urban" is synonymous with non-rural.

Exhibit 4: Rent Burden by Region

Rent Burden Status (% of all Renters)	PPCs (Rural)	PPCs (Suburban and Urban)	PPCs (All)	Rural	National
Rent Burdened	51.8%	55.8%	54.8%	45.8%	50.2%
Severely Rent Burdened	26.7%	31.1%	30.1%	22.1%	25.2%

Source: Freddie Mac Tabulations of 2018 5-Year American Community

In addition, 26.7% of renters in rural PPCs are severely rent burdened (paying at least 50% of income on rent and utilities), compared with 25.2% nationally, 22.1% in rural areas and 31.1% in suburban and urban PPCs.

Housing Quality

Some measures of housing quality indicate that the rental stock in PPCs is subpar in comparison with other areas of the country. To get a rough gauge of the quality of rental units in these areas, we can examine the distribution of units by year built as a proxy. When focusing solely on multifamily units, we actually find that a higher percentage of units were built more recently than the national average. Specifically, 23.3% of units in rural PPCs are considered new (built in or after 2000), compared with 19.7% nationally. Only 9.1% of units are considered old (built before 1960), compared with 20.3% nationally.

The story changes when all PPCs, rural and non-rural areas, are included. The share of new units is only 14.1% (compared with the national rate of 19.7%) and the share of older units is 45.1% (compared with the national rate of 20.3%).[4]

There could be several reasons why rural areas of PPCs have a relatively high percentage of newer multifamily rental units. One explanation is that these rural areas were less developed than other rural areas of the country before 1960 so very few rental units would have been constructed. It's also possible that many of the older structures that were built have not lasted to the present day.

Unlike urban and suburban areas, where multifamily supply depends more on population growth and other demographic drivers, rural areas depend more on funding from public subsidy programs. LIHTC, which is the nation's most prominent subsidized housing program, is relatively new, having been established in 1986, and has helped to ramp up development in rural areas. Indeed, an outsized portion (about 50% more than the national average) of multifamily rental units built in rural PPCs over the last two decades has been supported by LIHTC,[4,5] which helps to explain the area's skew toward recent construction.

The trend does partially disappear when expanding the scope to all rental units, indicating that the recency of construction may apply only to multifamily. In rural PPCs, 14.8% of rental units were built after the year 2000, compared with 16.0% nationally. However, the older units are also less common, at 19.5% of the overall stock compared with 28.9% nationally. This is likely due to the reasons outlined above. The trend, when adding in non-rural areas to PPCs, is the same as before: Newer units are less prevalent (13.2% versus 16.0% nationally) and older units are more prevalent (40.9% versus 20.9% nationally).

Exhibit 5: Multifamily Units by Year Structure was Built

	Multifamily Units as a Percentage of All Units					
Region	**2010 or Later**	**2000-2009**	**1980-1999**	**1960-1979**	**1940-1959**	**1939 or earlier**
PPCs (Rural)	7.4%	15.9%	39.1%	28.6%	5.6%	3.5%
PPCs (All)	5.1%	9.0%	17.0%	23.9%	16.5%	28.6%
Rural	6.4%	13.4%	34.6%	29.8%	7.3%	8.5%
National	6.9%	12.8%	30.1%	29.9%	9.7%	10.6%

Source: Freddie Mac Tabulations of 2018 5-Year American Community

An analysis of data from Yardi Matrix shows that very few high-end apartments[ii] exist in PPCs[iii] while a relatively large percentage of lower-grade workforce apartments are in these regions. Only 3.0% of properties in the Discretionary assets, which is the highest asset class of the apartment market by improvement rating, are in PPCs. Conversely, this region contains 6.4% of all lower-grade workforce rental housing, which is the lowest asset class tracked by Yardi Matrix.[6] Although these differences are not extreme, they do highlight the higher prevalence of lower-quality housing in this region.

