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HUD Expands Low-Income Housing Tax Credit Program to Encourage Opportunity Zones Investment.

The pilot program will now include "new construction" and "substantial rehabilitation" projects

The federal Opportunity Zones program has been wildly popular with investors and developers, but critics say the tax incentive program has so far not gone to areas most in need.

Now, the Department of Housing and Urban Development has announced an initiative to encourage affordable housing investment within the thousands of designated Opportunity Zones nationwide.

The Federal Housing Administration's low-income housing tax credit financing pilot program will now include "new construction" and "substantial rehabilitation" of multifamily projects only, HUD Secretary Ben Carson said. Opportunity Zones development, meanwhile, can cover a wide range of property types.

The provision could speed up the application process for developers looking to use the low-income tax credit to build new ground-up apartment projects, or for those seeking to drastically redevelop old buildings in Opportunity Zones. HUD said the average processing time for low-income credit deals is currently 90 days, but under the FHA pilot it can potentially reduce this time to 30 days.

The low-income tax credit is a federal subsidy that finances low-income housing. It allows investors to claim tax credits on their federal income tax returns for building affordable housing.

In recent years, allegations have surfaced of fraud and misuse of the low-income tax credits. In August, Bloomberg reported Wells Fargo was being investigated by the Department of Justice for allegedly colluding with affordable housing developers nationwide to drive down the prices of low-income tax credits — potentially defrauding hundreds of millions of dollars from the federal program.

The Opportunity Zones program, pushed forward by President Trump's tax plan in 2017, allows developers and investors to defer and possibly forgo paying capital gains taxes if they invest in historically distressed areas. The biggest tax advantage goes toward developers or investors who hold the properties for at least 10 years.

The Opportunity Zones program does not have a requirement to build affordable housing, and there are only a few restrictions as to what a developer cannot build in the zones.

Critics are worried the program will only benefit wealthy developers in gentrifying and up-an--coming areas that happen to be located in Opportunity Zones, and that the truly distressed areas will be ignored.

Real estate developers are anxiously awaiting the IRS and the U.S. Treasury, which will release more guidance and rules around Opportunity Zones.

In recent months, firms have launched numerous Opportunity Zones funds targeting hundreds of millions of dollars. Some of those companies include Youngwoo & Associates, Fundrise, RXR Realty and EJF Capital. SkyBridge Capital is targeting a $1 billion fund. That fund was rolled out in December with EJF as a subadviser, though SkyBridge later dissolved the partnership and found a new subadviser.

The Real Deal

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