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Surge in Multifamily Housing Bond Issuance Linked to Tax Incentives.

WASHINGTON – A surge in issuance of tax-exempt multifamily housing bonds in 2016 should continue for the foreseeable future, experts say.

The only major potential obstacle is Congress. Lawmakers could use tax reform to eliminate the tax exemption for multifamily housing bonds or other federal incentives being used by public housing agencies and private developers to help finance multifamily housing bond transactions.

In many cases, multifamily housing bonds are issued in connection with federal low-income tax credits and two programs operated by the Department of Housing and Urban Development — the Rental Assistance Development (RAD) program and Section 8 low income housing rental assistance vouchers.

Michael Bodaken, president of the nonprofit National Housing Trust, which is dedicated to housing preservation, said he thinks the future of housing tax provisions are “in jeopardy, a concern.”

“I think it is very important for Congress, HUD and others to realize how important the housing credit, tax exempt bonds and Section 8 all are,” said Garth Rieman, director of Housing Advocacy and Strategic Initiatives for the National Council of State Housing Agencies.

Republican leaders of Congress and the Trump administration have only issued a nine-page outline of their tax plan that proposes ending many tax breaks as a way of broadening the base and lowering rates.

It doesn’t mention multifamily housing, nor has multifamily housing policy been part of the tax debate.

Senior administration officials recently told The Bond Buyer that the tax exemption for municipal bonds will be fully preserved under the Republican tax plan. That presumably would include tax exemption for PABs, but Republicans have not offered any written assurance.

The House and Senate committees with jurisdiction over tax policy will work out the details of the tax overhaul in the coming weeks.

Multifamily housing bond issuance more than doubled in 2016 to $14 billion from $6.61 billion in 2015, an increase of 112%, according to a recent survey by the Council of Development Finance Agencies.

The percentage of American households who are renters has reached a 50-year high and is driving the demand for multifamily housing, according to the National Housing Trust. The demand for rental housing, including the urgent need to rehabilitate public housing, is expected to continue for the foreseeable future.

Last year's $7.39 billion increase in issuance for multifamily housing bonds was helped by the federal low-income housing tax credit program, experts said.

This tax credit is "one of the federal government's primary policy tools for encouraging the development and rehabilitation of affordable rental housing," according to the nonpartisan Congressional Research Service, which estimates its annual cost at about $9 billion.

"These non-refundable federal housing tax credits are awarded to developers of qualified rental projects via a competitive application process administered by state housing finance authorities,'' Mark Keightley, a specialist in economics wrote in a CRS report issued in May.

"Developers typically sell their tax credits to outside investors in exchange for equity.
Selling the tax credits reduces the debt developers would otherwise have to incur and the equity they would otherwise have to contribute. With lower financing costs, tax credit properties can potentially offer lower, more affordable rents," Keightley wrote.

The low-income housing tax credit is 4% for rehabilitation projects and 9% for new construction. Kansas, Kentucky, New Mexico and Wisconsin allocated 100% of their 4% credits to housing preservation projects in 2014, according to the nonprofit National Housing Trust. Not far behind were Michigan at 94% and Ohio and 92%.

Another federal program operated by the U.S. Department of Housing and Urban Development, the RAD program, is so popular that there's a waiting list beyond the 225,000 housing units authorized by Congress.

The Trump administration supports RAD because it transitions public housing "to a more sustainable funding and rational regulatory environment that permits debt and promotes other non-federal leveraging," HUD Secretary Ben Carson told lawmakers in June.

"The RAD program relies on significant leverage of every dollar of HUD funding,'' Carson said in his written testimony. "It has leveraged more than $4 billion in capital investment in order to make critical repairs and improvements to this segment of the nation's affordable housing stock."

Ruth Anne Visnauskas, commissioner of New York State Homes and Community Renewal, said her agency has completed two RAD deals this year, has four or five in the works for the remainder of this year, and 10 more in the pipeline for next year.

"We are great fans of RAD and think it is key to investing in public housing which is often housing for the lowest income families, seniors and the disabled," Visnauskas said. "It's sort of an unprecedented way to invest in large swathes of housing across the country.''

The $450 million rehabilitation of the Ocean Bay apartment complex in the Far Rockaway section of Queens in New York City, announced in June, used multifamily housing bonds and was the nation's largest single RAD transaction.

The project included about $350 million for upgrades such as new bathrooms and new kitchens for the 1,395 apartments located in 24 buildings. The remaining $194.4 million came from a Federal Emergency Management Agency grant for storm resiliency to prevent a recurrence of the damage caused to the waterfront complex by Hurricane Sandy.

HUD has asked Congress to lift the ceiling on the number of multifamily units eligible for RAD, which currently in 225,000 and has a waiting list. The Senate committee has agreed to eliminate the cap, but House appropriators didn't address that issue in their fiscal 2018 funding legislation for

HUD.

It’s not clear whether the Senate and House will address RAD if they hold negotiations over the 2018 budget, according to Matt Dennis, spokesman for Rep. Nita Lowey of New York, the ranking Democrat on the House Appropriations Committee.

The government began fiscal 2018 on Oct.1 with a stopgap spending measure that expires after Dec. 8, which gives both chambers additional time to complete work on a long-term spending bill.

By Brian Tumulty

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