Physical and Health Infrastructure

Infrastructure plays a key role in economic development, with some research even indicating that enhanced infrastructure is the only true deterrent to rapid economic growth. However, the quality and breadth of physical infrastructure in rural areas of the country is generally not on par with urban and suburban areas, which have commonly been the focus of infrastructure improvement initiatives.[7,8,9]

Infrastructure research has not been done specifically on rural PPCs, but insight can be gleaned from studying this topic in rural and high poverty areas. During a 2017 Congressional Hearing titled, “The State of Infrastructure in Rural America,” it was argued that transportation and technological infrastructure investment at the local level is more difficult in rural areas given their disadvantaged economic position. With less developed infrastructure, individuals and businesses have an incentive to leave these areas, thus exacerbating the issue.[10] Infrastructure development is especially lacking in high poverty areas since they often lack the resources to meet local infrastructure demands.

Beyond physical inadequacies, PPCs suffer from poor health infrastructure. People living in PPCs have worse health experiences than those who live in other areas across the country. Ninety-one of the top 100 U.S. counties reporting the highest percentage of people in poor or fair health are in PPCs.[11]

Regarding health outcomes, over 80% of PPCs fall in the lowest quartile of U.S. counties. Further, standards of public health, like access to clean drinking water, are also lacking in these areas. Forty-two percent of PPCs experienced a “health-related drinking water violation”, which is about five percentage points higher than the national average.[11]

[ii] In this context, high end refers to Yardi Matrix’s Discretionary asset class, which includes those with an A or A+ rating. These apartments will generally have superior amenities, architectural design and construction, and will have varied unit mixes with larger unit sizes.
[iii] This analysis includes rural and non-rural areas due to the very small sample sizes created by only including rural areas. Even though the sample only using rural is not robust, it does appear to show the same trend.

Overview of the LIHTC Market in Rural Persistent Poverty Counties

LIHTC Market Size

The rural areas of PPCs struggle to provide an ample amount of affordable, quality housing without intervention from federal housing assistance programs. LIHTC is the most common federal subsidy and accounts for a large percentage of multifamily rental units. LIHTC is also commonly paired with other subsidy programs, which we discuss in more detail later.

Using data from the National Housing Preservation Database (NHPD), we estimate that rural PPCs contain 1,550 multifamily properties with an active LIHTC subsidy, supporting 60,833 units.[iv] This represents 4.7% of the national total for LIHTC properties and 2.6% for units. If we exclude all rural PPC tracts that are also in Middle Appalachia or Lower Mississippi Delta, then there are 861 multifamily properties with an active LIHTC subsidy, supporting 36,720 units.[12]

Since 2000, an annual average of 54 properties and 2,370 units have been placed into service in rural PPCs through the LIHTC program, or 31 properties and 1,490 units when excluding Middle Appalachia and Lower Mississippi Delta tracts. The annual allocation rate appears to have declined over the past decade, which is consistent with the national trend.

Within PPCs, 41.1% of LIHTC properties are located in rural areas, leaving 59.9% in suburban and urban areas. This rural share in PPCs is substantially higher than the national rate of LIHTC properties of 29.1%. In both geographies, the proportion of rural units is lower, with 27.7% in PPCs and 15.9% for the nation.[12]

LIHTC properties in rural PPCs are of comparable size to those in rural areas but are considerably smaller than the national average.[v] The average LIHTC property size in the region is about 39 units, which is the same as in rural areas; nationally, the average size is 72 units.

Quality of LIHTC Housing in the Region

The Real Estate Assessment Center (REAC), which tracks physical inspection scores for properties in the Department of Housing and Urban Development's (HUD's) portfolio, provides a more concrete measure of housing quality. Properties are given a score from 0 to 100 based on the physical condition of the property, with anything at or above 60 considered as passing. They are also given an alphabetic score (a-c) based on the health and safety of the property (a: no deficiencies, b: non-life-threatening deficiencies, c: at least one life-threatening deficiency). Among all properties in the NHPD, the passing rate is very similar among properties in rural PPCs and properties nationally (95.5% versus 95.6%). However, only 13.3% of HUD properties in rural PPCs did not have any health and safety deficiencies compared with a marginally higher 14.6% nationally.[12]

[iv] Estimates are based on data released in January of 2020.
[v] When we talk about units in this section, we are discussing LIHTC-assisted units, not total units for the property. The results are very similar regardless of which unit count is used. We decided to use assisted units to stay consistent with the rest of the paper.

