

Affordable Housing in AZ: Does Supply Meet Demand?

By David Schlinkert, policy analyst

*“A home should be a stockade, a refuge from the flaming arrows
of anxiety, tension and worry.”*

- Wilfred Peterson, American author

Safe, decent and affordable housing is critical to improving health outcomes,¹ increasing workforce participation and helping the most vulnerable groups move into better neighborhoods.²

When more than half of a household’s income goes towards housing costs, households are more likely to face eviction. Arizona has 1.22 million people (17.7 percent of the state’s population)³ living below the poverty line. They classify as low-income or very-low income and are eligible for one of the Housing and Urban Development’s (HUD) rental assistance programs.⁴ About 17,000 Arizonans receive limited federal rental subsidies. But for every family receiving a subsidy, five others who are eligible do not receive support and are paying more than half their income towards housing costs or are homeless.⁵ Consequently, Arizona has seen an increase in chronic homelessness, and a rise in homelessness among the elderly.⁶

At the same time, rental rates have increased across the state. Both Phoenix and Tucson experienced increases in rents of 5 percent from 2016 to 2017, which is the largest year-over-year rise that Tucson has recorded in recent years.⁷ Increased revenue for property owners is driving the construction of more apartments, and 9,100 units are underway in the metro Phoenix area.⁸ The problem is, these new builds will be too expensive for low-income earners.



A key indicator of the lack of affordable housing in Arizona is the significant decline in the rental vacancy rate. Vacancy rates have trended downward since the Great Recession, from 18 percent in 2009 to 5 percent in 2016.⁹ Three years ago, Jim Kasten, owner of the Kasten Long Commercial Group in Phoenix, noted: “New construction should fill the demand from the increased population for the higher-end tenants, but no one is building properties with the lesser rents, typical of the B and C Class properties.”¹⁰ Today, Kasten believes the situation has become even more challenging for low-income tenants: “Rents have gone through the roof, 25 percent over the last

three years ... and some people only have two options – move in with someone or move to a less-quality area.”

One solution to this problem is the federal Low Income Housing Tax Credit, or LIHTC. It has been the most successful rental housing production program in Arizona through its dollar-for-dollar credit against the federal income tax liability of the owner.¹¹ Due to the most recent tax overhaul, however, analysts predict LIHTC will produce 235,000 fewer housing units nationwide over the next decade.¹²

Further adding to the demand for more affordable housing, 107,682 people moved to Arizona from 2016 to 2017, making it the sixth-fastest growing state by percentage growth.¹³ Arizona State University economist Lee McPheters predicts 120,000 more people will move to Arizona in 2018.¹⁴ Arizona does not have enough affordable housing options for its low-income residents now, so what can Arizona do to increase the supply of affordable housing stock as demand for affordable housing is only set to increase? The federal government is moving away from funding the development of new affordable housing units, but Arizona still has several options.

Incentivizing Development in Arizona

There are many ways to address the housing shortage, from facilitating land acquisition and investing in public housing to educating landlords about subsidy programs. But according to Brian Swanton, CEO of Gorman & Company, a major housing developer in Arizona, there are three programs that Arizona could implement that would generate the most low-income units:

- State Low-Income Housing Tax Credit Program (State LIHTC)
 - Who uses it? 15 states, including New Mexico, Utah, Colorado and California. (Two states have an active proposition to add a State LIHTC program, but not Arizona)¹⁵
 - How could it impact Arizona? It could supplement declining federal funding and increase the number of low-income units
- Tax Increment Financing
 - Who uses it? Arguably every state in the U.S. except Arizona (Arizona Legislature repealed the TIF statute in 1999)¹⁶
 - How could it impact Arizona? It could promote economic development, revitalization and increase housing stock
 - The use of TIF-like programs of property tax reduction, abatement or incentive have been extremely controversial in Arizona and are debated by the Legislature on an annual basis.
- State Historic Tax Credit Program
 - Who uses it? 31 states including Colorado, New Mexico and Utah (Three states have an active proposition to add a State Historic Tax Credit Program, but not Arizona)¹⁷
 - How could it impact Arizona? It could revitalize and enhance housing stock in low-income areas and preserve historically significant buildings

Arizona is growing rapidly, and in order to sustain long-term economic growth Arizona will need to invest in education and job training to keep more individuals above the poverty line. At the same time, new revenue streams will prove essential if the state wants to expand infrastructure projects that give Arizonans the opportunity to move into their “stockade, free of anxiety, tension and worry.”

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Photo by Lance Anderson on Unsplash
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