SPOTLIGHT ON UNDERSERVED MARKETS

Affordable Housing in High Opportunity Areas

Freddie Mac MULTIFAMILY

DUTY TO SERVE

Affordable Housing in High Opportunity Areas

An Overview of Demographic and Housing Characteristics

More than 56 million people live in communities that are classified as high opportunity areas. These neighborhoods often provide access to certain amenities or community attributes that are believed to increase economic mobility[1] for their residents. However, they are also often encumbered by high costs of living and dense populations. As a result, the supply of affordable housing is unable to support the demand. In an effort to combat this, there has been an increased focus from research, policy and affordable housing groups on deconcentrating poverty and promoting affordable housing in high opportunity areas.

Though the concept may seem relatively straightforward, establishing a practical, universal definition for high opportunity areas, and developing ways to promote affordable housing in these areas, has proven difficult. This is due, in part, to the large geographic size and widespread population of the U.S., which results in various demographics and housing needs for communities across the country, and different approaches by state and local organizations to meet these needs. Consequently, a number of definitions of high opportunity areas have been established and put into practice. The Federal Housing Finance Agency (FHFA), in the Duty to Serve regulation, has sought to lay the groundwork for a definition of high opportunity areas that can apply nationally while accounting for local variations.

Regardless of how it is defined, developing affordable housing in high opportunity areas is challenging, and there is a shortage of it—both for the low-income residents who live in high opportunity areas today, and for those who may seek to live in these areas to enable greater economic mobility for themselves or their children.

In this paper, the first in a series over several years, we examine several leading definitions of high opportunity areas, including FHFA's, and identify commonalities between them. We then analyze the current market of affordable housing in opportunity areas as defined by the FHFA in the Duty to Serve regulation, as well as demographic trends. Below are some of our key findings:

- Several academic institutions, housing organizations, and research and policy organizations have defined high opportunity areas in varying ways, but the themes found within these definitions often align.
- Over 56 million people, or 18 percent of the U.S. population, live in high opportunity areas; however, these areas account for only 7.5 percent of the country's land area.
- There are more than 74,000[2] subsidized affordable multifamily housing properties in the U.S.; however, just 7 percent of these properties are currently located in high opportunity areas.
- In high opportunity areas, there are nearly three times as many owners as renters, while the same ratio is only about 1.75x on a national scale.
- An estimated 866,174 families earn 60 percent of the Area Median Income (AMI) in high opportunity areas; however, there are just 788,666 units affordable at this level (inclusive of restricted and unrestricted units). This means that there is an estimated shortage of 77,508 affordable units in high opportunity areas.[3]
- Developing and preserving affordable housing in high opportunity areas can be challenging for numerous reasons: zoning issues, local preference for affordable housing, high land and construction costs, lack of buildable land, and limited housing subsidy.

[1] Economic mobility can be understood in simple terms as the ability of an individual or family to materially improve their income during their lifetime.
[2] This figure is calculated from federal subsidy programs with robust national data, and state subsidy programs where data is available. Because of this, not all subsidy data is available. Therefore, 74,056 is likely an underestimate.
[3] Freddie Mac Tabulations of American Community Survey.

Definitions of High Opportunity Areas

High Opportunity Areas – Three Primary Definitions

Several definitions of opportunity areas have been created over the last few years; however, for the purposes of this paper, we will focus on three primary definitions: FHFA's Duty to Serve definition, Enterprise Community Partner's Opportunity360, and Harvard's Opportunity Insights Project. Each of these definitions is summarized below.

1. High opportunity areas as defined by the FHFA

FHFA's Duty to Serve regulation defines high opportunity areas as either:

i. An area designated by the Department of Housing and Urban Development (HUD) as a Difficult Development Area (DDA)[4] during any year covered by the Duty to Serve Plan or in the year prior to the Plan's effective date, whose poverty rate is lower than the rate specified by FHFA in Evaluation Guidance - those tracts with poverty rates below 10 percent (for metropolitan DDAs) and below 15 percent (for non-metropolitan DDAs); or

ii. An area designated by a state or local Qualified Allocation Plan (QAP) as a high opportunity area and which meets a definition FHFA has identified as eligible for Duty to Serve credit in the Evaluation Guidance. To meet this component, FHFA has elected to use state or local definitions of high opportunity areas (or similar terms) contained in Low-Income Housing Tax Credit QAPs or QAP-related materials that meet the following criteria:

   a. The definitions are intended to describe areas that provide strong opportunities for the residents of housing funded through the QAP; and

   b. The QAP describes the location of the areas in sufficient detail to enable them to be mapped and/or includes a list(s) or map(s) of such high opportunity areas.[1]

DDAs typically represent areas that have high construction, land, and utility costs relative to the AMI. Using this as a baseline for opportunity is an attempt to bring affordable housing to high cost or high barrier markets around the country. On the other hand, QAPs define opportunity areas based on local needs. Low-Income Housing Tax Credits (LIHTCs), provide affordable housing units for millions across the country, keeping rents affordable to those making 60 percent or less of AMI. These credits are allocated by state Housing Finance Agencies through a competitive application process, which is generally outlined in the publication of their annual QAPs. The allocation of these credits determines the location and type of affordable housing projects within each state. Affordable housing developers seek to maximize their chances of securing LIHTC equity investment by ensuring that the developments they pursue adhere closely to the scoring guidelines within the QAP. In recent years, many states have started to incentivize the development of affordable housing in high opportunity areas through their QAPs. FHFA has recognized 19 states that have done so in accordance with their definition.[2] Through Freddie Mac's and The National Housing Trust's review of all 50 state QAPs and the District of Columbia, we have determined five indicators of opportunity to be the most common: Access to

[4] Per the U.S. Department of Housing and Urban Development, Difficult Development Areas are defined as: any area designated by the Secretary of HUD as an area that has high construction, land, and utility costs relative to the AMGI. Again, limits apply. All designated Difficult Development Areas in MSAs/PMSAs may not contain more than 20 percent of the aggregate population of all MSAs/PMSAs, and all designated areas not in metropolitan areas may not contain more than 20 percent of the aggregate population of all non-metropolitan counties.

