

Neighborhood Homes Investment Act



REINVEST | REPOPULATE | REVITALIZE



DECEMBER 8, 2020
OHIO CDC ASSOCIATION

Neighborhood Homes Coalition



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 market even as foreclosures decline – there were 3.7 million vacant properties in 2005 but 5.8 million in 2016.

What Are We Proposing?



- The Neighborhood Homes Investment Act (NHIA)
 - HR 3316 and S. 4073
 - 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
 - ✦ NMTCs/Opportunity Zones: primarily 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
- HR 3316 allocates \$3 per capita annually, but allows states to exchange unused bond allocation for additional NHIA tax credit authority.

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

Eligible Neighborhoods: Ohio

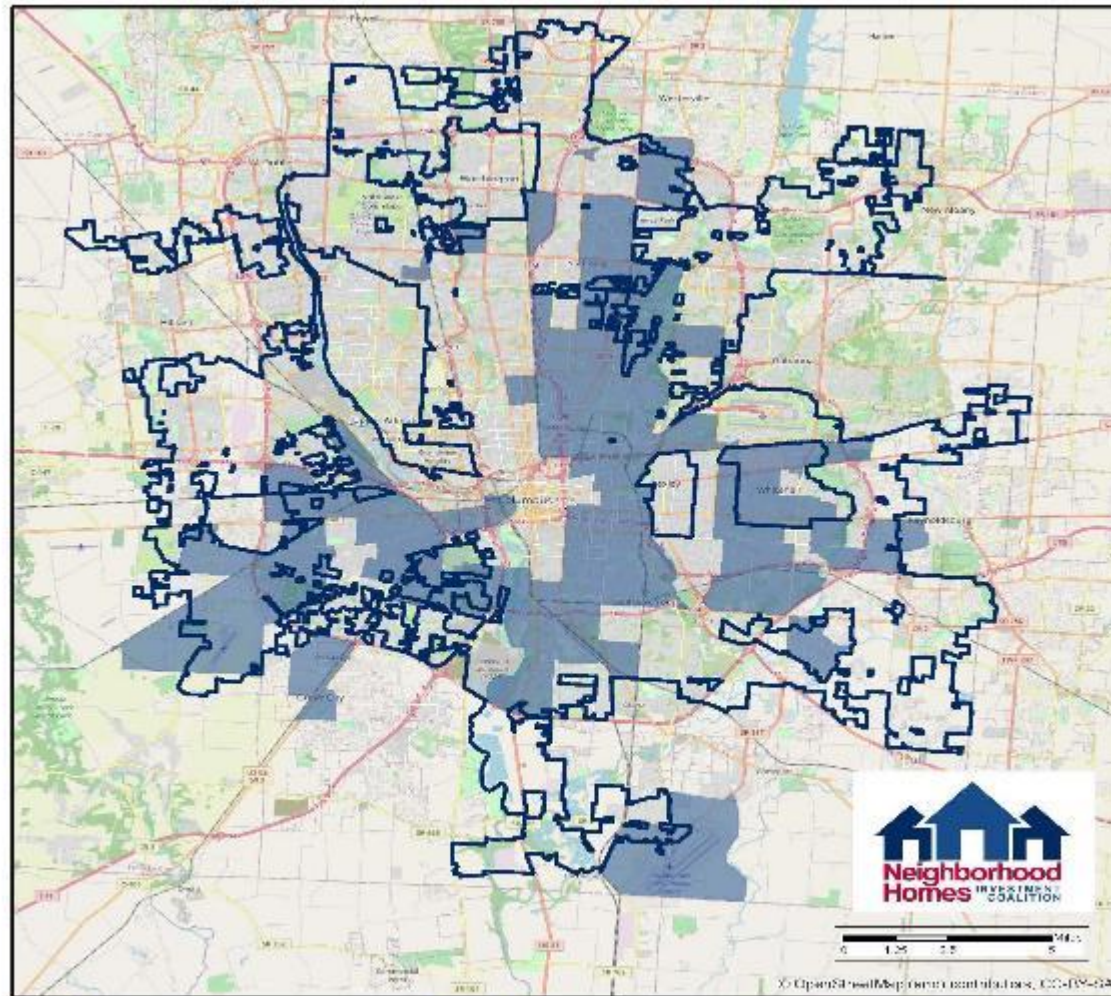





Ohio

NHIA-eligible tracts, high-poverty city addition

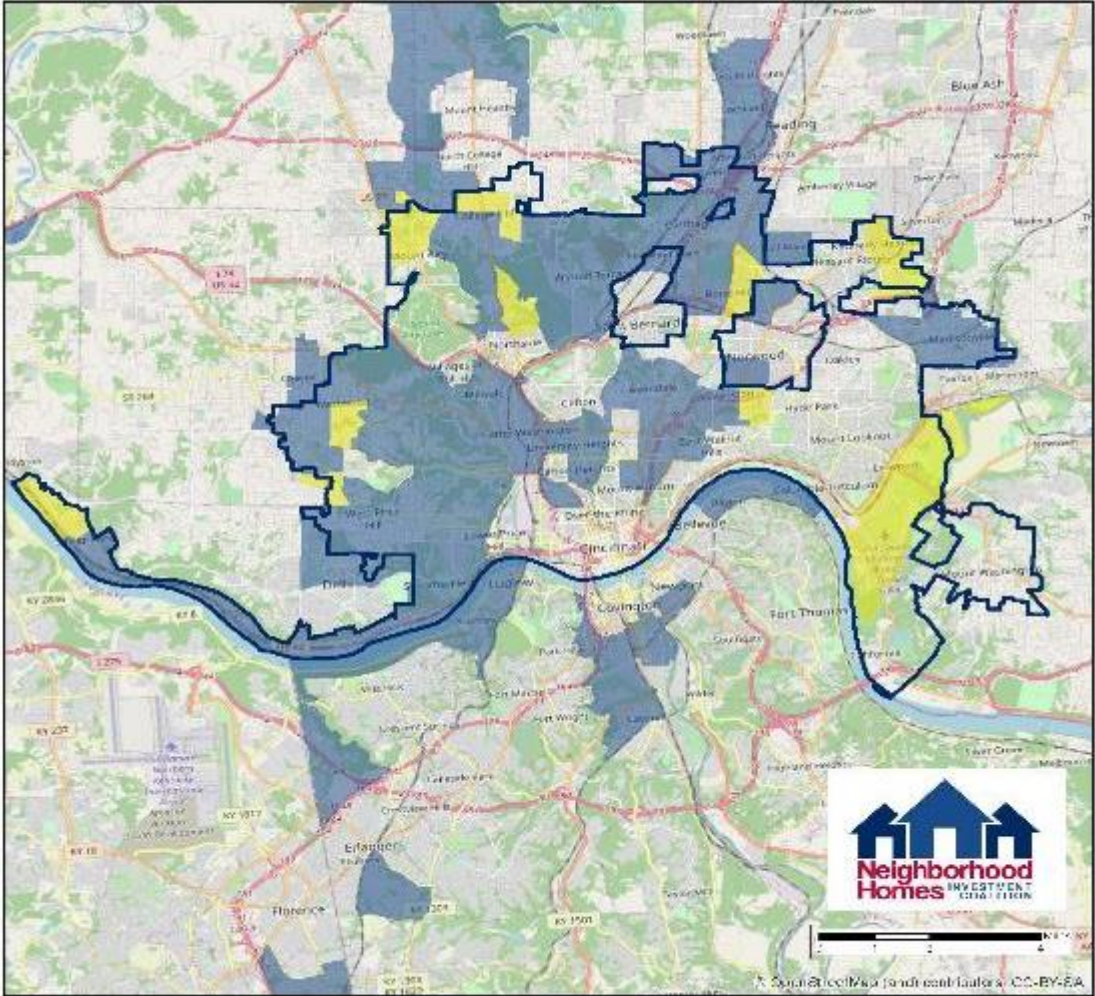
NHIA-eligible tracts, main criteria

Eligible Neighborhoods: Columbus, OH



-  Columbus, OH
-  NHIA-eligible tracts, high-poverty city addition
-  NHIA-eligible tracts, main criteria

