What specific problem will the NHIA address?

Across the country, thousands of once-thriving urban and rural communities now struggle with stagnating or distressed neighborhoods and low homeownership rates. In many of these communities, single-family homes comprise most of the housing stock and many of these homes need substantial rehabilitation or replacement. Dilapidated homes have been abandoned, undermining neighborhood stability and the local tax base. At the same time, a shortage of starter homes in good condition is thwarting the American dream of homeownership, as well as the primary means of building wealth and financial security.

The dilemma is that these neighborhoods cannot retain or attract working families without quality homes, but property values there are too low to support the cost of building or substantially rehabilitating quality homes.

The Neighborhood Homes Investment Act (NHIA) is a federal proposal to break this stalemate. NHIA would offer tax credits to attract private investment for building and rehabilitating owner-occupied homes, creating a pathway to neighborhood stability through sustainable homeownership.

Why use a tax credit to close the value gap?

Tax credits will provide a powerful incentive for the private sector to build and rehabilitate homes to lift up struggling neighborhoods. Unlike a grant program, the NHIA tax credit would pay only for “success” because the credit is only applied after construction is completed and a qualified homeowner occupies the house.

In addition, the NHIA tax credit will fill only the actual value gap, as determined by the market. If a home sells for more than the cost of the development, no tax credits will be used. The private sector shoulders the key risks, such as the possibility that project does not get completed or a qualified homeowner does not purchase it.

The NHIA builds on the success of the Low Income Housing Tax Credit (LIHTC) for affordable rental housing and New Markets Tax Credit (NMTC) for economic development. Like LIHTC and NMTC, the NHIA harnesses the creativity and discipline of the private market, but it addresses a specific purpose – developing owner-occupied homes – that LIHTC and NMTC cannot.
Which neighborhoods would be eligible?

Geographic eligibility for the NHIA is determined at the census tract level. Census tracts must meet the following three criteria:

- Poverty rate at least 130% of the metropolitan area or state poverty rate;
- Median family income up to 80% of the metropolitan area or state median; and
- Median value for owner-occupied homes below the metropolitan area or state median.

22% of all census tracts nationwide meet these requirements.

Would the NHIA help in rural areas?

The NHIA would be an important tool in rural areas. Approximately 24 percent of non-metropolitan census tracts are eligible according to the above criteria, which is a slightly higher share than for metropolitan areas. In some ways, the “value gap” is even more challenging in rural areas because the small number of sales of comparable new or rehabilitated homes makes it risky for developers to predict sales prices with confidence. The flexibility of the NHIA credit – the amount of which is not set until after a sale takes place – is especially useful.

What are the homeowner eligibility requirements?

NHIA-eligible homeowners would have incomes up to 140% of the metropolitan area or state median. This feature allows a wide range of moderate- and middle-income households to participate, but not high-income households. States could also add their own requirements.

Which kinds of homes would be eligible?

Single family homes with 1-4 units, condominium units, and cooperative housing units.

How would the NHIA work?

States would allocate and administer the NHIA, as they currently do for rental housing with LIHTC. The process would start with states writing plans for allocating their NHIA tax credits based on set criteria, including the prospect that a proposed project will contribute to neighborhood stabilization and revitalization, and the strength of project sponsors. States could also add their own allocation criteria. States would then select NHIA project sponsors (e.g., developers, investors, lenders, local governments) through a competitive process.

Sponsors would use the tax credits to raise equity capital from investors and oversee the development and marketing of the homes. Investors – not the federal government – would assume construction and marketing risk. Investors would receive tax credits only after the construction or rehabilitation work is completed and the property is occupied by an eligible homeowner.

How would states access NHIA tax credits?

A state could access NHIA tax credits in two ways:
First, each state would receive a direct allocation of NHIA tax credits annually equal to $3 per resident, with smaller states receiving a minimum allocation of $4 million. The total national amount would be about $1 billion. This allocation would ensure that each state will have enough tax credits to operate a meaningful and effective program. States would have three years to use their annual authority.

Second, states would be allowed to use their tax-exempt private activity bond volume cap to issue NHIA tax credits. This volume cap can currently be used for a wide range of private activities, including home mortgage bonds and mortgage credit certificates, which provide homebuyers a tax credit based on mortgage interest payments. Adding NHIA tax credits to this menu will give states the flexibility to do more than the direct allocation would allow.

How would be the NHIA tax credit amount be determined?

The NHIA tax credit amount is determined by the actual sales price of the completed home and the size of the value gap. Once a home is sold, the tax credit will be allocated to cover the amount of any actual value gap, up to a maximum of 35% of total development costs.

The NHIA could also be used to help existing homeowners to substantially rehabilitate their homes. In this case, the tax credit would equal 35% of the rehabilitation cost.

How will the program ensure reasonable development costs and home prices?

Development costs and sales prices would be limited.

- To ensure that homes are broadly affordable to moderate- and middle-income homeowners, the maximum sales price would be limited to four times the median income of the metropolitan area or state. For example, if the median income is $65,000, the maximum sales price would be $260,000.
- The maximum cost eligible for tax credits would be limited to 80% of the national median new home price ($260,800 in 2017). Homes with 2-4 units would be eligible for somewhat higher cost limits.
- To ensure that renovations are substantial and not merely cosmetic, the minimum rehabilitation cost would be $20,000, adjusted for inflation.
- To ensure that NHIA tax credits are used primarily to support construction and rehabilitation, property acquisition costs eligible for tax credits could not exceed 75% of construction or rehabilitation costs.

What would prevent NHIA from accelerating gentrification in hot markets?

Several safeguards support revitalization without gentrification:

- Eligible neighborhoods must have home prices below the area or state average. Gentrifying neighborhoods generally would not meet this requirement.
- The maximum home sales price cannot exceed four times the area or state median income. New or rehabilitated homes in gentrifying neighborhoods generally sell for higher prices.
• NHIA tax credits would not be available for homes sold to upper-income buyers.

• Local community support would be a competitive selection criterion when states allocate NHIA tax credits. Neighborhood organizations would be unlikely to support proposals that would lead to displacement of long-standing residents.

What happens if the homeowner resells or rents out the property within a short period?

If a homeowner resells a home within five years of NHIA support, a portion of the gain will be payable to the state for reinvestment in eligible neighborhoods – 50% in year 1, 40% in year 2, etc. States may provide hardship exceptions.

If a homeowner rents out the home within five years, rental expenses will not be tax deductible.

What is the broader NHIA return on investment?

The estimated impact of NHIA over 10 years would include:

• 500,000 homes built or substantially rehabilitated
• $100 billion of total development activity
• 785,714 jobs in construction and construction-related industries
• $42.9 billion in wages and salaries
• $29.3 billion in federal, state, and local tax revenues and fees