Education, Economic Growth/Jobs, Income Levels, Access to Health Care, and Access to Transportation. These findings are discussed in greater detail in our paper, "Opportunity Incentives in LIHTC Qualified Allocation Plans."[3]

2. High opportunity areas as defined by Enterprise Community Partners' Opportunity360[4]

Enterprise Community Partners defines opportunity on a national scale through its Opportunity360 platform. The program seeks to understand what makes communities effective in promoting positive outcomes for its residents and, what hinders residents from achieving these positive outcomes. Through an assembly of data sets, calculations and benchmarks, Enterprise has developed an academic definition of opportunity. Per Enterprise Community Partners[5], Opportunity360 measures five foundational criteria shown to have the greatest impact on how we live: Housing Stability, Education, Health & Well-Being, Economic Security, and Mobility. These attributes are measured by an index value, which is calculated from a combination of census tract level variables, and the measurements are standardized to create a score for each neighborhood. Opportunity360 measures the following five criteria to define opportunity within a community:

i. Housing Stability
    a. Home Ownership
    b. Housing Cost Burden
    c. Housing Affordability
ii. Education
    a. High School Completion
    b. Higher Education Attainment
iii. Health & Well-Being
    a. Access and Affordability of Health Care
    b. Health status
iv. Economic Security
    a. Income, Wealth and Savings
    b. Poverty Rate
    c. Employment
v. Mobility
    a. Transit and Vehicle Access
    b. Commute Time

3. High opportunity areas as defined by Harvard's Opportunity Insights (Formerly the Equality of Opportunity Project)

Opportunity Insights is a research platform, led by Director Raj Chetty and Co-Directors John Friedman and Nathaniel Hendren, that relies on big data to identify challenges and opportunities for families to overcome poverty and achieve better life outcomes. The team has authored multiple papers to understand what drives positive life outcomes for individuals. Their topics include intergenerational mobility, the importance of exposure to innovation, incomes and life expectancy, and the effects that teachers have on student outcomes. Most relevant to this study is their research on intergenerational mobility as it relates to a community's impacts on its residents. This analysis is largely comprised in the paper, "Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States."[6,7] According to Opportunity Insights, the five primary characteristics of a "high mobility" area are Minimal Residential Segregation, Low Income Inequality, Quality Primary Schools, Greater Social Capital, and Greater Family Stability.

The team measured mobility for 741 "commuting zones" (CZs) across the country. These zones are geographical aggregations of counties that are similar to metro areas. Children are assigned to a CZ based on their location at age 16, so their location, more than likely, represents the community where they grew up. They then analyzed the extent to which these zones experience varying degrees of the following characteristics:

i. Minimal Residential Segregation

   a. Through correlation measurements between intergenerational mobility and segregation, Opportunity Insights found that upward income mobility is significantly lower in areas with larger African-American populations. However, Caucasian individuals in areas with large African-American populations also have lower rates of upward mobility, implying that racial shares matter at the community (rather than individual) level. The team concluded, that more racially segregated areas have less upward mobility.

ii. Low Income Inequality

   a. The team measured CZ's based on their Gini coefficients – a common measure of inequality, the Gini coefficient examines how the cumulative share of income compares to the cumulative share of population. A coefficient of zero implies complete income equality (everyone has the exact same income), whereas a value of one implies complete income inequality (one person has all of the income). Their research found that communities with larger Gini coefficients have less upward mobility. In contrast, the top 1 percent of income shares are not highly correlated with intergenerational mobility. This suggests that segregation of wealthy individuals is not highly correlated with mobility, but segregation of poverty is negatively correlated with mobility.

iii. Quality Primary Schools

   a. The team used two key proxies for education: 1) mean public school cost per student and 2) mean class sizes. The findings showed a positive correlation between public school costs and upward mobility, and a strong negative correlation between class size and upward mobility. The quality of the K-12 school system are also correlated with mobility. Areas with higher test scores (controlling for income levels), lower dropout rates, and smaller class sizes have higher rates of upward mobility.

iv. Greater Social Capital

a. Social capital represents the strength of social networks and community involvement in an area. Higher upward mobility rates are generally associated with higher fractions of religious individuals and greater participation in local organizations, while crime rates are negatively correlated with mobility.

v. Greater Family Stability

a. Family stability was evaluated using three measurements: 1) fraction of children living in single households, 2) fraction of divorced adults, and 3) fraction of married adults. Generally, children with married parents have higher rates of upward mobility. Their findings concluded that family stability did not just impact upward mobility at the individual level but also the community level.

