

January 31, 2020

Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th Street NW
Room 10276
Washington, D.C. 20410

Re: Regulation Identifier Number FR-6187-N-01 White House Council on Eliminating Regulatory Barriers to Affordable Housing; Request for Information

To Whom It May Concern:

PlaceEconomics is a private sector consulting firm based in Washington, D.C. with over thirty years experience in the thorough and robust analysis of the economic impacts of historic preservation. We are pleased to submit the following response to the referenced Request for Information (RFI) because historic preservation plays a vital role in meeting America's housing needs.

Introduction

We applaud the Counsel for looking into this issue, as housing affordability is a critical issue throughout the country. According to the National Low Income Housing Coalition, "no state has an adequate supply of homes affordable and available to its lowest-income renters."¹ Almost every city—big and small—is affected by this issue.

From our research we have learned:

- Older buildings play an important and often overlooked role in housing affordability across the country. First, **housing preservation is typically cheaper and faster than constructing new** units and effectively combats blight.²
- Older and historic neighborhoods offer a **diverse housing stock at varying** prices, sizes, and conditions, and are located in close proximity to transit and jobs.³

¹ Affordable Home Crisis Continues, But Bold New Plans May Help."
<https://www.citylab.com/perspective/2019/03/affordable-housing-near-metadata-bold-solutions-funding/584779/>

² "Anatomy of a Preservation Deal: Innovations in Preserving Affordable Housing from around the United States," <https://www.urban.org/research/publication/anatomy-preservation-deal-innovations-preserving-affordable-housing-around-united-states>

³ *Atlas of ReUrbanism: Buildings and Blocks in American Cities*, National Trust for Historic Preservation, 2016. <https://forum.savingplaces.org/viewdocument/report-atlas-of-reurbanism-buildi>

- While the condition of older housing is regularly cited as a concern, the **number of properties needing significant repairs is low**—according to the 2017 American Housing Survey, only 2% of pre-1960 housing is severely inadequate and only 6% is moderately inadequate.
- **Older housing stock in the U.S. is providing unsubsidized affordable housing.**⁴ The private market rarely provides affordable housing without the use of government subsidies. Overwhelmingly, unsubsidized affordable housing is provided by the marketplace simply because an inventory of older housing stock exists.
- Subsidized affordable housing almost **entirely hinges on HUD programs**; 9 out of 10 affordable housing units are built using LIHTC.⁵
- HUD slum and blight clearance dollars are often used to demolish homes. However, **a unit of older housing lost is a unit of affordable housing lost.**
- Appropriate and quality new construction must occur but doing so will not magically solve the issues at hand. A city cannot build itself out of a housing crisis—**the retention of existing housing stock is critical.**⁶
- Historic preservation programs at the local state, and federal level, **help preserve affordable housing and without them the affordable housing crisis would be much worse.**

Federal Barriers to Affordable Housing

Often there is an assumption that historic preservation regulations are a barrier to affordable housing. However, this notion likely stems from lack of knowledge and understanding of how older buildings and rehabilitation contribute to affordable housing. Below, our comments demonstrate the important role that historic preservation as a movement plays in the creation and preservation of affordable housing.

Benefits of Rehabilitation for Low Income Housing Tax Credit (LIHTC)

Since its inception in the 1986 Tax Reform Act, “LIHTC-assisted residential developments account for approximately 90% of affordable rental housing in the United States.”⁷ Because it is such a widely used tax credit, one would think that users would have discovered that rehabilitation is the most cost-effective use of the program. Yet, rehabilitation is not the primary avenue for housing production through the LIHTC program. A recent study of costs for LIHTC projects across the U.S. found new construction costs were approximately \$40,000 to \$71,000 (25 to 45%) higher per unit than those of acquisition-rehab projects.⁸

⁴ Small Property Owners Association.

⁵ <https://www.nytimes.com/2018/07/27/us/politics/hud-affordable-housing-crisis.html>

⁶ *Opportunity At Risk: San Antonio’s Affordable Housing Stock*, PlaceEconomics, December 2019, pg. 3.

⁷ Kathrine Ferguson, “Linking Affordable Housing to Historic Preservation using Tax Credits,” *Journal of Tax Credits* 9, no. 4 (April 2018): 2.

⁸ *Comparing the Costs of New Construction and Acquisition-Rehab In Affordable Multifamily Rental Housing: Applying a New Methodology for Estimating Lifecycle Costs*, Center for Housing Policy, 2013.

<https://pdfs.semanticscholar.org/5337/abc2544ae5820a1bc92e52ce3d8f6d5fb8f9.pdf>

However, the reasons more dollars and share of LIHTC projects are built with new construction are numerous. Many people in the construction industry perceive new construction as “easier” and rehabilitation as “more costly in time and money.” There may also be a lack of rehabilitation knowledge among the construction industry. Yet the **data illustrates many units of affordable housing could be created through minor rehabilitation of existing housing stock**. The *perception* that rehabilitation is burdensome is a major hurdle currently preventing the effective use of affordable housing stock.