Eligible Neighborhoods: Cincinnati, OH

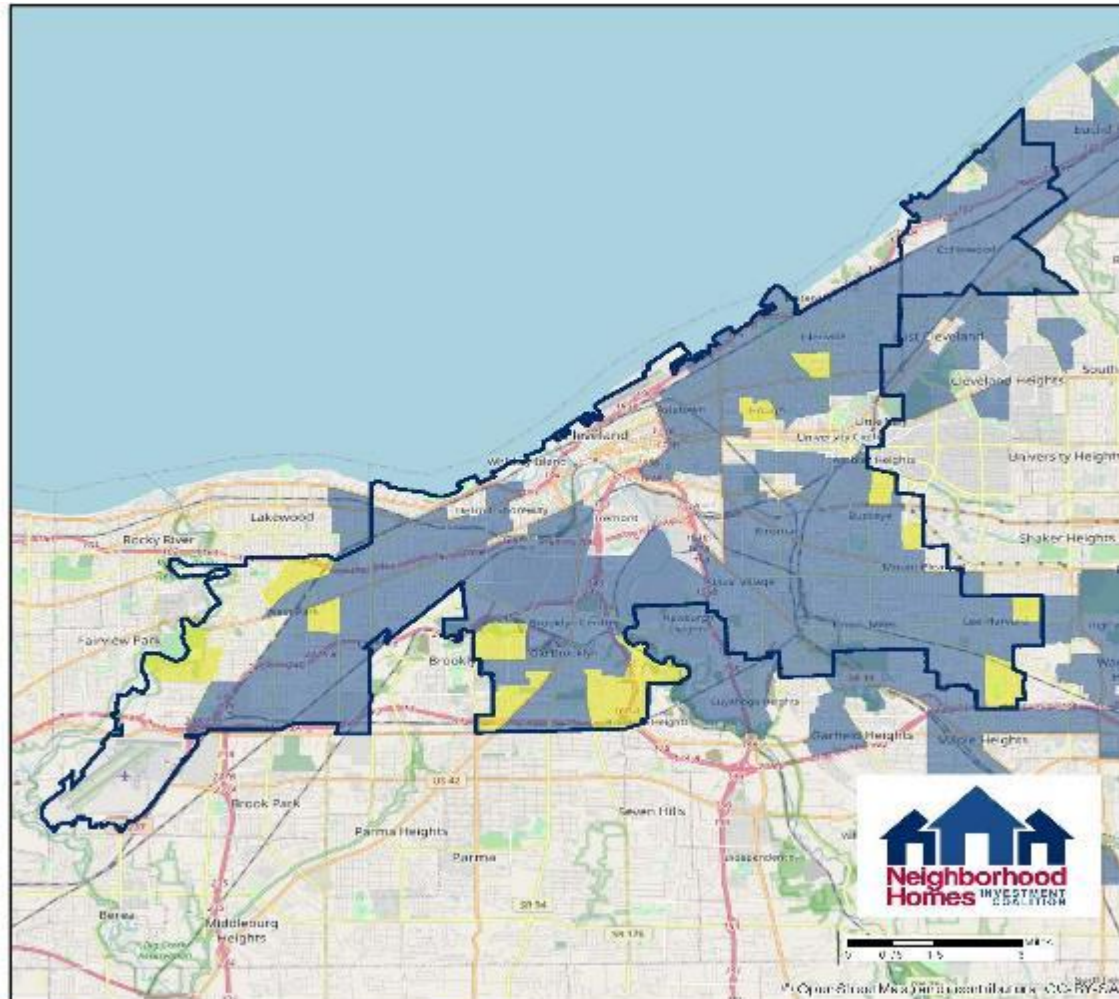


Cincinnati, OH

NHIA-eligible tracts, high-poverty city addition

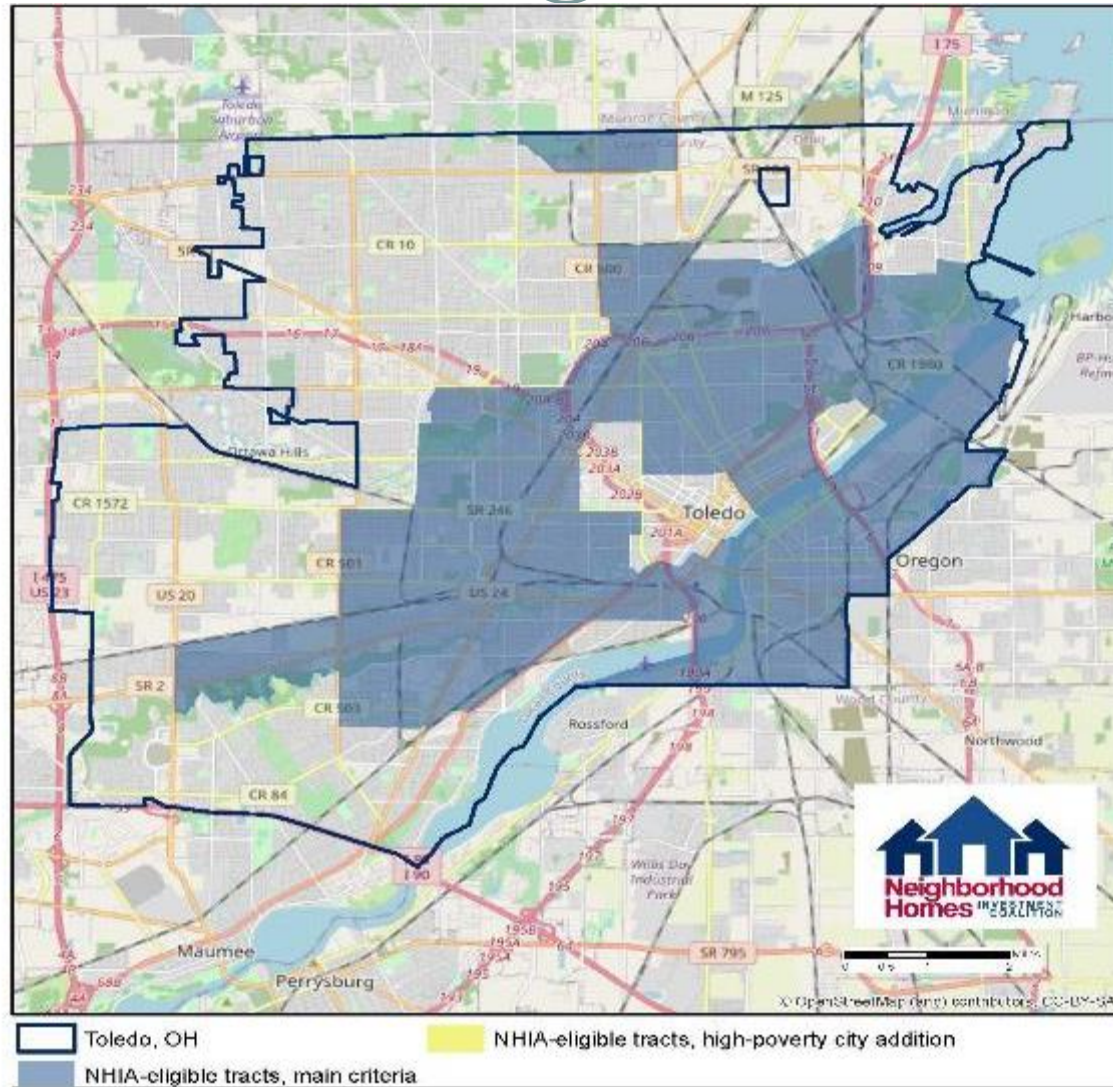
NHIA-eligible tracts, main criteria

Eligible Neighborhoods: Cleveland, OH



- Cleveland, OH
- NHIA-eligible tracts, main criteria
- NHIA-eligible tracts, high-poverty city addition

Eligible Neighborhoods: Toledo, OH



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

NHIA Tax Credit Amount



- 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**



Land Acquisition	\$ 40,000
Construction Costs	<u>200,000</u>
Total Development Cost	\$240,000
Less: Sales Price	<u>(190,000)</u>
Gap	\$ 50,000
Maximum NHIA Tax Credit (35% of \$240,000)	\$ 84,000
NHIA Tax Credit Allowed	\$ 50,000

NHIA Financing Example: Rehabilitation



Land/building acquisition	\$ 35,000
Rehabilitation	<u>85,000</u>
Total Development Cost	\$120,000
Less: Sales Price	<u>(100,000)</u>
Gap	\$ 20,000
Maximum NHIA Tax Credit (35% of \$120,000)	\$42,000
