SPOTLIGHT ON UNDERSERVED MARKETS

LIHTC in Indian Areas

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A Comprehensive Overview of the Region's LIHTC Market and the Structural Drivers that Present Challenges and Opportunities for the Broader Multifamily Rental Market

Providing affordable housing in Indian Areas has long been a challenge, and the existing supply is not sufficient to meet the need. A report by the Department of Housing and Urban Development (HUD) estimates that to address the housing needs of tribal areas[i], a total of 68,000 new units must be constructed to eliminate overcrowding (33,000) and replace inadequate units (35,000).[1] Closing this gap will not be easy, and is currently heavily reliant on federal programs, particularly Low-Income Housing Tax Credits (LIHTC).

Indian Areas is a unique market because it contains both geographic and demographic components that are very specific. The requirements set by various housing assistance programs, and by the Federal Housing Finance Agency (FHFA) through the Duty to Serve regulation, stipulate that tribal members must be served in specified geographic regions throughout the country. This adds complexity to leveraging subsidy for housing development, and this complexity creates difficulty in attracting investment.

Safe, affordable housing has historically been, and continues to be, a major issue for members of American Indian tribes in Indian Areas. Poverty rates among tribal members are significantly higher and housing conditions are significantly worse than the national average. Roughly 40 percent of all housing in Indian Areas is considered inadequate.[2] In addition, homelessness is a widespread issue for tribal members.

In this paper, we aim to provide clarity on the definition of Indian Areas and explore the role that the LIHTC program plays in providing affordable multifamily rental housing for tribal members throughout the nation. We examine the market size of this subsidy program, as well as demographic and economic characteristics of Indian Areas, and we highlight some challenges to LIHTC development that are unique to this market.

By increasing market awareness and understanding, we hope to further the public discussion of housing in Indian Areas and shed light on ways in which policy initiatives and private capital can help address the rental housing needs in Indian Areas.

Below are some of the key findings of our research:

- Multifamily rental housing is rare in Indian Areas. The multifamily stock that does exist typically requires housing subsidies, namely the LIHTC program.
- Debt financing for LIHTC housing is very limited. As such, projects heavily depend on tax credit equity and housing grants.
- LIHTC properties in Indian Areas tend to be very small. Only 3.4 percent of the properties have 100 or more units, compared with 23.3 percent in the nation.

[i] 'Tribal Areas' here refers to American Indians and Alaska Natives (AIAN) who live on an Indian reservations or other tribal area.

- Set-asides for tribal LIHTC projects are offered by three states, while several others have preferences for projects that serve this population.
- The poverty rate and unemployment rate among tribal members is more than double that of the nation. Household income is 31 percent lower. This makes the development and operation of affordable housing more difficult, particularly without subsidies.
- There are over 2,000 LIHTC properties in Indian Areas supporting over 80,000 units. However, this is an overestimate of the tribal LIHTC stock because not all properties that fall within the boundaries of Indian Areas specifically focus on serving tribal members.
- The unique definition of Indian Areas makes it difficult to precisely measure demographic, economic and housing characteristics.
- Despite these challenges, tribal housing authorities successfully develop LIHTC housing in Indian Areas each year, though the rate of development is too slow to close the gap in housing over the near or moderate term.

Overview of LIHTC and Its Role in Supporting Multifamily Rental Housing in Indian Areas

LIHTC is one of the primary means to create and preserve affordable rental housing across the country, in both large and small markets. Since the program's inception in 1986, it has created or preserved over 3 million units of rental housing affordable to those making 60 percent of the area median income (AMI) or less.[3] While the program has national reach, its efficacy in meeting local needs can vary by market, and is dependent upon a variety of local conditions, state priorities, and developer interests and capabilities. This is especially apparent in the nation's hardest to serve rural markets, including Indian Areas.

In this paper, we focus on the role of LIHTC in support of tribal members in Indian Areas. This program plays a particularly important role for Indian Areas since debt financing is very limited and most properties cannot support debt at all due to low income.

Despite the importance of LIHTC in providing safe, decent, and affordable housing in these areas, there have been many challenges that have impeded LIHTC development. These include, but are not limited to, subpar or incomplete infrastructure, low availability of soft debt financing, and insufficient state set-asides and incentives for LIHTC projects relative to the need. Through a combination of research and consultation with organizations that specialize in serving the housing needs of these areas, we provide clarity regarding the market size and distribution of tax credits in Indian Areas and the underlying demographic and economic drivers that impact this market.

Understanding What Constitutes Indian Areas

Before examining the multifamily housing market and the allocation of tax credits to Indian Areas, we must first establish what exactly constitutes Indian Areas, more specifically in rural geographies. This definition is important because it serves as a good representation of how states allocate tax credits to projects serving members of Indian tribes. It is also important in determining how the FHFA views Indian Areas for Duty to Serve, which provides potential incentive to Freddie Mac and Fannie Mae to invest LIHTC equity there.

Although each state with tribal set-asides has its own criteria for determining eligibility, there are common elements in each that the formal definition of Indian Areas attempts to unify. Using a nationally consistent definition for Indian Areas that is not constrained by nuances in state-level definitions allows for us to identify common characteristics of these areas across the country.

In this paper, we use FHFA's definition of Indian Areas as described in conjunction with the Duty to Serve regulation. This definition includes both a geographic and population component. For a property to satisfy the population component of Indian Areas, the property needs to demonstrate that it provides housing to members of a federally recognized Indian tribe. This does not cover all persons of Native American heritage since not all Native Americans are affiliated with a federally recognized tribe.

The geographic definition is a little bit more complicated since the boundaries for Indian Areas are not the same as the boundaries for Indian reservations, as defined by the U.S. Bureau of Indian Affairs. Instead, the Indian Areas boundaries come from those set by HUD for its Indian Housing Block Grant Program (IHBG). Under this program, Indian Areas are defined as areas in which an Indian tribe or tribally designated housing entity operates, or is authorized to operate, affordable housing programs.

The definition does not necessitate that an area fall on an Indian reservation; an area simply needs to demonstrate that they provide housing for members of an Indian tribe to qualify as an Indian Area. Under the Duty to Serve regulation, this national definition is limited to rural geographies only. As such, our analysis will include only rural parts of HUD's Indian Areas, though we contextualize this with national information.

