

When Purely Free Markets Aren't the Answer

Government involvement is necessary for affordable housing needs.

By Patrick S. Duffy

As the battle over reforming health care has put government competence and personal freedom under the spotlight, critical infrastructure needs would simply go unmet without the backing of the public sector. It is difficult to imagine the private sector meeting the country's ongoing need for affordable housing on its own.

If private enterprise isn't the answer, then what is? It has to be government – both in terms of direct subsidies and incentives such as tax credits and rewarding non-profits operating both internationally, such as Habitat for Humanity – and at the local level. And yet, even these incentives are now under pressure.

The national tax credit program, providing a critical way to finance low-income rental housing for the past 20 years, is now under duress because investors such as Fannie Mae and Freddie Mac exited the market last year, taking 40 percent of the funding off the market. Much of the balance was previously funded by the banking industry, most of which no longer has profits against which to offset taxes.

The result is hundreds of stalled projects waiting for funding to make up for three million affordable housing units destroyed, converted to condominiums or upgraded to market-rate rentals since 2003. In some places, the waiting lists for assistance are so long that new applications are being denied.

To address this situation, the Treasury Department said in May that it would funnel \$5 billion in federal stimulus dollars to buy unsold tax credits for affordable housing projects approved since 2008; developers who wish to redeem unsold credits can also

exchange them for government grants, but only at a ratio of 85 cents to the dollar.

In the longer term, the Affordable Housing Tax Coalition is hoping that Congress will expand the Treasury's credit exchange program to cover projects approved through 2010, as well as carrying the credit back five years on past taxable income instead of income earned in the future. The aim is to entice companies outside of finance – such as those involved in insurance, technology and manufacturing – to take advantage of the program while also filling in the crucial role abandoned by, in essence, the private sector.

For existing rental housing, the Housing Choice Voucher Program – commonly known as Section 8 – provides federal vouchers to cover up to any Fair Market Rent (FMR) that is over 30 percent of a family's

income. However, since landlords only have to meet fair housing laws, many will not participate in the Section 8 program due to a fear that voucher tenants will not maintain the premises, not wanting the government involved in their business, a need to raise rents above the HUD-determined FMR and avoiding the requirement that all evictions be done through judicial action.

Yet with greater education, landlords wishing to fill vacancies could benefit from a large pool of renters, prompt government payment for its rent share, and the knowledge that tenants can be removed from the Section 8 program permanently if they damage the unit or do not pay their share of the rent.

Other federal programs, such as HOME grants to participating jurisdictions, SHOP funds to non-profit groups such as Habitat for Humanity and the Homeownership Zone

(HOZ) program to reclaim and redevelop blighted areas, are now all under pressure due to fewer donations to non-profit organizations and tax dollars allocated to higher priorities.

As the country's population continues to expand and unemployment remains high, the need for affordable housing remains a critical issue for most municipalities. And, like health care reform, the private sector can play an important role, but it will only solve the issue with appropriate government oversight, support and incentives.



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Fast Facts

- Due to high costs, the private sector can't provide affordable housing on its own.
- Inclusionary zoning laws force market-rate owners and tenants to substitute for the role of local government.
- Problems with the national tax credit program have stalled many affordable housing projects, but help may soon be on the way.
- If used wisely, government programs can effectively partner with both municipalities and developers to house low-income families.