Furthermore, rehabilitation work is often undertaken by small business contractors and developers who may lack capacity to comply with federal **Davis-Bacon laws** for prevailing wage. Davis-Bacon only applies to labor, not materials. In new construction, the labor may make up half the project costs, while in rehabilitation, 60 to 70% will be spent on labor. This regulation puts rehabilitation at a disadvantage.

We encourage the Council to **provide more guidance to LIHTC users about the cost-effectiveness of rehabilitation over new construction**. If users are more informed about the benefits of rehabilitation, it could speed up the number of affordable housing units entering the market. Also, to encourage rehabilitation using federal programs, **Davis-Bacon should be waived for small project, say those under \$5 million or raise the triggering unit count**.

Federal Historic Tax Credit (HTC) Produces Affordable Housing

According to data from the National Park Service, between 2001 and 2018, **67% of all Federal HTC projects have resulted in the production of housing units**. Federal Historic Tax Credit activity has resulted in the creation or preservation of over 166,000 low- and moderate-income affordable housing units.⁹ This is often achieved through the transformation of vacant buildings into housing, bringing them back onto local tax rolls, and serves as a catalyst for future development.¹⁰ Often, in order to maximize equity and attract private investment, **the Federal HTC is paired with LIHTC**, a technique commonly referred to as “piggybacking.” Thousands of buildings throughout the country have piggybacked these credits to provide affordable housing units.

- In the state of **Arkansas**, over 1,000 housing units have been created through the Federal HTC, 38% of which are for use as affordable housing.
- In **Chicago**, the Holsten Development Corporation has been pairing the Federal HTC and LIHTC successfully for decades. They have won numerous awards, including two National Trust/HUD Secretary’s Award for Excellence in Historic Preservation. Some of their most notable affordable housing/historic preservation projects include:
 - Lawson House – 400 units, the majority of which are affordable

⁹ *Federal Tax Incentives for Rehabilitating Historic Buildings: Annual Report for Fiscal Year 2018*, National Park Service, Department of the Interior, Technical Preservation Services, March 2019.

<https://www.nps.gov/tps/tax-incentives/taxdocs/tax-incentives-2018annual.pdf>

¹⁰ *The Historic Tax Credit: Building the Future in Louisiana*, PlaceEconomics, 2017.



- [The Belle Shore](#) – 140 affordable units; *1999 National Trust/HUD Secretary's Award for Excellence in Historic Preservation*
- The Bryn Mawr – 240 affordable units
- Lawndale Apartments – 170 affordable units
- The Midwest Apartments – 276 affordable units
- [Hilliard Homes](#) – 654 affordable units (305 public housing units, 349 affordable units); *2007 National Trust/HUD Secretary's Award for Excellence in Historic Preservation*
- The Strand Apartments – 63 total units, 53 of which are affordable

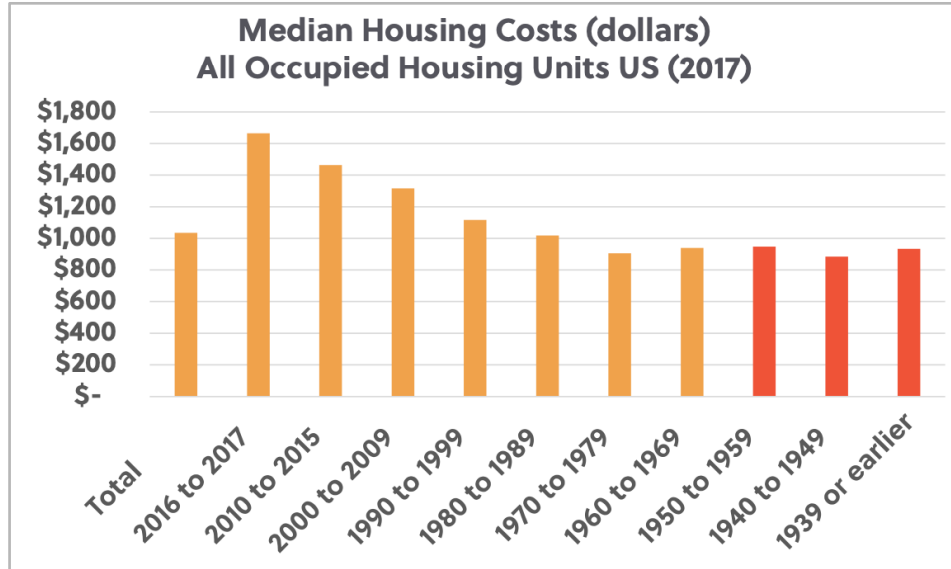
In addition to the Federal HTC, **35 states also have analogous legislation in the form of a State HTC**. In a number of states, this tax credit provides an additional incentive if the project includes an affordable housing component. These State HTCs provide an additional layer of critical gap financing that help ensure the creation or preservation of affordable housing.

