

RE-BRANDING LIHTC PROGRAM

Building a New Brand

Touting LIHTCs as economic development tools

BY R. LEE HARRIS

The Sec. 42 low-income housing tax credit (LIHTC) program should be re-named the Affordable Housing for Economic Development program.

While the program does serve the needs of a number of low-income citizens, its largest constituency is working families.

It is a crucial link in the economic development process, making it possible for working families to live in a community, which in turn makes it possible for

It's a simple equation: Companies—especially those that employ unskilled workers—are reluctant to locate in communities that lack affordable housing because that limits their available labor force.

A 2005 survey by *Area Development Site and Facility Planning* magazine found that 87 percent of respondents said the availability of skilled labor was important or very important to their facility site selection decision. And 51 percent said the availability of unskilled labor was important or very important for the same purpose.

Further, about 60 percent indicated

housing on the economic development efforts of a small Midwestern city. Dodge City is a town of 25,000 located in the southwest corner of Kansas. Beef packing is a major industry there, and makes up part of a nearly \$1 billion in annual cattle-related business in Ford County.

Plant workers earn an average of \$10.58 per hour. Assume that the plant worker has a spouse and two children. The spouse finds a 20-hour-per-week job at a local convenience store, earning \$7.25 per hour. Thus the total annual household income for this family is \$29,250.

In our illustration we'll also assume that construction of a conventional garden apartment community would cost \$90,000 per unit for hard and soft costs.

The rental rate for a three-bedroom apartment would need to be more than \$1,000 per month to cover debt service, \$3,500 per unit in annual operating expenses, and a 10 percent return for the owner. Yet our family of four can only pay \$730 per month using 30 percent of their gross income for rent.

Taking our example one step further, assume for a moment that the two beef plants in Dodge City are operating at full capacity running two shifts and there is still enough demand to add a third shift.

Unfortunately, no one earns enough money to pay \$1,000 a month for a three-bedroom apartment. And without affordable rental housing for the additional workforce, the beef plants cannot add a third shift. What does this mean for the Dodge City and Kansas economies?

The additional workforce consumes

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—R. Lee Harris, president,
Cohen-Esrey Real Estate Services



communities to attract businesses and jobs.

Renaming the program may be a stretch, but it's in the interest of financiers, allocators, and sponsors to think about and talk about the tax credit as an economic development engine, since that often carries more weight in local politics than the need to house lower-income families.

that housing costs and housing availability were important or very important. There is a clear link between the availability of affordable housing and the availability of skilled and unskilled labor.

Where's the beef?

Let's look at a real live case study to demonstrate the effects of affordable

goods and services, which generate sales tax. The employees pay state income tax. The housing in which they reside is assessed property taxes. The beef plants that utilize the workforce pay corporate income taxes to the state.

According to Robert O. Coppedge, an economic development specialist for the New Mexico State University Cooperative Extension Service, a sound rule of thumb is that for every new dollar in payroll, there is a multiplier effect of two. That is to say that an employee earning \$22,000 per year will produce \$44,000 in economic benefits.

Cargill's Excel Beef facility employs 2,850, and National Beef employs 2,400. Suppose that each plant were to add 700 new employees to staff a third shift at an average annual wage of \$22,000 per annum. Using an income multiplier of two, these jobs would be worth nearly \$62 million in economic

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benefits.

Obviously, affordable rental housing is key to generating significant economic development benefits.

And the Sec. 42 program is the solu-

tion to delivering workforce housing with three-bedroom rents below \$650 per month.

Industry advocates need to do a better job educating state legislatures regarding the economic development benefits of affordable workforce housing.

Perception is a big part of the problem. The general view—that LIHTC is “HUD housing”—conjures images of welfare queens, homeless people, and decaying high-rise tenements. Too many people have the superficial impression that Sec. 42 is some sort of giveaway.

If state legislatures and municipalities truly understood that affordable housing was a valuable tool to unlocking millions of dollars in economic development benefits, they would embrace the Sec. 42 program. Further, state legislatures and municipalities might even pro-

vide program enhancements such as:

1. The creation or augmentation of housing trust funds;
2. State tax credit programs;
3. Tax abatement;
4. Tax increment financing;
5. Community land trusts—private, nonprofit corporations set up to acquire and hold land for the benefit of a community and to provide affordable access to land and housing;
6. Affordable housing donation credits;
7. Federal HOME funds administered by states and cities;
8. Tax-exempt bond financing set-asides;
9. Community Development Block Grants;
10. State historic preservation tax credits; and
11. Sales tax exemptions.

The ability of a developer to produce quality housing at affordable rent levels is inextricably linked to multiple funding sources.

The cost/benefit equation becomes pretty favorably one-sided when jobs are part of the formula—especially new jobs.

Many cities and towns across the country could boost their economic fortunes by understanding that affordable workforce housing is as much a part of the basic infrastructure as is a good school system, adequate water and sewer service, and the safety offered by profes-

sional police and fire protection. ■

R. Lee Harris, CRE, CPM, is president of Cohen-Esrey Real Estate Services, LLC, a Kansas City-based commercial real estate organization that has managed more than 50,000 multifamily units since 1969. The firm is active in 95 markets spanning 17 states and is actively involved in the management, development, and acquisition of conventional and affordable housing. The company's Web site address is www.cohenesrey.com.

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