Neighborhood Homes Investment Act

REINVEST | REPOPULATE | REVITALIZE

Neighborhood Homes COALITION

Neighborhood Homes Coalition

What Problem Would Neighborhood Homes Solve?

- 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.

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

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

- The lack of supply of move-in ready homes is a particular challenge for first time homebuyers who struggle to find suitable properties to purchase.

What Is the Neighborhood Homes Investment Act?

- Neighborhood Homes Investment Act is part of the Build Back Better Act approved by the House of Representatives 11/19/21. It is based on bipartisan legislation, S. 98 and H.R. 2143.
- It authorizes a new federal tax credit to attract capital to build and rehabilitate 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. Neighborhood Homes 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: primarily commercial real estate and businesses, not homeownership

Source of Neighborhood Homes Tax Credits

- States would have Neighborhood Homes credits to allocate based on population:
  - $3 per capita in 2022, 2023 and 2024
  - $6 per capita in 2025
  - Minimum for small states:
    - $4 million in 2022, 2023 and 2024
    - $8 million in 2025
  - Nationwide total: ~$1 billion a year in 2022, 2023 and 2024; $2 billion in 2025
- State housing finance agencies likely to be the program administrators.

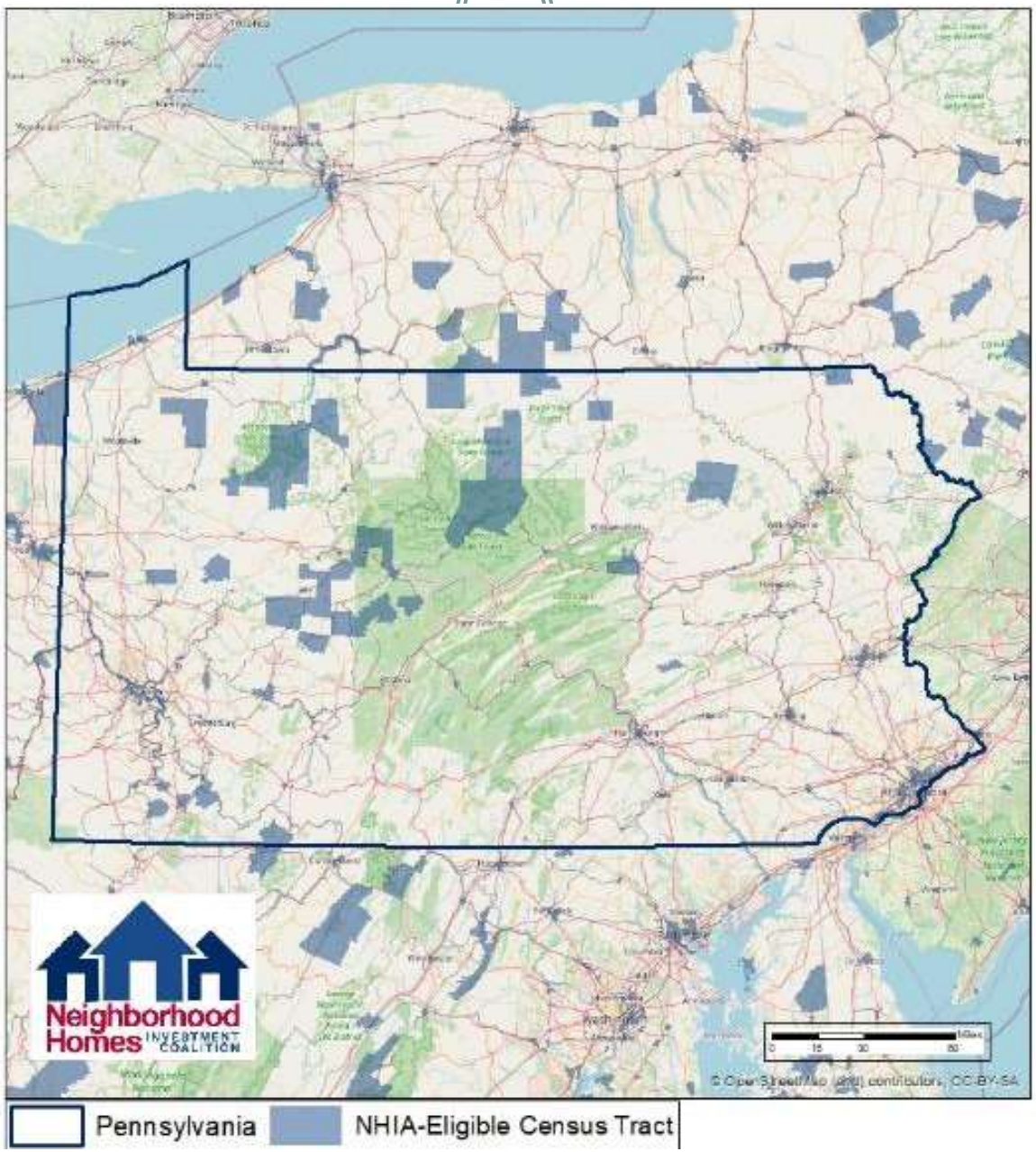
How Would Neighborhood Homes Work?