The Opportunity Insights Project uncovered algebraic correlations that suggest features to be representative of areas of opportunity. While this project made some innovative discoveries, the team noted a few indicators with poor correlations. There were only modest correlations between upward mobility and local tax and government expenditure policies and no systematic correlation between mobility and local labor market conditions, rates of migration, or access to higher education. It is important to note that these indicators are specific to the neighborhoods where a child grew up rather than where they live as adults. The team reported that the neighborhood where a child grows up has a material impact on upward mobility, but where they live as an adult has a smaller effect.

Most recently, in October 2018, the team at Opportunity Insights released a mapping tool, Opportunity Atlas, that measures the impact that neighborhoods have on children's life outcomes. The Atlas uses many of the same indicators identified above[85].

Comparisons of High Opportunity Definitions

Though each approach has various ways of defining opportunity, and more specifically, separate definitions of opportunity indicators, a common theme found in all definitions appears to be income levels.

Definition	***FHFA***		***Opportunity360***	***Opportunity Insights***
	DDA	***QAP (Top 5)***		
General Indicators Found in Each Definition	▪ Rent ▪ Income ▪ Poverty	▪ Income ▪ Education ▪ Healthcare ▪ Economic Growth/Jobs ▪ Transit	▪ Housing Stability ▪ Education ▪ Health & Well-Being ▪ Economic Security ▪ Mobility	▪ Segregation ▪ Income Inequality ▪ Quality Schools ▪ Social Capital ▪ Family Stability

DDAs measure rents relative to incomes on either a zip code or county basis, which are then converted to tracts for consistency within Duty to Serve. This definition is relatively narrow in detail but is broad in its coverage as it defines all census tracts across the country. The QAP definition is the opposite.

[5]The methodology for developing the tool can be found here: https://opportunityinsights.org/wp-content/uploads/2018/10/Atlas_methods.pdf

QAPs, and their definitions of opportunity, are created by local governments that have a high level of exposure to the communities for which they allocate credits. For this reason, QAPs are usually very detailed in their definitions of opportunity but are narrow and disparate in their coverage as not all states incentivize opportunity.

Opportunity360 and Opportunity Insights have very similar goals in defining opportunity but have different practices for doing so. Additionally, while both definitions are thorough and academically examined, they aren't explicitly tied to any funds or subsidies that can incentivize development on the ground.

In order to determine the effectiveness of any of these definitions, states and/or researchers will need to monitor the evolving demographics of their neighborhoods against their intended results. It will take several rounds of funding, as well as continued study over time, to determine the impacts that these affordable housing options are having on its residents. Practically defining and promoting affordable housing in high opportunity areas will need to be a collective effort over many years.

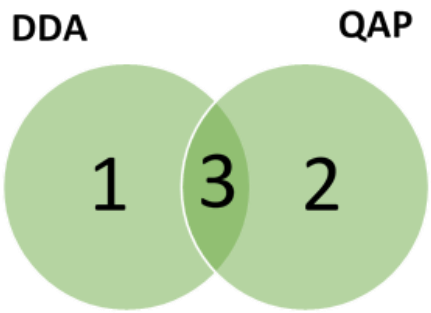
Market Characteristics of FHFA Defined High Opportunity Areas

As we have seen, there are many complexities to defining opportunity. FHFA's definition is most comprehensively associated with funding sources for affordable housing development (via LIHTC and incentives for Freddie Mac and Fannie Mae to provide debt financing in high opportunity areas), so we will focus our market study in these areas. Using this dataset, we have evaluated the current market of affordable housing in high opportunity areas.

Throughout this paper, we use FHFA's definition of high opportunity to evaluate the demographics, population, and housing supply characteristics of these areas. Since this data has two primary criteria: DDAs and QAPs, there are several combinations that can be used when viewing the data. The below legend should clarify the categorizations we use throughout the paper.

Data Legend

- Per DDA = 1 & 3
- Per QAP = 2 & 3
- Per DDA and Only DDA = 1
- Per QAP and Only QAP = 2
- Per QAP and DDA = 3



Subsidized Housing in High Opportunity Areas

Today, the market for subsidized housing, with rent and/or income restrictions that preserve long-term affordability, in high opportunity areas is extremely limited. LIHTC and Section 8 are the most common subsidies used to finance affordable housing in these areas. We also find that there is a fairly even distribution of subsidized properties between QAP and DDA designated census tracts, with approximately 41 percent in QAPs only, 51 percent in DDAs only, and 7 percent in both.

Exhibit 1A: Subsidized Housing Supply Per High Opportunity Designation

	QAP Only		DDA Only		QAP and DDA		Total High Opportunity	
Subsidy	**Properties**	**Assisted Units**	**Properties**	**Assisted Units**	**Properties**	**Assisted Units**	**Properties**	**Assisted Units**
LIHTC	902	60,474	1,438	128,032	184	16,476	2,524	204,982
Section 8**	666	30,357	781	41,214	139	7,054	1,586	78,625
Section 202	58	1,476	67	2,753	15	197	140	4,426
Section 236	0	0	4	824	0	0	4	824
HOME	324	4,826	467	7,733	79	1,263	870	13,822
RHS515	473	13,432	393	13,764	22	842	888	28,038
RHS538	29	1,402	14	803	1	44	44	2,249
Public Housing	56	7,051	102	16,237	16	1,146	174	24,434
State*	119	6,402	74	7,801	21	1,522	214	15,725
Grand Total	**2,126**	**104,863**	**2,649**	**172,485**	**378**	**23,915**	**5,153**	**301,263**[6]

Source: Freddie Mac Tabulations of the National Housing Preservation Database; *State subsidy data only includes CT, FL, and MA; **Section 8 refers to both Project Based as well as the Section 8 Housing Choice Voucher Program

The subsidized housing stock in high opportunity areas is particularly limited when compared with the nation's supply of subsidized housing. As seen in the table below, just 7 percent of subsidized properties and 6 percent of subsidized units are in high opportunity areas as compared to 16 percent of the population earning 60 percent AMI.

