

# NAHMAanalysis

NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

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### Mixed-Income Housing in Areas of Concentrated Poverty

#### Background

In recent a report titled *Spotlight on Underserved Markets: Mixed-Income Housing in Areas of Concentrated Poverty*, Freddie Mac analyzed Areas of Concentrated Poverty (ACPs) and the prevalence of mixed-income housing. This NAHMAanalysis highlights the report’s relevant data and takeaways on affordable housing programs, particularly the composition of demographics and affordable housing in ACPs.

#### What is an Area of Concentrated Poverty (ACP)?

The report describes an Area of Concentrated Poverty (ACP) as an area with persistently high poverty levels, low economic opportunity, and high housing costs relative to income. The Federal Housing Finance Agency (FHFA), which regulates Fannie Mae and Freddie Mac, defines an ACP as “a census tract designated by HUD that is either a Qualified Census Tract (QCT) or a Racially- / Ethnically-Concentrated Area of Poverty (R/ECAP).”

A QCT is a census tract in which either the income of at least half of the households is at or below 60 percent of the area median income (AMI), or the poverty rate is at least 25 percent. A R/ECAP is defined as a tract that is at least 50 percent nonwhite and a poverty rate that exceeds 40 percent. The report finds that “across the nation, over 60 million people reside in an Area of Concentrated poverty (ACP), accounting for 19 percent of the nation’s population located in over 15,800 census tracts” (see Exhibit 1 below).

**Exhibit 1: Composition of Areas of Concentrated Poverty<sup>iv</sup>**

	Number of Census Tracts	Population
<b>QCT</b>	15,394	59,284,225
<i>Only QCT</i>	11,709	46,766,663
<b>R/ECAP</b>	4,164	14,322,803
<i>Only R/ECAP</i>	479	1,805,241
<b>ACP</b>	15,873	61,089,466
<b>Overlap of QCT and R/ECAP</b>	3,685	12,517,562

Sources: Freddie Mac Tabulations of 2016 5-Year American Community Survey, Federal Housing Finance Agency (FHFA).

## Population Characteristics in ACPs

Demographically, in the past five years, the population living in an ACP grew by 2.1 percent. Of the 61 million people living in ACPs, 29 percent of residents are children and young adults aged 19 or younger. In terms of racial demographics, African Americans make up around 27 percent of people living in ACPs, notably high given that this racial group makes up only 12.6 percent of the U.S. population. The report also notes that American Indian and Alaska Natives (AIAN) account for 1.5 percent of the ACP population; however, over 35 percent of Americans of AIAN descent live in ACPs (see Exhibit 5).

**Exhibit 5: Racial Composition of Areas of Concentrated Poverty**

	Percent Living in an ACP	Percent of Total ACP Population
Caucasian	13.8%	53.5%
African American	40.3%	26.8%
American Indian and Alaska Native	35.8%	1.5%
Asian	15.3%	4.2%
Native Hawaiian or Pacific Islander	26.7%	0.2%
Two or More Races	21.5%	3.5%
Other	40.1%	10.2%

Source: Freddie Mac Tabulations of 2016 5-Year American Community Survey. The left column refers to the percentage of each racial group living in an area of concentrated poverty (e.g. 13.8 percent of Caucasians live in an ACP). The second column refers to the composition of areas of concentrated poverty, (e.g. of all people living in ACPs, 53.5 percent are Caucasian).

## Economic and housing data that documents the characteristics ACPs

The report finds the median household in an ACP earns only 47.6 percent of the median household income outside of an ACP. Also, close to two-thirds of all households in the U.S. that earn under \$40,000 a year live in an ACP, leading to an extremely high poverty rate. The report states, “the national poverty rate is 15.4 percent — when ACPs are removed, this rate drops to 11.3 percent. ACPs alone have a poverty rate of 33.3 percent. The R/ECAP segment of this region has a poverty rate of 45 percent — nearly three times higher than the national rate.” The report also notes that ACP census tracts do contain residents at various income levels, making mixed-income housing an attractive option for economic growth and inclusion in these areas.

Given the relationship between housing cost burden and income, the report finds renters in ACPs pay a high percentage of their income on housing. The report states, “nearly a third (32.7 percent) of [ACP] renters pay at least 50 percent of their income on rent, meaning that they are considered severely rent burdened. This compares with 26 percent for the nation.” The reports also notes that multifamily rental units make up over 27 percent of all housing in ACPs, (compared with around 15 percent for the nation), and the homeownership rate in ACPs is lower compared to the rest of the country.

Housing quality is as important as the amount and type of available housing. The report finds that housing in ACPs is generally of lesser quality than housing in non-ACPs. Multifamily rental units in ACPs tend to be older, “with 15.6 percent of units having been built prior to 1940, compared with 10.9 percent for the nation. In addition, nearly half of the nation’s multifamily rental housing stock was built in 1980 or later, while only 37.7 percent of units in ACPs was built during this time period. The high concentration of rental units built before 1980 in ACPs is

significant, especially given that paint containing lead was banned in 1978 and these units may expose young children to lead poisoning.” These findings highlight the importance of the Low Income Housing Tax Credit (LIHTC), which has served as the primary affordable housing development tool post 1980s.

