The Case for a National Affordable "For-Sale" Housing Tax Credit

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The prospect of a national affordable "for-sale" housing tax credit model could eradicate the housing crisis for America's low- and moderate-income families. The author of this article explains.

Affordable housing is extremely scarce in the United States, and increasingly, sustainable homeownership is out of reach for most low- and moderate-income families. But the crisis goes beyond potential homeowners. When Americans do not have access to affordable housing, businesses, workers, families, local economies and communities suffer as well. How can society address these problems? Developers are already incentivized to create affordable rental housing through Low Income Housing Tax Credits ("LIHTC"). But there is no tax credit specifically designed for affordable "for-sale" housing. New Markets Tax Credits ("NMTCs") can be used for affordable for-sale housing projects in low-income communities, but the program is currently only funded through 2019 and is not widely used for affordable homeownership projects. But a new state affordable housing tax credit that can be twinned with the existing NMTC program to support affordable for-sale housing development could help increase the rate of sustainable homeownership. Increasing access to homeownership for low- to moderate-income homebuyers would create significant benefits to the homeowners, their families and their communities. Lenders who provide multilayer funding for these affordable, for-sale housing development projects, including access to capital for the end-user homebuyer, through a CDFI for example, could offer a total package. This approach could help address the endless need for affordable housing.

America's Affordable Housing Crisis

The affordable housing crisis in America has intensified in recent years. Rising rents, declining subsidies and the shift of homeownership to older, wealthier Americans are all contributing factors. Additionally, there is insufficient affordable housing stock—either for rent or for sale—for low- to moderate-income individuals and families. According to the National Low Income Housing Coalition ("NLIHC"), in order

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to meet current population needs, America's housing stock is deficient by 7.7 million units.

Prior to the recession, approximately 1.1 million new homes were constructed in America every year. Since then, although the American population continues to grow, new home construction has declined dramatically. According to the U.S. Census Bureau, completed new, single-home construction topped out at 818,100 units in 2008. In 2017, just 795,300 new single-family units were built.[1] Further, there are fewer homes on the market now than in any year since 1982. Contributing factors include higher material costs, less available land for development, a shortage of construction workers and neighbors opposed to new construction. In addition, private equity groups acquired large inventories of housing through foreclosure during the Great Recession. Many groups tend to rent these homes for as much as possible while providing as little as required for amenities. These factors create significant challenges for affordable housing developers.

While rents and home prices vary dramatically from city to city, America's housing is simply unaffordable for low- to moderate-income buyers. In America's largest cities, home prices cost as much as 10 times the resident annual median income. In some urban areas, homeowners pay more than 30 percent of monthly income on rent or a mortgage, a figure that has doubled in the last 50 years, according to the NLIHC. Although homeowner incomes have increased 50 percent since 1960, home prices have skyrocketed by 112 percent, according to a recent report by the Joint Center for Housing Studies of Harvard University.[2]

Renters are worse off than homeowners, making the need for affordable, for-sale housing even more critical. Since 1990, more than 2.5 million apartments renting for less than $800 per month have been demolished and upgraded into luxury condominiums or converted into hotels and offices. Rents have increased 61 percent since 1960 while renters' median incomes have risen just five percent. Rental prices in disadvantaged neighborhoods are rising 50 percent faster than in wealthier neighborhoods.

The Human Cost

For millions of Americans, the lack of affordable housing has deep, negative, and enduring consequences. When a disproportionate amount of income is spent on rent, there is less to contribute to savings, pensions or other forms of equity. This reality eliminates the ability to accumulate wealth, erodes the capacity to weather economic downturn and limits the power to climb the economic ladder.

When renters are squeezed out of their communities, they have nowhere to go due to the shortage of affordable housing. Investors, out for a profit, renovate the properties and sell them at a higher price to wealthier buyers or turn them into high-end expensive rentals. Low- to moderate-income individuals and families cannot find decent affordable housing near their workplaces. Reduced public transportation access further limits access to workplaces, increases commute times and cost, and places additional hardships on the families.

The affordable housing crisis has increased inequality as well. While the affects are dramatic on all low- to moderate-income individuals and families, some are especially impacted.

Black Americans are 30 percent less likely than whites to own a home. Hispanics and Asians are not far behind at 26.1 percent and 16.5 percent respectively.

An inability to own safe, decent and affordable homes jeopardizes educational performance and economic mobility. For low- to moderate-income homebuyers, an affordable mortgage payment is frequently less than monthly rent for an often-substandard residence. As a result, homeowners have more dollars to spend on health care, food and other important expenses, lifting families out of the cycle of poverty. When families cannot afford appropriate shelter, the family unit can be shattered, increasing the likelihood of homelessness, unsafe situations, post-traumatic stress disorder and stunted mental and emotional development. These conditions have long-lasting effects on the family and future generations to come.