Exhibit 1B: Subsidized Housing in High Opportunity Areas Versus Nation

	High Opportunity		Non-High Opportunity		Nation		% High Opportunity	
	Properties	**Assisted Units**	**Properties**	**Assisted Units**	**Properties**	**Assisted Units**	**Properties**	**Total Units**
LIHTC	2,524	204,982	33,032	2,449,786	35,556	2,654,768	7%	8%
Section 8**	1,586	78,625	19,850	1,290,082	21,436	1,368,707	7%	6%
Section 202	140	4,426	1,317	45,661	1,457	50,087	10%	9%
Section 236	4	824	178	34,481	182	35,305	2%	2%
HOME	870	13,822	10,319	208,979	11,189	511,270	8%	9%
RHS515	888	28,038	12,265	387,668	13,153	415,706	7%	7%
RHS538	44	2,249	670	33,556	714	35,805	6%	6%
Public Housing	174	24,434	6,263	1,000,621	6,437	1,025,055	3%	2%
State*	214	15,725	1,723	159,495	1,937	175,220	11%	9%
Grand Total	**5,153**	**301,263**	**68,903**	**4,657,904**	**74,056**	**4,959,167**	**7%**	**6%**

Source: Freddie Mac Tabulations of the National Housing Preservation Database; *State subsidy data only includes Connecticut, Florida, and Massachusetts;**Section 8 refers to both Project Based as well as the Section 8 Housing Choice Voucher Program

[6] Throughout this paper we reference subsidy programs, it should be noted that these programs are duplicative. Meaning that multiple subsidies can exist on a single property.

Demographic Characteristics of High Opportunity Areas

High opportunity neighborhoods are largely composed of homeowners rather than renters, which is both a function of the housing stock itself and higher income earners choosing to own their homes. There are nearly three times the number of households who own their homes compared with those who rent in high opportunity areas, while the same relationship is only about 1.75 times on a national scale. Moreover, the homeownership rate in high opportunity areas is 73.45 percent compared to 61.52 percent in areas outside of high opportunity areas, and 63.61 percent at the national level. We also find that only 12.79 percent of all renters in the United States live in high opportunity areas, suggesting that there is a dearth of affordable rental housing options in high opportunity areas.

Exhibit 2: Household Composition of High Opportunity Areas

	High Opportunity Areas	Non-High Opportunity	National	% High Opportunity
Renter Households	5,479,086	37,356,083	42,835,169	12.79%
Single Family Rental	2,863,487	19,757,718	22,621,205	12.66%
Multifamily Rental	2,496,618	15,760,226	18,256,844	13.67%
Owner Households	15,160,290	59,720,778	74,881,068	20.25%
Total Households	20,639,376	97,076,861	117,716,237	17.53%
Homeownership Rate	73.45%	61.52%	63.61%	N/A

Source: Freddie Mac Tabulations of 2016 5-Year American Community Survey

Indeed, single family homes comprise the overwhelming majority of the housing stock in high opportunity areas, supporting more than 87 percent of households. Of the households living in single family homes, nearly 16 percent live in Single Family Rentals (SFRs). As such, when considering rental housing, we should not ignore SFRs, as SFRs are potentially an important source of affordable housing in these areas. The extent to which SFRs provide affordable housing is likely to vary by market, however, and it is difficult to draw specific conclusions about affordability based on aggregated data when comparing averages, but based on our tabulations of 2016 ACS data, we can generally surmise there are a number of SFRs affordable at levels that can assist in housing those of lower incomes, particularly at 80 percent AMI income levels. This is seen in the table below.

Exhibit 3: Single Family Rental Supply in High Opportunity Areas

	Non-High Opportunity	High Opportunity	Nation
1-Unit Mean Rent	$1,027	$ 1,661	$1,126
2-4 Unit Mean Rent	$945	$1,356	$ 986
SFR (1-4 Unit) Mean Rent	$994	$1,574	$1,073
Multifamily (5+ Unit) Mean Rent	$968	$1,430	$1,027
Weighted Average of 80% AMI	$1,484	$1,652	$1,515
Weighted Average of 60% AMI	$1,113	$1,239	$1,136

Source: Freddie Mac Tabulations of 2016 5-Year American Community Survey

Additionally, high opportunity areas have both higher incomes and higher rents than the national average. On average, a renter in a high opportunity area earns 60 percent more income than the average U.S. renter. To this end, rents are approximately 45 percent higher in high opportunity areas. By comparison, the average homeowner in a high

opportunity area will earn just 36 percent more than the average U.S. homeowner. Though renters and homeowners alike earn more in high opportunity areas than the national average income, the ratio of incomes between renters and owners remains relatively consistent; 59.6 percent in high opportunity areas and 50.7 percent for the nation. We also see that renter income in high opportunity areas is higher than the average household income for the nation, which demonstrates the idea that these areas attract individuals of higher incomes.