LIHTC Supports a Substantial Share of Multifamily Renters in the Region

We observe a very large disparity between rural PPCs and other regions when examining the size of the multifamily rental market relative to the entire housing market. As seen in Exhibit 6, the rate of multifamily rental housing in rural PPCs is roughly one-third of the national rate. However, when the rate of LIHTC housing is compared with the nation, we find that LIHTC supports a relatively high percentage of multifamily renter households but a relatively low percentage of all households.

In other words, LIHTC housing comprises a disproportionate share of multifamily rental housing. Specifically, of the 151,538 multifamily rental units in rural PPCs, 60,833 (40.1%) are supported by LIHTC. This is more than 50% higher than in all rural areas and is more than three times higher than the national rate. From this finding, we can conclude that multifamily is far less common in rural PPCs, but that the multifamily housing that does exist is supported by LIHTC subsidies at a higher rate than elsewhere in the country.

Exhibit 6: Geographic Distribution and Concentration of LIHTC Units by Region

Region	LIHTC Subsidized Units[vi]	Multifamily Renter Households as % of all Households	LIHTC Subsidized Units as a % of:		
			Households	Renter Households	Multifamily Renter Households
Rural PPCs	60,833	5.3%	2.1%	6.6%	40.1%
Rural (Nation)	376,641	5.2%	1.3%	5.0%	25.7%
National	2,373,396	15.5%	2.0%	5.5%	12.6%

Sources: Freddie Mac Tabulations of 2018 5-Year American Community Survey and the NHPD. Shading is based on LIHTC prevalence. Blue shading indicates that a relatively high percentage of LIHTC units are available for the given population (e.g., Renter Households). Red shading indicates that relatively few LIHTC units exist.

The results from Exhibit 6 show that subsidized housing makes up such a large percentage of the total multifamily rental market because, in many cases, it is the only feasible way of providing it. The LIHTC rate of 40.1% is highest of the high-needs regions; in our past research, we found that the rate in rural Middle Appalachia was 26.9% and rural Lower Mississippi Delta was 39.2%.

LIHTC Incentives Commonly do not Prioritize High Poverty Areas, Inhibiting Development in Persistent Poverty Counties

LIHTC development has historically been most prevalent in high poverty areas. According to research by the Center on Budget and Policy Priorities, 34% of LIHTC units are located in areas where at least 30% of residents are in poverty, compared with just 18% of all renter-occupied units.[13] Additionally, we have shown in our prior research[14] that roughly half of all LIHTC units are in Areas of Concentrated Poverty.[vii]

Although the current distribution of LIHTC units tends to favor high poverty areas, development in these areas using 9% tax credits is typically not incentivized by states in their LIHTC program Qualified Allocation Plans (QAPs). Increasingly, states are incentivizing development in high opportunity areas since these areas are more likely to provide residents with opportunity for upward economic mobility.

[vi] LIHTC Subsidized Units only includes units in multifamily properties (5+ units). There are LIHTC units that are in properties with fewer units, but they are very uncommon and not the focus of this paper.
[vii] Areas of concentrated poverty are census tracts designated by HUD as a Qualified Census Tract or a Racially- or Ethnically-Concentrated Area of Poverty. For more information, please see this link.

Concentration of subsidized housing in high poverty areas further exacerbates the incidence of high poverty, which is a trend that states are increasingly noticing and attempting to curtail.

