



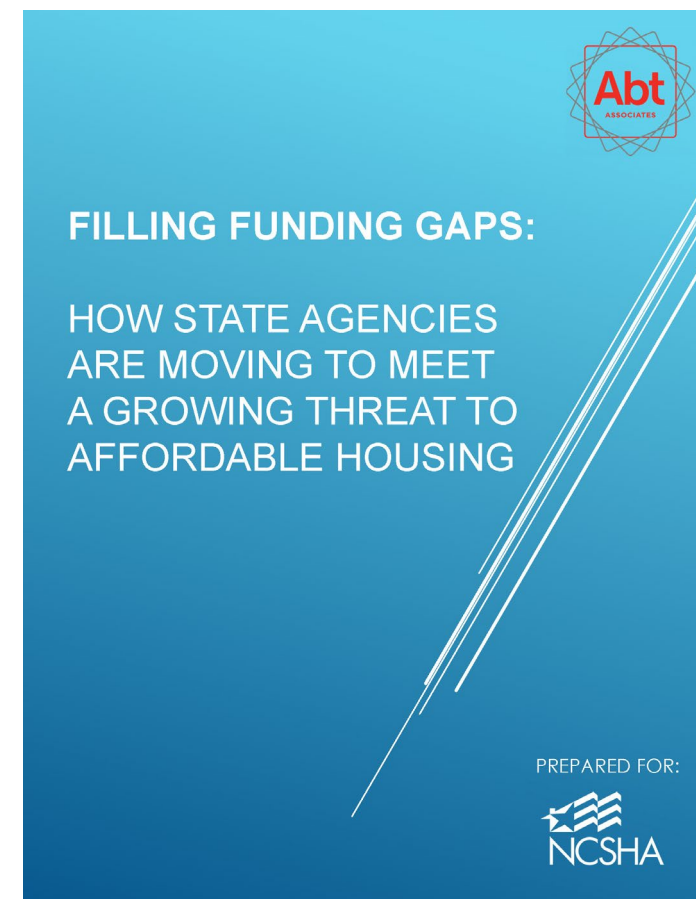
Washington Insights

Increasing Housing Development Costs and Federal Policy Responses

Jennifer Schwartz | Director of Tax and Housing Advocacy
National Council of State Housing Agencies

Filling Funding Gaps

- Research conducted by Abt Associates and Tingerthal Group
- Interviews with 22 stakeholders: 11 state agencies in 9 states, plus developers, accountants, attorneys, syndicators, investors
- Conducted in mid June-mid July 2022



Key themes

- Nearly all Housing Credit deals are facing cost increases
- Finding solutions quickly to keep deals from failing keeps problems from compounding
- All participants are showing flexibility and creativity to resolve issues
- Important to engage all parties -- including local and other state entities with resources
- Options available are heavily dependent on each state's particular policy environment
- States and their partners are finding ways to keep most (not all) deals alive – but with long-term consequences

Research focus

- Extent of project funding gaps
- Approaches to filling gaps
- Consequences of funding gaps



Extent of funding gaps

- Across the board agreement:
 - Nearly all deals awarded Housing Credits from 2019 to the present have faced significant gaps due to higher-than-expected costs and/or project delays
 - For both 4% and 9% deals
 - New construction and acq/rehab
 - For-profit and nonprofit developers
- Average funding gaps are estimated at about 30 percent, although the range is large



State agency approaches to filling gaps

- Providing increased flexibility
- Allocating additional bonds and/or credits
- Using State and Local Fiscal Relief Funds (Recovery Funds)
- Using state sources of soft funding
- Requiring developers to help close gaps
- **In some cases, approaches are evolving to a new normal**

“This is as urgent as it gets.”

- State HFA executive director

Providing increased flexibility

- Extending timelines
- Waiving penalties for returning unused credits
- (Sometimes) allowing project changes
- Issues:
 - Flexibility can be limited by QAPs
 - Key challenge: balancing individual flexibility to allow projects to get to completion with basic fairness to all applicants

Allocating additional credits

- Allocating additional 9% credits, often using forward allocations
- Most have a cap on amounts that can be requested; some assess a penalty on future allocations
- Some states worry that 2023 allocations will be thin

“What’s the point [of a 2023 allocation round] if we can’t get the deals we have off the ground? We could see a halt [to affordable housing production] because we keep borrowing from the future ...”