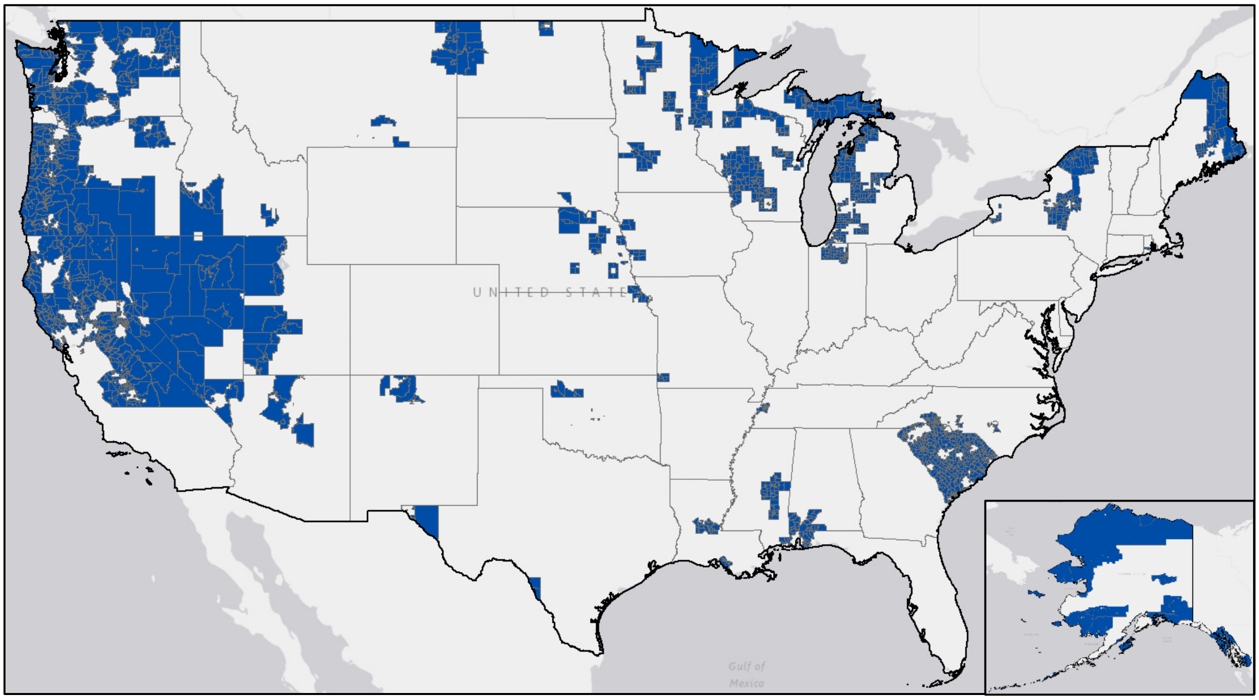
There are two types of geographies that are used to determine Indian Areas: census tracts and American Indian and Alaska Native (AIAN) areas (these resemble Indian reservations; the relationship is discussed more on page 8). A census tract that does not contain any AIAN areas will be either entirely an Indian Area or entirely not an Indian Area. If one or more AIAN areas falls in a census tract, then this creates the possibility of subdividing the tract into areas that are considered Indian Areas and other parts that are not considered Indian Areas.

In short, there are essentially two ways that an area of land can count as Indian Areas for the purpose of Duty to Serve:

1. A tract, or portion of a tract, does not contain any government-defined AIAN areas but is considered Indian Areas under Duty to Serve
2. An AIAN area that is considered Indian Areas

Map 1 below displays the first criterion. These are census tracts, or portions of census tracts, that do not contain AIAN areas but are still considered Indian Areas. All of the tracts shown are considered rural.

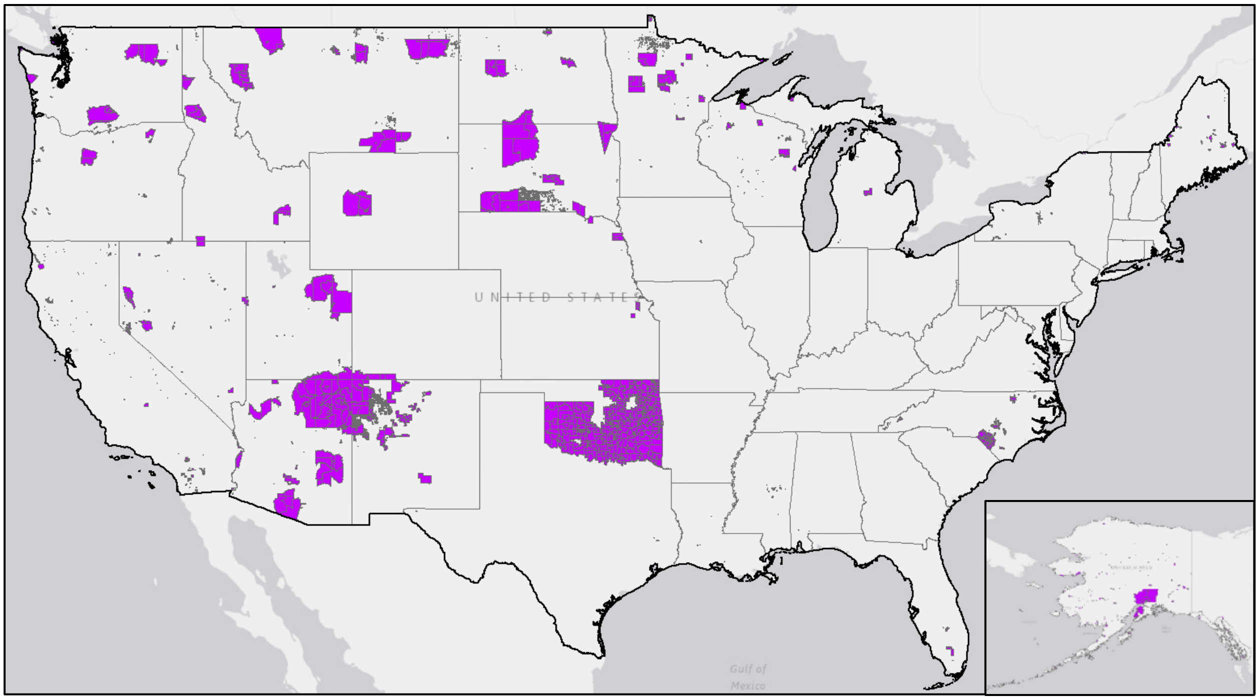
Map of Criterion #1: Indian Areas Outside of AIAN Areas



Source: Mapping of FHFA data. Hawaii is not shown because it does not contain Indian Areas.

