Bond Case Briefs

Municipal Finance Law Since 1971

House Tax Bill Threatens to Make Housing Even Less Affordable for Poor.

- **House measure would end tax-free bonds for affordable housing**
- **As a result, nearly 1 million rental units may not be built**

Even before Hurricane Harvey dumped 50 inches of rain on Houston, damaging hundreds of thousands of homes and apartments, affordable housing was already scarce. Because of rising rents, more than 200,000 low-income residents were spending over half their earnings on someplace to live.

But a provision in the tax bill passed by the U.S. House of Representatives would only intensify the housing crunch in the nation's fourth-largest city — and others across the U.S. — by crippling affordable housing construction, developers and local government officials say.

The House measure would eliminate a form of tax-exempt debt called private-activity bonds — and, consequently, tax credits generated by the securities — after Dec. 31, wiping out a key tool used to finance more than half of the affordable units built each year, according to the National Council of State Housing Agencies.

The shift would jeopardize ITEX Group's $50 million acquisition and renovation of the Villa Americana, a 258-unit low-income complex in south Houston that was built in 1972. The hurricane has only increased the demand for housing: In September, the average rent for a single-family home jumped 8 percent from a year earlier to $1,886, according to the Houston Association of Realtors.

"If this tax legislation ever gets through, the project will probably die," said Chris Akbari, ITEX Group's president and chief executive officer. "There's no way right now to bridge the gap for some of these projects that need to be rebuilt or need to be built in these Hurricane affected areas."

While the Senate's plan doesn't eliminate private activity bonds, or PABs, the subsidy could still be pulled when negotiators iron out the differences between the two bills. That possibility is alarming developers, housing advocates and city officials who are lobbying Republicans to keep the provision out of the final legislation.

A Massive Crisis

If they're not successful, the number of affordable rental units built nationwide over the next decade may be reduced by as much as 880,000, according to an estimate by Novogradac & Company LLP, an accounting and consulting firm specializing in real estate.

"We view this as a massive crisis," said K. Nicole Asarch, president of the Texas Affiliation of Affordable Housing Providers.

PABs are issued by state and local governments and other public authorities to allow developers to borrow in the municipal market, where interest rates are lower because bondholders don't have to

pay taxes on the income. They're also used by hospitals, universities and other non-profit groups, as well as by airlines and power companies.

The impact of the abolition of PABs on affordable housing is compounded because developers that finance more than 50 percent of their projects with the debt can receive income-tax credits, which they sell to investors in exchange for equity financing. About $14 billion multifamily housing bonds were issued in 2016, according to the Council of Development Finance Agencies.

"The only way to unlock those credits is to issue private activity housing bonds," said Garth Rieman, director of housing advocacy at the National Council of State Housing Agencies. "If PABs go away, those credits go away."

Wages Can't Keep Up

The need for low-cost housing has been on the rise. As wages stagnate and housing costs increase, families nationwide are spending a greater share of their incomes on housing. Over 11 million households spend more than half of their income on rent, a 50 percent increase since 2001, according to the Joint Center for Housing Studies of Harvard University.

The problem is particularly acute in cities. In San Francisco, the least affordable in the U.S., a worker would need to earn $58 an hour, five-and-a-half times California's minimum wage, to afford a two-bedroom apartment, according to the National Low Income Housing Coalition.

Without PABs, the amount of affordable housing built in New York City and state would be reduced by 17,000 units a year, said RuthAnne Visnauskas, commissioner of New York state's Division of Housing and Community Renewal. She said most of the $2 billion of PABs that New York is allocated each year under federal regulations are used for housing.

"We never thought PABs would be at risk," Visnauskas said. "It's really thrown people on their heels."

But the impact won't be limited to America's most-expensive cities. Despite Houston's reputation as affordable, before Harvey there were 215,000 low-income households in Harris County that spent more than half of their earnings on housing but only 84,000 publicly subsidized units, said Kyle Shelton director of strategic partnerships at Rice University's Kinder Institute for Urban Research.

In Baytown, Texas, about 30 miles (49 kilometers) east of Houston on Galveston Bay, the Bay City Village apartment complex was so badly damaged by Hurricane Harvey that 50 its 62 units are still unoccupied. Before the storm, Related Cos.'s affordable-housing division planned to buy and rehabilitate the 40-year-old complex, using a combination of PABs and tax credits, said Matthew Finkle, president of New York City-based Related Affordable. The Republican tax plan has put that project in doubt.

"It would have a huge impact on the ability to execute that deal," he said. "Without the bonds, without credits, and the equity from those credits it just becomes very difficult to make the deal pencil out."

Bloomberg Politics

By Martin Z Braun

December 1, 2017, 4:00 AM PST Updated on December 1, 2017, 7:23 AM PST

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com