- State HFA ED

Allocating additional bonds

- Allocating additional bonds for 4% credit projects, but a growing number of states have reached the volume cap
- 50% test for tax-exempt bonds with 4% credits can be a challenge
 - Particularly when bonds initially covered only slightly more than 50% of project costs
 - Additional bonds can help cover cost overruns – if available
 - Some projects are finding ways to take land out of the adjusted basis used in assessing the 50% test

State and Local Fiscal Relief Recovery Funds



- 29 States and District of Columbia committed over \$9.6 billion in state FRF for affordable housing uses as of last July.
 - 54% planned to use FRF with the Housing Credit.
 - 41% planned to use FRF as a capital resource for non-Housing Credit rental housing.
- Local governments may also have FRF available for gap filler.
- July 2022 Treasury guidance giving cities and states additional flexibility to use Recovery Funds to fill gaps for affordable housing development is a significant new tool

Using state sources of soft funding

- Have been essential to the viability of many projects
- Some states have few sources of soft funding available
- Soft funding tends to fill relatively small gaps; can introduce project delays

“There are not a ton of programs that are quick. And we’re doing 200- to 300-unit projects. ... getting a \$250k HOME loan is nice, but it’s barely chipping away at the problem. And it has another layer of regulatory compliance and income targeting that creates costs down the line.”

- Large developer

Developer approaches

- Deferring developer fee
- Raising rents (though bumps up against mission concerns and not always possible)
- Advocacy to secure locally controlled resources
- Value engineering / simplifying project design
- Increasing project debt
- Vertically integrating
- Advance purchases of construction materials

Limits on developer approaches

- Developers are not equally able to respond to funding gaps
 - Large developers tend to have more financial cushion, negotiating power, control over the supply chain, ability to defer fee
 - Smaller developers, including developers of color and tribal developers, have fewer resources and ability to close gaps
- Nonprofits are more likely to do projects serving neighborhoods with lower AMI, which have less ability to raise rents to close gaps

Consequences of funding gaps

- For affordable housing production
 - Current production is down because some previously approved projects have been canceled or converted to market rate
 - Future production will suffer because future resources have been used or pledged for current projects
 - Without increased resources, the new normal means fewer units each year

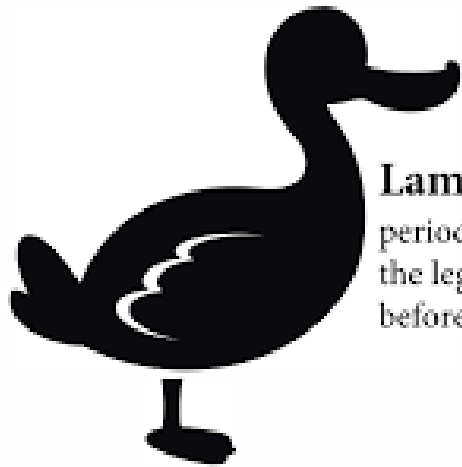
Consequences of funding gaps

- For the development industry
 - Consequences of deferring developer fee, especially for smaller/less experienced developers
 - Future reductions in available tax credits may leave some developers without a pipeline of work
 - Risks to the health of the development industry generally





Washington Update



Lame Duck: *noun* Short, infamous period after the general election when the legislature does a load of its business before new office holders take office.

What's at Stake in the Lame Duck?



- FY 2023 spending on HUD and USDA housing programs
- Increasing rental housing production through the Low Income Housing Tax Credit
 - Restoring 12.5% cut
 - Lowering the bond financing threshold
- New homeownership resources
- Disaster assistance for rebuilding

The Big Question

Will this be a
productive Lame
Duck session?

Advocacy in the Lame Duck

1

Make sure your members of Congress understand the need for affordable rental housing production in Vermont.

2

Urge all members of the VT delegation to voice their support for the Low Income Housing Tax Credit to Senate Majority Leader Schumer and House Speaker Pelosi.

3

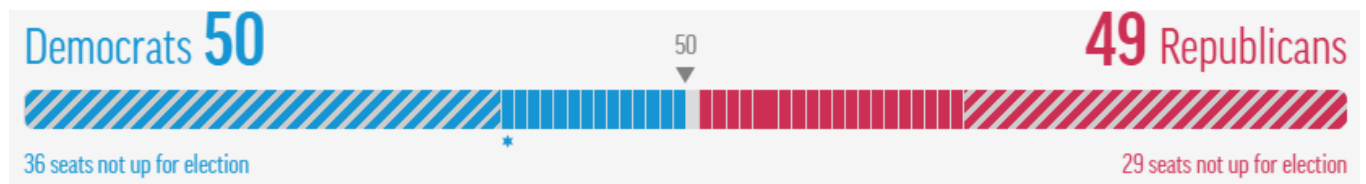
Urge those who have not yet cosponsored the Affordable Housing Credit Improvement Act (S. 1136/H.R. 2573) to do so.