Map 2 below shows Indian Areas that do overlap with AIAN areas. In other words, all areas shaded in purple on this map fall on an Indian reservation.[ii]

Map of Criterion #2: Indian Areas on AIAN Areas

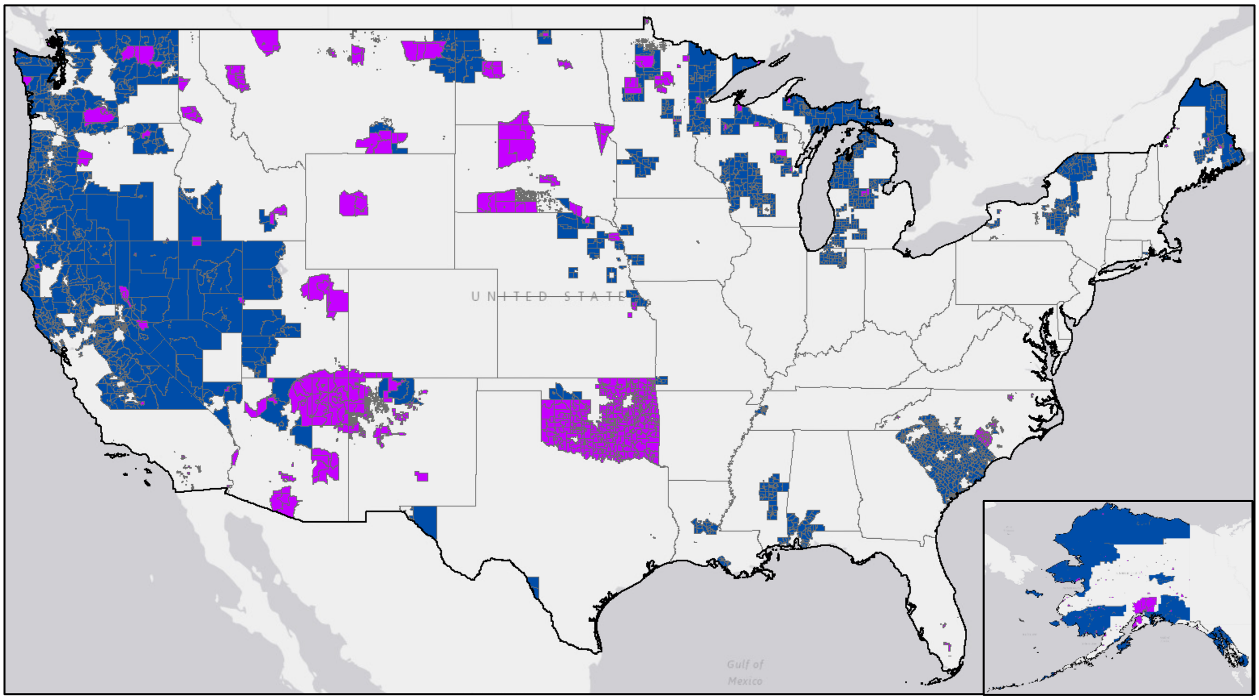


Source: Mapping of FHFA data. Hawaii is not shown because it does not contain Indian Areas.

[ii] As noted on page 3 and explained further on page 8, the true boundaries of Indian reservations do not align exactly with AIAN areas. That is, there is not a consensus on the exact boundaries of reservations. The geographic file that was used to construct Indian Areas and that we use for our analysis is imperfect, but is the best resource currently available for geographic examination of this market.

Piecing these two criteria together creates Map 3, which includes all areas that are considered HUD Indian Areas that meet FHFA's Duty to Serve criteria. Both colors represent Indian Areas equally; the different colors are kept simply to show *why* the area counts as Indian Areas[iii].

Map 3: Map of All Indian Areas

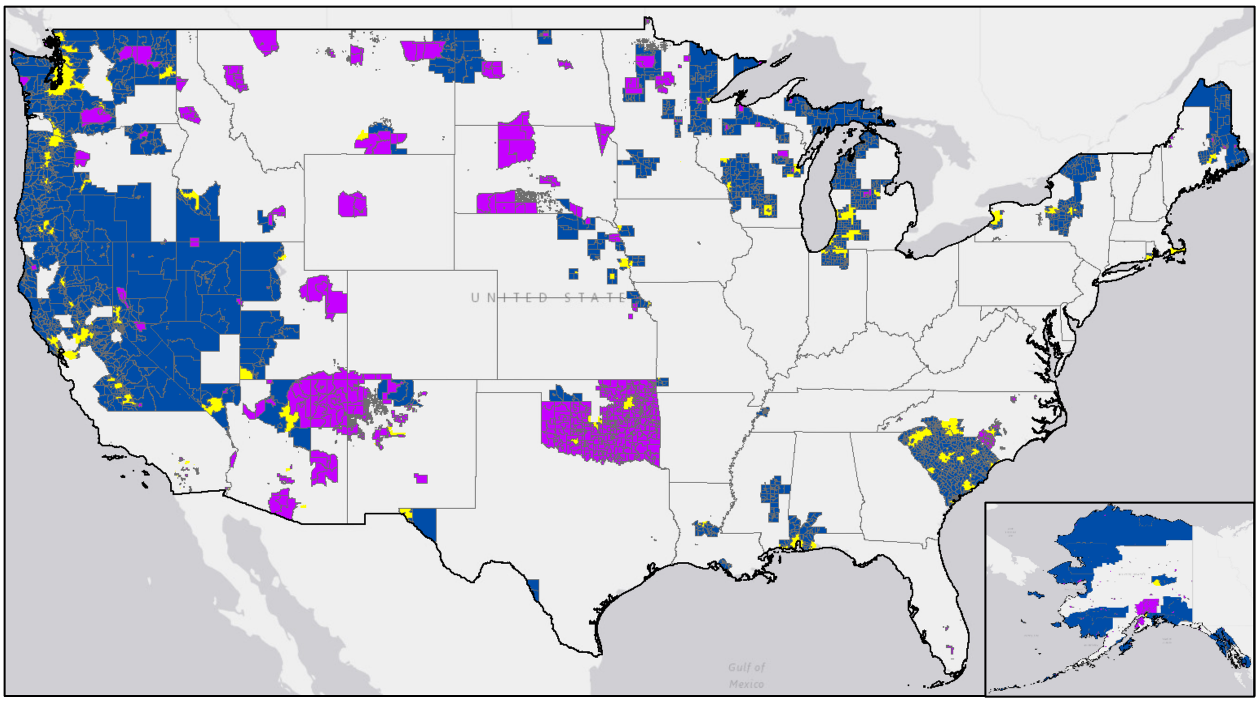


Source: Mapping of FHFA data. Hawaii is not shown because it does not contain Indian Areas.

