

# Neighborhood Homes Investment Act



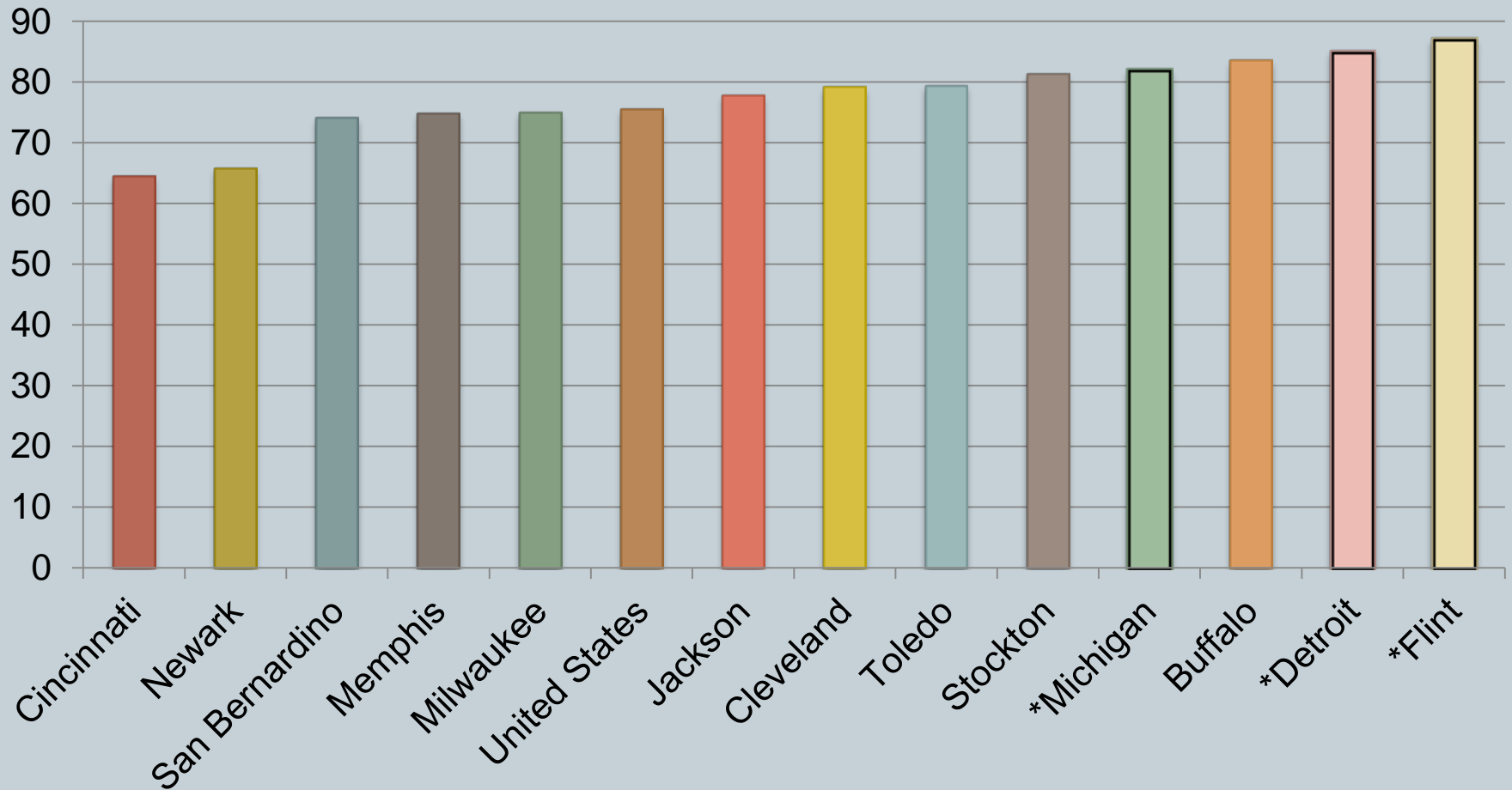
**REINVEST | STABILIZE | REVITALIZE**

**NATIONAL HOUSING CONFERENCE**

**July 11, 2018**

# Single-Family Housing Stock, 2015

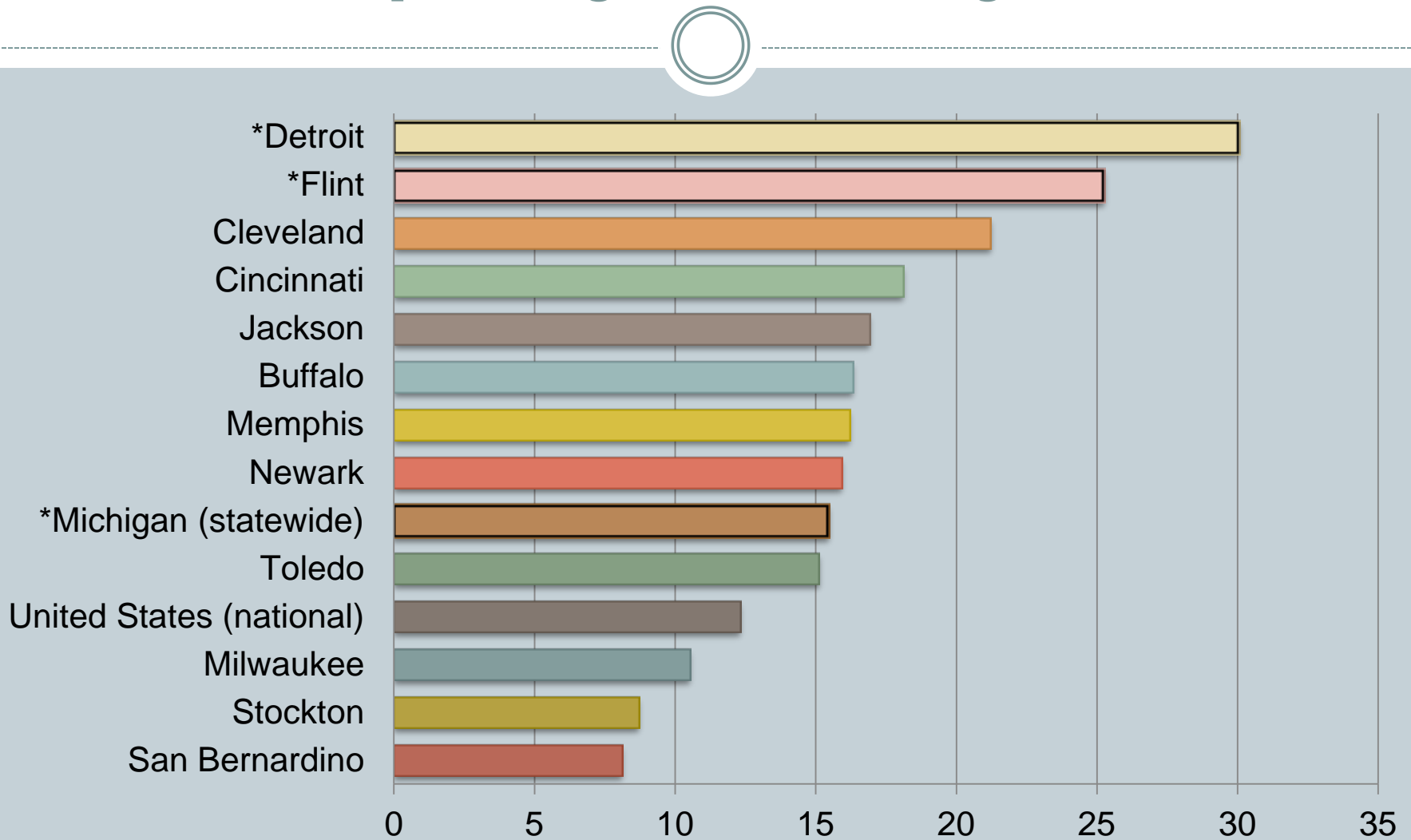
(as a percentage of total housing units)



Source: 2011-2015 American Community Survey 5-Year Estimates [NB: data excludes mobile homes]

# Vacant Housing Units, 2015

(as a percentage of total housing units)



Source: 2011-2015 American Community Survey 5-Year Estimates

# Median Home Prices



- Kansas City, MO \$158,079
- Hartford, CT \$149,491
- Indianapolis \$131,651
- Cincinnati \$130,726
- Pittsburgh \$119,510
- Memphis \$100,731
- Buffalo, NY \$ 81,256
- Jackson, MS \$ 80,371

# What Are We Proposing?



- **The Neighborhood Homes Tax Credit (NHTC)**
  - A new federal tax credit to rebuild distressed neighborhoods and retain/attract moderate/middle-income homeowners
  - Covers gap between development cost and market value
  
- **Can be used for:**
  - New construction/sale to homeowner
  - Substantial rehabilitation/sale to homeowner
  - Existing homeowner rehab

# What Areas Would NHTC Target?



- **Census Tract Criteria:**
  - Poverty rate  $> 130\%$  of area poverty rate and
  - Median family income  $< 80\%$  of area median family income (AMFI) and
  - Median value of owner-occupied homes  $< \mathbf{100\%}$  of area median value of owner-occupied homes
- **22% of census tracts nationwide**
  - 24% of non-metro tracts nationwide

