Bond Case Briefs

Municipal Finance Law Since 1971

Multifamily Housing Bond Issuance May Drop in 2018.

WASHINGTON – Issuance of multifamily bonds may drop this year from the recent high of $14 billion in 2016, according to experts at a recent housing conference who were uncertain whether the decline will be significant.

Multifamily housing bond issuance had been expected to decline last year from the 2016 peak, but some projects were rushed to market at the end of 2017 when private activity housing were nearly terminated under tax reform.

“Part of the drop off, if there is one, might be that many states issued as many bonds as they could to make sure they preserved that bond authority,” Garth Rieman, interim executive director of the National Council of State Housing Agencies, told The Bond Buyer.

Final Thomson Reuters’ (TRI) data on housing issuance for 2017 won’t be released until February.

Multifamily housing bonds have been the largest component of PAB issuance subject to state volume caps and Rieman expects that to continue.

The demand for affordable housing remains “extraordinary,” Rieman said adding, “I think there are a lot of underlying reasons why production will remain high.”

On the plus said, Rieman expects a pickup in use of mortgage revenue bonds by states to assist first-time homebuyers. “As interest rates rise, that creates a little bit more separation between tax-exempt rates and taxable rates which may allow tax-exempt bonds increase activity,” he said.

Some of the MRBs used in early 2018 will be left over from late 2017, Rieman cautioned, but state housing finance agencies overall are likely to support more single-family home purchases this year.

Housing advocates remain hopeful that Congress may act on bipartisan bills to enhance the low-income housing tax credit which is linked to housing bonds in financing about half of the nation’s multifamily housing rehabilitation and new construction.

The bipartisan Affordable Housing Credit Improvement Act (H.R. 1661) has 122 cosponsors in the House and the companion bill in the Senate (S. 548) has 22 cosponsors, including Senate Finance Committee Chairman Orrin Hatch, R-Utah.

Housing experts who attended a recent panel discussion here sponsored by the National Conference of State Housing Agencies also hope Congress and the Trump administration can be persuaded to include affordable housing in their plans for infrastructure spending.

“Elements like that might support more activity later this year,” Rieman said.

For now, public housing agencies and developers are adjusting to the tax changes enacted by Congress that make housing bonds a less attractive investment.

The drop in the corporate tax rate to 21% from 35% is expected to make housing bonds less attractive as investments, experts agreed during the panel discussion.

There will be changes in housing bond pricing but nothing as extreme as what happened in the 2008-2009 Great Recession, said Anthony Freedman, a partner at Holland & Knight.

“The substance of the program hasn’t changed at all,” Freedman said.

“We weren’t devastated, but we definitely were damaged,” said Michael Novogradac, the managing partner in the San Francisco office of Novogradac & Co. His firm estimates the tax changes will produce a roughly a 14% drop in the value of investing in projects using the low-income tax credit which is often paired with housing bonds.

“In terms of what impact that is going to have coming up, I wish I knew,” Novogradac said. “I know it’s negative. I know it’s adverse.”

Foreign banks, in particular, are reassessing their investments because of complex new rules involving the base-erosion and anti-abuse tax (BEAT) said Priya Jayachandran, senior vice president for housing development at Volunteers of America.

Jayachandran, who is taking over as president of the National Housing Trust on Feb. 1, said another possible setback for affordable multifamily housing development this year would be if interest rates rise.

Scott Hoekman, senior vice president and chief credit officer of Enterprise Community Investment, said that despite the negatives of the new tax law, “The final changes are survivable.”

The multifamily housing sector is flexible enough to figure it out how to cope, Hoekman said.

“What would have turned our world upside down was if private activity bonds had been eliminated,” Hoekman said.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 01/12/18 07:08 PM EST