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Tax Reform May Chill Affordable-Apartment Projects.

Last year's federal tax overhaul significantly lowered the corporate tax rate. And while this is expected to be a boon to corporations, it could also ultimately result in far fewer affordable apartments being built each year.

The issue is that investors will have less incentive to make equity investments in below-market-rate apartment complexes in return for credits that lower their federal tax bills.

Affordable apartments are usually funded, in part, by investors who purchase low-income housing tax credits. Roughly 38,000 projects and 2.3 million affordable units have been produced or preserved through the program since 1987, according to an analysis from the Urban Institute. These credits are authorized by Congress, then distributed to the states, which award them to developers of specific projects. The credits are then sold to investors, often banks.

That equity is often used in tandem with mortgages or other financing, either in new-construction projects or to renovate and preserve the units as affordable. Without the tax credits in the equation, these projects tend not to get financed.

The 2017 Tax Cuts and Jobs Act lowered the corporate tax rate from 35 percent to 21 percent. That move is expected to significantly reduce investor demand for the credits, thus drying up a considerable source of funding for these projects.

The analytics company Reis Inc. recently projected that as many as a third of 132,000 units under development were at risk of not getting financing as a result of the tax overhaul. Reis also said that another 26,350 market-rate units planned to be mixed with other affordable units also were at risk.

Other studies suggest the change could also deal a significant blow to developments in the lower-end apartment market, where analysts say there is significant supply shortage.

Novogradac & Co., a San Francisco-based public-accounting firm that specializes in affordable housing, estimated that the tax change would translate into roughly $1.7 billion in lost equity annually and an estimated loss of between 200,500 to 212,400 housing units over 10 years.

The actual impact is unclear, however. Last year, Congress temporarily increased the available credits over the next four years. In theory, there could be more funding available for these projects. Traditionally, tax credits have been in high demand. Also, banks have always had another major incentive to jump into these projects. The investments can help them meet their obligations to lower-income areas under the Community Reinvestment Act.

"I think the impact is still fairly uncertain," said Corianne Scally, a senior research associate at the Urban Institute, who has co-authored reports on the low-income housing tax credit program. "There is less tax incentive for investors to make an equity investment, but there are more credits that are going to be available through a temporary boost. And it is just really kind of unclear how things will turn out on average."

Scally said a number of projects could be threatened. Rural areas, in particular, could struggle to attract investors. Interest in the program has dried up before. During the Great Recession, the price for the tax credits — basically the average amount of equity a developer would pay for each dollar of tax credit written off their federal income tax — fell to a 15-year low in the 2008 to 2009 period, according to the Urban Institute. As a result, the number of new and preservation apartment projects declined sharply, from roughly 116,000 units in 2004 to 61,000 in 2010.

"I am assuming there is a subset of investors that just simply might not be interested any longer, as well as those that would be willing to pay less on the dollar for tax credits, since the [value of the] tax credits have gone down," Scally said.

During an interview last week, Sarah Mickelson, the director of public policy for the National Low Income Housing Coalition (NLIHC), also noted the uncertainty brought by the tax change. The equity attracted by the low-income tax credits is layered with other financing programs to produce apartments for the lowest-income residents.

"The affordable-housing crisis is primarily concentrated among people with the lowest incomes," Mickelson said. "The reason for that is because it doesn't make a lot of financial sense for developers to build housing that is that deeply affordable. The amount of money that you can take in rents just isn't enough to make the deal pencil out."

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