In terms affordable housing supply and housing assistance, the report finds close to 6 million multifamily rental units exist in ACPs, “of which roughly 2.5 million (43.5 percent) are documented as being supported by a federal or state subsidy or loan guarantee program. This rate is substantially higher than the rest of the nation, where only 19.3 percent of the multifamily housing stock is subsidized...In total, subsidized housing in ACPs makes up 51.4 percent of the national subsidized stock, despite ACPs only comprising 18.1 percent of the housing stock and 29.8 percent of the rental stock. Subsidized properties in ACPs tend to be larger than the nation as a whole; the average property in an ACP has 83 units while areas outside of ACPs average only 56 units. The three most prominent programs serving ACPs are LIHTC, Projected-Based Section 8, and Public Housing, which together comprise 94.4 percent of the subsidized housing market in these areas.” The properties in ACPs are also more prevalent in urban/nonrural areas, compared to rural areas (see exhibits 3 and 4).

**Exhibit 3: Subsidy Programs in ACPs**

	Properties	Assisted Units	Average Number of Units	Percent of Units in Program	Percent of ACP Subsidized Properties	Percent of ACP Subsidized Units
LIHTC	15,849	1,278,398	80.7	48.2%	51.4%	50.2%
Section 8	8,958	705,316	78.7	51.5%	29.1%	27.7%
HOME	5,186	110,370	21.3	49.5%	16.8%	4.3%
Public Housing	3,582	704,677	196.7	68.7%	11.6%	27.7%
All Subsidized Housing - in ACPs	30,814	2,548,408	82.7	51.4%		
All Subsidized Housing - Outside of ACPs	43,242	2,410,759	55.8	48.6%		

Source: Freddie Mac Tabulations of the National Housing Preservation Database. Note that the percentages in the last two columns exceed 100 percent. The reason for this is duplicate subsidies. If a property has more than one subsidy, it will count in the total once but in the component twice. In addition, this table only includes multifamily structures.

**Exhibit 4: Subsidies Programs in ACPs by Region Type**

Program	Properties			Units		
	Rural	Nonrural	Percentage Rural	Rural	Nonrural	Percentage Rural
LIHTC	3,020	12,829	19.1%	133,609	1,144,789	10.5%
Section 8	1,841	7,117	20.6%	88,213	617,103	12.5%
HOME	655	4,531	12.6%	12,161	98,209	11.0%
Public Housing	733	2,849	20.5%	94,401	610,276	13.4%
All Subsidized Housing - in ACPs	6,819	23,995	22.1%	343,215	2,205,193	13.5%
All Subsidized Housing - Outside of ACPs	19,364	23,878	44.8%	690,323	1,720,436	28.6%

Source: Freddie Mac Tabulations of the National Housing Preservation Database

## **The Promise of Mixed-Income Housing**

The affordable housing industry, advocates, and policymakers have viewed mixed-income housing as a tool to combat persistent poverty, particularly as a popular investment tool to increase the economic opportunity of residents living in ACP regions. However, mixed-income housing never had a clear definition, presenting a barrier for proponents of this tool.

FHFA, in their Duty to Serve regulation, defined mixed-income housing as “a property that satisfies both of the following two conditions: 1. At least 20 percent of the units must be affordable to households making 50 percent of the AMI; or at least 40 percent of the units must be affordable to households making 60 percent of the AMI. 2. At least 20 percent of the units must be unaffordable to households making less than 80 percent of the AMI.” FHFA included increasing mixed-income housing in ACPs as a major goal of their residential economic diversity requirement in their Duty to Serve rule, which also aims to increase affordable housing in areas of high opportunity (see NAHMA Analysis on Affordable Housing in High Opportunity areas).

The major purpose of this report is to highlight the importance of mixed-income housing as a tool for ACPs. The report notes:

A community with a high concentration of low-income earners may struggle to provide services such as education, infrastructure upkeep, and other public works programs if it does not generate substantial tax revenue. This can increase the reliance on subsidies to meet quality housing needs, which, given that federal, state, and local subsidies are not keeping pace with actual housing need across the country, subsequently may further concentrate poverty in these areas. Furthermore, communities that have historically suffered from underinvestment tend to have higher crime rates, poor education attainment, and more health issues. One of the greatest obstacles that those living in poverty face is the limited access to jobs and quality schools. When combined, these factors can lead to decreased economic mobility and a long-term cycle of continued poverty — a cycle that affects a sizable percentage of the country.

Mixed-income housing and communities currently provide many positive life outcomes for everyone. Mixed-income neighborhoods have high quality housing, both for market rate and subsidized housing, which leads to better life outcomes. The report highlights recent research from HUD’s 2010 *Moving to Opportunity Study* showing that “the academic performance and the life opportunities of students from lower-income families improve when they attend the same schools as students from higher incomes.” Research also shows that racial and economic diversity can benefit students of all income levels, “suggesting it would not just be the low-income residents in ACPs who would benefit from residential economic diversity.”

## **Conclusion**

Affordable housing is needed in all communities. There is consensus that concentrated areas of poverty are not good living conditions. Recent policy debates on mobility, community reinvestment, and disparate impact regulations, have highlighted the importance and the challenges of providing economic inclusion and affordable housing. Mixed-income properties and communities are tools for the industry to achieve this objective. As an industry, affordable housing and life outcomes of residents will continue to be mutually linked, and we will need every tool in the toolbox.