4

Ask members to provide the highest funding possible for affordable housing spending programs, in particular the HOME program in FY 2023 appropriations.

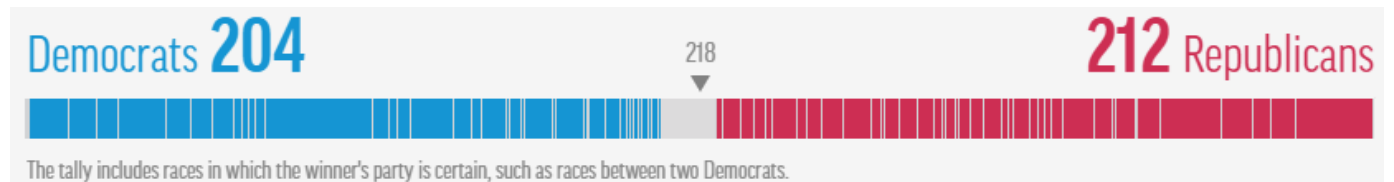
Election Outcome: U.S. Senate

- Only one Senate seat changed hands– Democrats flipping Pennsylvania.
- While Alaska Senate race not yet called, winner will be a Republican
- December 6 runoff election in Georgia will determine whether Democrats' majority is 50 or 51.



Election Outcome: U.S. House

- Republicans still on track to take the majority but a much narrower majority than expected.
- Democrats could still eke out an upset but would need to sweep remaining seats to do so.
- Most uncalled races are in the West: California, Arizona, and Oregon



What to Expect in the 118th Congress

If there is split control of Congress

- Bipartisan compromise will be needed to pass legislation.
- Republicans in the House likely to proceed with investigations into the Biden Administration.
- Republicans in the Senate will be able to filibuster legislation.
- Unlikely that Congress will pass a budget resolution, thus no “reconciliation” legislation.
- Gridlock almost guaranteed.
- *BUT...* our housing priorities generally have wide bipartisan support.

What to Expect in the 118th Congress

If Democrats take both chambers

- Razer thin majorities will require bipartisan compromise or party discipline to pass legislation.
- Republicans will be able to filibuster legislation in the Senate.
- Democrats could pass a budget resolution allowing them to bypass a Republican filibuster for “reconciliation” legislation- but still would need a majority vote to advance such a bill.
- Same party government in Congress and the White House likely means less gridlock overall.

Top Housing Legislative Priorities in the 118th

- Affordable Housing Credit Improvement Act
- Affordable Housing Bond Enhancement Act
- Neighborhood Homes Investment Act
- HOME program reauthorization legislation
- FY 2024 Appropriations

All bills need to be reintroduced in each new Congress.

Cosponsorship campaigns start from scratch.

How Can You Help?

- Contact your members of Congress ASAP and urge their support for housing production in the Lame Duck.
- Get involved in advocacy in the 118th Congress.
- Join the ACTION Campaign.



Low-Income Housing Tax Credit Impact In Vermont



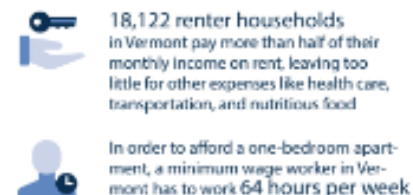
The ACTION Campaign represents over 2,400 organizations and businesses working to address our nation's severe shortage of affordable rental housing by supporting the Low-Income Housing Tax Credit.

The Housing Credit's Benefits For Low-Income Families And The Economy, 1986 - 2020



The Need for Affordable Housing

Though the Housing Credit has had a tremendous impact across the country, much more affordable housing is still needed to meet the growing demand.



The Low-Income Housing Tax Credit (Housing Credit) is a proven solution to help address the affordable housing crisis.

The Housing Credit is our nation's most successful tool for encouraging private investment in affordable rental housing.

It has financed nearly 3.5 million homes for low-income families and individuals nationwide since 1986.

The ACTION Campaign calls on Congress to:

- Expand the Housing Credit to address the severe shortage of affordable housing
- Strengthen the Housing Credit to maximize impact in communities facing the greatest need.
- Enhance multifamily Housing Bonds, which provide critical financing to about 50 percent of Housing Credit homes.

Addressing Our Nation's Severe Shortage Of Affordable Housing



Up to 2,270 additional affordable homes could be financed in Vermont by the primary unit financing provisions in the Affordable Housing Credit Improvement Act.

Visit rentalhousingaction.org for data sources and methodologies.