Exhibit 4A: Incomes of Various Household Types

	High Opportunity Area	National Incomes
Renter Income	$62,429	$38,992
Owner Income	$104,816	$76,973
Household Income	$91,408	$61,245
Median Rent	$1,476	$1,021
Renter to Owner Income	59.6%	50.7%

Source: Freddie Mac Tabulations of 2016 5-Year American Community Survey

Lastly, we will look at the income levels of families in high opportunity areas in comparison to areas outside of high opportunity areas, as well as national averages. In order to do so, we have broken down the number of individuals at 60 percent and 80 percent AMI levels in each category.

Exhibit 5: Income Levels of Families in High Opportunity Areas

	Total Families	Estimated Families at 60% AMI	Estimated Families at 80% AMI	Percentage of Families Earning 60% AMI	Percentage of Families Earning 80% AMI
Non-High Opportunity	63,010,628	18,656,461	25,613,722	30%	41%
DDA	9,989,643	1,577,705	2,448,759	16%	25%
QAP	6,524,512	981,401	1,577,596	15%	24%
DDA and Only DDA	8,073,689	1,336,742	2,056,339	17%	25%
QAP and Only QAP	4,608,558	740,438	1,185,175	16%	26%
Both	1,915,954	240,963	392,420	13%	20%
Total High Opportunity	14,598,201	2,318,143	3,633,935	16%	25%
Nation	**77,608,829**	**20,974,604**	**29,247,657**	**27%**	**38%**

Source: Freddie Mac Tabulations of 2016 5-Year American Community Survey. Please note that the number of households that can afford rent at 60 percent and 80 percent AMI cannot be directly calculated on this geographic level using Census data. We can, however, estimate the number of families by determining a threshold for each tract and measuring how many families fall at or below this threshold using pre-determined income buckets set by the Census. Family income is used for this analysis because official income figures from FHFA use family income instead of household income.

High opportunity areas are generally higher income areas, which can make it harder for lower income households to find affordable housing, as the market in these areas is already priced relatively high. As such, there are a disproportionate number of low income individuals living in areas outside of opportunity. For comparison, the national average of 60 percent AMI individuals is 27 percent of the total households. However, in areas outside of FHFA defined opportunity areas, this number is slightly higher than the national average at 30 percent. And, the average for high opportunity areas is significantly lower at 16 percent. For high opportunity areas that are defined by both QAP and DDA, the ratio of

households at 60 percent AMI to total households overall is just 13 percent. A similar pattern is found for households earning 80 percent of the AMI.

This breakdown emphasizes the idea that low-income persons live predominantly outside of high opportunity areas. The likely driving factor for this is the high barrier for entry in high opportunity areas due to a lack of affordable housing options.

Geographic Characteristics of High Opportunity Areas

High opportunity areas are disproportionately urban and suburban in nature, though there are some rural high opportunity areas. Approximately 56 million people live in high opportunity areas across the country. With an estimated 88 percent of this population living in non-rural census tracts. However, these non-rural areas make up only 18 percent of the total land mass of high opportunity areas, and make up only 1.4 percent of the country's entire land mass (47,748/3,532,070). Nationally, 77 percent of the United States' population live in non-rural areas, which make up only 6% of the total land area of the entire country.

Exhibit 6: Geographic Concentrations of High Opportunity Areas

	Population			Land Area (Sq. Miles)		
	All	**Rural**	**Non-rural**	**All**	**Rural**	**Non-rural**
United States	318,558,162	73,941,710 (*23%)*	244,616,452 (*77%*)	3,532,070	3,303,176	228,894 (*6%*)
High Opportunity Areas	56,278,808	6,475,431 (*12%*)	49,803,377 (*88%*)	265,059	217,311 (*82%*)	47,748 (*18%*)
Per DDA	38,819,359	3,376,083 (*9%*)	35,443,276 (*91%*)	152,398	121,293 (*80%*)	31,105 (*20%*)
Per QAP	24,682,667	3,274,148 (*13%*)	21,408,519 (*87%*)	120,005	98,268 (*82%*)	21,737 (*18%*)
Per DDA and Only	31,596,141	3,201,283 (*10%*)	28,394,858 (*90%*)	145,054	119,043 (*82%*)	26,011 (*18%*)
Per QAP and Only	17,459,449	3,099,348 (*18%*)	14,360,101 (*82%*)	112,661	96,018 (*85%*)	16,643 (*15%*)
Per DDA and QAP	7,223,218	174,800 (*2%*)	7,048,418 (*98%*)	7,344	2,250 (*31%*)	5,094 (*69%*)

Source: FHFA dataset and Census Data aggregations. The definition of Rural used here is defined in the Duty to Serve regulation

The ratio of rural versus urban is greatest when analyzing areas that are deemed high opportunity by both the QAP and DDA. As seen in the table, the population living in non-rural high opportunity areas "Per DDA and QAP", is approximately 98 percent. This correlation demonstrates the urban and suburban dominance of many of these high opportunity areas. Furthermore, the nation has an average of approximately 90 people per square mile, while in high opportunity areas, this distribution is approximately 212 people per square mile. In areas that are considered high opportunity per both QAP and DDA, this ratio is considerably higher at 983 people per square mile – about 11 times higher than the national average.

