Neighborhood Homes Investment Act

REINVEST | REPOPULATE | REVITALIZE

AUGUST 24, 2020
What problem are we trying to solve?

- 101 million of the 135 million housing units in the US are in buildings with less than 4 units.

- Every state has neighborhoods where the homes are in poor condition and the property values are too low to support new construction or substantial renovation. The lack of move-in ready homes makes it difficult to attract or retain homebuyers, causing property values to decline.

- 40% of U.S. housing stock is at least 50 years old.

- Vacancies persist in many markets even as foreclosures decline – there were 3.7 million vacant properties in 2005 but 5.8 million in 2016.
Neighborhood Homes Coalition
What Are We Proposing?

- The Neighborhood Homes Investment Act (NHIA)
  - A new federal tax credit to attract capital to build and rehabilitate 500,000 owner-occupied homes in distressed urban, suburban and rural neighborhoods over the next decade
  - No other federal tax incentive addresses a key problem: development costs exceed market values for owner-occupied homes in distressed neighborhoods. NHIA complements but does not duplicate:
    - Tax-exempt mortgage bonds: reduce monthly payments, not development cost gaps
    - Low Income Housing Tax Credits: for rentals, not homeownership
    - Opportunity Zones: for commercial real estate and businesses, not homeownership
Source of NHIA Tax Credits

- State HFAs allocated NHIA credits based on population
  - $6 per capita annually
  - Minimum for small states: $8 million annually
  - Nationwide total: ~$2 billion annually
How Would NHIA Work?

- States write allocation plans
- States make allocations to NHIA managers
  - Could include developers, investors, lenders
- NHIA managers use allocation to raise equity capital from investors to build/rehab homes
- Investors can claim credits once the home is occupied by an eligible homeowner
Eligible Neighborhoods

- Eligible census tracts must meet these three criteria:
  - Poverty rate at least 130% of area poverty rate
  - Median family income less than 80% of area median income
  - Median home value less than 100% of area median home value

- Additional census tracts eligible in high poverty cities in Senate version

- Covers 23% of census tracts nationwide; 24% of non-metro tracts

- Up to 20% of allocations may be provided to certain additional rural communities and/or to gentrifying census tracts for owner occupied rehab

- States may develop additional criteria
Example: Baltimore, Maryland
Example: State of Ohio
Eligible Home Types

- **Home Types**
  - Single-family homes with 1-4 units
  - Condominium units
  - Cooperative housing

- **Development Types**
  - New construction for sale
  - Substantial rehab for sale
  - Substantial rehab for existing homeowners
Eligible Homeowners and Home Prices

- Homeowners with incomes up to 140 percent of the area median family income (MFI).
- Maximum home price cannot exceed 4 times the area MFI

Example:
- MFI = $75,000
- Maximum homeowner income = < $105,000
- Maximum home price = $300,000

Source: 2018 HUDUser Database
The tax credit is capped at 35% of the lesser of:

- total development costs (acquisition, rehab, demo, and construction); or
- 80% of national median sales price for new homes ($257,200 in 2019).

For home sales, the tax credit cannot exceed the difference between the sales price and the total qualified development costs:

- Eligible property acquisition costs limited to 75% of rehab costs

For rehabilitation of owner-occupied homes, the tax credit amount plus other payments to the project sponsor cannot exceed the development cost:

- $20,000 minimum rehab per unit
Claiming the NHIA Tax Credit

- NHIA credits are claimed when a home is completed, inspected, and occupied by an eligible owner

- Investors not subject to recapture

- If home resells within five years, homeowner must pay a declining percentage of the gain on to the state for re-use on NHIA eligible projects (50% in year 1 ... 10% in year 5)
Protecting Against Gentrification

- Eligible neighborhoods have median home values below the area median.
- Eligible homeowner income is limited to 140% of the area median.
- Home sales prices are limited to 4X area median income.
- Eligible basis for tax credits is limited to 80% of the national median new home price.
NHIA Financing Example: **New Construction**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Acquisition</td>
<td>$ 40,000</td>
</tr>
<tr>
<td>Construction Costs</td>
<td>$200,000</td>
</tr>
<tr>
<td><strong>Total Development Cost</strong></td>
<td>$240,000</td>
</tr>
<tr>
<td><strong>Less: Sales Price</strong></td>
<td>(190,000)</td>
</tr>
<tr>
<td><strong>Gap</strong></td>
<td>$ 50,000</td>
</tr>
<tr>
<td>Maximum NHIA Tax Credit (35% of $240,000)</td>
<td>$ 84,000</td>
</tr>
<tr>
<td>NHIA Tax Credit Allowed</td>
<td>$ 50,000</td>
</tr>
</tbody>
</table>
### NHIA Financing Example: Rehabilitation

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land/building acquisition</td>
<td>$35,000</td>
</tr>
<tr>
<td>Rehabilitation</td>
<td>$85,000</td>
</tr>
<tr>
<td>Total Development Cost</td>
<td>$120,000</td>
</tr>
<tr>
<td>Less: Sales Price</td>
<td>(100,000)</td>
</tr>
<tr>
<td>Gap</td>
<td>$20,000</td>
</tr>
<tr>
<td>Maximum NHIA Tax Credit (35% of $120,000)</td>
<td>$42,000</td>
</tr>
<tr>
<td>NHIA Tax Credit Allowed</td>
<td>$20,000</td>
</tr>
</tbody>
</table>
### NHIA Financing Example: Homeowner Rehabilitation

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rehabilitation cost</td>
<td>$100,000</td>
</tr>
<tr>
<td>NHIA tax credit used as borrower grant (35% of $100,000)</td>
<td>$ 35,000</td>
</tr>
<tr>
<td>Other sources (e.g., loan proceeds, homeowner equity, grants)</td>
<td>$65,000</td>
</tr>
</tbody>
</table>
NHIA Outcomes

- 500,000 homes built or rehabilitated
- $100 billion of total development activity
- 785,714 jobs in the construction and related industries
- $42.9 billion in wages and salaries
- $29.3 billion in federal, state and local tax revenues and fees
- Reduction of blight and vacant properties
- Homeownership opportunities and asset-building for wide range of households
Contact Us

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

www.neighborhoodhomesinvestmentact.org

Contact us at:
info@neighborhoodhomesinvestmentact.org