For example, Mississippi, a state with a high concentration of PPCs, awarded more points to properties that are in high opportunity areas in their 2017-2018 QAP. An area is designated as high opportunity if there is availability of sustainable employment, a low poverty rate and/or high performing schools. No preference was given to high poverty areas.[15]

Incentivizing development in high opportunities areas will, in theory, provide more economic mobility for low-income families than equivalent housing in high poverty areas. Indeed, most recent industry research emphasizes the benefits of providing subsidized housing in high opportunity areas over high poverty areas.[16,17,18]

However, providing quality, affordable housing in rural PPCs is still important for several reasons. Renters in this region generally experience a higher degree of housing stress than in other parts of the country. As discussed earlier, 51.8% of renters in rural PPCs are rent burdened compared with only 45.8% in rural areas generally. For low-income households, the total funds available for all essentials aside from housing is already comparatively small, so spending an excess amount on housing diverts resources that are already very limited.

In addition to alleviating rent burden, LIHTC development can be beneficial for all residents of lower-income neighborhoods. In a paper published by Stanford University in 2017, researchers argued that place-based subsidized housing can help revitalize low-income communities. In neighborhoods with a median income below $26,000, the value of properties within 0.1 miles of a LIHTC property rose by 6.5%. Additionally, LIHTC development lowers both violent crime and property crime rates in low-income neighborhoods.[19]

A Wide Variety of Developers Serve Rural Persistent Poverty Counties

The far-reaching geographic diversity of PPCs has made it difficult for developers to specialize solely in these underserved areas. When considering previous reports on the Lower Mississippi Delta and Middle Appalachia, it was not uncommon to find developers dedicated solely to the respective locales. Though close to half of PPCs are concentrated in these two regions, counties extend into a total of 35 states. There is no research to suggest that a direct relationship exists between developers and the whole of PPCs.

The expanse of the counties necessitates varied local issues, which most likely contributes to the lack of a singularly focused developer. The closest parallel to a universal developer is a cohort of community CDFIs that have united to improve the region. Known as the “Partners for Rural Transformation,” the group consists of six CDFIs that reach 75% of PPCs.[20]

Economics of LIHTC Development and Multifamily Housing

The median rent in rural PPCs is $608, compared with $1,023 for the nation and $710 for rural areas generally. This large disparity in rents between rural PPCs and the nation, and even between rural areas, is largely a consequence of incomes that are too low to incentivize development of higher-priced units.[12]

The pricing of multifamily rents is governed by the same principles as other goods in an economy: supply and demand. The supply side does not inherently present too many constraints; land in this area is relatively affordable and the cost of labor and materials does not differ significantly from the rest of the country (although construction costs are often still too high from an investor's perspective, especially considering the low rental revenue of completed apartments).[viii]

The primary issue for developers is on the demand side. The vast majority of this region lacks the population density to make multifamily housing feasible, which results in few properties. Even in areas that can support multifamily housing, rents are low because incomes are so low, which means that demand for higher-priced units is minimal. If property operators did raise rents to be consistent with national norms, multifamily rentals would be seen as a relatively expensive option compared with single-family rental and homeownership, and thus less enticing as a housing option.

LIHTC Properties Rely on Additional Subsidies

Even with LIHTC as a part of the financing, projects often require additional capital that does not demand high returns. We can see evidence of this from examining LIHTC properties that are supported by other housing programs. Our research indicates that at least 58.2% of all LIHTC properties in rural PPCs are supported by an additional federal assistance program, as shown in Exhibit 7. This rate is in line with the rates of the other high-needs regions – rural Middle Appalachia (56.7%) and rural Lower Mississippi Delta (60.7%) – and above that of all rural areas (54.6%) and the entire nation (43.2%).

