NEIGHBORHOOD HOMES INVESTMENT ACT

The Neighborhood Homes Investment Act (NHIA), as approved by the House of Representative as part of the Build Back Better Act on November 19, 2021, would revitalize distressed urban, suburban, and rural neighborhoods with federal income tax credits authorized for 2022-2025, mobilizing private investment to build and rehabilitate 125,000 homes for lower- and middle-income homeowners.

Every state has neighborhoods in which homes are in poor condition and 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. NHIA would break this stalemate by creating a federal tax credit that covers the gap between the cost of building or renovating homes and the price at which they can be sold, thus making renovation and new home construction possible. NHIA would also help existing homeowners in these neighborhoods to rehabilitate their homes.

Builds Upon the Success of Proven Tools:

- NHIA is based on the successful Low Income Housing Tax Credit, which supports affordable rental housing, but is not designed to build or rehabilitate owner-occupied homes.
- Tax-exempt mortgage bonds and mortgage credit certificates assist homeowners by reducing mortgage payments, but they cannot cover the development financing gap.
- NHIA would complement these other incentives, not duplicate them.

State Control

- States would allocate NHIA tax credit authority on a competitive basis and monitor compliance.
- States would have annual tax credit authority totaling about $1 billion in 2022-2024 and $2 billion in 2025.
- The IRS would develop regulations, collect national NHIA data, and monitor state agency performance.

Private Market Discipline

- Project sponsors would raise capital from investors to finance home building and rehabilitation.
- Tax credits would cover the gap between development costs and sales prices.
- Private investors – not the federal government – would bear construction and marketing risks.
- Investors will claim the tax credits only after construction, inspection, and owner-occupancy.

Targets Communities in Greatest Need

- Homes would be located in communities where the need for private sector investment is greatest – those with high poverty rates, low median family incomes, and low home values.
- 22% of metro census tracts nationwide, and 27% of non-metro census tracts, qualify for NHIA investments.
- States may also use up to 20% of their allocation to serve additional non-metro census tracts, existing lower-income homeowners in gentrifying census tracts, and communities impacted by natural disasters and homes with crumbling foundations.
- Maps of eligible NHIA communities in each state may be found here.

Limits Homeowner Incomes, Eligible Costs and Home Prices

- For homes developed or substantially rehabilitated for sale:
  - Eligible purchasers must have incomes at or below 140% of the area/state median income.
  - Tax credits are limited to the gap between development costs and net sales proceeds, up to 35% of the lesser of (1) eligible costs or (2) 80% of the national median new home sales price. Eligible costs include construction, rehabilitation, land and building acquisition, demolition, and environmental remediation.
  - Sales prices are limited to four times the metro area or state median family income (MFI). Example: if MFI is $75,000, the sales price limit is $300,000. Higher limits apply to homes with 2-4 units.

- For rehabilitations of homes for current owner-occupants:
  - Eligible homeowners must have incomes at or below the area/state median income.

- The tax credit equals the lowest of: (1) 50% of rehab cost; (2) rehab cost minus any homeowner repayments; and (3) $50,000.

- Limitations on eligible neighborhoods, tax credit amounts, sale prices, homeowner incomes, and short term resales all support neighborhood revitalization without gentrification.

- A homeowner who sells an NHIA home within five years of buying the home will repay part of the gain (profit) to the state to support additional similar activity: 50% in year 1, phased down to 10% in year 5.

How the NHIA Would Work

1.States would allocate NHIA tax credits on a competitive basis.

- Each state can annually allocate credits totaling $3 per resident ($4 million minimum) in 2022-2024 and $6 per resident ($8 million minimum) in 2025, adjusted for inflation, plus unallocated amounts carried over from prior three years and credits previously allocated but not used within five years.
- States publish allocation plans. Project selection criteria include: (1) neighborhood need for new or rehabilitated homes; (2) neighborhood revitalization strategy and impact, including impact on community residents; (3) sponsor capability and prior performance; (4) likely long-term homeownership sustainability; and (5) any additional State criteria.
- States set standards for construction cost and quality and developer fees.
- States allow only the tax credits reasonably needed for financial feasibility.
- 10% of each state's allocations are set aside for nonprofit sponsors.

2. Project sponsors would raise capital from investors and use it to finance home construction and substantial rehabilitation. Sponsors can include developers, lenders, and local governments.

- Project sponsors develop the homes or work with builders and homeowners within five years.
- Clear, simple requirements ease compliance and accommodate small-scale projects.

3. Investors would claim tax credits after homes are completed, inspected, and owner-occupied.

- Homeowners make down payments and obtain mortgages to cover the homes' sale price.
- Sponsors may use allocated but unneeded tax credits for additional homes.

NHIA Home Financing Example

Property acquisition	$ 50,000
Construction or rehabilitation	150,000
Total development cost	$ 200,000
Less: Sales price	- 160,000
NHIA tax credit = value gap	$ 40,000

Estimated Impact

Based on the financing example above, the impact of 2022-2025 authority will include:

- 125,000 homes built or substantially rehabilitated
- $25 billion of total development activity
- 196,000 jobs in construction and construction-related industries
- $10.7 billion in wages and salaries
- $7.3 billion in federal, state, and local tax revenues and fees

11/29/21