NEIGHBORHOOD HOMES INVESTMENT ACT

The Neighborhood Homes Investment Act (NHIA) would revitalize distressed urban, suburban and rural neighborhoods by using federal income tax credits to mobilize private investment to build and substantially rehabilitate homes for moderate- and middle-income homeowners.

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. The NHIA would break this downward spiral by bridging the gap between the cost of building or renovating homes and the price at which they can be sold, thus making renovation and new home construction possible. The NHIA would also help existing homeowners in these neighborhoods to rehabilitate their homes.

No current tax incentive meets this need. The NHIA is based on the successful Low Income Housing Tax Credit and New Markets Tax Credit, which support affordable rental housing and economic development, respectively, but are not designed to build or rehabilitate owner-occupied homes. Similarly, Opportunity Zones will support long-term business equity investment but not homeownership. Tax-exempt mortgage bonds and mortgage credit certificates assist homeowners by reducing mortgage payments, but they cannot cover the gap between development costs and home values. NHIA would complement these other incentives, not duplicate them.

State Control

- States will administer and allocate NHIA tax credit authority on a competitive basis.
- States will have annual tax credit authority for the greater of $3 per capita or $4 million – about $1 billion nationwide. States could access additional tax credits by converting tax-exempt private activity bond cap (each dollar of bond cap converts to $0.60 of tax credits).
- The federal role is limited to IRS monitoring. No federal bureaucracy is involved.

Attraction of Private Capital

- Project sponsors raise capital from investors to finance home building and rehabilitation.
- Tax credits cover the gap between development costs and home values, up to 35% of eligible development costs.

Market Discipline

- Private investors – not the federal government – bear construction and marketing risks.
- Investors claim the tax credits only after construction, inspection, and owner-occupancy.

Targeted and Limited

- Eligible neighborhoods must meet three tests:
    - Elevated poverty rates (130% of the metro rate; state rate for non-metro areas); and
    - Lower incomes (up to 80% of the metro median; state median for non-metro areas); and
    - Modest home values (below the metro median; state median for non-metro areas).

  About 22% of all census tracts and 24% of non-metro tracts meet these three tests.
  In addition, states could use up to 20% of the tax credits for:
    - Non-metro tracts with median incomes up to the state median; and
    - Helping long-standing homeowners in gentrifying lower-income neighborhoods to substantially rehabilitate and remain in their homes.
- Homeowners with incomes up to 140% of the area/state median are eligible.
- Tax credit eligible costs cannot exceed 80% of the U.S. median new home price ($260,800 in 2017).
    - Property acquisition costs are limited to 75% of construction or rehabilitation costs.
    - Minimum substantial rehabilitation cost is $20,000.

- Sales prices are limited to four times the area or state median family income (MFI). Example: if MFI is $65,000, the sales price limit is $270,000. Higher limits apply to homes with 2-4 units.
- A homeowner who sells a NHIA home within five years will repay 50-10% of the gain (profit) on a phase-out basis to the state to support additional neighborhood revitalization activities.
- Limitations on eligible neighborhoods, tax credit amounts, sale prices, homeowner incomes, and short-term resales all support neighborhood revitalization without gentrification.

How the NHIA Would Work

1. **States allocate NHIAs on a competitive basis.**
    - States would publish and follow an allocation plan. Allocation criteria would include: (1) the neighborhood's need for new or rehabilitated homes; (2) neighborhood revitalization strategy and impact; (3) sponsor capability; (4) likely long-term homeownership sustainability; and (5) any State-determined criteria. States would also establish construction quality standards and protocols and limit developer profits.
    - States allow only the tax credits reasonably needed for financial feasibility.
    - 10% of each state's allocations would be set aside for nonprofit sponsors.

2. **Project sponsors raise capital from investors and use it to finance home construction and substantial rehabilitation.** Sponsors include developers, lenders, and local governments.
    - Project sponsors develop the homes or work with builders and homeowners.
    - Tax credits cover the cost-value gap, up to 35% of construction, rehabilitation, property acquisition, demolition, and environmental remediation costs.
    - Clear, simple requirements ease compliance and accommodate small-scale projects.

3. **Investors claim tax credits after homes are completed, inspected, and owner-occupied.**
    - Homeowners make down payments and obtain mortgages to cover the homes' sale price. The tax credit covers the gap between the development cost and the sale price.
    - For rehabilitations of homes that are already owner-occupied, the tax credit covers the gap between the rehab cost and the homeowner's contribution.
    - Sponsors may use allocated but unneeded tax credits for additional homes.

NHIA Financing Example

Land or building acquisition	$ 50,000
Construction or rehabilitation	150,000
Total development cost	$ 200,000
Less: Sales price at market value	- 160,000
NHIA tax credit = value gap	$ 40,000

Estimated Impact

Based on the financing example above, each $1 billion in tax credits would generate:

- 25,000 homes built or substantially rehabilitated
- $4.25 billion of total development activity
- 33,393 jobs in construction and construction-related industries
- $1.82 billion in wages and salaries
- $1.25 billion in federal, state, and local tax revenues and fees