- States write allocation plans with selection criteria
  - States may develop additional criteria
  - States set standards for construction cost and quality and developer fees
- States make allocations to project sponsors
  - Could include developers, investors, lenders
- Project sponsors use allocations to raise equity capital from investors to build or rehab homes
- Investors can claim credits as each home is occupied by an eligible homeowner

Eligible Neighborhoods

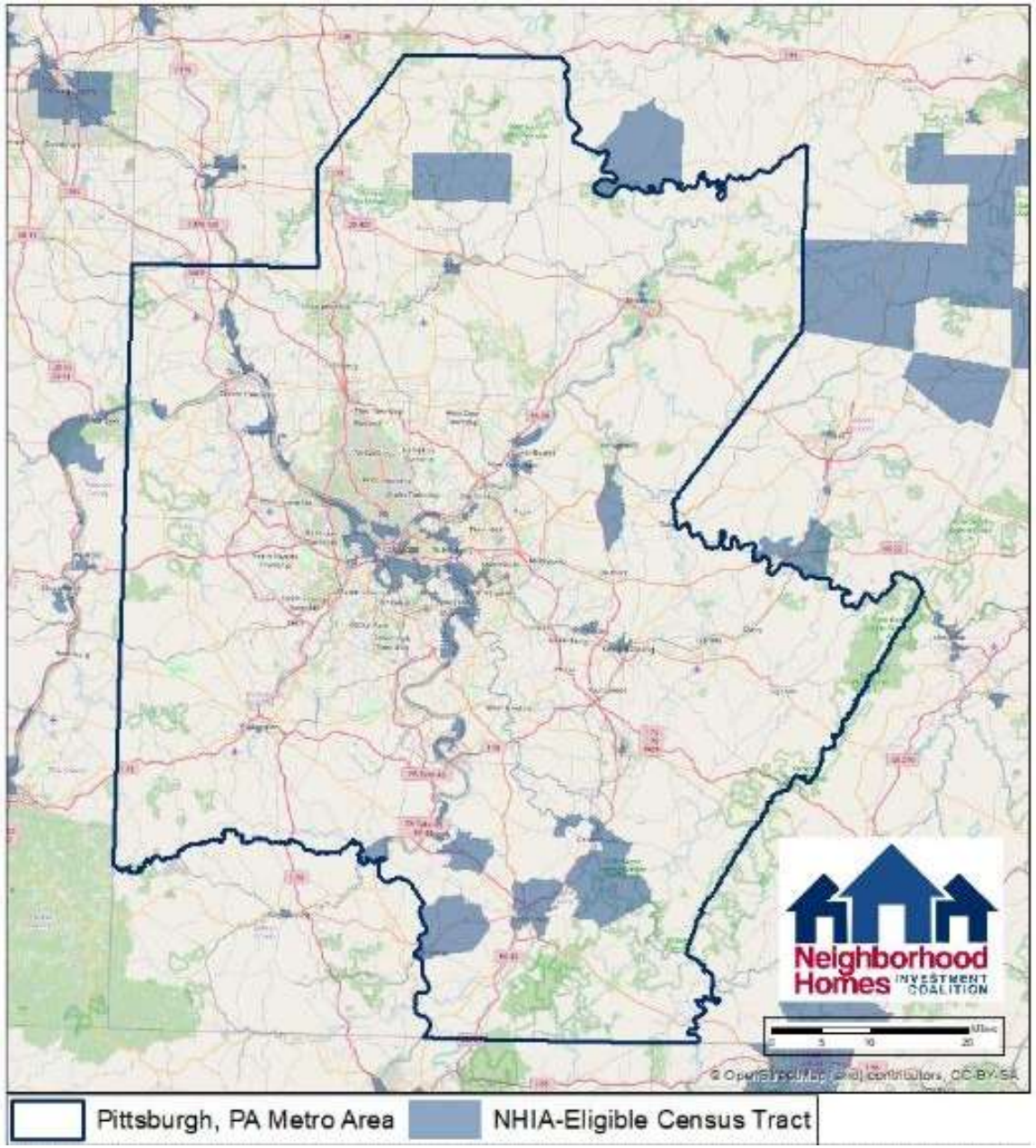
- Eligible census tracts must meet these criteria:
  - Poverty rate at least 130% of area poverty rate
  - Median family income less than 80% of area median income
  - Median home value less than 100% of area median home value
  - Additional census tracts eligible in high poverty cities
- Covers approximately 22% of census tracts nationwide; 27% of non-metro tracts
- Up to 20% of allocations may be provided to certain additional rural communities, to gentrifying census tracts for owner occupied rehab,-for disaster recovery, and certain communities impacted by crumbling foundations