[iii] The drawback of this geographic definition is complexity; in most cases, summary statistics are impossible to produce given the unusual geographic boundaries of Indian Areas. In addition, the areas considered Indian Areas are demographically heterogenous, meaning that treating the entire region as an accurate representation of tribal members is a questionable assumption. For our analysis, we will approach this dilemma using various approaches and produce estimates using proxies and boundaries that are most intuitive.

The Duty to Serve definition uses HUD's IHBG program boundaries for the Indian Areas boundaries with the only modification being the exclusion of nonrural areas. Map 4 below adds back the nonrural portions of the IHBG program (represented in yellow). Thus, this map displays the complete boundaries of the IHBG program based on Freddie Mac's interpretation of HUD data.[iv] The boundaries on Map 3 have been kept to show how the inclusion of urban and suburban areas changes the boundaries as defined by Duty to Serve. Although these newly added areas appear to be very small, they are densely populated and include a significant number of LIHTC properties (this will be discussed more on page 13).

Map 4: Map of HUD's Indian Housing Block Grant Program Boundaries



Source: Mapping of HUD data. Hawaii is not shown because it does not contain Indian Areas. Nonrural areas are shown in yellow.

[iv] This map was not produced by HUD but was instead produced by Freddie Mac based on our interpretation of HUD's IHBG data. It is worth noting that these IHBG boundaries differ from the program's current boundaries. This map is based on the 2018 Duty to Serve geography file (although the data was from before this year). HUD has since updated their data, as they occasionally do, so the current boundaries differ slightly. For example, seven tribes in Virginia have been recognized for the IHBG program since 2015 but are not reflected in this map.

Characteristics of Indian Areas and How They Affect the LIHTC Market

Data that links the population and geographic components together is generally unobtainable. As a result, different proxies, with varying degrees of reasonable comparativeness, must be used.

There is not a universal consensus surrounding the geographic boundaries of Indian reservations. Through our outreach, we found that tribes across the country often disagree with government definitions. The closest proxy that we have for Indian reservations are AIAN areas, which are generally more inclusive than reservations. While an imperfect measure, for the purpose of this analysis, Indian reservations and AIAN areas will be treated as synonymous and part of the broader geography of Indian Areas, as it can still provide directional benefit in our analysis.

Population

A comprehensive source that measures the number of tribal members living in Indian Areas – either nationally or in rural areas – does not currently exist. The nation's tribal population and the number of people living in Indian Areas can be estimated separately but cannot be precisely calculated together. Both measures are important because they are each a necessary component of the classification of Indian Areas. To that end, this paper presents two ways to estimate population. From these two approaches, both high and low estimates of the eligible tribal population under Duty to Serve were produced.

Approach #1 - Tribal Affiliation

The first approach is to focus solely on the population of tribal members. Per the most recent census in 2010, there were 5.2 million people who identified themselves as members of Indian tribes, representing roughly 1.7 percent of the nation's population. Tribal members live in all 50 states and the District of Columbia.[4]

However, there are two problems with this approach. First, it relies on self-identification and therefore may not reflect the true number of tribal members in the nation. Second, it does not distinguish between tribes that are federally recognized and those that are not. A closer estimate may come from the Indian Housing Service (IHS), which serves 2.2 million tribal members.[5]

Approach #2 - Geography

Focusing solely on tribal affiliation ignores the geographic component of Indian Areas. To address this, we can estimate tribal population by examining how many people live on Indian reservations in Indian Areas. The goal is not to measure the total number of people living on all reservations but to instead estimate the number that fit the geographic requirement under Duty to Serve.

According to 2016 American Community Survey data, there are 5.0 million people living on Indian reservations. However, for our analysis, we are focused on the portions of reservations that fall on

Indian Areas.[v] After filtering for only these areas, we estimate that there are 2.5 million people that fit this criterion. Furthermore, Duty to Serve regulation specifies that the population component of the definition includes only members of federally recognized tribes. For this geographic analysis, the best proxy available is to look at the population on federally recognized tribal areas. Of the 2.5 million people living on reservations that fall on Indian Areas, the population in federally recognized tribes is approximately 788,000.[6]

Not all federally recognized tribes will have a reservation, and this approach only accounts for rural areas. The vast majority of Indian reservations fall in rural areas by land area, but the percentage of people on reservations living in these rural areas is smaller because of low population density. Specifically, 99 percent of federally recognized reservations in Indian Areas are rural by land area, while an estimated 84 percent of these reservations are rural by population.

The shortcoming of this approach is that it only captures a relatively small portion of tribal members since most of them do not live on Indian reservations. An estimated 78 percent of tribal members live outside of reservation boundaries.[7] One reason for this is that tribes sometimes have difficulty housing all members within their trust land, so tribal members may be forced to live outside of trust land. However, Indian Areas outside of Indian reservations contain a very low percentage of tribal members when compared with their overall population, so extending our focus to these areas could severely inflate the true number.

This second approach contains more uncertainty than the first approach, which focused on tribal affiliation. However, both approaches are relevant because they link population distribution to Indian Areas and where LIHTC housing is most likely to support tribal members. This analysis estimates that the eligible population per the Duty to Serve regulation is between 788,000 and 2.2 million.[vi]

Income and Poverty[vii]

According to the American Community Survey, members of Native American tribes earn significantly less than the national average. In 2016, the median AIAN household income was $39,719 – about 31 percent less than the national average.[8] This disparity has stayed fairly constant since the 2010 decennial census.[4] In 2000, the median wealth for Native Americans was only 8.7 percent of the national average median wealth.[9]

Poverty is an issue that has long plagued the tribal community, and while the poverty rate is declining, it remains very high. Just over one in four Native Americans are below the poverty line – nearly double the national average. Four out of the top ten poorest counties in the country, measured by average per capita income, are on Indian reservations. Indeed, Indian reservations make up a sizable portion of

[v] As a reminder, not all reservations will fall within the boundaries of Indian Areas. There are some reservations that are excluded and of those left (which is the majority, 549 out of 649), the nonrural portions are removed.

[vi] Although all members of federally recognized tribes are eligible under Duty to Serve, not all of these tribal members will be located in an area that meets the geographic criteria.

[vii] Unless otherwise noted, for the rest of the demographic section (i.e., until LIHTC is discussed on page 12), all calculations of Indian reservations will refer to all reservations throughout the country regardless of whether or not they are an Indian Area per Duty to Serve. This is done for simplicity, repeatability, and to avoid rough estimations due to Census data not covering certain geographic combinations.

