Republican Tax Plan Could Grind Affordable Housing Construction to a Virtual Halt

Two changes could slash development by two-thirds

By Andrea Riquier, MarketWatch, November 8, 2017

The tax plan proposed by Congressional Republicans will likely decimate production of new affordable rental housing, even as housing shortages across the country are driving rents higher and taking ever-larger shares of Americans' incomes.

The plan released last week by the House Ways and Means Committee preserves a well-regarded program called the Low Income Housing Tax Credit — but effectively guts it. That's because about half of all low-income housing credit development is done in conjunction with private activity bonds, a financing method that the plan scraps.

Private activity bonds are tax-exempt bonds issued by municipal government entities for special projects, often involving a private developer. In each of the five years after the recession, an average of about $5 billion of PABs were issued for housing, according to the Council of Development Finance Authorities. Issuance surged to $14 billion in 2016.

What's more, the other half of all affordable housing deals, which rely purely on the tax credit program, would become more expensive as tax rates go down and make tax credits worth less.

"It's shocking. It's devastating," said Michael Novogradac, who runs an accounting consultancy that tracks the tax credits. Novogradac estimates the changes together will result in a reduction of about two-thirds of new affordable housing units each year for the next decade.

Novogradac & Company Analysis of lost future supply of affordable homes from various reforms	
Private activity bonds	Lowering corporate tax rate to 20%
Loss of 788,000 - 881,000 homes	Loss of 85,600 to 93,900 homes
source here	

Under normal conditions, Novogradac told MarketWatch, about 100,000 new affordable housing units would be constructed per year.

Estimates about the impact of the reforms vary slightly. The National Low Income Housing Coalition, a Washington-based advocacy organization, estimates they will result in the loss of over 80,000 affordable homes per year.

For context, more than 11 million households pay more than 50% of their income on rent, according to the Harvard Joint Center for Housing Studies. "There's very few resources these days to expand the supply of affordable units at time when the need is only getting greater," the Joint Center's executive director, Chris Herbert, told MarketWatch. "Over time certainly it would impact the overall housing market."

What's more, the loss of affordable housing, and in particular housing that's affordable to the lowest-income Americans, will have knock-on effects. Buzz Roberts, president of the National Association of Affordable Housing Lenders, expects an increase in homelessness, which will force greater public spending on crime and health services.

For those who work directly with community organizations that develop and maintain affordable housing, these are troubling developments. The tax credit market ground to a halt just after the November election, when participants began to price in the lower corporate tax rate.

Carol Naughton, president of Purpose-Built Communities, an Atlanta-based network of community revitalization organizations, said the changes just put forward are making developers and other deal-makers even more wary.

Naughton said she's struck by legislators' drive to achieve a 20% corporate tax rate on the backs of low-income families and communities. "I think we need thoughtful tax reform, but this isn't it," she said.

What would the loss of the tax credits mean for real communities? Kimberly Latimer-Nelligan, chief operating officer for the Low Income Investment Fund, a national organization that connects low income communities and developers to capital market funding, offered some examples.

LIIF is working with a developer who'd hoped to get a tax credit to develop what is now a commercial building and parking lot in the Anacostia neighborhood of Washington, D.C. into an apartment building in which nearly one-third of the units would be set aside as affordable rentals.

But the tax credit can also be used to maintain existing affordable units. Latimer-Nelligan cited another example, a Pineville, North Carolina apartment building currently run as affordable rental homes, which one developer wants to acquire, using a tax credit, and preserve in its current configuration.

Without access to the credit, Latimer-Nelligan said, the interested bidder would likely walk away from the deal, leaving it to a developer who'd displace the current tenants over time while turning the property into market-rate rentals.

Many industry participants are especially distressed by what they feel is an about-face by Congress on an issue that's always seemed bipartisan, in part because the program has been so successful in addressing public needs with a market-based solution.

As previously reported, the tax credit program has been around for more than two decades and attracts all types of investors to a liquid, efficient market. The earlier “framework” under which Republicans had laid out their principles for tax reform had preserved the Low Income Housing Tax Credit as one of only two credits they committed to protect.

“Everyone felt a little blindsided,” Roberts said. But the fierce resistance that met their earlier suggested cuts to things like 401(K) plans likely changed their minds, he said, and they began “dialing for dollars.”

For now, industry participants and their lobbyists are working as hard as they can to convince Congress to revise the House proposal. While low-income housing groups may not have the same clout as coalitions that try to promote homeownership, like the mighty National Association of Realtors, they do have some allies.

On Monday, the Mortgage Bankers Association wrote to Congress noting that the loss of private activity bonds “will have a significant detrimental impact on the development of affordable multifamily housing. We believe provisions that would negatively impact affordable housing should be excluded from the bill,” said the group, which is known for its deep pockets and ties to housing market financiers.

“In some markets it doesn’t seem like housing is affordable to anybody,” Carol Naughton said. “We need more housing, period. The proposals that have been put out make that almost impossible.”