- The **Connecticut** Historic Structure Rehabilitation Tax Credit provides a 20% tax credit for substantial rehabilitation and a **5% tax credit “bump” if the project guarantees that 30% of its rental housing units are affordable**. According to the Connecticut State Historic Preservation Office, 52% of the projects that utilized the State HTC have received this 5% tax credit bump for affordable housing. As of January 2019, these **projects have produced an impressive 1,373 affordable housing units**.
- Other State HTCs that contain an added incentive for the inclusion of affordable housing include **Massachusetts** and **Maryland**.

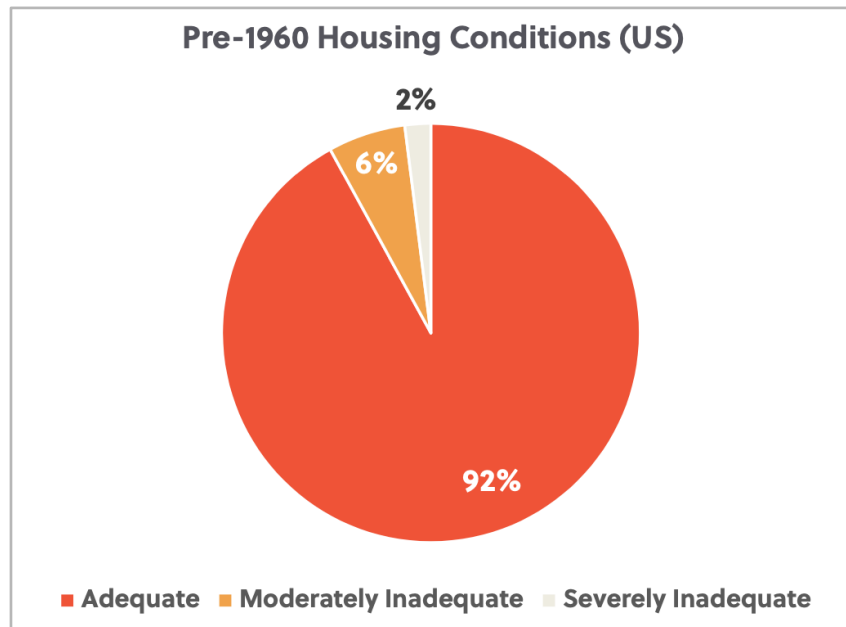
While the entitlement process for the HTC and LIHTC is often considered cumbersome, they are in place to protect taxpayers' dollars and ensure that the user follows through on their commitments to receive the tax reduction. Despite the growing popularity of these programs, the staff that oversees their administration has been reduced. We urge the Council to support their partner agency (Department of the Interior) in **encouraging the tandem use of the LIHTC/HTC programs by fully staffing the Technical Preservation Services division** of the National Park Service.

Older Buildings Already Supply Naturally Occurring Affordable Housing

Across the nation, **housing costs per month for older housing are simply less**. According to the American Housing Survey, nationally, nearly a third of housing units were built prior to 1960. And this older housing is home to 33% of households with incomes less than \$40,000.



Additionally, the vast majority of pre-1960 housing is habitable, with **only 2% cited as “severely inadequate.”**



Across the country, older housing stock is helping to fill the affordable housing gap, providing perfectly adequate housing at an accessible price range—especially to renters, who are often more vulnerable.

The Small Property Owners Association, a network of private landlords, claims to provide 75% of America’s rental housing. According to their report and citing the U.S. Census (2017), **66% of rental housing properties in the U.S. are 2-4 units, the size of buildings that most small landlords own. 57% of these 2- to 4-unit buildings were built before 1940.** These older buildings are noted as architecturally beautiful, built to older codes with a few modern amenities. Often times the mortgage is already paid off. These

factors translate to less pressure on landlords to obtain higher rents compared to a new building by a larger company.¹¹

At the local level, Community Development Block Grant entitlement communities, when putting together their 5-year Action Plans, have a choice in how to designate those dollars. Often, CDBG “slum and blight” **funds are utilized for demolishing vacant and distressed buildings** -- typically older or historic buildings considered easier to demolish than rehabilitate. **These are exactly the type of older buildings that, with modest rehabilitation, can be brought back to productive use for affordable housing.** When these buildings are lost, it represents a unit of potentially affordable housing lost.¹²

Across the country, numerous cities are stepping up to encourage the rehabilitation and preservation of older buildings for affordable housing.