Persistent Poverty Counties (PPCs) in the United States. Of the 386 PPCs, 70 (18.1%) contain at least one Indian reservation. In total, 20.6 percent of all Native Americans live in a PPCs.[6] Consistent with the high poverty rate, the Native American unemployment rate of 12 percent is more than double the national average and is the highest among all racial groups. The labor force participation rate is 58.2 percent which is substantially lower than any other racial group.[8,viii]

As is true for rural areas generally, rural Indian Areas are not typically close to major employment centers. Further, subpar technological infrastructure limits income growth in Indian Areas. On Indian reservations, 63 percent of the population does not have fixed access to broadband; in rural areas on reservations, this rate is as high as 85 percent. For comparison, the corresponding rate for the nation is about 17 percent. Internet access through broadband connectivity is essential for economic growth. This inaccessibility exacerbates the high poverty and high unemployment that are commonly experienced on reservations.[10]

The challenging income, economic, and infrastructure prospects have a direct impact on the ability to provide safe, decent, and affordable housing, through the LIHTC program or otherwise. With lower incomes both at the individual level and at the aggregate level, it becomes difficult to charge sufficient rent to generate the cash flow needed to operate a property without substantial subsidy, and to build at a sufficient scale to operate efficiently and address housing needs comprehensively. Even if property owners charge the maximum rent that they can under the LIHTC program, it's still difficult to produce positive cash flow. This problem is exacerbated by low population density.

Population Density and Distribution

Areas with a high concentration of tribal members generally have extremely low population density, meaning that the land area is very large relative to how many people live there. In the United States, there is an average of 90.2 people per square mile. This figure differs substantially depending on the region. In rural areas nationwide, there are 22.4 people per square mile, whereas the urban and suburban areas average about 1,069 people.[6]

Indian reservations average 26.6 people per square mile, but reservations that have a high percentage of tribal members is far lower. On reservations where tribal members constitute the majority of the population, the density is a mere 6.9 people per square mile. To put this into perspective, only about 1 percent of the U.S. population lives in a tract with an equal or lower density. When looking only at reservations that fall in Indian Areas defined by Duty to Serve, we find that the population density averages about 21.8 people per square mile – still more than four times lower than the national rate.[6]

The distribution of tribal members in some areas of the country displays a considerable disconnect between the population and geographic components of Indian Areas. For example, approximately 83 percent of South Carolina's land area (containing 33 percent of the population) is considered Indian Areas. Despite the high level of geographic inclusion, tribal members comprise less than 1 percent of the state's population, meaning it is unlikely that LIHTC housing located in these areas will primarily serve

[viii] The labor force participation rate is the number of employed workers and unemployed people looking for work divided by the number of people aged 16 and older.

this population segment. Furthermore, the entire 83 percent of the land area that qualifies as an Indian Area is outside of reservation boundaries, and while South Carolina does have a few Indian reservations, none of them are considered Indian Areas.

Housing Characteristics and Distribution

Housing for tribal members in Indian Areas is generally of lower quality compared with the rest of the country. According to a paper from the National American Indian Housing Council, housing conditions on Indian reservations are so inadequate that they are comparable to housing in third world countries. Housing units on reservations commonly lack basic utilities and many homes are in desperate need of rehabilitation.[11] According to a 2011 report by the U.S. Environmental Protection Agency, more than 120,000 tribal homes lacked access to basic sanitation.[12]

As a group, those who self-identify as American Indians rent their place of residence at a substantially higher rate than the rest of the country (46.3 percent versus 36.4 percent, respectively).[6] Despite this, renters within the geographic boundaries of reservations comprise a relatively low percentage of households. This high rate of homeownership is common for rural areas, but the ownership structure on reservations is unique. Tribes will often own properties, instead of the tribal members themselves, thereby preventing nontribal members from owning homes on reservations.[13]

On reservations, 32.7 percent of households rent their home, with 22.9 percent of these households renting in multifamily buildings. This compares with 36.4 percent and 42.6 percent, respectively, for the country as a whole. From this we see that, although the overall rental rate does not differ significantly, the multifamily rental rate for the country is nearly double that of Indian reservations.

Both tribal members and non-tribal members live on Indian reservations,[ix] and reservations with a high percentage of tribal members have substantially fewer multifamily units relative to the entire rental stock. On reservations where at least half of the population is comprised of tribal members, only 9.6 percent of rental units are in multifamily properties, as seen in Exhibit 1. When the cutoff is changed to 90 percent tribal members, the multifamily rental rate drops to 6.5 percent. This equates to a 2.6 percent share of the entire housing stock – more than eight times lower than the national average.

[ix] In this context, people who identify as being of American Indian and Alaska Native descent are treated as tribal members if they live within the boundaries of Indian Reservations as defined by the Census Bureau. Not all people on reservations of AIAN descent are tribal members and not all tribal members are of AIAN descent, but these data points are the best proxy that we've identified.

Exhibit 1: Rental Unit Mix on Indian Reservations

	National	Indian Reservations	Tribal Member Percentage on Indian Reservations			
			50%+	70%+	80%+	90%+
Rental Units *(% of All Households)*	36.4%	32.7%	34.6%	33.1%	31.3%	27.8%
Multifamily Rental Units *(% of All Households)*	15.5%	7.5%	3.3%	2.6%	2.2%	1.8%
Multifamily Rental Units *(% of All Rentals)*	42.6%	22.9%	9.6%	7.8%	6.9%	6.5%

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

In all cases in Exhibit 1, the overall rental rate remains fairly constant; the most noticeable change is the multifamily rental rate. Areas with low population density generally have a relatively small supply of multifamily rental housing. This fundamental relationship is observed on a national scale and explains the relationship between tribal population and multifamily housing in these areas. Reservations with a higher percentage of tribal members living there also tend to have a low population density – the people live farther apart from each other – and a low prevalence of multifamily rental housing.

Overview of the LIHTC Market in Indian Areas

LIHTC Market Size and Distribution in Indian Areas

Determining how many multifamily LIHTC properties fall in Indian Areas is not a straightforward exercise. The detailed maps included in this research provide an estimate on the number of properties that fall in areas that geographically constitute Indian Areas, but in order for a property to be eligible for the Duty to Serve designation of Indian Areas, it must also provide housing for members of an Indian tribe. Property-level population data is unobtainable, so the focus of this paper's estimation of market size considers only the geographic component. This allows for us to clearly determine eligible properties based on this requirement. The caveat here is that all figures in this section should be viewed as a maximum of the current supply of tribal LITHC housing in these areas, not a direct estimate of the market size.

Generally speaking, LIHTC properties on Indian reservations (purple sections on Map 3) primarily or exclusively serve members of Native American tribes. LIHTC properties in Indian Areas outside of Indian reservations (red sections of Map 3) can serve tribal members, which explains their designation as Indian Areas, but this happens less frequently.