Despite the high concentration of urban and suburban population, there is a rural population presence in high opportunity areas. Approximately 12 percent of the population living in high opportunity areas are considered to live in rural areas.

Population Characteristics of High Opportunity Areas

To supplement our analysis, we look at the makeup of high opportunity areas based on population size. The total number of individuals living in high opportunity areas is 56,278,808. Based on the most recent census data, the current population of the United States is at 318,558,162, which means that approximately 18% of the population lives in census tracts designated as high opportunity.

Exhibit 7: Population Per High Opportunity Designation

Type	Population	Composition
All High Opportunity	56,278,808	100.0%
Per DDA	38,819,359	69.0%
Per QAP	24,682,667	43.9%
Per DDA and Only DDA	31,596,141	56.1%
Per QAP and Only QAP	17,459,449	31.0%
Both	7,223,218	12.8%

Source: Freddie Mac Tabulations of 2016 5-Year American Community Survey

We reviewed this breakout on a state-by-state basis, as seen in the table below. Additionally, we have estimated the number of individuals in high opportunity areas that earn 60 percent or less of the AMI and compared to the number of units that are affordable to those individuals in high opportunity areas. These units include both units affiliated with federal, state and/or local programs with rent and/or income restrictions as well as unrestricted units. Nationwide, there is a total shortage of 77,508 units in high opportunity areas affordable to households making 60 percent of the AMI. The shortage is really concentrated to 30 states, as not every state has insufficient supply at the aggregate level. In these 30 states, the shortage of affordable units in high opportunity areas is 232,850 units. In addition, the shortage in these areas is more than likely lower than the true demand that exists. This is because these areas offer access to certain community attributes which would attract many new residents. The lack of affordable housing options limits their ability in moving to these areas.

Without sufficient supply of affordable housing in high opportunity areas, many residents making 60 percent of the AMI must either live elsewhere or pay rents that are unaffordable for their incomes. These other areas may not have the same community features that foster economic mobility, or may be Areas of Concentrated Poverty that may have lower incomes, higher crime rates, poor education systems, and/or limited access to jobs, the combination of which may limit an individual's potential to achieve economic mobility.

Exhibit 8: Affordability of Rental Units in High Opportunity Areas per State

State	High Opportunity Population	Total Population	% of Population Living in High Opportunity Areas	Number of Households Earning 60% of AMI in High Opportunity Areas	Units Affordable at 60% AMI in High Opportunity Areas	Affordability Gap at 60% AMI (Units)
AK	79,904	736,855	11%	1,613	2,585	972
AL	179,916	4,841,164	4%	2,827	1,695	-1,132
AR	28,320	2,968,472	1%	705	261	-444
AZ	1,572,782	6,728,577	23%	22,182	6,419	-15,763
CA	12,910,941	38,654,206	33%	197,115	170,645	-26,470
CO	1,224,570	5,359,295	23%	20,358	15,783	-4,575
CT	1,858,540	3,588,570	52%	29,912	32,561	2,649
DC	58,248	659,009	9%	313	1,682	1,369
DE	296,623	934,695	32%	5,134	2,568	-2,566
FL	4,543,170	19,934,451	23%	73,022	21,451	-51,571
GA	674,231	10,099,320	7%	10,486	5,540	-4,946
HI	643,629	1,413,673	46%	11,404	9,032	-2,372
IA	740,362	3,106,589	24%	11,597	27,159	15,562
ID	82,680	1,635,483	5%	1,438	866	-572
IL	2,102,064	12,851,684	16%	33,334	25,322	-8,012
IN	893,528	6,589,578	14%	9,436	12,266	2,830
KS	97,032	2,898,292	3%	1,497	1,893	396
KY	59,806	4,411,989	1%	704	246	-458
LA	494,348	4,645,670	11%	6,717	4,670	-2,047
MA	875,818	6,742,143	13%	13,450	13,823	373
MD	3,129,580	5,959,902	53%	51,169	50,125	-1,044
ME	508,591	1,329,923	38%	11,783	11,488	-295
MI	485,463	9,909,600	5%	6,131	3,142	-2,989
MN	1,349,611	5,450,868	25%	20,954	28,576	7,622
MO	76,032	6,059,651	1%	1,118	1,925	807
MS	413,426	2,989,192	14%	5,959	3,652	-2,307
MT	0	1,023,391	0%	0	0	0
NC	203,307	9,940,828	2%	4,382	3,314	-1,068
ND	110,272	736,162	15%	2,439	5,103	2,664
NE	669	1,881,259	0%	21	35	14
NH	320,122	1,327,503	24%	7,016	13,588	6,572
NJ	1,650,955	8,915,456	19%	23,664	15,186	-8,478
NM	164,860	2,082,669	8%	3,055	1,160	-1,895

Exhibit 8 (Continued): Affordability of Rental Units in High Opportunity Areas per State

