THE CASE OF AFFORDABLE HOUSING

PRIVATE SECTOR INVESTMENT IN SOCIAL INFRASTRUCTURE

22 JUNE 2018 —— 22 GORDON STREET

Paper session

Assessing TIF and LIHTC in an equilibrium model of affordable housing development

Jaime Luque (University of Wisconsin-Madison)

The goal of this research is to understand the impact of the Tax Incremental Financing (TIF) and the Low Income Housing Tax Credit (LIHTC) programs in an equilibrium model of affordable housing development. A TIF policy can implement an equilibrium where the construction of affordable housing becomes feasible (it passes the "but for" test). TIF is also effective in ameliorating a housing affordability crisis resulting from supply frictions in the housing market (eg zoning constraints and NIMBYism). However, TIF has the pervasive effect of increasing the construction costs. TIF also has implications for global corporations that buy LIHTCs: it induces them to rebalance their portfolios of LIHTC equity away from municipalities that rely on TIF.

Jaime Luque joined the University of Wisconsin-Madison as assistant professor in the Department of Real Estate and Urban Land Economics at the Wisconsin School of Business (WSB) in September 2012. Prior to joining WSB, he was a visiting professor at the Carlos III University of Madrid.

The Economic Impacts of Help to Buy

Felipe Carozzi, Christian Hilber and Xiaolun Yu (London School of Economics)

We exploit spatial and price discontinuities in the Equity Loan Scheme of Help to Buy (HtB) as well as differences in the timing of implementation across UK countries to explore the impact of the scheme on housing construction and prices. The English version of the scheme was first introduced in April 2013 and provides an equity loan for up to 20% of the house value for properties outside of London. It is available to both first-time buyers and home movers but is restricted to new-build homes with prices under £600,000. We use this cutoff, as well as the higher equity loan threshold in London (40%) and later implementation in Wales (January 2014) to estimate the effect of the scheme on construction volumes and prices.

Our preliminary results indicate that the implementation of the scheme led to a significant shift in housing construction away from larger properties above the price threshold suitable for larger families—towards smaller units. The price of newly built homes increased by between 2.3% and 3.9% depending on the discontinuity exploited. Our findings suggest that the main beneficiaries of HtB are existing homeowners rather than first-time buyers. Would-be buyer families with large demand for space may be the main losers of the policy.

Felipe Carozzi is Assistant Professor of Urban Economics and Economic Geography at the London School of Economics (LSE). Felipe joined LSE's Department of Geography and Environment in 2015. He completed his PhD in Economics at the Center for Monetary and Financial Studies (CEMFI), Madrid.

Christian Hilber is Professor of Economic Geography in the Department of Georgraphy and Environment at LSE. Prior to joining LSE in 2003, Christian worked for Fannie Mae in their research group. From 1999 to 2002 he was a Postdoctoral Research Fellow at the Wharton School, University of Pennsylvania.

Xiaolun Yu is a PhD candidate in Economic Geography at LSE. He completed a BSc Economics at Tongji University in 2015, and spent an exchange semester at the University of St Gallen in 2013. Xiaolun then studied MSc Real Estate Economics and Finance at the London School of Economics (IPF Best Dissertation Prize), where he developed his research interest in real estate markets and urban policies.

Multifamily Rental Housing and Naturally Occurring Affordability - The Investor Perspective

Meagan McCollum (Baruch College, City University New York) and Stanimira Milcheva (University College London)

Housing affordability is becoming a key driver of poverty and unrest among urban areasworldwide. The multifamily rental housing (MFRH) sector plays an important role inproviding rental housing being an alternative to home ownership. The financial performance of multifamily rental housing (MFRH) has been sparsely studied in comparison to single family owner-occupied housing, primarily due to data limitations.

This paper is the first to provide property-level analysis of MFRH financial performance and its dependence of ZIP-code level housing affordability. We use four different measures of naturally occurring housing affordability at the zip code level. Using a large sample of loan level data on multifamily housing across the entire US from 2003 to 2016 and combining it with census tract level data, we explain three performance indicators at the building level - occupancy rate, capitalization rate and loan delinquency.

We find that buildings located in affordable areas are associated with significantly higher cap rates. The transmission occurs through the loan channel since only properties for which the financing of the building is associated with high leverage, low mortgage rate or no previous delinquency are able to deliver the positive relationship. In terms of occupancy rates, properties located in less affordable areas would be associated with higher occupancy rates only if the areas are associated with high house prices or high incomes. This may be due to negative externalities and negative spillovers of evictions.

Above results reveal that investors are better off investing in affordable areas whenthey are highly leveraged or have been not been delinquent before. The negative effects of being in an affordable area on occupancy rates is only the case when located in the most expensive housing markets or most economically developed areas.

Meagan McCollum is an assistant professor of real estate in the Zicklin School of Business at Baruch College, City University of New York. Prior to joining Baruch, she earned her PhD in finance in 2015 from Louisiana State University and MSc in finance with a concentration in real estate from the University of Alabama. Her research focuses primarily on real estate and household finance.

Stanimira Milcheva is an associate professor in Real Estate and Infrastructure Finance at University College London. Previously, she worked at Henley Business School at the University of Reading and at the University of Regensburg. Stani has undergraduate and graduate degrees in Economics from the University of Mannheim and a PhD in Economics from the University of Regensburg.