Indian Areas contain a total of 2,151 properties that have an active LIHTC subsidy, supporting 84,400 subsidized units.[14] Exhibit 2 summarizes the market size of LIHTC in Indian Areas.

Exhibit 2: LIHTC Properties and Units in Indian Areas (Without Regard to Tribal Association)

Region	LIHTC Subsidized Properties	% of the Nation	LIHTC Subsidized Units	% of the Nation
Indian Areas	2,151	6.0%	84,400	3.2%
Outside	1,611	4.5%	65,748	2.5%
On Reservations	540	1.5%	18,652	0.7%
National	35,556	100%	2,654,768	100%

Source: Freddie Mac Tabulations of the National Housing Preservation Database. Note that these properties do not necessarily serve tribal members; they simply fall within the boundaries of these areas.

Under Duty to Serve, only rural areas count as Indian Areas. This is the only difference between the Duty to Serve classification and HUD's classification. This distinction means that tribal properties on nonrural Indian Areas are not eligible for Duty to Serve credit (and therefore lack the additional regulatory incentive for Freddie Mac or Fannie Mae to invest LIHTC equity in these properties). If urban areas were included, the LIHTC market size in Indian Areas would increase to 5,755 properties (from 2,151 – a 168 percent increase) and to 380,354 units (from 84,400 – a 351 percent increase). However, the majority of these increases can be attributed to the portions of Indian Areas outside of reservations. For reservations, the number of LIHTC properties increases to 694 properties (from 540 – a 29 percent increase) and to 30,053 units (from 18,652 – a 61 percent increase). In addition, a high percentage of tribal members live in rural areas, so many urban LIHTC properties in these areas would not support tribal members (relative to rural ones).

The figures in the table above almost certainly overestimate the number of tribal LIHTC properties. As stated above, this approach considers only the geographic component of the Indian Areas definition to determine an upper bound of the market. There are many LIHTC properties in Indian Areas, and even on reservations, that are not specifically designed to serve tribal members. In addition, this analysis does not distinguish between properties on trust lands and properties outside of trust lands, both of which contain tribal LIHTC projects, demonstrating that tribal deals are possible in both areas.

Despite these challenges, an estimation of the LIHTC market in these areas is still useful since it is common for properties not explicitly designated as tribal to serve tribal members. This is due to the relatively high concentration of members in these areas and their high probability of qualifying for these units (based on income requirements).

LIHTC distribution in Indian Areas is concentrated in a small number of states. Roughly 60 percent of all LIHTC units in Indian Areas are in five states, as seen in Exhibit 3, with the remaining 40 percent dispersed across 28 states. Four states have Indian Areas but do not have any LIHTC properties in them (Colorado, Connecticut, Rhode Island and Virginia).

Exhibit 3: Top Ten States by LIHTC Units in Indian Areas

State	Properties	% of All Indian Areas Properties	Units	% of All Indian Areas Units
California	260	12.1%	14,861	17.6%
Oklahoma	289	13.4%	11,386	13.5%
South Carolina	253	11.8%	10,553	12.5%
Michigan	198	9.2%	8,428	10.0%
Oregon	133	6.2%	6,089	7.2%
Total (Top 5)	***1,133***	***52.7%***	***51,326***	***60.8%***
Washington	178	8.3%	5,934	7.0%
Nevada	74	3.4%	3,360	4.0%
North Carolina	82	3.8%	3,237	3.8%
Wisconsin	132	6.1%	3,173	3.8%
Minnesota	77	3.6%	2,088	2.5%
Total (Top 10)	***1,676***	***77.9%***	***69,118***	***81.9%***

Source: Freddie Mac Tabulations of the National Housing Preservation Database. All computed figures are for Indian Areas as defined by Duty to Serve. That is, they are based on the boundaries of Map 3 above. That is, it includes all Indian Areas, not just Indian Areas on reservations.

The story of LIHTC distribution by state changes dramatically when examining only the reservation portions of Indian Areas. There are 16 states that have Indian Areas but no LIHTC properties on reservations. This is due in part to the historical context under which boundaries have been determined. As seen above in Exhibit 3, South Carolina ranks third for the number of LIHTC units in Indian Areas, but there are only seven tribal areas in the state designated by the Census, and all of them are State Designated Tribal Statistical Areas. None of them are included in the Indian Areas definition because they are not federally recognized. By land area, almost the entire state is considered an Indian Area. This is because when the Catawba Indian Tribe became federally recognized in 1993, it was designated a Service Area which, for the purpose of the IHBG program, included all of South Carolina except for areas already belonging to a different tribe.

Oklahoma alone contains 60 percent of the nation's LIHTC units on reservations that are in Indian Areas. However, this high composition is largely due to the very high level of inclusion of AIAN areas in Oklahoma. Approximately 76 percent of the land area of Oklahoma is considered an Indian Area by the

AIAN classification (Criterion #2) but very little of this is actually Indian trust land, and LIHTC properties on this land may not explicitly serve tribal members.

Exhibit 4: Top Five States by LIHTC Units on Indian Reservations (Criterion #2)

State	Properties	% of All Indian Areas Properties	Units	% of All Indian Areas Units
Oklahoma	287	53.1%	11,332	60.8%
North Carolina	55	10.2%	2,058	11.0%
Alaska	29	5.4%	860	4.6%
Arizona	20	3.7%	693	3.7%
Washington	28	5.2%	664	3.6%
Total	**419**	**77.6%**	**15,607**	**83.7%**

Source: Freddie Mac Tabulations of the National Housing Preservation Database

Generally speaking, LIHTC supports a low percentage of households, renter households, and multifamily renter households on the reservation portion of Indian Areas.

For reservations where at least half of the population is AIAN, the story changes dramatically.[x] As seen in Exhibit 5, LIHTC supports 46.8 percent of all renter households in these areas. The corresponding rate for all households and renter households doesn't change substantially. The LIHTC coverage for Indian Areas on reservations intensifies when the threshold is moved from 50 percent to 70 percent, where 63.7 percent of multifamily rental households are supported by LIHTC.

[x] The rationale for creating a threshold of 50 percent is that this is a more accurate proxy for true Indian reservations. As stated earlier, AIAN areas are a very imperfect measure of reservation boundaries. Reservations that have a very low percentage of people of AIAN descent likely contain a high nontribal population and may be a reservation that does not have boundaries that accurately reflect the true boundaries. Limiting the analysis to 50 percent and 70 percent includes reservations with a higher percentage of tribal members, thereby painting a more accurate picture of actual housing conditions of tribal members.