# How Would NHTC Work?



- States write allocation plan
- States allocate tax credit authority to NHTC sponsors
  - Sponsors include developers, investors, lenders, local government agencies
- Sponsors raise equity capital from investors
- Sponsors (1) provide construction loans to builders and homeowners or (2) develop directly

# What Properties Would Be Eligible?



- **Eligible Home Types**
  - Single-family homes with 1-4 units
  - Condominium units
  - Cooperative housing
  - Factory-made housing permanently affixed to real property
- **Maximum home price cannot exceed 4x AMFI**
  - *Example:* if AMFI = \$70,000, max price would = \$280,000



# What Homeowners/Buyers Would Be Eligible?



- 90% for homeowners with incomes < 140% of area or state MFI (adjusted by household size)
  - Includes 10% of homes for owners < 80% AMFI/SMFI
- *Example:* If AMFI = \$70,000
  - 90%+ of homeowners must have incomes < \$98,000
  - 10%+ of homeowners must have incomes < \$56,000
- 10% of homes have no homeowner income limits
- States may set additional criteria

# What would be the tax credit amount?



- NHTC amount = market value – development cost
- NHTC = up to 35% of cost of construction, rehabilitation, building acquisition, and demolition
  - Land acquisition excluded
  - Minimum rehab of \$25,000 per unit
- Eligible building acquisition costs limited to 75% of rehab/construction costs
  - Example: If rehab cost is \$100,000, tax credits may be claimed for building acquisition cost up to \$75,000
- Maximum NHTC basis = 80% of the U.S. median new home price (\$260,800 in 2017). Maximum NHTC = \$91,280 (2017).

# NHTC Financing Example: Rehab



Building Acquisition (assumes no land value)	\$ 20,000
Rehabilitation	130,000
Total Development Cost	\$ 150,000
Less: Market Value after Development	<u>(115,000)</u>
<b>NHTC Amount = Appraisal Gap</b>	<b>\$ 35,000</b>
<i>Maximum tax credit = 35% of \$150,000</i>	<i>\$52,500</i>

# NHTC Financing Example: New Construction



Land Acquisition	\$ 25,000
Construction Cost	<u>195,000</u>
Total Development Cost	\$220,000
Less: Market Value after Development	<u>(175,000)</u>
<b>NHTC Amount = Appraisal Gap</b>	<b>\$ 45,000</b>
<i>Maximum tax credit = 35% of \$195,000</i>	<i>\$68,250</i>

# How Would Credits Be Claimed?



- **NHTC claimed when a home is completed, inspected, and occupied by an eligible owner**
  - Investors repaid from tax credits and homeowner's permanent mortgage and equity
- **Investors are not subject to recapture**
- **If homeowner sells within five years, s/he repays the lesser of:**
  - The tax credit amount, phased out in years 3-5 or
  - 50% of appreciation

**to the state to support neighborhood revitalization**

# Simple Structure Allows Small Scale and Limits Tax Compliance Risk



- **Investors/managers responsible for compliance**
  - so small builders and homeowners can play
- **Simple rules allow for easy compliance**
  - area eligibility
  - eligible costs/certification
  - homeowner income
  - maximum price
- **No investor compliance or recapture after owner-occupancy**

# Public Policy Design Features



- State-administered; minimal federal bureaucracy
- Private investors take construction and marketing risk; Federal government pays only for success
- Structured as state-elected conversion of tax-exempt mortgage bond authority
  - Adds flexibility to existing volume-capped authority
  - Similar to elective conversion of bond authority to mortgage credit certificates under current law
  - States decide whether/how much to do
  - Most states have unused tax-exempt bond authority
  - Could additionally provide separate tax credit authority

# Public Policy Design Features (cont.)



- **Avoids gentrification**
  - States directed to avoid gentrifying areas
  - Eligible census tracts have below-average home prices
  - Sales prices limits are below gentrification prices
  - Shared appreciation repayment discourages flipping
  - Any displaced renters receive relocation benefits



# Anticipated Outcomes



- *Stable, mixed-income neighborhoods*
- *Reduced blight and fewer vacant properties*
- *Quality homes*
- *Affordable homeownership opportunities*
- *Private equity investment*
- *New jobs in construction and related industries*
- *Tax revenues for federal, state, local government*

# Stay In Touch



For more information about the NHTC proposal and coalition advocacy efforts, please visit our website:

[www.neighborhoodhomestaxcredit.org](http://www.neighborhoodhomestaxcredit.org)

To add your organization's name to our national coalition member list, email us at:

[info@neighborhoodhomestaxcredit.org](mailto:info@neighborhoodhomestaxcredit.org)