Eligible Neighborhoods: Pennsylvania

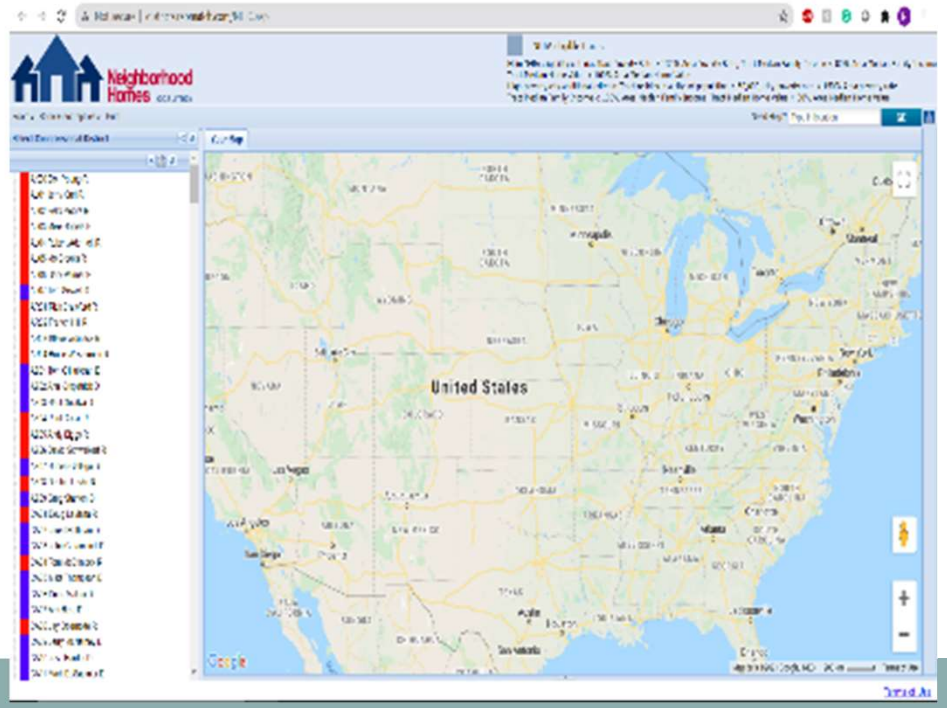


Eligible Neighborhoods: Philadelphia

Eligible Neighborhoods: Pittsburgh



Creating your own NHIA Map



- Go to www.neighborhoodhomesinvestmentact.org
- On the home page, scroll and select "Explore Interactive NHIA Maps
- You will be taken to the NHIA map interface

Eligible Home Types

- Home Types
  - Houses 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).
  - 100% of MFI for owner-occupied rehabs
- Maximum home price cannot exceed 4 times the area MFI
- <u>Example</u>:
  - MFI = $75,000
  - Maximum homeowner income = $105,000
  - Maximum home price = $300,000

Source: 2018 HUDUser Database

Neighborhood Homes Tax Credit Amount

- For new construction substantial rehabilitation of homes that are sold, the tax credit covers the gap between development costs and net sales price. The 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
- For rehabilitation of owner-occupied homes, the tax credit amount is 50% of eligible costs, capped at $50,000
- $20,000 minimum rehab per unit

Claiming the Neighborhood Homes Tax Credit

- Neighborhood Homes credits are claimed when a home is completed, inspected, and occupied by an eligible owner.
- Unlike other credits, there is not a lengthy compliance period where investors may be subject to recapture.
- If the home resells within five years of purchase, the homeowner must pay a declining percentage of the gain on to the state for re-use on Neighborhood Homes eligible projects (50% in year 1…10% in year 5)

Protecting Against Gentrification

- Eligible neighborhoods have median home values below the area median
- Eligible homebuyer income is limited to 140% of the area median
  - The credits can be used to rehab homes of existing residents if they have incomes less than 100% of 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
- States must consider impact on existing residents as a selection criteria

Financing Example: New Construction

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

Financing Example: Rehabilitation

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

Financing Example: Homeowner Rehabilitation

Rehabilitation cost	$60,000
NHIA tax credit used as borrower grant (50% of $60,000)	$30,000
Other sources (e.g., loan proceeds, homeowner equity, grants)	$30,000

Projected Outcomes

- Outcomes based on four years of allocation:
  - 125,000 homes built or rehabilitated
  - $25 billion of total development activity
  - 196,000 jobs in the construction and related industries
  - $10.7 billion in wages and salaries
  - $7.3 billion in federal, state and local tax revenues and fees
- Reduction of blight and vacant properties
- Homeownership opportunities and asset-building for a wide range of households

Contact Us

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

www.neighborhoodhomesinvestmentact.org