Exhibit 5: Geographic Distribution and Concentration of LIHTC Units by Region

Region	LIHTC Subsidized Units	Multifamily Renter Households as % of All Households	LIHTC Subsidized Units as a % of:		
			All Households	Renter Households	Multifamily Renter Households
Indian Areas Reservations *(All)*	18,652	7.5%	1.0%	3.2%	13.8%
Indian Areas Reservations *(50%+ AIAN)*	2,544	3.3%	1.5%	4.5%	46.8%
Indian Areas Reservation *(70%+ AIAN)*	2,199	2.6%	1.7%	5.0%	63.7%
Rural	422,520	5.1%	1.5%	5.6%	29.4%
National	2,654,768	15.5%	2.3%	6.2%	14.5%

Source: Freddie Mac Tabulations of the National Housing Preservation Database

LIHTC Properties in Indian Areas Are Small Compared to National Averages

Most LIHTC properties that serve tribal members in Indian Areas are not conventional apartment complexes. The most common physical structures of LIHTC rental housing are single-family and duplex units.[xi] There is a preference for these types of units among tribal members in Indian Areas, but single-family and duplex rentals are more expensive on a per-unit basis. While some traditional multifamily complexes are built in these areas, they normally do not exceed two stories.

As such, LIHTC properties in Indian Areas are considerably smaller than LIHTC properties outside of Indian Areas. When focusing solely on properties located on reservations, the average size is less than half of the national average. Exhibit 6 compares the average size of LIHTC properties and the proportion of LIHTC properties by unit count. While roughly a quarter of all LIHTC properties in the nation support 100 or more units, only about 3.4 percent of properties in Indian Areas do. The clear majority of LIHTC properties in Indian Areas have fewer than 50 units.

[xi] Although these types of units are not in a single building that contain more than five units, they are collectively part of a single LIHTC deal and are therefore considered a multifamily complex. Rentals properties are considered multifamily if it contains at least five units; there is not restriction on the number of buildings.

Exhibit 6: Property Size Comparison of Indian Areas and the Nation

Region	Average Units per Property	Fewer than 50 Units	50 to 99 Units	100 or More Units
Indian Areas	39.2	77.1%	19.5%	3.4%
Outside Reservations	40.8	75.1%	21.3%	3.6%
On Reservations	34.5	83.1%	14.1%	2.8%
National	74.7	50.1%	26.6%	23.3%

Source: Freddie Mac Tabulations of the National Housing Preservation Database

LIHTC properties in Indian Areas are normally unable to support hard debt (debt for which monthly or annual payments are required) and must rely entirely on equity, soft subordinate debt, and housing grants. The income in these areas is generally too low for landlords to charge enough rent to support debt. Income growth among tribal members has been fairly stagnant in recent history, suggesting that this income dilemma will likely persist.

This absence of conventional hard debt restricts the size of properties due to capital constraints. Property size would likely increase if there were more soft and hard debt available to developers, and developers could take advantage of better economies of scale. This is because a higher unit count generally results in a lower per-unit cost, which would increase cash flows and make debt of any kind more easily supportable. This model works in theory, but given the low incomes in these areas, it is unlikely property owners could cover the debt service.

There are reasons other than income why larger properties are often not possible. As stated earlier, Indian Areas are typically not very densely populated. This results in high construction costs, due in large part to the infrastructure challenges that arise from areas that are not very economically developed. For example, in the past, water lines and roads have had to be added to make LIHTC projects feasible. This is a very costly process and makes building new units very difficult, especially in new developments where there are few, if any, existing structures. The infrastructure in these areas may not be any worse than infrastructure in other rural areas in the country, but it still is a factor. Multiple tribal LIHTC projects have not been built, despite allocation of credits, because of infrastructure challenges.

Even without factoring in infrastructure, sparsely populated areas have difficulty supporting large apartment complexes as a result of a challenging economic conundrum. Simply put, there is not enough population to demand abundant investment and more housing, but there is too large a population for the amount of investment that is currently taking place, thus resulting in a supply shortage. As such, despite relatively low population density, overcrowding is an issue in homes in Indian Areas. Sixteen percent of tribal households are overcrowded – more than seven times higher than the national average.[1] This is primarily due to families taking in homeless members of the tribe who normally cannot afford their own housing expenses.

Economics of LIHTC Housing

Tribal members tend to have very low incomes, which can impact the economic feasibility of providing LIHTC housing in Indian Areas. Under the LIHTC program, the subsidized units on a property have maximum rent thresholds that the property owner can charge. The incomes of tenants on properties that serve tribal members are generally too low for owners to charge the maximum.

The average income of a household on a LIHTC property that serves tribal members is about $16,000. The average rent amount, including utilities, is about $400 a month, or $4,800 each year, which implies that the average household spends 30 percent of their income on rent. Some units rent for far lower than this.[15]

The maximum amount allowed for each unit depends on location since it is calculated based on AMI. A rough estimate for the calculated average rent amount is $700, which is $300 more than what properties are actually charging. If maximum allowable rents were charged, then these households would pay 53 percent of their income on rent – a level consistent with being severely rent-burdened.

Cultural preferences may help to explain the disparity between maximum allowable rent and actual rent charged. Because Indian Areas refers to a population in addition to a geography, there are certain cultural practices that are both prevalent in, and unique to, these areas. According to outreach conducted for this research, tribes tend to serve their most vulnerable members first, which commonly includes the elderly and single-parent families. These tenants have incomes that are well below the maximum allowable rent under LIHTC provisions.

Voluntarily renting units to those with the lowest incomes is not necessarily a profitable model, and some property owners choose to do so to help those who are in the most need of housing assistance. If two families are eligible for a unit, owners will often rent the unit to the lower-income family even if it means that they will not be able to generate as much revenue from the unit.

This approach stems both from the urgent need for housing and from the unique history of tribal members in the United States. Numerous treaties between the United States and tribes were enacted that promised housing services in exchange for the relinquishment of tribal land. Depending on the exact treaty, the U.S. government agreed to construct new housing, promote affordability through housing annuity payments, or provide other types of assistance, but these promises have not been fully kept.[xii,16] From our outreach, we learned that there are instances where this history has caused some tribal members to resist any type of rental payments. This aversion to paying for housing is a view that is shared by some tribal property owners.

While households making well below 60 percent AMI struggle for safe, affordable housing, our research shows that in tribal areas, those making closer to 60 percent AMI or just above this level struggle as well, since the lack of affordable housing is present in all income bands. Units assisted by the LIHTC program

[xii] An excerpt from a journal article in the Harvard BlackLetter Law Journal states that, “Despite the pivotal role of housing promises in negotiations for peaceful removal and land cessions, the federal government has never successfully provided housing assistance to Indian tribes.”

are rent restricted at either 50 percent or 60 percent AMI. Those making above this threshold do not qualify for a rent-restricted unit and few options exist for them. The newly adopted income averaging provision in the LIHTC program allows for households making up to 80 percent AMI to be eligible for a unit as long as the average affordability on a property level remains at or below 60 percent AMI.[17] If adopted on a project-by-project basis, this has the potential to lift the housing burden on those making just over 60 percent AMI, and improve the economics of properties generally.

