Bill Seeks to Create ‘Neighborhood Homes’ Tax Credit

Proposal would build, rehabilitate 500,000 homes in distressed communities.

By Donna Kimura, Affordable Housing Finance, June 24, 2019

Lawmakers have proposed a federal tax credit that would fuel the rehabilitation of deteriorated single-family homes in distressed neighborhoods.

Introduced by Reps. Brian Higgins (D-N.Y.) and Mike Kelly (R-Pa.), the Neighborhood Homes Investment Act (NHIA) seeks to build on the success of the low-income housing tax credit (LIHTC) for multifamily housing properties.

It gets to the core of a challenging problem: Many distressed neighborhoods have a large number of single-family homes, says Buzz Roberts, president and CEO of the National Association of Affordable Housing Lenders.

“Revitalizing those neighborhoods without dealing with those homes is very difficult,” he says, noting that it’s a problem that the LIHTC and New Markets Tax Credit aren’t able to address.

The proposed credit (H.R. 3316) seeks to make deals in struggling neighborhoods feasible. In many communities, the cost for developers to acquire and rehab blighted properties or build new homes exceeds what they could earn when they sell the homes, explain bill supporters.

The NHIA would help developers fill that gap, up to 35% of the eligible development cost, and thereby reduce their risk of loss. It would encourage investment, create affordable homeownership opportunities, and support widespread revitalization in urban, suburban, and rural communities, according to supporters.

NHIA tax credits would be awarded to project sponsors—which could include developers, lenders, or local governments—through statewide competitions administered by state housing finance agencies. Sponsors could use the credits to raise investment capital for their projects, and the investors could claim the credits against their federal income tax when the homes are sold and occupied by moderate- and middle-income homebuyers.

Supporters estimate the credit could produce 500,000 homes over 10 years and generate about $100 billion in development and 785,714 jobs in construction and related industries.

Roberts expects many of the same investors, financial partners, and developers active in the LIHTC market to utilize the new credit.

He also thinks there's room in the market and enough investor appetite for the proposed credit. Many affordable housing leaders are focused on the [Affordable Housing Credit Improvement Act of 2019], which would expand the LIHTC.

The NHIA isn't expected to rehab individual houses on a one-off basis. Instead, it's aimed at working on a neighborhood basis.

Eligible neighborhoods must meet all three of the following tests:

- Elevated poverty rates: 130% of the metro rate (130% of the state rate in non-metro areas);
- Lower incomes: up to 80% of the metro median (80% of the state median in non-metro areas); and
- Modest home values: below the metro median (below the state median in non-metro areas).

About 22% of all census tracts and 24% of non-metro tracts meet these three tests. In addition, states could use up to 20% of the tax credits for non-metro tracts with median incomes below the state median and help long-standing homeowners in gentrifying lower-income neighborhoods to substantially rehabilitate and remain in their homes. The homes must be occupied by residents earning no more than 140% of the area median income.

Roberts notes that the proposal has earned support from a variety of organizations, including Enterprise Community Partners, Habitat for Humanity, Local Initiatives Support Corp., Mortgage Bankers Association, National Association of Realtors, National Council of State Housing Agencies, National Housing Conference, and National NeighborWorks Association.

The two lead sponsors are from Buffalo, N.Y., and Erie, Pa., two hard-scrabble communities that have lost many traditional jobs and seen some of their neighborhoods struggle over the years.

"Too many of America's neighborhoods of single-family residences are falling into disrepair, and the incentive to invest in these communities is nonexistent. I am excited to offer this solution because it will do so much for so many communities, like Erie, throughout our country," said Kelly in a statement.