Tax Overhaul Could Chill US Affordable Housing Construction.

PORTLAND, Ore. — Municipal governments worry the tax overhaul in Washington, D.C. could chill the construction of affordable housing as homelessness reaches a crisis point on the West Coast.

Officials with the housing authority in Portland, Oregon, said Tuesday the U.S. could lose nearly 1 million units of affordable housing over 10 years if the final bill eliminates the tax-exempt status for a type of bond commonly used by developers to finance affordable housing.

That estimate comes from a recent analysis by Novogradac & Co., a San Francisco-based accounting firm that specializes in real estate and affordable housing issues.

While the tax bill is not finalized, developers are now racing to lock in financing and the uncertainty over the bonds has raised upfront costs for some projects, affecting projects from Oregon to Massachusetts to Illinois to Minnesota. The concern comes at a time when homelessness is soaring on the West Coast amid an acute shortage of affordable housing. Cities, including Portland, are rushing to get projects in the pipeline to address the crisis.

"It's a little bit of chaos because there's so much to unpack in the implications of this and folks are scrambling," Michael Buonocore, executive director of Portland's housing authority, said in a phone interview. "This is straightforward math and it is not just funding for public housing that is purely funneled through the government. The low-income tax credit fuels … private industry and lenders too, so it's across the spectrum."

In Portland, for example, uncertainty over the fate of the private activity bonds has added $1 million to the cost of a 240-unit affordable housing complex, the largest that's been built in Portland in many years, Buonocore said. Developers will nonetheless break ground in January, but the fate of future projects is less certain, he said.

More than half of affordable housing projects nationwide rely on a 4 percent tax credit that can only be claimed by a developer if at least half of the construction is financed by private activity bonds. The bonds are awarded by states, with the help of local governments, for qualifying projects.

While both House and Senate versions of the tax bill currently retain low-income housing tax credits, the House version would remove the tax-exempt status of the private activity bonds, making them essentially useless as a financing tool.

The analysis by Novogradac & Co. also estimated that lowering the corporate tax rate from 35 percent to 20 percent — a feature of both the House and Senate versions of the tax bill — would effectively devalue low income housing tax credits and result in a loss of investor equity nationally of about $1.2 billion.

That would translate into about 90,000 fewer affordable rental units over the next decade nationwide, the analysis found.

Portland housing officials say locally that would mean $200 million in lost equity and 1,800 fewer units.

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