NHIA Tax Credit Allowed	\$20,000

NHIA Financing Example: Homeowner Rehabilitation



Rehabilitation cost	\$100,000
NHIA tax credit used as borrower grant (35% of \$100,000)	\$ 35,000
Other sources (e.g., loan proceeds, homeowner equity, grants)	\$65,000

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

Ohio Delegation



- Senator Sherrod Brown (R) ✓
- Senator Rob Portman (R) ✓

- Rep. Steve Chabot (R-1)
- Rep. Brad Wenstrup (R-2)
- Rep. Joyce Beatty (D-3) ✓
- Rep. Jim Jordan (R-4)
- Rep. Bob Latta (R-5)
- Rep. Bill Johnson (R-6)
- Rep. Bob Gibbs (R-7)
- Rep. Warren Davidson (R-8)
- Rep. Marcy Kaptur (D-9) ✓
- Rep. Mike Turner (R-10)
- Rep. Marcia Fudge (D-11)
- Rep. Troy Balderson (R-12)
- Rep. Tim Ryan (D-13) ✓
- Rep. Dave Joyce (R-14)
- Rep. Steve Stivers (R-15) ✓
- Rep. Anthony Gonzalez (R-16) ✓

✓ - Co-sponsored NHIA Legislation

Contact Us



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

www.neighborhoodhomesinvestmentact.org

Contact us at:

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