State	High Opportunity Population	Total Population	% of Population Living in High Opportunity Areas	Number of Households Earning 60% of AMI in High Opportunity Areas	Units Affordable at 60% AMI in High Opportunity Areas	Affordability Gap at 60% AMI (Units)
NY	2,546,783	19,697,457	13%	41,323	48,461	7,138
NV	976,959	2,839,172	34%	15,803	7,024	-8,779
OH	4,558,161	11,586,941	39%	71,030	95,495	24,465
OK	42,914	3,875,589	1%	446	329	-117
OR	394,573	3,982,267	10%	6,802	8,441	1,639
PA	558,550	12,783,977	4%	7,143	3,946	-3,197
RI	34,487	1,054,491	3%	437	86	-351
SC	172,650	4,834,605	4%	2,319	837	-1,482
SD	478,522	851,058	56%	9,498	21,153	11,655
TN	355,398	6,548,009	5%	3,684	1,973	-1,711
TX	3,623,310	26,956,435	13%	46,541	31,299	-15,242
UT	789,737	2,948,427	27%	10,950	8,850	-2,100
VA	1,895,487	8,310,301	23%	22,618	14,421	-8,197
VT	356,237	626,249	57%	8,608	14,058	5,450
WA	1,597,066	7,073,146	23%	27,237	38,098	10,861
WI	68,574	5,754,798	1%	798	434	-364
WV	0	1,846,092	0%	0	0	0
WY	0	583,029	0%	0	0	0
Grand Total	**56,278,808**	**318,558,162**	**18%**	**866,174**	**788,666**	**-77,508**

Source: Freddie Mac Tabulations of 2016 5-Year American Community Survey. These calculations are an estimation of renters, not all households. Methodology: Calculate the total number of families that make at or below 60% in high opportunity areas, then multiply by the renter rate in high opportunity areas, then multiply by the ratio of households to families.

While we found a shortage of affordable housing in high opportunity areas across the country, there were several states that had more units affordable at 60% AMI than individuals at the same level of AMI[7]. Since our review in the table above is based on affordability levels at 60 percent of AMI, we looked at a few states to evaluate affordability at the 30 percent AMI level. Our findings showed that 39 states had a shortage of housing at this affordability level. More specifically, Connecticut's surplus at 60 percent AMI was 2,649 units, but when adjusted to 30 percent AMI the state showed a shortage of 808 units. The same can be seen in Washington state where the surplus at 60 percent AMI was 10,862 units but at the 30 percent AMI level there was a shortage of 2,519 units. Lastly, Ohio had a surplus of 24,466 units at 60 percent AMI but showed a shortage of 9,199 units at the 30 percent AMI level. Across just these three states, there was a swing of 53,503 units when adjusting from 60 percent AMI to 30 percent AMI.

[7] Although this suggests a surplus of affordable housing units, this does not speak to the age or quality of the properties.

Although many states show more affordable units than individuals at the same level of AMI in high opportunity areas, there are several factors that may skew this statistic. First, as seen in our analysis above, there may be a disproportionate share of extremely low-income individuals who cannot afford housing in high opportunity areas. This means that even though there are enough units to support housing for individuals earning 60 percent of AMI, residents earning less could still face an abundant affordable housing shortage. Secondly, these numbers represent the state in aggregate. As a result, there may be local variations, where some communities may have a shortage even if there is not a shortage at the state level. Lastly, housing shortages prevent low-income persons from moving to areas of greater opportunity. This scenario distorts the true supply and demand ratios in high opportunity areas as it is likely that people want to move to these communities but face many barriers to doing so.

Challenges to Developing and Preserving Affordable Housing in High Opportunity Areas

Not only is the current supply of affordable housing in high opportunity areas scarce, but the potential to create and preserve new affordable housing in these areas can be challenging for several reasons that were identified in our outreach.[8]

Zoning Issues

- In high opportunity areas, land may not be zoned for higher density development required for larger apartment communities.

Local Preference

- Even in cases where housing credits are awarded, many projects require additional local approval. If local communities oppose the development of new affordable housing projects, the awarded properties may be delayed or never built.

High Costs

- In high opportunity areas, land costs tend to be higher, which therefore increases the costs of acquisition and development. Additionally, in recent years, construction costs have become a limiting factor of the creation of more affordable units.

Lack of Buildable Land

- Many areas identified as high opportunity are already densely populated, leaving few lots available for new development. As discussed earlier, the national average population density is about 90 people per square mile, while the average in high opportunity areas is 212. In areas that are designated as high opportunity per the DDA and QAP classification, the average density is 984 people per square mile – nearly 11 times the national average.
- Affordable housing often competes with other forms of development for the same, limited space.

Limited Federal and State Housing Subsidy

- Government subsidy to support affordable housing is capped.
- Additionally, these subsidies only last for a certain number of years. After the compliance period there is a risk that the property is converted to market rate rents. This is especially true in high opportunity areas where the market rents are more than likely higher.

[8] We have engaged with the National Housing Trust, The National Housing Preservation Database, and several State Housing Finance Agencies

Economics of Affordable Housing Preservation in High Opportunity Areas

To further illustrate the difficulties in developing affordable housing in high opportunity areas, we will examine the economics of a Freddie Mac financed LIHTC property in Los Angeles County, California in a high opportunity area. This property has a LIHTC Agreement, Section 8 Housing Assistance Payment (HAP) contract, and a Tax Abatement from the state of California. As such, 70 percent of the units are restricted to 60 percent of AMI and 30 percent of the units are restricted to 50 percent of AMI. This property was built in 1970 and later renovated in 2001. The programs associated with the regulatory agreements provided a subsidy of $3,063,576 in subsidy per year, resulting in a Gross Potential Rent (GPR) of $3,691,200. Additionally, the tax abatement provides more than $450,000 in tax relief each year which substantially limits the property owners' expenses. Essentially, with subsidy this property is affordable to individuals making less than 60% of AMI. However, without subsidies maintaining affordability, tenants would have to pay more than six times their current rent. This often exceeds their annual incomes. We can see this in more detail in a simple economic analysis that compares how the property would perform with affordable housing subsidies, without affordable housing subsidies, and at market rate rents.

