2017 Tax Bill and Its Impact on Affordable Housing

C&C Development

kosmont companies
Real Estate
Finance/Economics
Development
Entitlements

BB&K Best Best & Krieger LLP
Attorneys at Law

Elizabeth Hull

- Elizabeth is a partner in the Municipal Law
- Practice focuses on economic development and affordable housing for public and private clients.
- General counsel and special counsel to public agencies throughout Southern California.

Todd Cottle

- Todd oversees the acquisition, financing and construction of C & C Development's (C&C) multifamily communities.
- Facilitated the development and rehabilitation of over thirty (30) affordable multifamily communities.
- C&C partners with Cities and Public Agencies to achieve their affordable housing production goals.

Ken Hira

- Ken serves as Executive Vice President for Kosmont Companies.
- He is an expert in development and strategies for retail attraction.
- Ken has over 25 years of varied experience in virtually every aspect of real estate financing, downtown revitalization, acquisition, entitlement, development, affordable housing development, asset management and disposition.
- His expertise is in identifying retail tenants and negotiating retail and mixed-use projects that can revitalize communities and assist in economic development/tax generation programs.

Judson Brown

- Housing Division Manager, City of Santa Ana, working to provide technical and financial assistance for the development of affordable housing
- Former Housing Authority Operations Supervisor
- Former Client Services Manager, Dallas Housing Authority

Affordable Housing Crisis

Historical Housing Production

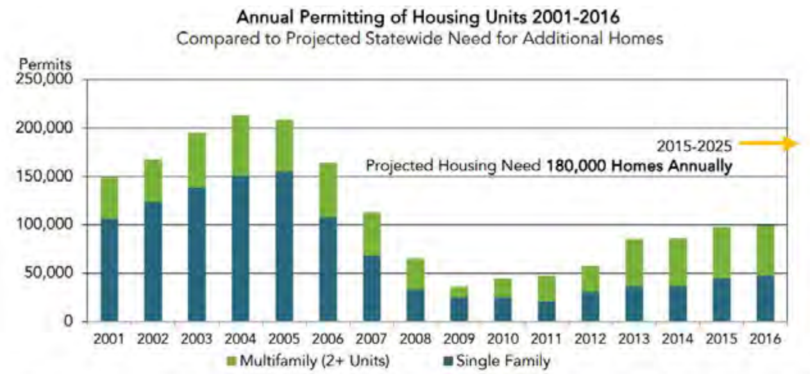
- 1954-1989 California averaged 200,000+ homes produced annually
  - More multifamily units produced
- Housing boom of mid 2000's produced housing at higher rate
- Then the crash – the "Great Recession"
- Housing production has not returned to pre-crash levels

Need v. Production

- 39 million current residents
- 50 million by 2050
- 2015-2025: need 1.8 million new homes
- 180,000 homes annually

Need v. Production

- Past 10 years – avg 80k homes per year
- 3m households pay 30%+ of income toward rent
- One-third of renters (1.5m+ households) pay 50%+ of income toward rent
- Homeownership rates at lowest since 1940's
- Home to 12% of population/22% of nation's homeless
- Sprawl increases housing and transportation costs



Sources: 2001-2016 New construction housing permit data from Construction Industry Research Board. 2015-2025 Projected Annual Need from HCD Analysis of State of California, Department of Finance P-4: State and County Projected Households, Household Population, Group Quarters, and Persons per Household 2010-2030— Based on Baseline 2013 Population Projection Series. Graphic by HCD. Note: "Raising the Roof" (1997-2020), projected California needed to add an average of 220,000 new homes per year to keep up with projected population increases; updated projected need is less due to lower population increase projections and higher household formation rates.

Affordable Housing Emphasis

- State revising land use and housing laws
- State and federal funding programs
  - Home/Section 8 Vouchers
  - CDBG
  - Affordable Housing Program
  - Low Income Housing Tax Credits (LIHTC)

LIHTC: What is it and how does it work?

- Authorized under IRS Code Section 42 in 1986
- Provide federal tax credits to developers of qualified projects for 10 years
- Administered by the California Tax Credit Allocation Board (TCAC)
- 9% credits awarded to projects on a competitive basis

LIHTC: What is it and how does it work?

- Developers then sell these tax credits to investors to raise capital (or equity) for their projects – investor takes the tax credit over a 10 year period
- More equity reduces the amount that the developer would borrow.
- Lower debt properties can provide more units at affordable rent levels.
- The tax credit program provides private investors with an incentive to invest in affordable rental housing.
  - LIHTC gives investors a dollar-for-dollar reduction in their federal tax liability in exchange for providing financing to develop affordable rental housing. Investors' equity contribution subsidizes low-income housing development, thus allowing some units to rent at below-market rates.

2017 Tax Cuts and Jobs Act

- Tax Rate Reductions
  - Corp Income Tax from 35% to 21%
  - Top Individual tax rate now 37%
- Changes to depreciation rules for real property and business interest limitations will negatively impact non-profits and investors
- Base Erosion Anti Abuse Tax will discourage investors with foreign affiliates

LIHTC Remains but . . .

- Lower corp tax rate makes tax credit less valuable
- Likely reduce impact yield and equity pricing
- Less benefit to investor = less investor money available
- Reduced value estimated to result in 235k fewer units over next 10 years

2018 Federal Budget

- Increased LIHTC allocation by 12.5% for 4 years
- Increased designed to offset impact of tax reduction
- Increased funding estimated to result in roughly 28000 new rental units


Elizabeth Hull
Best Best & Krieger
Company/BestBestKrieger
@BBKlaw
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