LIHTC Properties on Indian Areas Are Not Always Competitive and Rely on Set-asides of Incentives

LIHTC projects that serve tribal members in Indian Areas are supported by tax credits, especially 9 percent tax credits, at a very high rate. When comparing tax credits on Indian reservations to the nation, the use of 9 percent credits relative to 4 percent credits is 22 percent higher on reservations. There is great need for LIHTC housing in these areas, as demonstrated by the relatively low income of tribal members and the prevalence of long waitlists for affordable units. Because of this, some tribal projects in Indian Areas can successfully compete in the general pool for credits, but many projects have trouble competing without set-asides. Some states incentivize development in areas with great access to local services such as doctor's offices and grocery stores. Projects located in rural, tribal areas that are not near these types of amenities are normally unable to compete without the presence of set-asides.

Several states have set-asides that allocate a certain number of tax credits for tribal LIHTC projects in Indian Areas. California has included a tribal set-aside since 2014 that awards up to $1 million in tax credits to projects that are on Indian reservations and serve tribal members.[18] Before this set-aside, tribal projects were rare or nonexistent in California because the projects were not competitive enough. The funds from this set-aside are routinely maxed out and can even be exceeded.

Arizona has a tribal set-aside that is normally able to support multiple projects every year. The total amount is $2 million, with $1 million being used for tribes that have received credits in the past ten years and the other million set aside for tribes that have not received credits in the past ten years.[19]

North Dakota allows for 30 percent more tax credits to be awarded for projects on tribal reservations. They also have a set-aside equal to 10 percent of their housing credit ceiling, but this set-aside is not always fully used.[20] Minnesota does not have a set-aside for tribal housing, but does have an explicit preference for tribal and rural housing in the general pool of credit allocation.[21] South Dakota awards more points to projects located on Indian reservations but does not have a set-aside, despite the state's high tribal population.[4,22]

Oklahoma does not have a tribal set-aside despite having the second highest tribal population in the country. This has historically made it difficult for tribal projects in Indian Areas that explicitly support tribal members to be competitive in the credit allocation process. Oklahoma could likely support several projects every year if they had a tribal set-aside.

Regardless of whether a state has a set-aside or preference for tribal deals, all states have a set cap of total allocation. On a national level, the total credit allocation in 2014 was about $776 million and approximately 58,000 affordable units were created or rehabilitated. This implies that the average LIHTC equity per unit is about $13,400. During this same year, Oklahoma was allocated about $8.9 million and created or rehabilitated 922 units ($9,600 per unit).[23] This is the absolute cap for tribal development in Oklahoma during this year; even if they allocated all of their credits to Indian Areas in support of tribal members, they could only support 922 units.

Making development even more challenging, tax credits in Indian Areas have historically been priced lower than credits in more urban areas. From our outreach, we learned that major markets such as San Francisco and Chicago might command more than $1 in equity for each dollar in tax credits, whereas credits that serve tribal members in Indian Areas generally yield less than $1 in equity. Therefore, despite the great need for affordable housing in Indian Areas, credits generate far less equity, which ultimately translates into fewer affordable units. However, anecdotal evidence does suggest that this pricing disparity has decreased in magnitude following the lowering of the corporate tax rate, although studies have not yet been published that conclusively prove that this is a nationwide trend.

The Community Reinvestment Act (CRA), which stipulates that financial institutions invest in communities where they take bank deposits, serves as a significant driver for LIHTC investment nationally, but has historically been far less effective in Indian Areas. Most banks do not have Indian Areas as part of their CRA footprint, which means that few institutions are incentivized to reinvest in these areas. This results in lower demand for credits, which is partly the reason for the lower pricing. Even though banks can generally still get credit in Indian Areas as long as the activity benefits other areas that are in their footprint, they have generally not pursued this strategy to a degree that creates high demand for Indian Areas investments.

What Makes Tribes Successful in Developing LIHTC Properties?

Despite these many challenges – both infrastructural and economic – many tribes have found success in developing quality LIHTC housing. Outreach included in-depth discussions with tribal housing authorities, syndicators, and consultants with significant experience in what enables tribes to be successful in winning LIHTC allocations and developing housing. There were three primary factors identified, the combination of which enable success:

1. Strong leadership
2. Management stability
3. LIHTC expertise

These three factors often go hand in hand and facilitate better planning of development activity and dealing with external stakeholders. Perhaps the most important are strong leadership and management stability, as both are required to effectively partner with outside organizations and navigate the process. High staff turnover rates, especially in management positions, or leadership structures that lack clear decision-making authority, can impede development. LIHTC expertise is also important, but can be supplemented by hiring consulting firms to help plan for and package LIHTC deals with syndicators. Indeed, the complexity of the LIHTC program can deter tribes from pursuing housing through this program, and hiring outside consultants has been a successful strategy on a substantial portion of LIHTC housing developments each year.

Conclusion

The tribal population in this country has a unique history that has shaped the current demographic and economic state of the areas in which these members live. One of the greatest challenges facing tribal members in Indian Areas is the state of the housing stock, which is considered among the worst in the nation. LIHTC is an important program for bringing safe, sustainable, and affordable rental housing to tribal members, and helps explains the relatively high percentage of tribal rental housing units supported by a LIHTC subsidy. Poverty rates for American Indians are the highest in the nation and conditions have not improved substantially in recent history. Providing affordable housing for this population segment is imperative given the immense need, but funding for this type of housing fails to meet the demand. When funding is provided, it generally aids only those who make under 60 percent of AMI; those who make just above this amount are still in desperate need of adequate housing but have historically been neglected by many housing programs. Despite the obstacles, tribes across the nation have recognized the housing needs of their members and have demonstrated commitment to providing adequate housing by leveraging the LIHTC program as an important tool in achieving their goals.

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In addition to these explicit, in-line citations, we also received input from various organizations who specialize in American Indian housing. We are very grateful for their input as this research effort could not have been possible without them. These organizations include:

- Housing Assistance Council
- Quechan Housing Authority
- Raymond James Financial
- RBC Tax Credit Equity Group
- Spokane Indian Housing Authority (SIHA)
- Travois
- United States Department of Housing and Urban Development
- University of Colorado Denver
- Yavapai-Apache Nation Tribal Housing