2017 Tax Bill and Its Impact on Affordable Housing
Elizabeth Hull

• Elizabeth is a partner in the Municipal Law Practice.
• 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
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