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CONTACT

Alex Ruiz
(925) 949-4300
Alex.Ruiz@novoco.com

Change in 50 Percent Rule for Bond-Financed Homes Would Have Dramatic Effect

NCSHA-Commissioned Novogradac Analysis Shows Decrease in Required Percentage Could Result in 1.4 Million Additional Homes by 2030

SAN FRANCISCO–An analysis commissioned by the National Council of State Housing Agencies (NCSHA) and conducted by Novogradac projects that a change in the statute governing how private activity bonds (PABs) are used in affordable multifamily housing could result in as many as 1.4 million additional homes being built or preserved over the next decade. The change could also make an immediate impact to help preserve properties under construction when the COVID-19 pandemic hit.

"Analyzing the Impact of Lowering the 50% Test for 4% Tax-Exempt Bond Financed Properties" examines the implications of reducing the required 50 percent of aggregate basis of properties that must be financed by PABs to be eligible for the full amount of low-income housing tax credits. The forecast by national accounting and consulting enterprise Novogradac concludes that 177,665 to 1,421,320 additional units would be built or preserved through 2030, depending on the new percentage and other factors.

The analysis was commissioned before the COVID-19 pandemic hit the nation, a situation that exacerbates the need for affordable housing development. For many affordable housing properties under construction, pandemic-related cost increases could jeopardize the ability to qualify for LIHTCs, endangering those properties. An immediate change in the statute could preserve them.

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“There is both an immediate and a long-term need for Congress to consider this change,” said Stockton Williams, executive director of NCSHA. “Some properties currently under construction are in jeopardy of failing the 50 percent test due to pandemic-related cost increases. Including a change to the 50 percent test in current COVID-19 relief legislation would not only help increase production over the next decade, it would ensure properties currently in the pipeline that are at risk due to the pandemic are able to maintain financial viability.

Since 1990, the LIHTC statute has required a minimum of 50 percent of a property’s aggregate basis to be financed by PABs for the property to receive the full allocation of LIHTCs. The Novogradac study forecasts the outcome if that threshold were reduced to 40 percent, 33 percent and 25 percent–assuming all “freed” PAB cap would be devoted to rental housing. The study also considers the scalability of gap financing, providing different results for different amounts of scalability.

Depending on the scenario, the number of affordable housing units built annually increases by between 25 percent and 100 percent.

“Bond-financed housing is crucial to help meet the desperate need for affordable housing and this analysis shows that a simple change could yield outsized results,” said Michael J. Novogradac, managing partner of Novogradac. “Decreasing the percentage would result in more housing being built and preserved year after year. As we face a likely recession, that change could enable the country to help address the nationwide affordable housing shortage.”

In addition to the report, Mr. Novogradac authored a blog post on the analysis.

About Novogradac

Novogradac began operations in 1989 and has grown to more than 600 employees and partners with offices in more than 25 cities. Tax, audit and consulting specialty practice areas for Novogradac include affordable housing, opportunity zones, community development, historic rehabilitation and renewable energy.