Exhibit 9: Economic Analysis of a Subsidized Property in a High Opportunity Area

	Subsidized	Unsubsidized (With the Same Rents)	Market Rate
Loan Amount	$42,100,000	$42,100,000	$42,100,000
Units	$150	$150	$150
Gross Potential Rent	$3,691,200	$3,691,200	$4,111,459
Annual Subsidies	$3,063,576	-	-
Assumed Vacancy	3%	3%	3%
Annual Net Residential Income	$3,580,464	$516,888	$3,988,115
Real Estate Taxes	$52,373	$455,949	$455,949
Insurance	$35,690	$35,690	$35,690
Utilities	$171,593	$171,593	$171,593
Repair and Maintenance	$121,826	$121,826	$121,826
Management Fee	$107,814	$107,814	$107,814
Total Payroll	$242,969	$242,969	$242,969
General & Administrative	$35,250	$35,250	$35,250
Miscellaneous Expenses	$24,550	$24,550	$24,550
Reserves	$37,500	$37,500	$37,500
Total Expenses & Reserves	$829,565	$1,233,141	$1,233,141
Calculated NOI	$2,750,899	$(716,253)	$2,754,974
Total Amortizing Debt Service	$2,403,423	$2,403,423	$2,403,423
Debt Coverage Ratio	**1.15**	**-0.30**	**1.15**

Source: Freddie Mac underwritten assumptions based on property's historical performance

With this subsidy, the property is able to pay its monthly debt service—it's Net Operating Income (NOI) exceeds its required debt service payment with a Debt Coverage Ratio (DCR) of 1.15x. Without subsidy, the economics on this property are very different; either the property would not be able to meet its debt service payments or rents would have to be increased dramatically in order to do so.

Because the subsidies on this property account for $3,063,576 (83%) of the annual Gross Potential Rent, in order to keep rents at the same affordability levels, the Annual Net Residential Income (NRI) would need to be reduced to $516,880. Accounting for this and holding all else constant would result in a negative NOI of $716,253, which yields a DCR of -0.30x. In other words, without subsidy and the same rent levels, this property cannot support its debt service. Its NOI is far short of the required debt service payments.

In order for this property to be able to make its debt service payments at a 1.15x DCR without subsidy, the subsidy amount would have to be made up for in rent increases. At market rate, tenants would each have to pay approximately $2,215 more in rent each month—a clearly unaffordable increase over their current average rent of around $349 per month—to account for the absence of subsidy. This would only be affordable to higher income individuals.

While this is only one example, this analysis suggests that operating properties at this level of affordability is highly difficult without material subsidy. Given the already limited supply of subsidized housing in high opportunity areas, sustaining and preserving affordable housing in these areas will prove to be a challenge.

Alternatives to Subsidized Housing in High Opportunity Areas

As seen through our property analysis, without subsidy, a property will either have to charge market rate rents or it will be unable to operate. There is a clear need for subsidy, but the availability for federal housing subsidy is lacking both nationally and, more specifically, in high opportunity areas. There are a total of 866,174 households who earn 60 percent AMI in high opportunity areas, while there are only 788,666 units affordable to them. This means there is a total estimated shortage of 77,508 affordable units in high opportunity areas, not inclusive of households that want to move to areas of opportunity. Of the 788,666 units, only 301,263 units have some form of subsidy and are subject to long-term regulatory agreements – 204,982 being LIHTC and 78,625 being Section 8. The remainder 487,403 units are naturally occurring affordable housing, meaning they do not have any subsidies or regulatory agreements associated with them to maintain their affordability. As a result, these units are at risk of being substantially renovated and converted to much higher market rate rents, as they are in generally desirable areas that would support increased rents. A long-term solution to ensure supply of affordable housing in high opportunity areas would likely need to include some deliberate efforts to preserve the viability and affordability of this portion of the housing stock as well.

Conclusion

Although there are many challenges to increasing affordable housing development and preservation in high opportunity areas, establishing a functional definition of opportunity is a foundational component to further understanding this market. Academic institutions, housing organizations, state and local governments, and research and policy organizations have begun the process already. FHFA, Enterprise Community Partner's Opportunity360, and Harvard's Opportunity Insights Project all use different methodologies to define opportunity, but there remains a general philosophical alignment on what makes an area high opportunity, however, there is not a perfect practice for implementing these ideas on the ground. Due to the varying demographics and needs of communities throughout the United States, perhaps having multiple definitions of opportunity makes the most sense. It will take years of data collection to draw conclusive evidence surrounding the effectiveness of these definitions and policies in practice.

Our review of FHFA defined high opportunity areas revealed some challenges that currently exist in the market. This analysis demonstrated the current limited supply of multifamily housing in high opportunity areas, and more specifically, affordable rental housing. More importantly, there is a shortage of federal housing subsidies in high opportunity areas. Our economic example demonstrates the importance that subsidies play in keeping rents at affordable levels. Closing the affordable housing gap in high opportunity areas will require both continued subsidy, federal and local efforts, and financing innovations.

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