Exhibit 7: LIHTC Properties Supported by Other Federal Housing Assistance Programs in Persistent Poverty Counties

Subsidy/Guarantee Program	Number of LIHTC Properties Supported	Percentage of LIHTC Properties Supported
Project-based Section 8	109	7.0%
HOME	198	12.8%
RHS 515	624	40.3%
RHS 538	85	5.5%
Combined	902	58.2%

Source: Freddie Mac Tabulations of the National Housing Preservation Database. The figures in the table could be higher if there are subsidy programs used in the region that are not captured by the Preservation Database.

Additional Difficulties in Developing LIHTC Projects and General Affordable Housing

In addition to the challenges outlined above, there are numerous other difficulties faced by the LIHTC program in this region, some of which are not common in other areas of the country. Investment in LIHTC is largely driven by the Community Reinvestment Act (CRA). Banks with CRA requirements account for about 85% of LIHTC equity investment and CRA demand drives up the price of credits.[21] However, we learned during our industry outreach that CRA appetite is low among investors in rural areas, including rural PPCs. This results in lower credit pricing and ultimately lower proceeds toward LIHTC development, meaning that the financing for a property must come from other, often limited, sources (e.g., funding from local housing organizations).

[viii] There is an issue of lack of financing, which will be discussed later, but this is not inherently a supply problem since it stems from an overall lack of demand and doesn't directly impact production capacity.

As mentioned earlier, 9% LIHTC projects in high opportunity areas are often better at competing for tax credits since they are more likely to be incentivized in state QAPs. States will commonly look for characteristics such as good schools, access to public transit and quality health care – all features that rural PPCs are less likely to have. Consequently, competing for credits is more difficult.

LIHTC properties in rural PPCs are generally smaller than in other regions. We learned during our expert outreach that smaller LIHTC deals will often have more volatile performance, especially in the first few years of operation. Since a small number of vacancies can be very problematic for property operators, reserve funding is often necessary.

Conclusion

Developing affordable housing in any region of the U.S. is difficult. The degree of difficulty, however, is based on a wide range of factors. Generally, providing housing in low density areas, such as rural areas, is more challenging. Development is also difficult in areas where local income levels are too low to support high enough rents to cover the capital and operating expenses of apartments. These two factors intersect in the rural parts of PPCs, which makes providing affordable housing particularly tough in this region.

Fortunately, subsidized housing options like LIHTC have historically helped to close the gap between the need for affordable housing and the economic feasibility of providing it. Indeed, LIHTC activity as a proportion of all multifamily development in rural PPCs is considerably higher than the national average; specifically, we estimate that 40.1% of multifamily rental units in rural PPCs are supported by LIHTC, compared with 12.6% nationally. This does not indicate an overallocation of credits, but instead demonstrates the difficulty of providing affordable housing without subsidy and the heavy dependence that this region has on tax credits. The need for subsidized housing in rural PPCs is critical, as an outsized share of renter households are rent burdened and living in inadequate housing.

Economic development and a prosperous housing market are intertwined phenomena, and advancement in one area can lead to advancement in the other. Rural PPCs have historically suffered from underinvestment of physical and health infrastructure, which has impeded growth potential. Providing more quality, affordable housing can be very beneficial in these areas both in terms of housing stability and economic growth, which underscores the importance of private investment in the rental housing market by means of federal tax credits. Although difficulties, such as low population density and inadequate CRA demand for tax credits, exist in these areas, the current number of LIHTC properties shows that developers are stepping up to the challenge and delivering affordable housing in regions of the country where residents desperately need it.

References

---

[1] "Low-Income Housing Tax Credits." U.S. Department of Housing and Urban Development, 6 June 2018. Web. www.huduser.gov/portal/datasets/lihtc.html.

[2] The classification of high-needs rural regions comes from regulation 12 CFR 1282.1. Colonia is the fourth high-needs rural region, but its geographic footprint is much smaller and not well defined, so we have devoted less research to it.

