Donald Trump’s tax reform haunts affordable housing in US

Affordable housing projects are already failing in the US. Picture: AFP.

- LAURA KUSISTO
- The Wall Street Journal
- 12:00AM March 23, 2017
- Save
-
-

The possibility of a tax-code overhaul is casting a shadow over the $US10 billion ($13bn) affordable-housing industry, which receives tax credits so valuable they often determine whether or not projects get off the ground.

Members of Congress and President Donald Trump have proposed reducing the corporate tax rate to 15-20 per cent from 35 per cent, dimming the allure of credit investors such as big banks and insurance companies receive to offset income taxes. Affordable housing, which represents about one-quarter of all new apartment construction in the US, relies on the credit for capital.

Developers said investors had been valuing the credit 10 per cent to 20 per cent lower since the election. In some cases, investors have walked away, opening up funding gaps in projects already in motion. Because developers already walk a financial tightrope to build low-income housing, some projects are simply failing.

Tax-credit values “have collapsed”, said Stuart Boesky, chief executive of Pembrook Capital Management, a lender specialising in affordable housing. “Some of the deals are just dying … some of the deals are scrambling around looking for gap grants from state and local housing agencies.”

The reduction in the credit’s value already is likely to lead to $US1bn to $US1.5bn less equity investment in affordable housing this year, according to Novogradac & Company, an accounting firm.

The tax-credit program was signed into law by Ronald Reagan in 1986, during the last major tax-code overhaul, to encourage more private investment in affordable housing and to move away from the traditional public-housing model.

The program requires that developers set aside a certain portion of units for families making below the local-area median income and restricts the rents that they pay. In reality, projects end up being almost entirely leased by low-income families.

The value of the tax credit is two-pronged. The housing-credit program allows investors to take tax credits dollar for dollar against their federal taxes in exchange for providing funds to build affordable housing.

The program offers additional value to investors because they can deduct the depreciation of the property and interest expenses. These deductions are most affected by the proposed changes. For example, if the program allows a firm to deduct $US1m from its income, the deduction in the tax bill at a rate of 20 per cent is less than if that same income had been taxed at 35 per cent.

Wells Fargo & Co, one of the country’s largest investors in low-income housing, bought $US2.23bn of credits last year. Bank executives expect that number to fall this year.

Wells Fargo executive Michael Lavine said some investors were staying on the sidelines and there was “some risk that a large number of projects will fall by the wayside”.