Benefits of Affordable Homeownership

In addition to financial benefits, sustainable homeownership brings significant benefits to individuals, families and communities, according to a study by the National Association of Realtors.[3] Because they have an economic investment in their properties, homeowners are more likely to be involved in their communities. They spend more time and money on maintaining their residences, are more politically active and are more involved in volunteer organizations and church groups than renters. Residential stability strengthens social ties to neighbors, which can influence positive behavior and promote a safe and orderly environment. Homeowners encounter significantly lower instances of crime. Further, a stable neighborhood, especially one with extensive social ties, is also likely to reduce crime rates.

Renters move five times more frequently than homeowners, and the mobility rate for those living below the poverty line is almost twice as high as those living above the poverty line. Homeowners bring stability to neighborhoods because they invest in their homes, communities and neighborhoods.

By reducing involuntary resident mobility and accomplishing sustainable ownership, school performance is improved. According to the NLIHC, low-income children who grow up in stable, affordable homes are more likely to stay in school, attend post-secondary school and earn more as adults than their counterparts who grow up without stable, affordable housing.

People who live in a stable home environment experience improved physical and psychological benefits over their renting counterparts. Newer homeowners report higher life satisfaction, increased self-esteem and an improved sense of control over their lives. When tax bases are enhanced by homeownership, communities are able to provide targeted health and social services such as adult education, financial literacy programs, health and wellness programs, child care and after-school programs. Research also shows that homeownership increases engaged parenting and lessens the impact of financial strain on familial relationships. Moreover, children of homeowners are more likely to participate in organized activities and have less screen time when compared with renters.

The development of sustainable homeownership can boost local economic activity through temporary construction-related employment and ongoing jobs driven by consumer purchases. Access to sustainable homeownership improves an employer's ability to attract and retain employees and remain competitive in the global economy.

The Need for Legislation

The numbers of low- to moderate-income families are soaring, and current development of new affordable, for-sale home construction cannot meet the need. The bottom line is that there is not sufficient inventory for these homebuyers. The only way to bridge the gap is for America to fund, build and create a sustainable homeownership model.

Policies and qualified mortgage requirements have made it impossible for low-income families to obtain a mortgage. Developers lack the funding to forge new markets and build and sell affordable for-sale homes. Additionally, lenders, cities and lawmakers are overly cautious in supplying the required resources to help fund these efforts.

The Proposed Model Based On a Proven Program

Since 2008, developers and investors have utilized the New Markets Tax Credit ("NMTC") program to help lift neighborhoods out of poverty. This program is part of the U.S. Department of Treasury's Community Development Financial Institutions ("CDFI") Fund, which empowers economically distressed communities nationwide. NMTCs encourage sustained investments in these communities over a seven-year period.

Since money began flowing into the program in 2003, NMTCs have proven to be a resilient and reliable capital resource for low-income communities, borrowers and their investors. As of the end of fiscal year 2016, the NMTC program has generated $8 of private investment for every $1 of federal funding.[4] It has also helped create 178 million square feet of manufacturing, office and retail space in these communities, having financed more than 5,400 businesses. NMTCs have also funded a wide range of projects to provide for many vital community needs, from housing and health care facilities to grocery stores and child care centers.

While NMTCs have proven effective in the development of for-sale housing on a smaller scale, the program is not widely utilized. In some cases, additional subsidy is needed. Of the $54 billion already deployed in NMTC, only a small fraction has been used for affordable for-sale housing. Additionally, of the 17 states that have state NMTC programs, only a few can be accessed for housing development.

If state lawmakers were to create a new affordable for-sale housing tax credit program modeled after the homebuilding models used with the successful national NMTC statute, they could accelerate sustainable homeownership for low- to moderate-income individuals and families in their regions.

A state-based tax credit program would piggyback onto the federal NMTC statute to help developers build affordable, market-rate value for-sale homes in new submarkets. The credit is flexible and the monetary benefit can be utilized to shore up value, pass on savings to homeowners, build capacity, establish loan loss reserves and/or ensure continued affordability in targeted areas. Linked to the federal NMTC statute, the for-sale model would incorporate requirements and regulations aligned with the federal statute. The alignment with an established program reduces the resources a state would need to administer the program.

Limiting tax credits to only the development of affordable for-sale housing, the statute would reward developers who create affordable homeownership opportunities. It would also further incentivize lenders by providing both land acquisition and development (LAD) lending and consumer end-loan financing.

Also, the program would be connected to CDFIs and nonprofit lender-developers that employ HUD pre- and post-purchase financial counseling and education for homebuyers in addition to "high-touch" loan servicing. Successful nonprofit affordable for-sale housing developers and lenders already employ these high-support, consumer-focused programs to ensure the financial sustainability of homeowners and their communities. Providing each homeowner with individualized and continuing contact-to-contact service has been proven to dramatically increase the success rate of sustained homeownership in projects that have used NMTCs to develop and sell homes to low- to moderate-income homebuyers. Providing these essential support systems to new homeowners reduces lender and state sponsor risk, either real or perceived.

Embrace the NMTC Model

Owning a home embodies the American Dream. Sustainable homeownership supports the accumulation of family wealth and is the foundation for compelling social, economic, health and community outcomes. A lack of affordable for-sale housing adversely affects business, economies and families. In part, the housing crisis is a result of policies and regulations and their sometimes unintentional negative effects. As the number of low-income families grows and the availability of affordable housing declines, governments need to step in to address the problem.