[3] Duty to Serve Regulation – 12 CFR 1282.1

[4] Freddie Mac Tabulations of 2018 5-Year American Community Survey

[5] Freddie Mac Tabulations of the National Housing Preservation Database

[6] Freddie Mac Tabulations of Data from Yardi Matrix

[7] "The State of Infrastructure in Rural America." Hearing Before the Committee on Agriculture – House of Representatives. United States Government Publishing Office. 19 July 2017. Web. https://www.govinfo.gov/content/pkg/CHRG-115hhrg26588/html/CHRG-115hhrg26588.htm

[8] "Rural Infrastructure." Farm Bureau. Web. https://www.fb.org/issues/infrastructure/rural-infrastructure/

[9] Fox, William F.; Porca, Sanela. "Investing in Rural Infrastructure." University of Tennessee. 2001. Web.

[10] From the aforementioned "State of Infrastructure in Rural America":

> *The infrastructure on which our world class agricultural researchers rely is outdated, crumbling, even as other countries are making significant investments. At the root of many of these problems is the need for capital to be invested in rural America. Our shifting population moving out of rural communities into urban and suburban counties, is also shifting the tax base making it difficult for small communities to finance the upgrades they need to continue to be competitive in a modern economy. It is a cycle that seems unbreakable. Services are lacking, so families move out. As families move out, the tax base shrinks. And as the tax base shrinks, services must be curtailed and upgrades must be postponed.*

[11] "Transforming Persistent Poverty in America: How Community Development Financial Institutions Drive Economic Opportunity." Federation of Appalachian Housing Enterprises. Web. https://fahe.org/wp-content/uploads/Policy-Paper-PRT-FINAL-11-14-19.pdf

[12] Freddie Mac Tabulations of the National Housing Preservation Database

[13] Fischer, Will. "Low-Income Housing Tax Credit Could Do More to Expand Opportunity for Poor Families." Center on Budget and Policy Priorities. 28 August 2018. Web. https://www.cbpp.org/research/housing/low-income-housing-tax-credit-could-do-more-to-expand-opportunity-for-poor-families

[14] "Mixed-Income Housing in Areas of Concentrated Poverty." Freddie Mac. 2 November 2018. Web. https://mf.freddiemac.com/docs/Affordable_Housing_in_Areas_of_Concentrated_Poverty.pdf

[15] "2017-2018 Qualified Allocation Plan." Mississippi Home Corporation. 2 December 2016. Web. https://www.novoco.com/sites/default/files/atoms/files/mississippi_2017-2018_final_qap_120216_0.pdf

[16] Fischer, Will. "Low-Income Housing Tax Credit Could Do More to Expand Opportunity for Poor Families." Center on Budget and Policy Priorities. 28 August 2018. Web. https://www.cbpp.org/research/housing/low-income-housing-tax-credit-could-do-more-to-expand-opportunity-for-poor-families

[17] Winkler, Andy; Varn, Jake; Sabrina, Lee. "Using LIHTC to Expand Access to Opportunity". Bipartisan Policy Center. 22 February 2019. Web. https://bipartisanpolicy.org/blog/using-lihtc-to-expand-access-to-opportunity/

[18] “Confronting Concentrated Poverty With a Mixed-Income Strategy.” U.S. Department of Housing and Urban Development. 2013. Web. https://www.huduser.gov/portal/periodicals/em/spring13/highlight1.html

[19] Diamond, Rebecca; McQuade, Tim. “Who Wants Affordable Housing in their Backyard? An Equilibrium Analysis of Low Income Property Development.” Stanford University. December 2017. Web.

[20] “Partners for Rural Transformation.” Federation of Appalachian Housing Enterprises. Web. https://fahe.org/partnersforruraltransformation/

[21] “What do Higher LIHTC Prices Mean for Syndicators?” Cohn Reznick. 1 June 2014. Web. https://www.cohnreznick.com/insights/what-do-higher-lihtc-prices-mean-syndicators

In addition to these in-line citations, we also received input from members of various organizations with specialties in rural housing. We are very grateful for their input as our research efforts could not have been possible without them. The organizations include:

- Boston Financial
- Hallmark Companies
- Federal Reserve Board