- **San Antonio, Texas**

- Substantially Rehabilitated [Low-Income Rental Properties Program](#) – If 40% or more of the units in a substantially rehabilitated historic multi-family residence are offered to low-income tenants, then the property owner will owe zero City taxes for ten years following rehabilitation.
- [Owner Occupied Rehabilitation and Reconstruction Program](#) – Provides assistance for owners of single-family, detached homes to rehabilitate their substandard and non-code compliant residential properties by providing deferred forgivable loans to cover the costs of any needed repairs.
- [Minor Home Repair Program](#) – Provides a one-time grant of up to \$25,000 for homeowners to address health and safety hazards, code issues and ADA modifications. Eligible repairs include roof, foundation, electrical and plumbing, windows and doors, energy efficiency, building envelopes, accessibility improvements and lead hazard reductions.

- **Racine, Wisconsin**

- Housing Repair Program - Offers low-interest loans for structural repairs for [homeowners](#) and [landlords](#) who lease to low income residents in buildings with 4 units or less.

We encourage HUD to restructure the language of its local entitlement funding programs to **encourage those dollars are spent on rehabilitation and housing preservation** over outdated concepts, such as slum and blight clearance. Additionally, HUD should provide **more programs to assist small property owners** in minor rehabilitations, modern upgrades, and hazardous material remediation, thereby encouraging more of these older buildings to be utilized by the private market for affordable housing.

¹¹ *Rental Housing Policy in Massachusetts & the U.S. Regulatory Barriers to Housing Affordability*, Small Property Owners Association, 2020, 11.

¹² *Opportunity At Risk: San Antonio’s Affordable Housing Stock*, PlaceEconomics, December 2019.

Historic Preservation Programs Preserve Affordable Housing

Local historic preservation programs, contrary to popular belief, do not freeze a place in time, yet help manage change in a community through surveying, documentation, education, and regulation. A consequence of this process is preservation of housing affordable to those of low-and-moderate means. Older neighborhoods offer a variety of housing types and sizes. Historic districts often contain duplexes, triplexes, and small apartment buildings. Carriage houses or existing garages are rehabilitated as an apartment. Larger homes are divided into multiple apartments. This creates a diverse housing market in which housing costs are less of a barrier to entry than in new, larger housing units.

Why is this preservation important? The U.S. stock of unsubsidized affordable housing is being lost at an alarming rate. A US Department of Housing and Urban Development working paper, *U.S. Rental Housing Characteristics: Supply, Vacancy, and Affordability*, put this into perspective:

“From 1995-2005, two rental units were permanently removed from supply for every three produced. Over this same time period, the nation permanently lost 1.5 million low-cost (less than \$600) rental units. From 2001 to 2007 the nation’s affordable unassisted rental housing stock decreased by 6.3%, while the high-rent rental housing stock increased 94.3%. This translates into a loss of more than 1.2 million affordable unassisted rental units from 2001 to 2007.”¹³

In a recent analysis of demolition permit data in **San Antonio**, the city lost 3 units of older housing every week for the last ten years.¹⁴ In **Chicago**, old two- to four-flat buildings are being demolished at an alarming rate and are being reconstructed at lower rates than any other housing type.¹⁵

Local historic district regulations help slow the loss of these units. In cities across the country, historic districts, which typically only make up 5% of a city area, are preserving affordable housing.¹⁶ For example, in **Los Angeles**, there are more housing units located in historic districts that are affordable to a 2-person household at 80% AMI than elsewhere in the city.¹⁷

Many presume that historic districts stop the production of affordable housing. In fact, historic districts are often hiding affordable housing opportunities in plain sight. Coupled with state and federal incentive programs, historic preservation should be considered a core solution to the affordable housing crisis, not the problem.

¹³ Rob Collinson and Ben Winter, *U.S. Rental Housing Characteristics: Supply, Vacancy, and Affordability*, https://www.huduser.gov/Publications/PDF/FinalReport_Rental_Housing_Conditions_Working_Paper.pdf

¹⁴ *Opportunity At Risk: San Antonio’s Affordable Housing Stock*, PlaceEconomics, December 2019.

¹⁵ Michael Podgers, “Is There Hope for the Disappearing Chicago Two-flat?” *Chicago Curbed*, December 21, 2018, accessed January 7, 2019.

¹⁶ *Atlas of ReUrbanism: Buildings and Blocks in American Cities*, National Trust for Historic Preservation, 2016. <https://forum.savingplaces.org/viewdocument/report-atlas-of-reurbanism-buildi>

¹⁷ “Percent of all one-bedroom or studio rental units that are likely affordable for a 2-person family earning 80% of AMI between 2013-2017,” www.policymap.com

We appreciate this opportunity to comment. We are passionate about sharing our findings, especially the subject of how historic preservation plays a role in affordable housing. Please let us know how we can assist the Council moving forward.

Sincerely,



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