Current national programs have been limited primarily to the development of rental, transient housing. For-sale housing tax incentives will help alleviate developer risk and encourage new builds. Successful projects incentivize other investors. Through a ripple effect, families, communities, and economies will benefit. To make affordable for-sale housing tax credits a reality, Americans need to encourage lobbyists and legislators to create and adopt state and federal statues designed to pull low- to moderate-income families up and out of poverty and into a position to accumulate family wealth and protection.

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A Home of His Own: *How New Markets Tax Credits Helped a Marine Veteran Secure Affordable Housing*

In 2017 Housing Partnership Network, a national network of non-profit housing developers, awarded the Atlanta Neighborhood Development Partnership ("ANDP") a $10 million NMTC funding allocation as a sub-allocatee for acquisition and redevelopment of single-family homes in neighborhoods struggling to recover from high levels of negative equity. The project's funding was generated through the New Markets Tax Credits ("NMTC") program by utilizing a multi-borrower model to combine several Qualified Active Low Income Community Businesses ("QALICBs") and NMTC borrowers in one transaction.

About the Project

Since 1991, ANDP has promoted, created and preserved affordable housing throughout metropolitan Atlanta. The organization's target area struggles with negative homeowner equity. According to Zillow data, in late 2016 south metro Atlanta had an average negative equity rate of 26 percent. This challenge is common throughout Atlanta's southern and suburban neighborhoods. ANDP developed a single-family scattered site approach to address the widespread issue.

According to a report commissioned by one of ANDP's jurisdictional partners, ANDP evaluated the impact of 164 homes renovated in DeKalb County, Georgia.[5] The report found that for every $1 spent on renovation, neighboring homes in impacted neighborhoods saw a valuation increase of nearly $16. In this program, the organization was able to demonstrate how it was able to increase values for surrounding properties by $141 million with an investment of $8.9 million. Recognizing the impact of such work, ANDP sought out a unique approach to NMTCs for the acquisition and rehabilitation of single-family homes. With a $10 million allocation, ANDP acquired, renovated and sold 68 single-family homes to low- to moderate-income buyers in some of Atlanta's most disadvantaged communities.

While most of the homes were scattered throughout the area, 10 of the homes were located in one of the hardest hit zip codes in America—30310. This southwest Atlanta neighborhood is often referred to as ground-zero for the foreclosure crisis. In the first quarter of 2017, the zip code had a negative equity rate of 49 percent. That means that nearly one in two homeowners were underwater with little hope for improvement. Thanks to the work of ANDP, its partners and other community groups, a dramatic turnaround is underway. In fact, as of the fourth quarter of 2017, the negative equity rate had dropped from 49 percent to 13 percent.

ANDP recently announced an initiative to invest $20 million of existing and new capital by December 2021 to lift homeownership rates, restore family wealth, increase neighborhood stability and improve resident health and wellness outcomes in Georgia's South DeKalb County. The initiative will result in at least 100 newly renovated homes in the South DeKalb area by December 2021.

A Place to Call Home

One DeKalb resident, a former U.S. Marine, is among those who has benefitted from the work of ANDP and its funding partners. A native Atlantan, Eddie purchased a home through ANDP's Veterans Program, which offers affordable home-purchase options for qualifying veterans, active duty military, reserve and guard members as well as Gold Star families. The program provides newly renovated homes at affordable prices, paired with homebuyer assistance of up to $7,500.

As a first-time homeowner, Eddie pays meticulous attention to his new home. When he is not working at his job in medical billing, he and his fiancé, Alyssa, enjoy yardwork and caring for his two rescue dogs. He is grateful for the help provided by ANDP. "Not only was ANDP able to help me with my closing costs, my monthly mortgage payment is $200 less than I was previously paying for rent."

While moving forward in his own life, Eddie never forgets to give back to those in need, especially other veterans. Eddie and his extended family operate a group home for veterans who are overcoming substance abuse. "Those who have served their country have often found the readjustment to civilian life difficult. We're trying to do our part to make life a little better for those who have struggled with this readjustment."

Eddie's home is one of nearly 200 vacant, foreclosure-impacted homes that ANDP has renovated and repopulated in DeKalb County, and one of more than 500 renovated homes in the metro region.

NOTES:

[1]"New Privately Owned Housing Units Annual Data." United States Census Bureau. https://www.census.gov/construction/nrc/pdf/compann.pdf

[2]"The State of the Nation's Housing 2018." Joint Center for Housing Studies of Harvard University.

[3]Yun, Lawrence and Evangelou, Nadia. "Social Benefits of Homeownership and Stable Housing." Realtor University, National Association of Realtors. December 2016.

[4]Community Development Financial Institutions Fund; https://www.cdfifund.gov/programs-training/Programs/new-markets-tax-credit/Pages/default.aspx.

[5]https://www.andpi.org/underwater.